Why FDR Matters Now More Than Ever

On the 133rd anniversary of his birth, Franklin Roosevelt remains a relevant figure for America, the president who gave meaning to the Constitution’s mandate to “provide for the general Welfare” — and who is still a target for those who made “free markets” their god and “guv-mint” their devil, writes Beverly Bandler.

By Beverly Bandler

Franklin Delano Roosevelt was on his way to his first inauguration on March 4, 1933, in the fourth dark winter of the Great Depression. Amid widespread public fear and distress, there were machine-gun nests at the corners of the great government buildings in Washington, a city that hadn’t had such a look of an armed camp since the Civil War.

In the 1932 campaign, FDR had promised Americans a “new deal” and in his Inaugural Address he famously told the nation that “the only thing we have to fear is fear itself.” But that was only partly true. There were many genuine reasons for Americans to fear the future. There was the possibility of revolution or even a right-wing coup d’etat.

But FDR quickly went to work on an aggressive government campaign to provide relief and recovery. In doing so, as Professor Lawrence Davidson has written, “Roosevelt and the New Deal saved capitalism from itself.”

As writer Russell Baker has noted, “Roosevelt and his advisers introduced a new philosophy, one that held that Americans had responsibilities to one another, and that government had a duty to intervene when capitalism failed.” In effect, FDR gave meaning to the mandate of the U.S. Constitution for the federal government to “promote” and “provide for the general Welfare.”

Herbert Hoover, Roosevelt’s predecessor, had said, “The sole function of government is to bring about a condition of affairs favorable to the beneficial development of private enterprise.” Roosevelt created what journalist George Packer suggests was a period of the Roosevelt Republic, “a relatively egalitarian, secure, middle-class democracy, with structures in place that supported the aspirations of ordinary people.”

Roosevelt created a modern America with institutions that proved both durable and essential, the “bedrock of our nation’s economic stability,” says economist Paul Krugman.

One hundred thirty-three years since Roosevelt’s birth and nearly 82 years since he took office, many Americans have forgotten the lessons of those hard times. They again have come to follow the siren song of unregulated, “free market” capitalism. They have bought into Ronald Reagan’s assertion in 1981 that “government is the problem.”

Forgetting History

As writer Tariq Ali has commented, “people are taught to forget history” and the history that many Americans have forgotten is how the Great American Middle Class was created. It did not exist before Roosevelt and the New Deal and it has been in rapid decline since Reagan and what might be called the Great Retrenchment.

You might have thought that the fallacy of magical markets with their invisible hands weaving a better life for all worthy citizens as long as “the guv-mint” didn’t interfere would have been demonstrated again by the Crash of 2008, after nearly three decades of a bipartisan deregulation frenzy.

By February 2009, the United States was losing over 500,000 jobs a month. Less known among the American people was the fact that there had been zero net job creation during the entire decade of the 2000s, as economics correspondent Neil Irwin reported in 2010. No previous decade since the 1940s had job growth less than 20 percent. Economic output rose at its slowest rate of any decade since the 1930s as well, Irwin noted.

In 2009, the economic disaster that Bush left behind confronted the new Democratic president, Barack Obama, with the need for unity and urgent action on a large scale, but he was confronted with both Republican obstructionism and an unwillingness of both the mainstream and right-wing media to admit that their devotion to “free market” ideology had proved catastrophic.

Despite an educational effort by some professional economists, historians and journalists to highlight the need for a revival of Roosevelt’s legacy, the anti-government “group think” which had come to dominate opinion circles over the previous three decades proved nearly impossible to shake.

Rather than building on the lessons of the New Deal, the conventional wisdom continued to disparage government intervention to pull the U.S. economy from the abyss. The core neoconservative or neoliberal argument was that the New Deal actually had failed despite the empirical evidence showing the opposite, as well as how a variety of government programs including post-FDR innovations like the GI Bill and Medicare had helped the young enter the middle class and the elderly stay there.

Giving voice to this anti-New Deal “group think,” The Washington Post’s Outlook section on Feb. 1, 2009, featured an article by Amity Shlaes headlined: “FDR Was a Great Leader, But His Economic Plan Isn’t One to Follow.” A second piece was entitled: “FDR’s Plan Failed to Spark.” Yet who was Shlaes and why should her opinion be so respected?

Shlaes is a former member of the editorial board of the *Wall Street Journal,* (the hothouse for anti-New Deal myth promotion). According to various bios, she has written on political economy, economic history and taxes, and taught a MBS course on “The Economics of the Great Depression,” all based, it appears, on a bachelor’s degree in English. She currently chairs the board of trustees of the Calvin Coolidge presidential foundation. Yet, even “Silent Cal” if he were alive today might be surprised that anyone would still be touting his laissez-faire economic nostrums in the Twenty-first Century after they failed so calamitously in the last century.

Dismissing Government

Shlaes has gotten a lot of mileage out her theory that government can do little or no good and that the economy is best left to the businessmen and bankers. She wrote *The Forgotten Man: A New History of the Great Depression* (2007)*,* that former Republican House Speaker Newt Gingrich praised as a blueprint for a return to “Whig-style free-market liberalism,” as Zachary Newkirk reported in *The Nation.*

It should be noted that the book appeared the year before the lightly regulated (or self-regulated) “free market” unraveled, spilling pain and chaos not only across America but throughout Europe and much of the developed world. Yet, in 2009 with the economy in freefall, the Washington Post turned to the lightly credentialed Shlaes as an expert on how government intervention wouldn’t work.

The Post made that choice although Shlaes has come under substantive criticism for making claims that are misleading, inaccurate and ideologically driven. Political commentator Jonathan Chait wrote that Shlaes’s book was “extremely strange” in that “it does not really argue that the New Deal failed.” He suggests that the book is novelistic rather than scholarly, a combination of bold claims, “implication,” lack of substantiation and contradictions, and “wild anecdotal selectivity.”

Shlaes, who avoids addressing the basic fact that the Depression came about during the Republican regime of 1929-1932, seems to know little if anything about the human suffering of the Depression. She cherry-picks data from the period, and like her fellow conservatives who create their own reality rejects all empirical evidence that Roosevelt’s programs helped the nation recover from the Depression.

She has been described by Depression historian Robert S. McElvaine as an "unconstructed antisocial Darwinist, the darling of the right for her completely wrong-headed view of the Great Depression." Journalist Lynn Parramore says: "Amity Shlaes, ever the eager revisionist."

But Shlaes's trendy, counter-intuitive message still resonated with the well-paid elites of Washington, who had overwhelmingly bought into neoliberal and neoconservative theories that hold with religious intensity that the market is god. And these "wise" men and women weren't about to admit such a fundamental mistake.

So, at the gray dawn of the Great Recession, the U.S. mainstream media might have done average Americans a better service by giving more attention to many sounder economists and historians who hold a more favorable view of the New Deal, such as:

Anthony J. Badger, Isaiah Berlin, Ben Bernanke, Alan Brinkley, E. Cary Brown, James MacGregor Burns, Adam Cohen, Lawrence Davidson, J. Bradford DeLong, Barry Eichengreen, Benjamin M. Friedman, Alexander Field, John Kenneth Galbraith, James K. Galbraith, David M. Kennedy, Paul Krugman, William E. Leuchtenburg, Robert D. Leighninger Jr., Jeff Madrick, Robert S. McElvaine, Charles McMillion, Kim Phillips-Fein, Eric Rauchway, Christina D. Romer, Arthur Schlesinger Jr., and Joseph E. Stiglitz.

But Shlaes and her novelistic perspective on the New Deal bolstered the thinking of many "conservatives" and quite a few "neoliberals" in their resistance to a major federal commitment to new public works projects and other initiatives to put Americans back to work and spur a recovery.

Obama's Initiative

As soon as President Obama took office, he requested an economic recovery plan from Congress. His American Recovery and Reinvestment Act (ARRA) of 2009 was a $787 billion stimulus measure designed to jump start the economy and to create and save 3.5 million jobs, give 95 percent of American worker a tax cut, and begin to rebuild America's road, rail and water infrastructure.

Many economists believed that the stimulus was far smaller than was needed to meet the economic collapse that followed the Wall Street meltdown in 2008, but the size was mostly dictated by the intense opposition of congressional conservatives who were buoyed by new waves of anti-government propaganda from right-wing and mainstream media.

Still, despite its inadequacies, the stimulus package along with the auto and bank bailouts and other federal interventions was credited by serious economists for stabilizing the economy and saving millions of jobs. David Leonhardt of the *New York Times* reported in February 2010 that research revealed that the government's direct intervention "helped avert a second Depression."

Yet, that reality didn't fit with "free market" theology, which remains an article of faith among Republicans and conservatives who have denounced the New Deal since the 1930s as if they were fire-and-brimstone ministers decrying the Devil. But what is relatively new is that many members of today's Democratic political elite have joined the "free market" cult by conveniently forgetting the history of the Great Depression and the New Deal. Many of these well-heeled Democrats made fortunes on Wall Street where they learned to embrace the "free market" creed.

Some younger Democrats may have simply not been exposed to the New Deal's history. That would appear to be the case with Barack Obama, who was born in 1961 and came of age around 1980 at the beginning of the so-called Reagan Revolution.

But the "ancient history" of the 1930s is still relevant, especially for families whose great-grandparents were lifted from the Great Depression by the New Deal's jobs programs, whose working-class grandfathers got educated through the GI Bill and pulled their families into the middle class, and whose mothers and fathers grew up at a time when a strong middle class created unprecedented economic security for many Americans.

One such family the Cheneys was devoted to FDR's New Deal because it saved them from ruin and created such middle-class security for them that, ironically, one of their offspring, Dick Cheney, soon forgot why his father and grandfather were such strong Democrats and set off to Washington to dismantle FDR's legacy. [See Consortiumnews.com's "Dick Cheney: Son of the New Deal."]

Once again, it's worth remembering FDR's legacy:

The United States, 1797 to 1929

In the first decade of the Republic, President George Washington's Treasury Secretary Alexander Hamilton offered a vision of an activist federal government that would "promote the general Welfare" through what was called "dirigisme," an economic system in which the government played a strong role in nation-building, from creating a financial system to encouraging manufacturing to road and canal construction.

But Hamilton was sidelined under President John Adams and the Hamiltonian vision was ultimately defeated by the rise of Thomas Jefferson, who saw industrial development as a threat to agricultural interests, including the plantation system and slavery upon which Jefferson's wealth and the economy of the South depended. [See Consortiumnews.com's "Thomas Jefferson: America's Founding Sociopath."]

Though some of Hamilton's nation-building ideas survived, his political defeat in the 1790s dealt a long-term setback to those who favored an activist federal government building a strong and successful nation. A *laissez-faire* system, albeit with businessmen frequently manipulating the government for economic gain, prevailed.

"In the 132 years between 1797 and 1929, there was no effective regulation of the U.S. economy," writes history professor Lawrence Davidson. "No federal agencies existed to control corruption, fraud and exploitation on the part of the business class. Even during the Civil War, economic management on a national level was minimal and war profiteering common."

"The way capitalism worked over these 132 years was a function of ideology," continues Davidson. "This was (and still is) the so-called free-market ideology which taught that if the government was kept as small as possible (basically having responsibility for internal order, external defense, and the enforcement of contracts), the citizenry would have to pay very low taxes and be left alone to pursue their own prosperity."

Between 1797 and 1929, the federal government did little to mitigate the cycles of boom and bust that ruined the lives of many Americans. For the better part of a century, the country suffered a wrenching economic collapse every five to ten years. Bank failures and Wall Street panics were common, and usually led to nationwide meltdowns.

