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# Obama: Responsible Capitalism vs. Crony Capitalism



By [Peter Dreier](#) - February 25, 2009, 9:05AM

President Barack Obama's speech Tuesday night was laced with phrases and ideas that emphasized his view that government has a responsibility not only to foster a strong economy, but also to insure that ordinary people benefit from that economy. He hasn't yet fully articulated his economic philosophy, nor given it a name. But we can see in that speech the outline of a new approach that might be called "responsible capitalism" in contrast to the "crony capitalism" of the Bush era.

In his speech, Obama began to carve out a new way of talking about the economy. He is pro-business, but he is anti-corporate. More specifically, he is redefining what a "healthy business climate" means - prosperity that is widely shared by working people, an economy that creates good jobs, lifts the working poor into the middle class, provides first-rate schools, decent health care, and housing families can afford, and protects the environment.

Obama reassured the business community that he believes in strengthening the nation's economy and helping businesses restore profitability and create good jobs, but he also wants to curb corporate and CEO excess. Corporations, he implied, are parts of the economic whole; they are not ends in themselves.

The President explained that we need the federal government to "ensure that the major banks that Americans depend on have enough confidence and enough money to lend even in more difficult times." But in a line that encapsulates the larger theme, he insisted that: "It's not about helping banks. It's about helping people," referring to his plan to use government funds to jump-start lending.

Obama knows that bank bailouts are unpopular right now, but explained that they are necessary to restore the economy for ordinary people, so long as the banks are held accountable. "Because when credit is available again, that young family can finally buy a new home," Obama explained. "And then some company will hire workers to build it.

And then those workers will have money to spend, and if they can get a loan too, maybe they'll finally buy that car, or open their own business. Investors will return to the market, and American families will see their retirement secured once more. Slowly, but surely, confidence will return, and our economy will recover."

Obama responded to the widespread anger over the excesses of the very rich and big business.

The government needs to help businesses get back on their feet, Obama said, but there will no longer be any "bailouts with no strings attached."

"This time, CEOs won't be able to use taxpayer money to pad their paychecks or buy fancy drapes or disappear on a private jet," Obama said about how federal funds will catalyze private sector growth. "Those days are over."

Likewise, with the auto industry. He acknowledged that Detroit got itself into the current mess with short-term thinking, "bad practices," and "bad decision-making" that allowed foreign car companies to grab a huge share of the American market.

But, Obama insisted, the auto industry is too important to be allowed to crumble. "Millions of jobs depend on it. Scores of communities depend on it. And I believe the nation that invented the automobile cannot walk away from it." Thus, the government is needed to help Detroit create a "re-tooled, re-imagined auto industry that can compete and win" by building fuel-efficient cars.

Obama promised to "restore a sense of fairness and balance to our tax code by finally ending the tax breaks for corporations that ship our jobs overseas" and to "end the tax breaks for the wealthiest 2% of Americans". He pledged to "eliminate the no-bid contracts that have wasted billions in Iraq," a statement that no doubt had many people in the audience thinking about former VP Dick Cheney's favorite charity - Haliburton.

He criticized the deregulation mania of the past two decades that led to the current mortgage meltdown and economic crisis: "Regulations were gutted for the sake of a quick profit at the expense of a healthy market." He said that regulations are needed to make business both profitable and socially responsible. "It is time to put in place tough, new common-sense rules of the road so that our financial market rewards drive and innovation, and punishes short-cuts and abuse."

He challenged the pursuit of quick profits that undermined the health of companies that millions of workers, stockholders, and pensioners rely on. "We have lived through an era where too often, short-term gains were prized over long-term prosperity; where we failed to look beyond the next payment, the next quarter, or the next election," Obama noted. "A surplus became an excuse to transfer wealth to the wealthy instead of an opportunity to invest in our future."

Obama warned that "the only way to fully restore America's economic strength is to make the long-term investments that will lead to new jobs, new industries, and a renewed ability to compete with the rest of the world."

Obama is a big thinker, but hasn't yet completely articulated his underlying economic philosophy. Even so, he is clearly trying to steer a new course that recalibrates the relationship between business and government, and rethinks the roles of consumers, workers and their unions in the economic equation. In this view, government is necessary to make business, markets, consumers, and workers act responsibly.

Without clear government ground rules, capitalism becomes anarchy and cronyism. Every segment of industry, as well as consumers, become so short-sighted and greedy that they don't see the possible train wreck coming around the corner. That's what happened to the financial services and housing industry - the builders, banks, mortgage companies, brokers, investors, credit-rating agencies, and others -- when they got the deregulation that they fought so hard for.

