Obama campaign aide controversies underscore big business control of Democratic Party

Bill Van Auken
13 June 2008

With the primary contests over, the Democratic Party's presumptive presidential nominee Senator Barack Obama has launched a general election campaign focused on the crisis-ridden American economy, delivering a series of speeches decrying sustained job losses, soaring gas prices, home foreclosures and widening social inequality.

Distracting attention from these stump speeches, however, has been a pair of controversies swirling around two senior advisors to the candidate, whose political biographies are sharply at odds with the quasi-populist rhetoric employed by Obama on the campaign trail.

Much of this rhetoric has mined the same themes that Obama placed at the center of his contest with Senator Hillary Clinton during the primaries, presenting himself as the political outsider, determined to break with a Washington political culture dominated by "special interests" and lobbyists. He assured an audience in North Carolina Monday that as president he would see to it that CEOs cannot "dump your pension with one hand while they collect a bonus with the other."

It was in this context that a string of reports, beginning with a piece in the *Wall Street Journal* last Saturday, raised questions about James A. Johnson, the chief advisor selected to direct the search for Obama's running mate, and struck a decidedly discordant note.

Johnson resigned as head of the vice presidential search team Wednesday. After initially dismissing revelations about the aide's apparent profiting off of insider deals—an internal campaign memo described the story as "overblown and irrelevant"—the Obama campaign evidently decided to cut its losses.

Among the most damaging of these exposures was the fact that Johnson—described by the *Washington Post* as "a consummate Washington insider"—received millions of dollars in apparently favorable loans from Countrywide Financial, the country's largest mortgage lender and a leading vendor of subprime loans, responsible for pushing tens of thousands of borrowers into foreclosure.

Johnson headed Fannie Mae, the huge government-sponsored institution that underwrites much of the US home mortgage market, from 1991 to 1999. Countrywide, now on the brink of bankruptcy and being bought out by Bank of America, was Fannie Mae's biggest customer, selling it loans that were then packaged into securities for resale to investors.

According to the *Wall Street Journal*, Johnson's loans—the first of which he received before leaving Fannie Mae—came out of a special program known within the company as "Friends of Angelo," for Countrywide CEO Angelo Mozilo.

Mozilo has been specifically targeted by Obama in his speeches attacking CEO "excesses." It was revealed last month that Mozilo took in a total of $142 million in compensation last year, while Countrywide posted losses of $703 million, eliminated 11,000 jobs and presided over wholesale mortgage defaults and foreclosures. The company is now reportedly under federal investigation for securities fraud.

The fact that the former head of Fannie Mae received $7 million worth of insider loans from such a company suggests more than a whiff of conflict of interest.

The Countrywide connection was combined with the report by the *Washington Post* that Johnson received a $1.9 million bonus from Fannie Mae in 1998 based on "alleged accounting manipulation" under conditions in which the government-backed agency's performance justified no bonuses for executives. The paper added, "Even after he left Fannie Mae in 1999, Johnson received millions of dollars in guaranteed consulting fees and perks that included an office, two secretaries and a car and driver for himself and his wife."

Finally, the *New York Times* reported that Johnson was "involved in some of the more controversial executive compensation decisions in recent years, serving on the board of five companies that granted lavish pay packages to their executives—and often playing a key role in approving them." Included among these deals brokered by Johnson was $1.4 billion in stock options for UnitedHealth Group CEO William McGuire.

While the Obama campaign sought to minimize the significance of Johnson's forced exit, he was anything but a minor figure. A Democratic Party insider going back 30 years, he had played the same role for the party's 2004 presidential nominee Senator John Kerry. The *Post* quoted Kerry campaign aides as saying that Johnson had hoped a Democratic victory that year would result in his appointment as White House chief of staff or Treasury secretary. "He had similar ambitions with Obama," the paper reported.

The Republican Party seized upon Johnson's resignation to accuse the Obama campaign of hypocrisy and incompetence. “Selecting the vice presidential nominee is the most important decision a presidential candidate can make,” a spokesman for the presumptive Republican nominee Senator John McCain said in a statement. “By entrusting this process to a man who has now been forced to step down because of questionable loans, the American people have reason to question the judgment of a candidate who has shown he will only make the right call when under pressure from the news media.”