The National Bureau of Economic Research, which tracks U.S. recessions, states that "the country experienced 33 major economic downturns which impacted roughly 60 of the years in question. These included 22 recessions, four depressions, and seven economic 'panics' (bank runs and failures)," notes Davidson.

The World FDR Faced

The 1920s, while not considered an exceptional boom period, was what economist John Kenneth Galbraith called a "lively phase" of American capitalism, a continuation of the Gilded Age that is considered to have begun around 1870. For some historians, it closed at the end of the 19th Century, for others it ended in 1929.

The Gilded Age, so named by American humorist Mark Twain and Charles Dudley Warner in their satirical 1873 book, *The Gilded Age: A Tale of Today,* was characterized by a greatly expanding economy and the emergence of plutocratic influences in government and society, a post-Civil War America that was "an age of corruption, crooked land speculators, ruthless bankers, and dishonest politicians."

The generally euphoric economic expansion that followed World War I reflected *laissez-faire* "with a vengeance" and "rugged individualism." Known as the "Roaring Twenties" or the "Jazz Age," the 1920s produced flappers in fringes and hair bobs, the Charleston, Ponzi schemes, an explosion of movies and movie palaces.

It was the time of Prohibition (1920-1933), speakeasies, and crime. Americans thought they were in a never-ending "New Era" of low unemployment and general prosperity, but history reveals it was also a time of a "happy daze" that hid hardships and the extreme income inequality portrayed memorably in F. Scott Fitzgerald's *The Great Gatsby.* Income inequality reached a peak in 1928. There were warning signs of trouble when an average of 600 banks failed each year during the decade.

Still, the United States got a glimpse of what could become a modern middle-class consumer economy with mass production putting many modern wonders within reach of millions of Americans, such as radios, home appliances and automobiles. After World War I, the United States became the richest society the world had ever seen. It was probably the first time in history that people were taught to value consumption, being told to consume more and more. Optimism and prosperity were not shared equally, however. The middle class was fledgling and comprised only 15 to 20 percent of Americans.

A system of quotas routinely kept women, blacks, Jews and ethnic whites out of the best jobs, residential areas and schools. In 1935, Yale University's Dean Milton Winternitz's instructions were specific: "Never admit more than five Jews, take only two Italian Catholics, and take no blacks at all."

In many parts of the United States in the first decade of the Twentieth Century, many areas had racially restricted housing covenants written into the title deeds that prohibited selling property to non-whites, a term that could include Jews, Italians, Russians and Latinos, anyone not white, Anglo Christian.

A system of apartheid, rationalized by bad science and enforced by lynching, ruled in the South. More than 4,700 people, mostly African-Americans, were lynched between 1882 and 1968, and that is the number that is documented. Republican Warren Harding was the first president in American history to publicly condemn lynching, in Birmingham, Alabama, no less. The Ku Klux Klan reached the height of its influence in 1924, when it claimed 9 million members.

Racism was not limited to the South. Racial tensions were heightened in areas in which African-Americans would compete for jobs. In Detroit, racial conflicts grew when Henry Ford began hiring Africans-Americans in large numbers in 1915 and paid them the same wages as his white employees.

Anti-Semitism reached its peak between the First and Second World Wars. Henry Ford may not have been anti-black when it came to hiring assembly-line workers, but he was a virulent anti-Semite. He was an admirer of Adolf Hitler and the Nazis, and one of the major overseas investors in their war machine. His 1921 book, *The International Jew,* still appears on many anti-Semitic and neo-Nazi sites. Ford dealerships across the country and internationally distributed free copies of the book.

Uneven Prosperity

Thus, the notion that the 1920s was an era of unbounded prosperity and gaiety for all is a myth. But times were good generally, except in farming and mining. Jobs were plentiful, prices were stable, and wages were rising. Unemployment during the decade ranged around 5 percent until 1930 (it should be noted that unemployment figures of this period were not gathered based on the systematic processes developed in the post-World War II era).

Most elderly Americans, however, lived in abject poverty. “The courts repeatedly struck down the most basic minimum wage, child labor, consumer protection and worker safety laws,” writes historian Kevin Baker.

Despite the emergence of often-embattled unions, Baker reminds us that Americans of 1933 had little say in anything that mattered. Banking and investment were dominated by a small circle of self-interested, often dishonest men. Politics in every large city were usually controlled by corrupt political machines. In the South, millions of blacks and poor whites were kept from the ballot box by poll taxes, literacy tests and force of arms.

Elected in 1928, President Herbert Hoover had been one of the ablest and most widely admired men in America. Kevin Baker reminds us that Hoover was a dynamic figure and “rigorous thinker” who had served as secretary of commerce and had headed relief efforts with his wife in China during the Boxer Rebellion and in Europe at the start of World War I. He tirelessly promoted “new technologies, work-safety rules, and voluntary industry standards supervised relief to Mississippi and Louisiana during the terrible 1927 floods and advocated cooperation between labor and management.”

At a time when the idea of “scientific management” was at a height, journalist Anne O’Hare McCormick’s comment about Hoover’s inauguration was not surprising:

The American people “summoned a great engineer to solve our problems for us,” she wrote. “Now we sat back comfortably and confidently to watch the problems being solved.”

That was in March 1929. The Wall Street Crash that October revealed that even skilled engineers can run off the track. Baker has quoted New Dealer Rexford Tugwell as giving credit to Hoover for some bold ideas that were to get the New Deal label. History has recorded Hoover, however, as the talented engineer who turned out to be a rigid conservative intellectual committed to economic orthodoxy that reflected the 1920s “business progressivism.”

As a Republican, Hoover refused to abandon the old-time religion of unbridled market capitalism reflected in his 1931 statement: “The sole function of government is to bring about a condition of affairs favorable to the beneficial development of private enterprise.”

The Depression 1929-1941

The Great Depression began in the late 1920s as eight years of uninterrupted prosperity came to a brutal end when the stock market bubble burst in October 1929. Yet, in the crucial early years of the economic collapse of 1929 to 1933, those walking the corridors of power formed a chorus of *liquidationists,* men who resisted pursuing expansionary monetary and fiscal policies in favor of “natural” market forces. Treasury Secretary Andrew Mellon’s 1930 prescription: “Liquidate labor, liquidate stocks, liquidate real estate.”

The “harsh lantern of history” reveals a rigid commitment to destructive policies in combination with a marked disengagement from human suffering. Millions of businesses and enterprises went bankrupt. Shantytowns, constructed of cardboard, tar paper, glass, lumber, tin, whatever materials people could salvage, cropped up across the country to absorb the millions of unemployed people evicted from their homes. They were called “Hoovervilles.”

Let’s look at the numbers behind the human misery — Industrial production: Between the peak and the trough of the downturn, industrial production in the United States declined 47 percent. Gross Domestic Product (GDP), a measure of the nation’s total economic activity, fell 30 percent.

Unemployment: The reliability of the statistics continues to be debated, but it is widely agreed that unemployment exceeded 20 percent at its highest point, according to economist Christina Romer, though some estimates put it at 33 percent, even 75-80 percent in some cities.

Income: People’s real disposable incomes were estimated to have dropped 28 percent. Farmers had already experienced severe hard times in the 1920s and were further crushed by catastrophic price drops, drought and debt. The value of farmland had fallen between 30 to 40 percent between 1920 and 1929. A thousand homeowners a day lost their homes.

The very future of western civilization was in grave doubt. Some Americans expected Roosevelt to claim the powers of a dictator or close to it. Others, especially rightists in the upper classes and some militarists in the Army, weighed the possibility of a coup. Adolf Hitler had become chancellor of Germany just over one month earlier. Benito Mussolini, Italy's prime ministerial dictator since 1922, was fairly popular in the United States. Writer Russell Baker quotes Pennsylvanian Republican Sen. David Reed: "If this country ever needed a Mussolini, it needs one now."

"There is no doubt in my mind that during the spring of 1933, the Army felt that the time was approaching when it might have to 'take over," wrote Rex Tugwell, one of FDR's "brain trusters." For many, democracy itself seemed exhausted. Historian Arthur Schlesinger Jr. describes the period as "a frightened age when the air was filled with the sound of certitudes cracking on every side."

"The most insistent propaganda in those days," writes political theorist and historian Isaiah Berlin, "declared that humanitarianism, liberalism and democratic forces were played out, that the choice now lay between two bleak extremes, communism and fascism." It is important to remember that the Depression was global.

A Campaign of Hope

FDR's campaign in 1932 had offered the desperate nation hope. In his acceptance speech at the Democratic Convention, he declared: "Our Republican leaders tell us economic laws — sacred, inviolable, unchangeable — cause panics, which no one could prevent. But while they prate of economic laws, men and women are starving. We must lay hold of the fact that economic laws are not made by nature. They are made by human beings."

When FDR took the oath of office on that cold day in March 1933, the Depression was grinding into its fourth year. Over 10,000 banks had already collapsed and every bank in the country was in the process of closing its doors. The nation was in the middle of a terrifying fourth bank panic.

The issue in 1933 was not whether the federal government could respond to the economic crisis since it was not designed to do so. The issue was whether officials would be willing to build the institutions needed to handle a challenge as severe as the Depression.

FDR was faced with a stark choice: *recovery or revolution.* He chose recovery through the New Deal, a series of economic reforms passed by the U.S. Congress primarily during FDR’s first term, 1933-1937. The reforms were designed to respond to the Great Depression with relief, recovery and reform. Most of the important legislation came in brief spurts in 1933, 1935 and, least important, in 1938.

Not only did New Deal programs put unemployed back to work on road building, conservation and other public works projects, but it created a system of regulation for banks and the stock market. The New Deal also put in place Social Security which gave some financial protection for the elderly and the disabled.

A Whirlwind of Action

On his first day in office, March 4, 1933, FDR called Congress into a special session that began March 8 and did not adjourn until 99 days later on June 16, creating the now-benchmark measure of every president, the first 100 days.

“The volume of important legislation so exceeded any earlier precedents, so overwhelmed the immediate capacity for full comprehension,” writes historian Paul K. Conkin, “that even today no one can more than begin to make sense out of the whole.”

“As Roosevelt pointed out, the New Deal wasn’t so new,” writes professor Rauchway. “He claimed inspiration from the progressivism of Woodrow Wilson, under whose administration Congress created the Federal Reserve System, lowered tariffs, and tried to legalize unions.

“Republicans supporting him cited Roosevelt’s cousin-uncle Theodore, under whose administration Congress began to regulate corporate accounting and passed truth-in-advertising and pure-food laws. Farm supporters of the New Deal drew on the decades-old tradition of populism, which opposed the gold standard and demanded that government assist rural residents as much as it assisted railroad corporations. What was new in 1932 was a basket case economy.”

The first three months of FDR’s first term were a frenzied period, described by Arthur Schlesinger Jr. as a “presidential barrage of ideas and programs unlike anything known to American history.” The speed was such that humorist Will Rogers quipped: “Congress doesn’t pass legislation anymore, they just wave at the bills as they go by.”

Historians habitually divide the New Deal in two phases: a “First New Deal” of the first Hundred Days and the following year (1933-34), and a “Second New Deal” (1935-38). FDR’s first concerns were the banking crisis and putting people to work, so the first New Deal sought to provide emergency recovery and relief through banking regulations, price stabilization efforts, farm relief programs and numerous emergency organizations.