For over a decade, we've faced widening economic disparities, and deteriorating social conditions. America today has the biggest concentration of income and wealth since 1928. Meanwhile, the American Dream -- the ability to buy a home, pay for college tuition and health insurance, take a yearly vacation, and save for retirement--has become increasingly elusive. A growing number of working families are in debt, while the number facing foreclosure has spiraled. American workers face declining job security as companies downsize, move overseas, and shift more jobs to part-time workers. The cost of basic necessities is rising faster than incomes.

Obama implied that we all have a responsibility - to our friends and neighbors, our fellow citizens, and to our children and grandchildren - to move America in a new direction. He focused on having government change the economic ground rules for business practices, but he didn't let individuals off the hook, either. He said that consumers have to live within their means and not try to purchase homes they can't afford. He wanted a greater government investment in public education and reforms of our educational system, but he also insisted that parents take responsibility for helping their kids do well in school.

"In the end, " Obama said, "there is no program or policy that can substitute for a mother or father who will attend those parent/teacher conferences, or help with homework after dinner, or turn off the TV, put away the video games, and read to their child."

The idea of "responsible capitalism" embedded in Obama's speech is almost a total reversal from the philosophy and practice of the George W. Bush era. That era was not a triumph of smaller government, but instead the victory of crony capitalism - favoritism for politically-connected corporations and industries, often at the expense of the environment, employees, consumers and, indeed, the health of the overall economy.

Bush slashed taxes on the very rich and on corporations, which led to a spiraling budget deficit. Under Bush, the financial services industry pushed for and got deregulation,

which led to the mortgage meltdown. At the behest of the auto industry, the Bush administration stopped California from requiring greater fuel efficient cars, exacerbating the environmental crisis and compounding the industry's failure to respond to consumers' preferences. Bush brought in mining industry insiders to stack the Mine Safety and Health Administration (MSHA), which oversees the nation's coal mines, and the Federal Mine Safety and Health Review Commission (FMSHRC), who rolled back health and safety regulations, and slashed budgets for safety inspection, leading to an increase in coal mine deaths.

The Bush administration also steered hundreds of millions of dollars to politically connected firms like Haliburton, Fluor Corporation, and Bechtel, many through no-bid contracts, for post-Katrina reconstruction, but did little to help the hurricane's victims rebuild their homes and their lives.

During the 2004 election cycle, the construction industry donated heavily to Bush and GOP candidates for Congress. To repay them, Bush suspended the Davis-Bacon law - which since 1931 has set a minimum pay scale for workers on federally-assisted construction projects -- for Katrina reconstruction work.

Vice President Dick Cheney steered \$7 billion in no-bid government contracts to Kellogg Brown & Root, a subsidiary of his former employer, Haliburton, to restore Iraq's oil field just before Bush ordered the invasion of Iraq, but put our soldiers at risk when it came to providing them the tanks and other equipment needed to maximize their safety.

The Bush years of crony capitalism led to dozens of corporate scandals - Enron, WorldCom, Haliburton, Countrywide, and other major corporations - that ripped off the government, stockholders, and consumers of billions of dollars. But the problem goes beyond the greed of a few CEOs and corporate boards. Even Alan Greenspan recently admitted that he was shocked to learn that companies and industries don't police themselves.

Obama said Tuesday night that the federal government has a responsibility to promote economic prosperity, good jobs, a clean environment, health care for all, and a first-class education from kindergarten through college.

This isn't big government for the sake of expanding the power of bureaucrats and policy wonks. It is critical, Obama explained, to make the economy stronger and competitive, and also to make the U.S. are more livable, humane society.

Predictably, the Republicans criticized Obama's ideas as "socialism" and called for more of the same policies that got us into the current mess. Louisiana Gov. Bobby Jindal's rebuttal speech Tuesday night -- which called for more tax cuts and fewer regulations on business -- was completely out of sync with what Americans are thinking and what's needed to set the country back on course. Jindal is one of the new faces that the GOP hopes will revitalize the party, along with RNC head Michael Steele, Cong. Eric Cantor, and Alaska Gov. Sarah Palin. In terms of race and gender, this is a diverse group,

especially for the Republicans. But in terms of their ideological and policy views, they are as close as sardines in a can. They - and their media buddies like Sean Hannity and Rush Limbaugh - have one idea in common: "No."

Faced with an even graver situation in the Depression, President Franklin Roosevelt worked with Congress to give the federal government the tools it needed to revitalize the economy, put Americans back to work, and make business act responsibly. At the time, some critics called him a socialist. But in retrospect, it is clear that what FDR did was to rescue capitalism.

Once again, we have an economy in free-fall. Obama acknowledged the serious problems we face, but, like Roosevelt, he offered Americans hope that we can bring about a better economy and a better society. Let's call it "responsible capitalism."