

Key Obama economic adviser admits he has no answers

Alex Messenger
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In a sign of the panic gripping Washington's policy-makers, one of Barack Obama's key economic advisors, Paul Volcker, has warned a gathering of his leading peers that the crash of 2008 might be "the mother of all financial crises... I don't remember any time, maybe even the Great Depression, when things went down quite so fast, quite so uniformly around the world". Volcker, chairman of the president's Economic Recovery Advisory Board and former chair of the Federal Reserve, told a conference at Columbia University's Centre for Capitalism and Society on 20 February that the crisis was "characterised by being very international" and was the product of deep global imbalances.

But it is not only for their candour about the scale of the crisis that Volcker's Columbia comments are notable. The former Fed chief admitted to his star-studded audience (including celebrity economist Jeffrey Sachs, George Soros and three Nobel Prize winners) that the profession of which they were all a part had failed. The breakdown of the world financial system has "occurred in the face of almost all policy and intellectual analysis... Even the experts don't know what's going on".

Obama's chief advisor on economic recovery went on to concede that he himself had no answers, saying: "The first priority is to restore some semblance of stability and order in the market and restore the flow of credit. I'm not going to talk about that. I haven't got—if I had the answer I might talk about it, but I'm not sure I have it, so I think we'll neglect that for the moment."

These admissions suggest that even the architects of the bank bailouts and of Obama's new lending fund have no confidence in those policies and no alternatives to put forward. This is the fund that Obama claimed during his 24 February speech to Congress would "aggressively break [the] destructive cycle [of frozen credit]" by "helping to provide auto loans, college loans, and small business loans to the consumers and entrepreneurs..."

The significance of Volcker's Columbia comments becomes clear when one considers his broader political role, in particular

the respect Volcker commands among bourgeois economists as the senior ruling class "enforcer". Apparently aware that Volcker would relish the opportunity to "tell it like it is", Columbia University president, Lee Bollinger, introduced Volcker as having "a special place in the history of this country and of the world as... being a person who provided leadership at a critical moment and was able to see things and say things clearly, even when [people] did not want to hear them."

The leadership that Bollinger praised was Volcker's anti-inflation, interest-rate policy while Fed chairman between 1979 and 1987, a policy designed to produce mass unemployment and real wage declines. The result was the deindustrialisation of the US economy and a massive increase in the national and global role of the US financial sector.

Twenty years after leaving the Fed to chair a Wall Street investment bank, Volcker continues to render an important service to the ruling elite. He not only retains elder-statesman status, but can be put forward by the Obama administration, disingenuously, as "old-school", a sane voice from a time before financial engineering and securitisation. Broadly speaking, the decline in stocks of former Fed Chairman and free-market high priest Alan Greenspan, have set the stage for Volcker's resurrection as sober pragmatist: the ultimate bank manager. The Obama administration can associate itself with a safe critic of what Volcker calls "financial alchemy", that is, the mechanisms through which the global financial system became a giant Ponzi scheme built on recycled debt.

In this vein, Volcker told the Columbia gathering that "I think there's... a behavioural personality kind of aspect which should not be overlooked. We went from banks to the open market, and in the process we went from a financial system that was largely, not entirely, devoted to what might be called relationships..... You went to a very impersonal kind of market where there was no real customer relationship—everything was a deal..."

Volcker went on to suggest that "the most important financial innovation in the past 20 or 30 years for the average person"

was not any "high-class financial operation" but the ATM. "I have more connection with my automatic teller machine than any other part of the financial market."

Finally, Volcker offered his thoughts on the new forms of international financial regulation that must be established: "All banks must be supervised and regulated, but those of systemic significance around the world, which, almost inevitably... are international, they're not just national, will be subject to a particular layer of supervision."

This commentary is pure opportunism. Suddenly, in the face of what appears to be the greatest economic crisis in world history, it becomes conventional wisdom among Volcker and his colleagues to label the last 30 years a giant mistake. Did they ever say this before 2008? In any case, Volcker's attack on financial engineering and his concomitant call for smarter regulation beg the question: what does any of this add to the resolution of the deep global contradictions that even on Volcker's reading are the real cause of the crisis? What does it add to the plans for "recovery"? Indeed those are questions raised by Volcker's own observation that financial engineering has played a secondary role: "I think the very rapid and sweeping changes we've had in financial markets in recent decades helped prolong the imbalances in the real economy but in a very overall way."

Although Volcker's call for finance sector regulation does nothing to address the crisis itself, it still serves an important political function: to distract from the fact that, on Volcker's own estimation, not even the world's experts have a clue. The purpose of the regulatory talk is to promote the illusion that the policy-makers in power and bourgeois economists more generally can exert rational control over the global system and that, despite that system's breakdown, the crisis will be resolved by the clever tweaking of national governments and by patience on the part of the public.

The outbreak of honesty at Columbia on February 20 contrasts starkly with Volcker's appearance before the Joint Economic Committee of Congress just six days later. Columbia's plain-speaker had been replaced by Volcker the bank manager, delivering the Obama administration's message that the economic situation, although serious, would be tamed by men like Volcker. Things had to be toned right down: "We are living in a difficult time for the economy". Here was a plain demonstration of the political role played by bourgeois economics.

But the congressional appearance also demonstrates the difficulties faced by Volcker and his associates. It became clear as Volcker's testimony progressed that, far from delivering a serious report about economic policy, Volcker had come to talk

about a futuristic international regulatory landscape. Like a new civilisation rising up after a nuclear winter, the new regime would forestall poor risk management and the excesses of securitisation. In particular, it would "help assure [the] stability and continuity [of banks] and limit potential conflicts of interest, strong restrictions on risk-prone capital market activities—hedge funds, equity funds, and proprietary trading—would be enforced." In order for this to happen there needed to be "strong cooperation and coordination among national authorities and regulators."

Volcker's testimony produced a revealing exchange.

So are any of these international discussions going on at the moment? asked Congressman Ron Paul. "No," said Volcker, fiddling with his pen and avoiding eye-contact. "I don't know of any coherent or regular discussions going on officially, and very few unofficially in terms of the construction of the monetary system.... The questions that you raise are relevant questions."

And what about the underlying issues? The global imbalances? Can we "patch together" the international monetary system? asked Paul. "Well", Volcker giggled, "I think there are problems with the present international monetary system which have not received sufficient attention. And I think I will leave it at that." Paul: "Isn't that ducking it a little bit?" Volcker: "I agree!"

As Volcker all but concedes, there is no real prospect of the current crisis being solved by international co-operation. Indeed, the trajectory of the crisis so far—mounting protectionism, support for national banks at the expense of foreign institutions—points in the opposite direction.



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