The Second New Deal continued relief and recovery measures but represented a policy shift toward welfare legislation, what conservatives charge was “more radical, more pro-labor and anti-business” than the first. The second phase included the National Labor Relations Act (Wagner Act, 1935), which revived and strengthened the protections of collective bargaining and the Works Progress Administration (1935), which nationalized unemployment relief and created hundreds of thousands of low-skilled blue-collar jobs for the unemployed between 1935 and 1941.

The Social Security Act was the most important program of 1935, perhaps of the New Deal. It established a system of universal retirement pensions, unemployment insurance, and welfare benefits for poor families and the handicapped. The Revenue Acts of 1935, 1936 and 1937 provided measures to democratize the federal tax structure. The 1938 Fair Labor Standards Act (the 44-hour workweek) was the final major New Deal measure.

The New Deal Worked

“By any normal definition, the Great Depression had ended by late 1936, with all major indicators surpassing their previous peaks,” says economist McMillion.

In that sense, the conservatives who have fought the New Deal and its legacy for 80 years appear comparable to Holocaust deniers. No amount of factual history satisfies them in the faux reality that they have created, a mix of myth and ideology that is simply not true.

“That it was not the programs of the New Deal, but only the placing of the nation on a wartime footing years later, that restored the health of the nation’s economy” is what McMillion calls a “dangerous popular myth” that “cannot stand up to even the most basic economic analysis.”

It is a myth that is contradicted by the economic facts from the 1930s from *The Historical Statistics of the United States*, Bureau of Economic Analysis, Department of Commerce, the Federal Reserve and other official sources. It is a myth promoted by the Twenty-first Century version of Liberty Leaguers and the mainstream corporate, neoliberal/neoconservative (whatever your preferred term) media, which abound with anti-government ideology.

McMillion points out that Shlaes, who is neither a recognized historian nor an economist, consistently cites only two economic indicators of the 1930s: the falling but persistently high unemployment rate and the length of time required for the stock market to recover after its bubble burst.

“Neither of these is used in any serious economic or policy analysis,” continues McMilllion. “Media emphasize the unemployment rate but, because it is known to be lagging and misleading, it is not considered at all by economists in determining the start or end of a recession or depression Serious analysis, including recession and depression dating, use the separate business reporting of actual jobs added or lost.”

The stock market is one reflection of public confidence, but is not an appropriate statistic for New Deal economic analysis because of the small percentage of the population invested in it. Still, the reason why right-wing media outlets like *The Wall Street Journal* work very hard to try to discredit FDR and the New Deal is that they want more and more Americans to buy into the myth that both FDR and the New Deal failed and accept the follow-on argument that people must trust the magic of the market and despise “guv-mint.”

The Economic Indicators

U.S. Industrial Production, which had collapsed (declined 47 percent) for nearly three years under Hoover, rocketed by 44 percent in the first three months of the New Deal and by December 1936, had completely recovered to surpass its 1929 peak. The 1937-1938 recession dip resulted when FDR, at heart a fiscal conservative, was persuaded to balance the budget and cut spending in response to fears of inflation when recovery was evident in 1936.

When the economy again contracted sharply in late 1937 and early 1938, FDR quickly reversed course and rapid growth immediately began again. Economist Marshall Auerback suggests: “the relapse of 1938 validates the efficacy of fiscal policy activism.”

The Gross Domestic Product (GDP) plunged 25.6 percent from 1929-1932. However, in 1936, real GDP surpassed its 1929 peak and never again fell below it. Between 1933 and 1937, the GDP rose at an average of 9 percent per year, according to economist Christina Romer. It grew at an annual rate around 11 percent after the 1937-39 dip.

Unemployment: As James K. Galbraith notes, “The view that the New Deal was too small and accomplished little, that only WWII ended the Depression, is very widely held. But it is not correct. It is based on a mis-reading of reconstructed unemployment statistics from that time, which treat the workers actually employed by the New Deal as though they were unemployed.”

Professor Rauchway notes that although unemployment records show that the unemployment rate didn’t return to 1929 levels until 1943, a crucial point is that the unemployment rate fell every year of the New Deal with the exception of the 1938-39 recession, the latter the result of FDR’s having been persuaded to change course. Other problems with the data relate to the treatment of many workers as unemployed even though they had jobs with New Deal programs.

As economist Auerback notes, “The key to evaluating Roosevelt’s performance in combating the Depression is the statistical treatment of many millions of unemployed engaged in his massive workfare programs. The government hired about 60 per cent of the unemployed in public works and conservation projects that planted a billion trees, saved the whooping crane, modernized rural America, and built such diverse projects as the Cathedral of Learning in Pittsburgh, the Montana state capitol, much of the Chicago lakefront, New York’s Lincoln Tunnel and Triborough Bridge complex, the Tennessee Valley Authority and the aircraft carriers Enterprise and Yorktown.”

Auerback adds, the government “also built or renovated 2,500 hospitals, 45,000 schools, 13,000 parks and playgrounds, 7,800 bridges, 700,000 miles of roads, and a thousand airfields. And it employed 50,000 teachers, rebuilt the country’s entire rural school system, and hired 3,000 writers, musicians, sculptors and painters, including Willem de Kooning and Jackson Pollock.”

In effect, Auerback writes, the “workfare Americans” employed by the Roosevelt administration “reduced unemployment from 25 per cent in 1933 to 9 per cent in 1936, up to 13 per cent in 1938, back to less than 10 per cent at the end of 1940, to less than 1 per cent a year later when the U.S. was plunged into the Second World War at the end of 1941.”

Historic Bargain

In other words, Roosevelt rebuilt America at a historic bargain cost. The conservatives who keep attacking FDR and the New Deal are not only small-minded, ideology-based, destructive propagandists, they are wrong. They are wrong about FDR, wrong about the New Deal, wrong about history, wrong about economics, wrong about what is reality.

But these rightists can’t let go of their FDR-bashing because the catastrophic Great Depression revealed the serious flaws of a free-market ideology based on beliefs not empirical evidence – and FDR’s New Deal showed that government was needed to protect both the American people from unrestrained capitalism and capitalism from itself.

The New Deal did not engineer a full economic recovery during FDR’s first two terms, mostly because despite its creative use of government it tended to err on the side of caution and FDR prematurely pulled back from government activism in 1938.

But the most basic economic analysis reveals that the New Deal *worked*. It brought real relief to most Americans and stabilized a collapsed economy. Full economic recovery resulted from the public spending in World War II, which demonstrated further the necessity of providing a greater fiscal stimulus to fully overcome the Depression.

The New Deal was not socialism. It was capitalism with safety nets and subsidies. It is credited with saving capitalism and perhaps western civilization. Its long-lasting institutions have become the bedrock of America's economic stability.

With the Truman, Eisenhower, Kennedy and Johnson administrations building on that bedrock, the Great American Middle Class arose, creating a foundation for the stunning growth that made the American economy the envy of the world from the 1940s through the 1960s, a prosperity that was widely shared.

FDR not only saved capitalism from its own destructive impulses of excessive greed and market manipulation but he broadened the concept of democracy, where average people had a real stake in the society. He had shown that the federal government could "provide for the general Welfare" at a time of grave crisis.

Still, FDR's lasting enemies the true believers in the cult of the "free market" have never given up and they achieved major victories in the 1980s and 1990s with the removal of key regulations, such as the Glass-Steagall law separating commercial banks from stock speculation, and in the 2000s with the dreamy concept of business "self-regulation."

The economic devastation that has followed has reaffirmed the inherent wisdom of what an earlier generation had learned from the Great Depression. But the rich have rarely if ever wielded as much power as they do today – and they can hire armies of think tanks, media outlets and clever commentators to spread their propaganda to a frequently ill-informed and gullible populace.

Lost Legacy

As a result, today's corporatist politicians on both sides of the aisle appear to have no memory of the real history, at least not a clear-eyed view of the pain that average Americans experienced before the New Deal.

Today's politicians (and unfortunately, many mainstream journalists) seem to believe that the lessons of the New Deal have been swept into the historical dustbin marked "Old News, No Longer Relevant." To them, history began with the presidency of Ronald Reagan, who "changed the trajectory of America," as Barack Obama once noted.

While it’s true that Reagan did transform the United States, it was not in a good way for the average citizen. Over the past several decades, the United States has changed from a democratic republic based on a strong middle class into a plutocratic “Democracy Inc.” with billionaires manipulating a stressed, distracted and cynical population via massive investments in media, propaganda and political advertisements.

The consequences of the Reagan era’s heavy dose of “free market” capitalism proved again the point that effective government oversight is necessary to avert new catastrophes like Wall Street’s 2008 meltdown which cast millions of Americans out of their jobs and out of their homes.

Even with today’s modest recovery, the United States is living with the consequences of a realignment of wealth away from the middle class to the so-called “One Percent.” This modern Gilded Age contributed to the imbalance of the U.S. economy heading into the 2008 crash and further explains the wobbly climb out of that abyss.

Thus, this anniversary of FDR’s birth is a worthy moment to reflect on what America has learned and what it has forgotten. All Americans, but especially Democrats, need to remember this history.

Beverly Bandler’s public affairs career spans some 40 years. Her credentials include serving as president of the state-level League of Women Voters of the Virgin Islands and extensive public education efforts in the Washington, D.C. area for 16 years. She writes from Mexico.

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EU Wobbles Amid Conflicting Priorities

Exclusive: The 28-nation European Union was always a tenuous affair, pulling together historic enemies and nations with conflicting economic priorities, but now those stresses a triple-dip recession and differences over Ukraine and immigration are threatening to splinter the EU, writes Andrés Cala.

By Andrés Cala

The European Union views itself as the defender of much that is right in the world standing for human rights, embracing international law, generous with developing nations, protective of the environment, insisting on fiscal probity in economics while maintaining a sturdy social safety net at home. But this self-image of righteousness often conflicts with reality while also spurring divisions among the EU’s 28 nations about which moral imperative should take precedence.

Indeed, one could argue that the EU’s conflicting concepts of righteousness are undermining Europe’s ability to resolve the most serious problems at home and abroad, especially because the Continent’s de facto leader, Germany, is increasingly at odds with its neighbors.

For instance, Germany takes a moralistic stance in insisting on fiscal austerity even in the face of high unemployment and human suffering in several EU nations that instead want deficit spending and public investments to spur growth and avert (or minimize) the EU’s third recession since the financial crash of 2008. France, Spain and Italy have been leading this anti-austerity drive, also citing moral arguments about saving Europeans from poverty and despair.

Meanwhile, the United Kingdom, with the EU's most powerful military, favors "humanitarian" interventions supposedly on behalf of democracy and human rights in places such as Syria and Ukraine. Yet, while boasting about its commitment to human rights, the UK bristles at the EU's liberal policies allowing the free flow of EU citizens across traditional national borders, a dispute that has led to speculation about the UK possibly going its own way.

"Britain will always step up," British Prime Minister David Cameron said recently about the need to address global injustices, "not just because it is morally right, but also because it is the best way of protecting our people and dealing with the instability that threatens our long-term [economic] prosperity."

But some in Europe question the wisdom and legality of the UK's interventions in other nations' affairs, especially given the bloodshed and disorder surrounding the British military's role in the U.S.-led Afghan and Iraq wars. To the UK's critics inside the EU, it's also unclear if Cameron's hard-line against the Syrian regime of President Bashar al-Assad while couched in moral terms might not lead to even worse violence if Sunni extremists from Al-Qaeda or the Islamic State end up the winners in Damascus.