Obama’s own spokesmen responded by pointing out that McCain’s campaign has been run almost entirely by lobbyists and that the individual responsible for vetting Republican vice presidential candidates had himself lobbied for Fannie Mae against proposed government regulation. The response, however, seemed to be a backhanded admission that the Democratic Party is no different than the Republicans; that no one’s hands are clean.

Obama’s own reaction to the initial furor was revealing. He dismissed it as a “game that can be played,” while acknowledging that “everybody, you know, who is tangentially related to our campaign, I think, is going to have a whole host of relationships.” But the reality is that such relations, involving millions of dollars in insider loans and bonuses and responsibility for approving hundreds of millions and even billions of dollars of compensation for corporate executives, predominate only in a political party that is thoroughly corrupt and tightly controlled by major financial and corporate interests.

Expressing exasperation, Obama protested, “I would have to hire the vetter to vet the vetters.” In all likelihood, it was figures like Johnson who vetted Obama himself, determining that he would make a suitable candidate who would defend their social interests.

Alongside the sudden departure of Johnson, the announced hiring of another aide also provoked controversy. The Obama campaign selected as its economic policy director Jason Furman, a close associate of former Clinton administration treasury secretary and current Citigroup executive Robert Rubin.

Furman until last week was the director of the Hamilton Project, a think tank set up by Rubin, together with other wealthy Democratic bankers, corporate executives and heads of major Wall Street hedge funds.

Among the members of the Hamilton Project’s advisory council is Obama’s recently departed vetter, James Johnson.

The stated aims of the institution include confronting fiscal imbalances and promoting “entitlement reform,” euphemisms for balancing the budget on the backs of working people by slashing fundamental social programs like Social Security and Medicare. At the same time, it is a firm proponent of “free trade.”

In its statement of principles, the Hamilton Project warns that the US is “not paying its own way” and that the government has “failed to make the tough decisions” that are required.

Obama’s selection of Furman sends a clear signal to Wall Street, just as Bill Clinton’s choice of Rubin as his chief economic advisor did 15 years ago. The message is that the campaign’s vague promises of measures to ameliorate declining real wages, employment and social conditions are meant for public consumption, while real economic policies will be set according to the interests of America’s financial oligarchy.

Rubin’s own legacy after six years of directing the economic policy of the Clinton administration was one of an unprecedented rise in the stock market that enriched a thin layer at the top of American society, while conditions for the majority of the population were driven further down through a wave of corporate downsizing, stagnating real wages and wholesale cuts to existing social programs.

Furman has stirred up controversy within Democratic Party circles by publishing a defense of Wal-Mart and suggesting that privatized Social Security accounts and benefit cuts, along the lines proposed by the Bush administration, should be considered. He has written in favor of corporate tax cuts, bipartisan deficit cutting and presidential vetoes of any measures exceeding the federal budget.

The announcement of Furman’s appointment touched off a nervous protest from within the trade union bureaucracy.

AFL-CIO President John Sweeney issued a statement protesting Furman’s appointment. “For years we’ve expressed strong concerns about corporate influence on the Democratic Party,” said Sweeney. “The fact that our country’s economic policies have become so dominated by the Wall Street agenda—and that it is causing working families real pain—is a top issue we will be raising with Senator Obama.”

The reality is that for decades the labor bureaucracy has upheld the “Wall Street agenda” by seeking to subordinate the struggles of the working class to the Democratic Party. The AFL-CIO’s opposition to Furman is based largely on a nationalist perspective that sees protectionism as a means of defending the bureaucracy’s own interests, based on its alliance with the state and sections of US manufacturers.

The Furman appointment drew a nod of approval from *Washington Post* columnist and associate editor David Ignatius, who said Obama had chosen “someone who can help him move from the anti-NAFTA left of the party toward the pro-market center that traces its lineage to [the] Clinton administration.”

Ignatius writes in his column Thursday that the choice for economic advisor is “a sign that Obama’s policies will involve ‘Facing the Music,’ as Furman titled a recent Brookings paper he co-wrote about repairing the fiscal damage of the Bush years.”

The tricky problem that Ignatius sees is how to disguise such pro-Wall Street, deficit-slashing policies. Obama, he says, needs to package them as “exciting and visionary” and somehow square them with “the country’s yearning for fundamental change.”