Similarly, the UK's stern anti-Russian stance over the crisis in Ukraine shared by some other countries in both Europe's west and east has the prospect of causing more pain for the peoples of Ukraine, Russia and even Europe than any good that might result from prying Ukraine from Russia's sphere of influence and pulling it into the EU's orbit.

Concern over the consequences of possibly overplaying the West's hand in its showdown with Russia on Ukraine is strongly felt in Germany where Chancellor Angela Merkel has tried to walk a middle line, harshly critical of Russia in rhetoric but hesitant to engage in a full-scale economic war with a major trading partner that supplies much of the EU's natural gas.

"I can't see how [sanctions against Russia] would help us move forward economically," German Vice Chancellor and Economy Minister Sigmar Gabriel said this month. "It's right that Angela Merkel [is] focusing on dialogue – and not confrontation as others are. I think it's totally wrong to react with permanent NATO saber-rattling on the Russian border."

Moreover, the moral issue of Ukraine is not clear-cut since Germany and the EU contributed to the crisis by giving Ukrainians, especially those in the western provinces, unrealistic expectations about the prospects for easy prosperity if they signed an association agreement with the EU and possibly joined NATO.

Those dangled hopes, in a country of crushing poverty and corrupt politics, spurred on mass demonstrations that destabilized the elected government of President Viktor Yanukovych and ousted him in a coup d'etat in February. That split Ukraine between west and east and opened a chasm that led to secession demands from ethnic Russians, followed by a nasty civil war. Ukraine became the scene of a proxy struggle in a new Cold War between Russia and the U.S./EU.

The possible encroachment of NATO into Ukraine on Russia's border also crossed a red line drawn long ago by Russian President Vladimir Putin. Soon, the sides were posturing over Crimea's secession from Ukraine and annexation by Russia as well as arguing about an uprising in Ukraine's eastern Russian-speaking provinces where Yanukovych had his political base.

"If the West is honest with itself, it has to admit that there were mistakes on its side," said former Secretary of State Henry Kissinger in a recent interview with Germany's Der Spiegel.

When asked whether the West shared responsibility in escalating the conflict, he said "Europe and America did not understand the impact of these events, starting with the negotiations about Ukraine's economic relations with the European Union and culminating in the demonstrations in Kiev. All these, and their impact, should have been the subject of a dialogue with Russia. This does not mean the Russian response was appropriate."

Russia can live with the fragile status quo of a pro-Western government in Kiev and autonomous ethnic Russian provinces in the east, but the crisis could quickly deteriorate if a shaky cease-fire completely breaks down and the civil war resumes in full. Merkel has warned that if Russia's military openly intervenes, that would provoke an escalation of sanctions to punish Moscow even if the sanctions would also punish Germany and the EU.

In the event of a full-scale civil war in Ukraine, the U.S. and UK would likely push Germany aside and organize a more hawkish military response, further disrupting the economic situation inside the EU.

These divisions over geopolitics among countries that historically have pursued sharply different foreign policies have left the EU unable to speak with anything like a single voice, essentially making Europe an indecisive and stagnant player in global affairs.

Germany also is facing a strong EU backlash against its orthodox economic policies which were imposed on the EU to rein in European government debt especially in Mediterranean nations. This strategy initially helped restore faith in the EU’s ability to recover from the financial crisis, but now those policies are being blamed for the region’s economic stagnation.

Many Europeans even blame Merkel’s austerity recipe for tipping Europe back into yet another recession, which is made potentially more dangerous by the prospect of deflation, the decline in consumer prices that can result from weak demand or an insufficient money supply. A similar debt trap hobbled Japan’s once vibrant economy and left it limping for the past two decades.

If deflation is not countered by raising demand or expanding the money supply it can begin a downward spiral of falling profits, declining investments, stunted consumer spending, debt delinquency, unemployment and bankruptcies. Such a crisis could spread quickly through the EU backbone, the 18-member eurozone which shares the euro as a common currency and limits what individual countries can do to address their own economic problems.

But Germany remains strongly opposed to any form of monetary easing, mindful of its catastrophic experience with hyperinflation throughout its history.

Amid this economic malaise, the EU is alarmed by the rise of radical parties, from the left and right, and by a nationalist and euroskeptic resurgence which is blamed on the austerity policies demanded by Germany. France especially has been jolted by the gains of the extreme-right National Front, even if that surge represents more a protest against the traditional parties than a popular commitment to the National Front’s platform.

Further adding to the EU’s uncertainty, Cameron has proposed a 2017 referendum in UK on whether to quit the EU. At this point, Cameron seems to be facing a likely reelection defeat in 2015 after years of economic pain, but his biggest threat may come from the growing anti-European movement within his own Conservative constituency which he is seeking to placate with the promise for a get-out-of-the-EU referendum.

In any case, the future EU looks likely to have a more diverse approach to leadership with Germany’s role diminished by the greater assertiveness from France, Spain, Italy, the UK and other major European countries. And, the European nations will surely continue to express their differences over what the Continent’s moral priorities ought to be.

Andrés Cala is an award-winning Colombian journalist, columnist and analyst specializing in geopolitics and energy. He is the lead author of *America’s Blind Spot: Chávez, Energy, and US Security.*

The Neocons — Masters of Chaos

Exclusive: America's neoconservatives, by stirring up trouble in the Middle East and Eastern Europe, are creating risks for the world's economy that are surfacing now in the turbulent stock markets, threatening another global recession, writes Robert Parry.

By Robert Parry

If you're nervously watching the stock market gyrations and worrying about your declining portfolio or pension fund, part of the blame should go to America's neocons who continue to be masters of chaos, endangering the world's economy by instigating geopolitical confrontations in the Middle East and Eastern Europe.

Of course, there are other factors pushing Europe's economy to the brink of a triple-dip recession and threatening to stop America's fragile recovery, too. But the neocons' "regime change" strategies, which have unleashed violence and confrontations across Iraq, Syria, Libya, Iran and most recently Ukraine, have added to the economic uncertainty.

This neocon destabilization of the world economy began with the U.S.-led invasion of Iraq in 2003 under President George W. Bush who squandered some $1 trillion on the bloody folly. But the neocons' strategies have continued through their still-pervasive influence in Official Washington during President Barack Obama's administration.

The neocons and their "liberal interventionist" junior partners have kept the "regime change" pot boiling with the Western-orchestrated overthrow and killing of Libya's Muammar Gaddafi in 2011, the proxy civil war in Syria to oust Bashar al-Assad, the costly economic embargoes against Iran, and the U.S.-backed coup that ousted Ukraine's elected President Viktor Yanukovych last February.

All these targeted governments were first ostracized by the neocons and the major U.S. news organizations, such as the Washington Post and the New York Times, which have become what amounts to neocon mouthpieces. Whenever the neocons decide that it's time for another "regime change," the mainstream U.S. media enlists in the propaganda wars.

The consequence of this cascading disorder has been damaging and cumulative. The costs of the Iraq War strapped the U.S. Treasury and left less government maneuvering room when Wall Street crashed in 2008. If Bush still had the surplus that he inherited from President Bill Clinton rather than a yawning deficit there might have been enough public money to stimulate a much-faster recovery.

President Obama also wouldn't have been left to cope with the living hell that the U.S. occupation brought to the people of Iraq, violent chaos that gave birth to what was then called "Al-Qaeda in Iraq" and has since rebranded itself "the Islamic State."

But Obama didn't do himself (or the world) any favors when he put much of his foreign policy in the hands of Democratic neocon-lites, such as Secretary of State Hillary Clinton, and Bush holdovers, including Defense Secretary Robert Gates and Gen. David Petraeus. At State, Clinton promoted the likes of neocon Victoria Nuland, the wife of arch-neocon Robert Kagan, and Obama brought in "liberal interventionists" like Samantha Power, now the U.S. ambassador to the United Nations.

In recent years, the neocons and "liberal interventionists" have become almost indistinguishable, so much so that Robert Kagan has opted to discard the discredited neocon label and call himself a "liberal interventionist." [See Consortiumnews.com's "Obama's True Foreign Policy 'Weakness.'"]

Manipulating Obama

Obama, in his nearly six years as president, also has shied away from imposing his more "realistic" views about world affairs on the neocon/liberal-interventionist ideologues inside the U.S. pundit class and his own administration. He has been outmaneuvered by clever insiders (as happened in 2009 on the Afghan "surge") or overwhelmed by some Official Washington "group think" (as was the case in Libya, Syria, Iran and Ukraine).

Once all the "smart people" reach some collective decision that a foreign leader "must go," Obama usually joins the chorus and has shown only rare moments of toughness in standing up to misguided conventional wisdoms.

The one notable case was his decision in summer 2013 to resist pressure to destroy Syria's military after a Sarin gas attack outside Damascus sparked a dubious rush to judgment blaming Assad's regime. Since then, more evidence has pointed to a provocation by anti-Assad extremists who may have thought that the incident would draw in the U.S. military on their side. [See Consortiumnews.com's "Was Turkey Behind Syrian Sarin Attack?"]

It's now clear that if Obama had ordered a major bombing campaign against Assad's military in early September 2013, he might have opened the gates of Damascus to a hellish victory by al-Qaeda-affiliated extremists or the even more brutal Islamic State, since these terrorist groups have emerged as the only effective fighters against Assad.

But the neocons and the "liberal interventionists" seemed oblivious to that danger. They had their hearts set on Syrian "regime change," so were furious when their dreams were dashed by Obama's supposed "weakness," i.e. his failure to do what they wanted. They also blamed Russian President Vladimir Putin who brokered a compromise with Assad in which he agreed to surrender all of Syria's chemical weapons while still denying a role in the Sarin attack.

By late September 2013, the disappointed neocons were acting out their anger by taking aim at Putin. They recognized that a particular vulnerability for the Russian president was Ukraine and the possibility that it could be pulled out of Russia's sphere of influence and into the West's orbit.

So, Carl Gershman, the neocon president of the U.S.-funded National Endowment for Democracy, took to the op-ed page of the neocon-flagship Washington Post to sound the trumpet about Ukraine, which he called "the biggest prize."

But Gershman added that Ukraine was really only an interim step to an even bigger prize, the removal of the strong-willed and independent-minded Putin, who, Gershman added, "may find himself on the losing end not just in the near abroad [i.e. Ukraine] but within Russia itself." In other words, the new neocon hope was for "regime change" in Kiev and Moscow. [See Consortiumnews.com's "Neocons' Ukraine/Syria/Iran Gambit."]

Destabilizing the World

Beyond the recklessness of plotting to destabilize nuclear-armed Russia, the neocon strategy threatened to shake Europe's fragile economic recovery from a painful recession, six years of jobless stress that had strained the cohesion of the European Union and the euro zone.

Across the Continent, populist parties from the Right and Left have been challenging establishment politicians over their inability to reverse the widespread unemployment and the growing poverty. Important to Europe's economy was its relationship with Russia, a major market for agriculture and manufactured goods and a key source of natural gas to keep Europe's industries humming and its houses warm.

The last thing Europe needed was more chaos, but that's what the neocons do best and they were determined to punish Putin for disrupting their plans for Syrian "regime change," an item long near the top of their agenda along with their desire to "bomb, bomb, bomb Iran," which Israel has cited as an "existential threat."

Putin also had sidetracked that possible war with Iran by helping to forge an interim agreement constraining but not eliminating Iran's nuclear program. So, he became the latest target of neocon demonization, a process in which the New

York Times and the Washington Post eagerly took the lead.

To get at Putin, however, the first step was Ukraine where Gershman's NED was funding scores of programs for political activists and media operatives. These efforts fed into mass protests against Ukrainian President Yanukovych for balking at an EU association agreement that included a harsh austerity plan designed by the International Monetary Fund. Yanukovych opted instead for a more generous $15 billion loan deal from Putin.

As the political violence in Kiev escalated with the uprising's muscle supplied by neo-Nazi militias from western Ukraine neocons within the Obama administration discussed how to "midwife" a coup against Yanukovych. Central to this planning was Victoria Nuland, who had been promoted to assistant secretary of state for European affairs and was urging on the protesters, even passing out cookies to protesters at Kiev's Maidan square.

According to an intercepted phone call with U.S. Ambassador to Ukraine Geoffrey Pyatt, Nuland didn't think EU officials were being aggressive enough. "Fuck the EU," she said as she brainstormed how "to help glue this thing." She literally handpicked who should be in the post-coup government "Yats is the guy," a reference to Arseniy Yatsenyuk who would indeed become prime minister.

When the coup went down on Feb. 22 spearheaded by neo-Nazi militias who seized government buildings and forced Yanukovych and his officials to flee for their lives the U.S. State Department quickly deemed the new regime "legitimate" and the mainstream U.S. media dutifully stepped up the demonization of Yanukovych and Putin.

Although Putin's position had been in support of Ukraine's status quo i.e., retaining the elected president and the country's constitutional process the crisis was pitched to the American people as a case of "Russian aggression" with dire comparisons made between Putin and Hitler, especially after ethnic Russians in the east and south resisted the coup regime in Kiev and Crimea seceded to rejoin Russia.

Starting a Trade War

Pressured by the Obama administration, the EU agreed to sanction Russia for its "aggression," touching off a tit-for-tat trade war with Moscow which reduced Europe's sale of farming and manufacturing goods to Russia and threatened to disrupt Russia's natural gas supplies to Europe.

While the most serious consequences were to Ukraine's economy which went into freefall because of the civil war, some of Europe's most endangered economies in the south also were hit hard by the lost trade with Russia. Europe began to stagger toward the third dip in a triple-dip recession with European markets experiencing major stock sell-offs.

The dominoes soon toppled across the Atlantic as major U.S. stock indices dropped, creating anguish among many Americans just when it seemed the hangover from Bush's 2008 market crash was finally wearing off.

Obviously, there are other reasons for the recent stock market declines, including fears about the Islamic State's victories in Syria and Iraq, continued chaos in Libya, and exclusion of Iran from the global economic system all partly the result of neocon ideology. There have been unrelated troubles, too, such as the Ebola epidemic in western Africa and various weather disasters.

But the world's economy usually can withstand some natural and manmade challenges. The real problem comes when a combination of catastrophes pushes the international financial system to a tipping point. Then, even a single event can dump the world into economic chaos, like what happened when Lehman Brothers collapsed in 2008.

It's not clear whether the world is at such a tipping point today, but the stock market volatility suggests that we may be on the verge of another worldwide recession. Meanwhile, the neocon masters of chaos seem determined to keep putting their ideological obsessions ahead of the risks to Americans and people everywhere.

Investigative reporter Robert Parry broke many of the Iran-Contra stories for The Associated Press and Newsweek in the 1980s. You can buy his new book, *America's Stolen Narrative,* either in print here or as an e-book (from Amazon and barnesandnoble.com). For a limited time, you also can order Robert Parry's trilogy on the Bush Family and its connections to various right-wing operatives for only $34. The trilogy includes *America's Stolen Narrative*. For details on this offer, click here.

Are US Banks Still 'Too Big to Fail'?

The U.S. economy's long slog back from the 2008 financial crisis has tried to ignore the looming question of whether a repeat is likely. Some economists think the Dodd-Frank reforms have largely ended "too big to fail" risk-taking but others aren't so sure, as Michael Winship notes.

By Michael Winship

Analyzing a government report is like eating and digesting a meal, better to take it slowly than gobble quickly and suffer the possible consequences. Example: last Thursday's report from the Government Accountability Office (GAO) on whether or not large financial institutions were still perceived as "too big to fail."

The immediate takeaway by many in the media, government and investment community was that the need for a taxpayer subsidy like the bailouts of 2008 "may have declined or reversed in recent years" and, in the words of Mary J. Miller, the Treasury Department's under secretary for domestic finance, "We believe these results reflect increased market recognition of what should now be evident Dodd-Frank ended 'too big to fail' as a matter of law."

But with just a little time to digest the GAO's findings, much of the response has shifted to, "Not so fast."

On the day of the report's release, Sen. Sherrod Brown, D-Ohio, who, with Sen. David Vitter, R-Louisiana, requested the GAO analysis and co-sponsors the Terminating Bailouts for Taxpayer Fairness Act, held hearings.

Stanford University economist Anat Admati, a recent guest on *Moyers & Company*, testified that, "The main problem with the guarantees is they reinforce and create perverse incentives and intensify the conflicts of interest between the banks and the rest of society. Requiring that banks fund themselves so that those who benefit from the upside of risk bear more of its downside brings about more safety and corrects distortions."

In *The New York Times*, columnist Gretchen Morgenson writes, "Six years after the financial crisis, it's clear that some institutions remain too complex and interconnected to be unwound quickly and efficiently if they get into trouble.

"It is also clear that this status confers financial benefits on those institutions. Stated simply, there is an enormous value in a bank's ability to tap the taxpayer for a bailout rather than being forced to go through bankruptcy."

Morgenson adds, "Were we to return to panic mode, the value of the implied taxpayer backing would rocket. The threat of high-taxpayer bailouts remains very much with us."

Financial professionals echo her concern. Camden Fine, president and CEO of the Independent Community Bankers of America, notes in *American Banker* (not without self-interest) that while the size of big bank subsidies may have "diminished since the crisis the larger point is that the biggest and riskiest financial firms still have a competitive advantage in the marketplace. They can still access subsidized funding more cheaply than smaller financial firms because creditors believe the government would bail them out in the event of a crisis. No matter how you cut it, a subsidy is a subsidy. And this subsidy is one that puts the American taxpayer on the hook.

"Meanwhile, the largest financial institutions are only getting bigger. According to our analysis of call report data from the Federal Deposit Insurance Corp., since the end of 2009, the assets of the six largest financial institutions have grown each year. Their total assets rose from $6.41 trillion in 2009 to $7.22 trillion in 2014, a total increase of $800 billion. The top six banks are also responsible for more than half of the $2 trillion increase in total U.S. banking assets in the years since 2009."

In those same pages, Mayra Rodriguez Valladares, managing principal at a capital markets and financial regulatory consulting firm, is concerned that there are "signs that banks have failed to learn from the detrimental effects of the global credit crisis and pleas from bank regulators. This year, large banks are loosening their credit underwriting standards and are extending leveraged loans to companies.

"Additionally, large banks continue to exhibit incredibly weak operational risk management. Operational risk is the threat of a breach in the day-to-day running of a business because of people, processes, systems, and external events. Since big banks have yet to make ethics a top priority, not a day goes by that one does not see examples of operational risk. Market rate manipulations and incorrect foreclosure procedures continue to plague banks and their reputation."

She concludes, "As the U.S. economy continues to grow and the financial crisis is relegated to the dustbin of history, big banks are taking bigger chances. The challenge for regulators now is to remember that when the party gets going, it is difficult to stop the champagne flowing."

Gretchen Morgenson's colleague at the *Times*, Paul Krugman, has a more positive point of view, while asking the crucial question, "How do you rescue a banking system without rewarding bad behavior?

"The answer is that the government should seize troubled institutions when it bails them out, so that they can be kept running without rewarding stockholders or bondholders who don't need rescue. In 2008 and 2009, however, it wasn't clear that the Treasury Department had the necessary legal authority to do that. So Dodd-Frank filled that gap, giving regulators Ordinary Liquidation Authority, also known as resolution authority, so that in the next crisis we can save 'systemically important' banks and other institutions without bailing out the bankers."

The GAO report, he writes, "suggests that reform has done at least part of what it was supposed to do Wall Street and its allies wouldn't be screaming so loudly, and spending so much money in an effort to gut [Dodd-Frank], if it weren't an important step in the right direction."

Nonetheless, as Senators Brown and Vitter stated, "Today's report confirms that in times of crisis, the largest megabanks receive an advantage over Main Street financial institutions. Wall Street lobbyists may try to spin that the advantage has lessened. But if the Army Corps of Engineers came out with a study that said a levee system works pretty well when it's sunny, but couldn't be trusted in a hurricane, we would take that as evidence we need to act."

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Europe's Generational Change

Exclusive: The persistent European recession has undermined public support for the pillars of the establishment and opened a pathway for a generational change that could reshape the face of the Continent, writes Andrés Cala.

By Andrés Cala

Europe is heading into a generational transition, as younger leaders replace the old guard that has failed to restore the Continent's economic vitality and as new political approaches are tested to supplant the traditional policies that have so disappointed the people.

Disenchanted citizens across Europe are demanding drastic and sometimes contradictory corrections to the governing failures that are blamed for the high unemployment and the social unrest that have beset large swaths of Europe, particularly across the south. The ongoing political transformation, challenging the centrist status quo sometimes from the right and sometimes from the left, varies from country to country but will determine Europe's future.

The conflicting choices include whether to seek more integration of the 28-nation European Union or more autonomy for the individual states? Should the 18 countries that use the euro more fully coordinate their budgetary policies while non-euro-zone states have more independence? Should Europe recommit to its liberal welfare system or move to laissez-faire economics? Should the continent become more or less green?

Despite the sometimes sharp contrasts in these choices, this evolution is occurring within the European style, meaning that the public eschews violent revolutions and armed struggles. There may be much noise and discontent, but there is little chance of an EU disintegration or the rebirth of Nazism or other extremist philosophies, at least nothing that could gain a significant hold on the population.

There is also no ringleader of this movement for change. The process appears chaotic, even lacking any significant regional coordination. One nation’s electorate veers to the extreme right; another to the extreme left; yet another toward some oddball anti-establishment party. The only overriding consistency appears to be the alienation felt by the long-term unemployed and the youth, all looking for a way out of the current mess.

Beyond the discontented citizenry, the transition has begun to manifest itself among some in Europe’s hierarchy, with the new king of Spain chastising the parliament for its failure to meet the people’s needs and Pope Francis’s breaking with the Vatican’s extravagant ways.

Crisis Catalyst

The chief catalyst for this political upheaval has been the economic crisis, dating back to the Wall Street crash of 2008. The grinding recession has steadily eroded the public faith in governing institutions. But Europe’s embattled establishment is showing no sign of simply giving up.

In recent EU parliamentary elections, traditional parties in most countries won though their margins shrunk considerably and in the case of France and the United Kingdom they suffered embarrassing defeats. The establishment’s fear is that these trends could extend into the more meaningful national elections over the next few years.

European leaders are alarmed that many citizens have come to so fundamentally mistrust institutions, both national and supranational, because of the failure to alleviate the jobless crisis. The European establishment’s reliance on austerity as the prescription to cure the economic ills has stirred populist and nationalist sentiments and heightened euro-skepticism from the left and right.

The most common demands from the political insurgents are for job creation, rebuilding the welfare state, rooting out corruption, replacing austerity with stimulus, and making policy-making more transparent. Some on the Right have also complained about low-wage immigrants from poorer parts of Europe taking jobs from citizens of better-off states.

Yet, traditional parties aren't offering much beyond pleas for more patience and warnings about dangerous alternatives. But patience is running out and the "dangerous" options are becoming more appealing to Europeans sick and tired of demands from the elites for more belt-tightening among the middle- and working-classes.

Beyond people motivated by the economic malaise, democracy movements are clamoring for a cleansing of the political system that has been stained by complaints about corruption and lack of transparency. Here's how the major European countries are coping with the crisis:

Spain

Of the big countries, Spain has been the hardest hit by the recession, and the transformation there has been profound but not chaotic. The Occupy Movement was born here with protesters camping out in public squares in protest of the financial abuses that created the crisis. Traditional parties are bleeding support from the right and left. Calls for change are almost unanimous.

On June 19, King Felipe VI, who is 46, replaced his father King Juan Carlos, who abdicated to let a new generation take over. "A renewed monarchy for a new era," King Felipe VI announced in his proclamation speech to parliament.

The ceremony was symbolically austere and the king chastised lawmakers for their failure to fix the country. The crisis "has injured even the dignity of Spaniards," he said, exhorting legislators to make job creation a priority and to "revitalize institutions."

The king's words carry mostly symbolic weight since he has no executive authority, but his comments echo the society's sentiments. Spain's ruling elite got another jolt from the results of the EU's parliamentary elections as Spaniards turned increasingly to alternative parties.

Although the two biggest parties won, each shed at least half of their votes to smaller parties, which together captured 44 percent of the seats, compared to 13 percent in the 2009 election. The biggest gains went to parties against austerity. One of them, Podemos, was only created a month before elections. But the real test will come in the general elections in 2015.

France

The French also expressed disappointment in the EU. In the EU parliamentary elections, the four biggest parties received only 62 percent of the votes, compared to 88 percent the last time. And practically all those votes went to the National Front, the extreme right, ultranationalist, anti-immigrant, anti-EU party which won more votes than any other party, giving it 23 seats, compared to three in 2009.

Time, however, plays to the French government’s advantage since national elections are not until 2017 when it’s hoped that the economic circumstances in Europe’s second-biggest country will have improved. Still, the FN has been gaining ground consistently over the years and could make further inroads into France’s political structure.

Great Britain

In the EU parliamentary elections, the UK’s Independence Party won, defeating Labour and the Conservatives, the first time in over a century that the two top parties failed to come out on top. The Liberals, who govern in a coalition with the Conservatives, were annihilated.

General elections are in 2015, and polls show a consistent drain of votes from the three top parties, while the rightist Independence Party continues to advance with a euro-skeptic platform similar to that of the National Front in France.

Italy

In Italy, the Left surged in the EU elections, while the right-wing populist movement of disgraced former Prime Minister Silvio Berlusconi tumbled along with liberals. The extreme right also lost almost half of its support from the last election. Major gains were made by the Five Star Movement of Pepe Grillo, the anti-establishment politician who is anti-austerity and a euro-skeptic at the same time.

Italy’s renewal movement also has a moral component in reaction to the sex scandals swirling around Berlusconi and the appeals for social justice from Pope Francis. It will be years, if ever, before the Vatican remakes itself with the humility and transparency that Pope Francis seeks, but Europe’s Catholic constituency is getting the Pope’s message: less extravagance for elite institutions and more economic stimulus for EU citizens, especially in Southern Europe.

Germany

As the economic motor and the undisputed leader of Europe, Germany drove the austerity agenda as many Germans resented having to pick up much of the tab for bailing out the weaker economies of Southern Europe.

The recession in Germany also was not nearly as severe as it was elsewhere on the Continent. Unemployment remained relatively low and spending cuts were far less painful. The most controversial part of the crisis was in rescuing the rest of Europe.

It’s no wonder then that Germany’s electoral map has not changed as much. The traditional parties overall did not lose much support although there was a modest shift to the left with Social Democrats making gains at the expense of liberals. But some voters did veer to extremes. A neo-Nazi party won representation as did a party that supports online piracy. A satirical party with silly proposals meant to discredit the system nearly won a seat.

Where This Goes

It’s impossible to calculate how Europe’s economic recovery will unfold and how quickly it will trickle down to the suffering middle- and working-classes. Thus, it’s unclear if the traditional parties will continue to shrink or will stabilize their positions.

The traditional parties look strong enough to retain power for now, but alternative parties on the Left and the Right, including extreme ones, could continue growing if the establishment can’t develop solutions to the Continent’s economic problems. Anti-establishment parties like Podemos in Spain and Five Star in Italy could exploit the growing alienation between the elites and the people.

At this point, the conservative euro-skeptics appear best positioned to capitalize on the public discontent, but they have little cohesion. It could be that a two-speed Europe emerges, one with minimal ties to Brussels and one with increased integration around the euro currency.

Whatever the case, when it all settles down, Europe will be in the hands of a new generation.

Andrés Cala is an award-winning Colombian journalist, columnist and analyst specializing in geopolitics and energy. He is the lead author of *America’s Blind Spot: Chávez, Energy, and US Security.*

Europe’s Not So Shiny ‘Recovery’

Exclusive: The mainstream U.S. press explains the overwhelming Crimean vote to leave Ukraine as vote-rigging or coercion, but the reality is that "European aspirations" are not so attractive to people aware of the painful life for many in the EU's "periphery," from Spain to Greece, as Andrés Cala reports.

By Andrés Cala

As the West tries to lure crisis-stricken Ukraine into the European Union's fold, a major selling point is the promise of a brighter economic future. But the reality for many Europeans especially in countries pummeled the hardest by the Great Recession isn't all that appealing, even as some EU bureaucrats are touting a recovery.

It's true that raw numbers show that the recession appears to have bottomed out, even in some of those hard-hit nations on Europe's "periphery," from Ireland in the west through Portugal, Spain and Italy in the south to Greece in the east. For instance, Spain's economy contracted 1.2 percent in 2013, but most of that was in the first half of the year, and the EU projects 1 percent growth for Spain in 2014 and 1.7 percent in 2015. Plus, for the first time in years, Spain had positive net job creation in February.

But that will translate into little relief for the nearly 27 percent of Spain's population which is unemployed, or for the nearly 1.5 million who fell into extreme poverty during the crisis, according to a bellwether report in Spain. During the crisis – to meet EU "austerity" demands – pensions were frozen, the welfare state was slashed, and taxes ate away purchasing power. There's little hope, too, for the millions more who lost their middle-class status.

At the street level, the "recovery" is nowhere to be seen, at least not for nine of every ten Spaniards who say this tepid economic growth has not trickled down to them. Almost three-quarters of Spaniards expect that conditions will remain the same or get worse in 2015, according to several recent polls.

When you walk around Spanish cities, what you see is a very noticeable increase in visible poverty, including people who until recently might have been considered middle class. You see middle-aged men in suits begging in the streets or waiting in charity lines. You see evicted families seeking refuge, immigrants on the move, and I'll-work-for-food offers online.

Thus, while the Spanish government and the EU can tout the signs of a recovery, a sense of hopelessness still hovers over the many unemployed and real panic grips even people with jobs because they fear what may lie ahead.

One reason for the discrepancy between improving economic numbers and most people’s perceptions of their own situations is the spread of income inequality during the crisis. The wealthy few experienced significant improvements thus bumping up the GDP numbers while most everyone else either barely held steady or declined, sometimes sharply.

During the crisis, salaries rose for the biggest earners, but decreased 16 percent for the bottom brackets, according to official statistics. All that has left Spain with the EU’s second worst wealth distribution, according to the Gini coefficient, the most widely accepted barometer in the field.

Two Narratives

In Spain’s political world, the two conflicting narratives one buoyant and one depressing coexist with most of officialdom pushing the positive, but other political leaders noting the negative or what they would call the reality.

Antonio ArgandoÃ±a, emeritus of economic and business ethics in IESE Business School, explained to me the logic of these diametrically opposed narratives: “If you eat a chicken and I don’t eat any, we have each eaten half. That’s the Spanish economy.”

So, when Spain’s Prime Minister Mariano Rajoy of the conservative People’s Party talked recovery in February’s parliamentary state of the union debate, opposition Socialist leader Alfredo PÃ©rez Rubalcaba angrily asked, “What country do you live in?” He called the government’s policies the “apotheosis of inequality.”

But Rajoy answered with fury of his own. “Your apocalyptic speech does not correspond with reality,” Rajoy said. “We have reversed course, from declines to recovery, from peril to hope.”

Most agree that Spain did what it was ordered to do by the EU and what it was given little choice to do by financial markets. As a result, Spain’s fragile economic recovery has drawn support from the European Central Bank, and investor appetite for investing in Spain and other countries on Europe’s “periphery” has improved as broader European risk perceptions have subsided.

Many Spaniards agree that some painful reforms were unavoidable because the economic model that had generated a boom in the previous two decades was artificial, much as it was in many other parts of the Western world. Cheap credit fueled rising home prices and a construction-driven economy, but the underlying economic pillars were weak.

A false sense of prosperity continued only as long as the bubble kept expanding. Millions of Spaniards enjoyed the good times, with wasteful spending on extravagant public projects, a swelling civil servant population and an inflated real-estate market.

Blue-collar workers bought homes, cars and vacation spots on cheap credit. Consumers spent and spent. People lived beyond their means as the cash kept flowing and the economy expanded. When the bubble burst amid the Wall Street crash of 2008 the illusion of prosperity disappeared quickly. Money and credit evaporated, but costs didn't. Debt levels starting rising, along with defaults.

The EU's central bankers responded with harsh demands for austerity to bring public spending in line with the reduced capacity of these suddenly shrunken economies, especially in the "periphery" nations, such as Ireland, Spain, Portugal, Italy and Greece. Spending was cut drastically and millions were thrown out of work.

Spain's record high public deficit, which in essence shut out Spain from credit markets, has gradually shrunk and now stands at 7.2 percent of the gross domestic product, but that's still more than twice the 3 percent ceiling mandated by the EU. Meanwhile, the total public debt as measured against the reduced GDP has soared to 100 percent, a record.

According to projections, the deficit will continue decreasing in coming years, but not as fast as the EU is demanding and the EU has warned Spain not to scale back on austerity because its raw numbers remain in the red zone, even if things are improving.

Beyond austerity, Spain needs to cheapen its economy to make it more competitive, but devaluing its currency by printing more money, as most countries have done, including the U.S. and Japan, is not an option because Spain uses the euro which is controlled by the EU's central bank.

Economists agreed that the only option left to both spur private investment and access cheap credit was to force an internal devaluation, which translated into lowering labor costs by allowing companies to dismiss more workers and cut salaries of those who remained.

Thus, labor statistics show average wages falling hitting lower earners especially hard and Spaniards working more, as expressed through increased labor hours. For 2014, the trend is expected to continue since this internal devaluation process is not complete.

Economic Remedies

With the worst part of the economic crisis now presumed to be over not just in Spain but more broadly in Europe the debate is now focused on how to distribute the benefits of the recovery so the growth can be more sustainable.

Last month, the International Monetary Fund published a paper that suggested that too much austerity is bad for long-term growth and stability, contradicting decades of dominant economic theories that policies designed to distribute wealth can hamper economic growth. The study challenged that "free-market" conventional wisdom:

"On average across countries and over time, the things that governments have typically done to redistribute do not seem to have led to bad growth outcomes. And quite apart from ethical, political, or broader social considerations, the resulting equality seems to have helped support faster and more durable growth."

Along those lines, the Spanish government has promised tax cuts and other measures that it claims will ease austerity and create jobs. But the EU is keeping Spain on a tight leash, meaning that there may not be much relief for most Spaniards. Much will depend on the resilience of larger European economies.

Politically, Prime Minister Rajoy's government has until 2015 before it faces regional and national elections. How painful the austerity still is could determine whether Rajoy and his party will gain another term.

But Spain's unemployment rate is simply too high and the economic growth too slow to expect things to bounce back to where they were any time soon. In fact, they won't. The most likely future for the average Spaniard, like other Europeans in the hardest-hit economies, is a painful and difficult one.

If Ukraine does decide to move toward integrating into the EU's economy, Ukrainians, too, can expect a painful adjustment.

Andrés Cala is an award-winning Colombian journalist, columnist and analyst specializing in geopolitics and energy. He is the lead author of *America's Blind Spot: Chávez, Energy, and US Security.*

A Fascist Revival Stirs in Spain

Exclusive: The economic pain from the Wall Street crash of 2008 and the ensuing Great Recession has fueled the right-wing Tea Party movement in the United States and a revival of fascism in parts of Europe, including hard-hit Spain where some leaders are promoting the brutal Franco era, writes Andrés Cala.

By Andrés Cala

Last week, a mayor of a Madrid suburb threatened through his Twitter account to send some "skinheads" to target opposition political leaders. The mayor, a member of the ruling conservative Popular Party, later said he was just joking and no "skinheads" actually showed up to rough up the mayor's opponents.

In Galicia, an area in Spain's northwest, the mayor of another town under Popular Party rule proudly showcases in his office a picture of fascist dictator Francisco Franco. The mayor also plays the fascist anthem to anyone who will listen. Yet, he has faced no official reprimand. (Last week, a small bomb believed set by anarchists damaged one of his municipal buildings.)

And earlier this month, a small town near Madrid, also governed by the Popular Party (or PP), allowed a fascist group to put up a stand in a public school exhibiting Franco-era and Nazi memorabilia. Officials later apologized and said that they weren't aware of the stand.

Though anecdotal, these incidents fit with a rising public nostalgia for the Franco era in Spain and are symptomatic of a broader resurgence of extreme right-wing ideology in Europe and globally. Renewed sympathy for fascism in Spain also stirs troubling memories because the Spanish Civil War in the 1930s was an early victory for European fascism. Spain also was the last European state to cast off fascism in 1975.

Another point of concern is that nationalist, populist and fascist movements have historically found fertile ground during times of economic pain, like that felt across much of the world since the Wall Street crash of 2008. In reacting to the financial crisis and in grappling with the public's anger over lost jobs and lost benefits mainstream democratic parties have seen their legitimacy questioned and their political support drained.

In Spain and to a lesser extent in some other European countries the immediate danger is not so much from a handful of incipient reactionary movements, but rather from the underlying official permissiveness from more mainstream conservative parties, like the Popular Party, bordering on patronage.

Some elected Popular Party officials and party militants are openly making the Nazi salute, proudly displaying fascist flags and other memorabilia, and posting pro-Franco messages on social media sites.

Rewriting History

And this trend is not limited to the party's lower-level officials and the rank-and-file. As part of this effort to make fascism more palatable, the Popular Party is institutionally trying to rewrite history, blaming the civil war that started in 1936 on the defeated republican side. At least half a million people died in the war in which Franco received vital support from Adolf Hitler of Germany and Benito Mussolini of Italy. More than a million fled in the aftermath to escape death squads.

Yet, some Popular Party officials have said and posted on social networking sites that those killed by Franco's forces deserved it. The party's second most powerful legislator in parliament has equated Franco's crimes to those of the democratically elected republican government that Franco's fascist regime defeated. The same legislator also has minimized the risk from today's rising fascist tide.

Amid the Popular Party's recent political success, with its latest high-water mark the gaining of an absolute majority in parliament, many of the party's stalwarts have reminisced about the Franco era as a prosperous time, though it wasn't. By the time Franco died in 1975, Spain had become an economic backwater in Europe. In 1986, when Spain entered the European Community (now the European Union), it was one of the poorest members, requiring substantial help to raise its living standards to what was normal in other western European states.

But the severe economic recession that spread across the world after the Wall Street crash and the EU's austerity-oriented policies imposed in response hit Spain especially hard with the country's unemployment rate soaring to around 27 percent. The loss of jobs and the failure of the democratic political structure to devise an adequate response created an opening for the rightists to revive nationalistic and other traditional cultural messages that had underpinned Franco's politics.

Though the Popular Party is generally considered conservative not extreme right it absorbed the pro-Franco fascist "base" after that movement lost its political representation in parliament in 1982, seven years after Franco died. That extreme right now amounts to about 10 percent of the Popular Party's constituency, according to some studies.

The numbers of far-right members are high enough so that the Popular Party is politically unwilling to chastise fascist sympathies and thus alienate a significant portion of its support. But the party is making a dangerous bet that the pro-Franco faction will not gain effective control of the Popular Party and thus fully hoist the banner of fascism again.

Last week, along the lines of that risky appeasement, Populist Party legislators voted down for a second time a motion backed by all opposition parties calling on the government to declare fascism, Franquism and Nazism as ideologies "inciting violence and hate."

The proposal was in line with the policies of most European countries that since the devastation of World War II and the genocide against Jews and other minorities have forbidden sympathetic displays of fascism. But Popular Party legislators said inclusion of such restrictions in an overhaul of the penal code was unnecessary.

Nationalist Tendencies

On their own, extreme-right parties in Spain have so far been insignificant, although five groups including violent neo-Nazi cells and a political party that the Supreme Court is considering banning in July formed a platform called “Spain on the March.” Its leaders have warned they will resort to violent acts if required to preserve Spain’s territorial unity, which they feel is threatened especially by regional independence aspirations.

Secessionist plans from Catalonia, Spain’s economic motor, have served to unite nationalist forces and radical fascist groups, but the most forceful opposition to Catalonian separation is coming from the right wing of the Popular Party, led by former Prime Minister Jose MarÃa Aznar.

Last month, a dozen radicals of the new coalition forced their way into a library where Catalonians were commemorating their national day, injuring several people, including legislators, and tearing down Catalonian symbols. Police arrested them in the aftermath, but Catalonians have suggested authorities did little to protect the commemoration.

Also, in September, several rightist groups formed a new coalition to try to gain political representation ahead of European elections.

Police estimate there are about 10,000 Spaniards involved in violent extreme-right groups. But the concern is not so much over these very small violent groups. These are mostly contained, experts agree. The bigger worry is that Franco’s political heirs retain significant influence within the ruling Popular Party and amid the euro crisis they could gain greater political clout.

For condoning fascist sympathies among Popular Party followers, the government has been criticized by the opposition, regional governments and human rights groups. However, although Spain stands out in Europe for these public pro-fascist expressions, the extreme right is making gains across much of Europe.

Perhaps the biggest game-changer is the renaissance of the French National Front party, once a pariah. Its leader, Marie Le Pen, won 18 percent of the votes in the first round of presidential elections in 2012 and her party is leading the polls for 2014 elections to the European Parliament.

In Greece, the leaders and legislators of the openly neo-Nazi Golden Dawn party will soon face court action for their role in promoting hate crimes, but the fact remains that the party won 7 percent of the national vote in 2012, and official efforts to shut it down could only embolden its followers.

This past week, Norway's extreme right Progress Party was invited to join the government for the first time after making electoral gains. In Austria, extreme-right parties retain strong parliamentary representation, as do their equivalents in the Netherlands, Poland, Italy and Bulgaria.

Though there is little official patronage for this right-wing resurgence across Europe unlike what the Popular Party is doing in Spain the electoral prowess of these European right-wing movements gives them increased negotiating power and even some ruling authority.

In Spain, the chief concern is that an increasingly desperate public will be attracted to the historical glow that is being created around a mythical era of successful fascism under Franco.

"It's true that this is not Greece or France, where the extreme right has become a political power," FÃ©lix Ortega, a sociology professor and expert in public opinion in the Universidad Complutense de Madrid, told me recently. "But you never know, especially if it seems that the PP tolerates it."

Andrés Cala is an award-winning Colombian journalist, columnist and analyst specializing in geopolitics and energy. He is the lead author of *America's Blind Spot: Chávez, Energy, and US Security.*

The Bad Math Behind Austerity

In recent years, the Republican obsession with slashing the federal budget even at a time of high unemployment rested on the intellectual foundation of a study purporting to prove that government debt strangled economic growth. But that foundation crumbled when a computation error was revealed, as Beverly Bandler explains.

By Beverly Bandler

Regarding the Austerity Scandal, I wonder if you are as angry as you should be. I am *outraged.* This is indeed a significant story that the corporate mainstream media appears to be ignoring.

One reader tells me that he has the impression that the Reinhart-Rogoff scandal has not been widely reported. He says Jon Stewart had Thomas Herndon on his program. Herndon is the graduate economics student who revealed the flaw in the R&R data. Herndon said the error in Reinhart-Rogoff's spreadsheet was so blatant that it was spotted by his girlfriend, a sociology student. (I don't like to use exclamation points, but this deserves a couple: !!)

This scandal is important because the economic theory presented by Carmen Reinhart and Ken Rogoff was central to the Republican-led demands for sharp austerity even at the cost of continued high and painful unemployment. The two economists claimed that their data proved that government debt equal to 90 percent of GDP would strangle the economy, thus justifying extreme steps to bring the debt down immediately.

However, other economic studies of the same question came up with dramatically different results, showing continued GDP growth at that level of debt. Finally, Reinhart and Rogoff made their data available to a team at the University of Massachusetts at Amherst and the mystery was solved. The two economists had made an obvious computation error. In other words, the austerity hysteria that had fueled Republican insistence on slashing spending was driven by a botched economic analysis.

The Washington elite had made major economic policy decisions that have affected every single American based on a single paper that had errors so blatant that the mistakes were spotted by a sociology student? The elite policymakers then ignored all the reliable economics work of practically every reputable economist in the nation who questioned the Reinhart-Rogoff study?

Would you want a surgeon to do your brain surgery based on *one* new technique that had never been vetted and was seriously questioned by other surgeons, including some of the best in the field? But that is how the Republicans and some "deficit hawk" Democrats slashed spending and killed proposals to invest in infrastructure, fund research and rehire laid-off police, firefighters and teachers. *God help us!*

Not only political "elites," but financial elites bought into the *one* paper. Bill Gross, manager of the world's largest bond fund for PIMCO, in 2010 "warned that UK debt levels were too high, leaving gilts 'resting on a bed of nitroglycerine,'" basing his warning on the widely cited R&R paper now under fire for "possible statistical errors."

Gross has changed his tune: he is now criticizing efforts by Britain and much of the Euro Zone to cut debt rapidly with severe austerity measures, warning that such action risks stifling recovery. "The UK and almost all of Europe have erred in terms of believing that austerity, fiscal austerity in the short term is the way to produce real growth," he stated to the *Financial Times*, "It is not. You've got to spend money."

Slate business and economics correspondent Matthew Iglesias writes "the academic research bolstering the austerity drive was confused, at best." It is important to remember that the "academic research" to which he refers was *one* paper, *one* research study.

Does this mean the political and financial elites have never read the economic history of the Depression? Updated and related empirical studies of same? That they have never read Paul Krugman, Christina Romer, Joseph E. Stiglitz and a host of other prominent economists and instead chose to embrace one paper "as gospel," not vetting it, not reading the responses to the paper from other economists when it shot out of the gate?

Incredible!

Beverly Bandler's public affairs career spans some 40 years. Her credentials include serving as president of the state-level League of Women Voters of the Virgin Islands and extensive public education efforts in the Washington, D.C. area for 16 years. She writes from Mexico.

Obama's Challenge at Treasury

With Treasury Secretary Timothy Geithner planning to step down, President Obama is faced with an important appointment. Much of Official Washington wants a "deficit hawk," but Obama and the country would be better served by someone who cares more about recovery than austerity, says Beverly Bandler.

By Beverly Bandler

We Americans need to face hard reality: The U.S. economy was once in a free-fall toward a new depression. It has begun to recover, but we should not delude ourselves: our economy remains in perilous condition and a new austerity-induced recession remains a threat.

Economics journalist William Greider points out: "At least nine of the economies in Western Europe are already contracting." He warns: "The International Monetary Fund, not usually known for dire forecasts, predicts increased risk of worldwide stagnation, and has warned specifically against the "excessive fiscal consolidation" of austerity measures." Even China's growth is now slowing at an alarming rate.

"The economy still sucks – three years into the recovery, we have an official unemployment rate of just under 8 percent and an underemployment rate of almost 15 percent," writes economist Jeff Faux. "Incomes are declining and at least 12 million homeowners have mortgages that exceed the value of their houses.

"Consumers aren't spending and therefore business is not investing. And we are still running a huge trade deficit with a sluggish global economy. This leaves government as the only possible source of substantial new spending to create jobs. Yet there is no jobs program."

Of concern is that President Barack Obama, like the GOP and too many conservative Democrats, seems primarily, if not solely, focused on large-scale deficit reduction.

"Obama has tacked back and forth, sometimes emphasizing the need for jobs and recovery now and deficit reduction when strong growth returns; and other times he has veered in the direction of the Bowles-Simpson austerity crusade, a demon partly of Obama's own making," writes journalist Robert Kuttner.

Kuttner concluded this November that: "On the question of whether the economy needs a big budget cut, Obama is with the deficit hawks, the only fight is over the details."

Former Wall Street executive Richard Eskow further notes: "During a time of economic agony brought on by joblessness and wage stagnation, the President followed the Wall Street agenda by creating a 'deficit commission' instead of a Jobs and Middle-Class Growth Commission. And he appointed two anti-Social Security and anti-government activists, Alan Simpson and Erskine Bowles, to lead it."

Obama's latest major speech indicates that his overriding national priority had to be jobs. So, just where is Barack Obama? The White House should be reminded that the 2012 election results cannot be assumed to be a vindication of his policies in light of the threat of radical right-wing extremists.

The President would do well to heed the wisdom of Benjamin Franklin, who said: "For having lived long, I have experienced many instances of being obliged, by better information or fuller consideration, to change opinions, even on important subjects, which I once thought right but found to be otherwise."

The real question seems to be, in the *short term* can we do both large-scale deficit reduction and create jobs? *No*, is the common sense answer.

“President Obama says his top priority is a deal with House Republicans to reduce the deficit by $4 trillion over the next 10 years,” writes Faux. “His ‘liberal’ position starts with a ratio of spending cuts to tax increases of 2.5-to-1. The only real dispute between the president and Republicans is whether the rich will have to give back the tax breaks George W. Bush gave them.

“So when the eventual deal is struck, the federal government will be taking more out of the economy over the next decade than it is putting in. This virtually guarantees that, even if we escape another recession or financial meltdown, we will not reach anywhere near full employment in the next four years.”

“If stagnation drags on for years, tearing up society and destabilizing politics, demands for more radical action will swell and eventually overwhelm the old restraints,” warns Greider.

We voters, so ardently sought in the hotly contested pre-election period, are cast aside after the election like young brides won but now of diminished value to victorious bridegrooms.

Since most of us are not members of the rather small circle of influential policy experts and financial interests, nor part of a circle of “fiercely one-sided politics dominated by [but not limited to] conservative Republicans and their patrons in banking,” and since most citizens are generally clueless on a whole range of issues and don’t “do lunch” with the members of the “false consensus” Inside the Beltway (a.k.a. Byzantium on the Potomac), we are “easily ignored by unaccountable decision-makers” (as are most elected politicians, interestingly enough).

We need to be mindful that progressives and other rational Americans dodged a bullet in the 2012 election, but the anti-democratic reactionaries that we fought are still around and in powerful places. They have been humiliated, and it is crucial to remember that humiliation is a prime motivator. Many of the regressive Powers That Be (and they are not only in the GOP) want us to go back to sleep.

Let’s say: *“Not this time.”* Let’s join in the conversation as we have the right to do about *our* government and *our* money, pay attention, become well informed and take appropriate action.

Americans need to be informed as to what got the country into this mess, and it is a mess, are too many of the same “policy experts and financial interests,” too many of whom economist Paul Krugman mocks are the so-called “Serious People” who base much of what they believe on prejudices [and myths] rather than analysis, and too many of the same well paid politicians who are dependent on finance campaign money and enthralled with austerity snake oil.

These “experts” (the bloodletters and body scourgers) now want the rest of us to passively “eat our broccoli” while they, the rich, elite cronies who believe they are *entitled* to govern, patronize us and dine on steak – with one another, of course.

The “overwhelming conclusion is that fiscal stimulus raises employment and output in the near term,” states economist Christina Romer, a real expert.

There is no evidence that the Wall Street types are smarter than we are, and there is plenty evidence that suggests to the contrary that they are indeed not, starting with the Great Depression not to mention the Great Recession that began in late 2007.

The public needs to remember who gave us the deficit and the alarming debt, who is responsible for the dangerous “fiscal cliff” that could have, should have been avoided.

We don’t have to become economic experts who understand the intricacies of *multipliers*, but we do have to pay attention, need to understand that there are no silver bullets, and do our homework about complex issues thoughtfully. We can discern who is peddling “snake oil,” and who is worthy of trust and take appropriate action.

Citizens can play an important role in promoting jobs as the priority and preventing a Grand Bargain from turning into a Great Betrayal and the shredding of what’s left of the safety nets.

Americans need the Treasury Secretary (and all the members of the President’s Cabinet) to represent *us*, not bankers, not special interests. The latter two groups have no trouble looking out for themselves.

A Treasury secretary concerned more about recovery than austerity is not only what President Obama needs, it is what you and I need, what the country needs, indeed what the globe needs.

Appointing an effective Secretary of the Treasury is a real opportunity for the United States not only to recover, but to demonstrate that it has not completely lost its mind nor its capacity for global leadership.

What does the Treasury Secretary do? The Secretary of the Treasury is the country’s chief Financial Officer or CFO.

According to the Treasury Department: “The Secretary of the Treasury is the principal economic advisor to the President and plays a critical role in policy-making by bringing and economic and government financial policy perspective to issues facing the the government … and is responsible for formulating and recommending domestic and international financial, economic, and tax policy … the formulation of broad fiscal policies that have general significance for the economy and managing the public debt."

The CFO "serves as Chairman *Pro Tempore* of the President's Economic Policy Council, chairman of the Boards and Managing Trustee of the Social Security and Medicare Trust Funds" and "U.S. Governor of the International Monetary Fund" as well as other multilateral institutions. … The Treasury Secretary also controls the Emergency Economic Stabilization Fund, better known as 'TARP.' If a national tragedy occurs, the Treasury Secretary of the United States if fifth in the line of Presidential succession."

The following, "Case for Ben Bernanke," is an attempt to synthesize the key points made by William Greider, Richard Eskow, Robert Kuttner, and Roger Lowenstein.

Federal Reserve Chairman Ben Bernanke has been seen as both "hero" and "villain," but Bernanke was named Man of the Year by *Time* magazine in 2009, a year of a weak economy that could have been "much, much weaker" because "the mild-mannered man who runs the Federal Reserve prevented an economic catastrophe."

He has presided over the most sustained period of crisis of any civilian official in recent history, with the fate of millions of unemployed and underemployed Americans hanging in the balance. Bernanke is considered the most "activist Fed chief in history," and is credited with keeping the recession from turning into a depression and for navigating "masterfully through the most trying of times."

Since August 2007, Bernanke has deployed the Fed as the lender of last resort to the banking system and worked overtime to furnish an "elastic currency", that is, to keep enough money in circulation for the economy to function. These were the very tasks that the founders of the Fed envisioned. "He wishes Americans understood that he helped save the irresponsible giants of Wall Street only to protect the ordinary folks on Main Street."

Bernanke is a former Princeton economics professor and an authority on the Great Depression. He understands how the passive Fed of the 1930s helped create the calamity through its stubborn refusal to expand the money supply and its "tragic lack of imagination and experimentation."

Bernanke "was determined not to be the Fed chairman who presided over Depression

2.0. so when turbulence in U.S. housing markets metastasized into the worst global financial crisis in more than 75 years, he conjured up trillions of new dollars and blasted them into the economy; engineered massive public rescues of failing private companies; ratcheted down interest rates to zero; lent to mutual funds, hedge funds, foreign banks, investment banks, manufacturers, insurers and other borrowers who had never dreamed of receiving Fed cash; jump-started stalled credit markets in everything from car loans to corporate paper; revolutionized housing finance with a breathtaking shopping spree for mortgage bonds; blew up the Fed's balance sheet to three times its previous size; and generally transformed the staid arena of central banking into a stage for desperate improvisation. He didn't just reshape U.S. monetary policy; he led an effort to save the world economy."

Ben Bernanke has "pointedly refused to join the austerity posse." He has been almost alone among influential officials, sounding the alarm about austerity measures and speaking out against the risks of fiscal contraction in his understated, scholarly manner. He has "all but asked Congress to use fiscal policy to stimulate the economy in the short run."

He has been surprisingly good at using aggressive monetary policy in a prolonged slump. He emphasizes that "we are stuck in a doozy of a debt deflation" is especially aware of the danger of cutting back government stimulus prematurely before a vigorous recovery is established.

Bernanke is the first Fed chairman since FDR's chairman, Marriner Eccles, to talk about the risks of protracted unemployment as well as the risks of inflation. It seems out of character for a central banker to make a special plea for the unemployed, but that's what Bernanke has been doing.

Last August, he warned a Fed symposium that "the stagnation of the labor market in particular is a grave concern not only because of the enormous suffering and waste of human talent it entails, but also because persistently high levels of unemployment will wreak structural damage on our economy that could last for many years."

He has been characterized as surprisingly good on more aggressive measures to deal with the housing and mortgage mess. Bernanke recognizes that: "Restoring the health of the housing market is a necessary part of a broader strategy for economic recovery."

Bernanke as Treasury secretary would be very hard for Senate Republicans to oppose. Except for a few hard-core monetarists, most Republicans recognize that he kept a recession from turning into a depression. He's even a Republican, first appointed to the Fed by George W. Bush.

Bernanke is not a Wall Street guy but is respected in financial markets. The appointment would be hailed around the world. A smooth, timely appointment that reflects knowledgeable calm is highly desirable during this turbulent period.

Researchers at the International Monetary Fund have identified no fewer than 173 cases of fiscal austerity in advanced countries over the period between 1978 and 2009. What they found was that austerity policies were followed by economic contraction and higher unemployment.

"Austerity is a political ideology masquerading as an economic policy. It rests on a myth, impervious to facts, that portrays all government spending as wasteful and harmful, and unnecessary to the recovery. The real world is a lot more complicated," a New York Times editorial said.

Beverly Bandler's public affairs career spans some 40 years. Her credentials include serving as president of the state-level League of Women Voters of the Virgin Islands and extensive public education efforts in the Washington, D.C. area for 16 years. Bandler attended Sarah Lawrence College ('59) and has a master's degree in Public Administration from George Washington University ('82). She writes from Mexico.

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