

April 19, 2009

OBAMANOMICS

Redefining Capitalism After the Fall

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Washington

THE recession will end. No one is marking the calendar, least of all [President Obama](#), but the president is hinting at an audacious ambition as he waits for that inevitable if distant day: a redefining of American capitalism.

In a series of comments in recent weeks, Mr. Obama has begun to sketch a vision of where he would like to drive the economy once this crisis is past. His goals include diminishing the consumerism that has long been the main source of growth in the United States, and encouraging more savings and investment. He would redistribute wealth toward the middle class and make the rest of the world less dependent on the American market for its prosperity. And he would seek a consensus recognizing that an activist government is an acceptable and necessary partner for a stable, market-based economy.

"We cannot rebuild this economy on the same pile of sand," he said last week.

In beginning to articulate a long-term approach, the president is putting an early stamp on a debate of historic importance — and ideological underpinnings — just getting under way in the United States and around the world.

For the better part of half a century after World War II, democratic capitalism built its modern framework against the backdrop of its death match with totalitarian Communism. In the two decades since the fall of the Berlin Wall, the American model of capitalism, largely unchallenged by ideological alternatives and increasingly dominant around the world, drifted toward what conservatives viewed as a more pure form of economic liberty and what liberals came to view as misguided free-market fundamentalism.

But now, as the United States and other nations look for lessons in the wreckage from the excesses of that period, political leaders are confronting uncertainty about what economic structures and values should define capitalism's next chapter. Even before the current crisis, there were calls to rethink basic assumptions about the economy. Growth during the Bush presidency was slower than in any decade since before World War II, and incomes for most families have been growing

slowly for much of the last three decades.

Mr. Obama is stepping into the debate characteristically intent on avoiding polarizing labels, and his advisers describe his philosophy in terms of pragmatism rather than ideology.

They said that the president's approach is based on a belief that recent economic cycles were driven too much by financial engineering; reserved most of the fruits of good times for the wealthy; relied excessively on foreign capital to finance domestic debt; and ultimately gave way to painful busts. Mr. Obama, they said, simply wants a more stable economic model.

"It's a strategy directed at having a somewhat different and healthier expansion than we've had in the past, driven by a sense that the expansion is likely to be more secure and its benefits more widely shared," said [Lawrence H. Summers](#), the director of the White House's National Economic Council.

But economic policy is never just technocratic, especially not when times are tough.

Conservative activists whipped up emotional anti-tax, anti-Obama "tea parties" around the country to mark tax-filing day last week, saying the White House was headed down a path of fiscal profligacy that would ultimately require broad tax increases. And the prospect of a Democratic administration pushing the United States to the left is seen by many conservatives as a political rallying cry.

Arthur C. Brooks, president of the [American Enterprise Institute](#), the conservative research organization, said of the administration, "They want much more of a European-style social democracy in which people are far less exposed to the vicissitudes of a market economy, and they want to have much easier access to manipulating the private-market economy."

Mr. Brooks said it was "overheated and silly" to suggest that Mr. Obama was leading the United States into socialism, but that even an effort by the administration to "file off the rough edges of capitalism" would no doubt prompt a continued strong backlash from people who object to the direction the president is heading. "Of course conservatives are overstating the case against him because they want to win again, just like the left massively overstated the case against Bush," he said.

Those on the left who have criticized Mr. Obama for being too timid in addressing the immediate crisis are similarly concerned that he will miss an opportunity to reshape American capitalism more fundamentally once the economy recovers. And even liberals allied with him suggest that the risk is that his ambition will prove too limited rather than too expansive.

"Again and again, Obamanomics, as well as his instincts in other areas of domestic policy, has been animated by a bold vision of what we need to do but has been quite cautious in practice," said Robert Reich, who was labor secretary under President [Bill Clinton](#) and advised Mr. Obama in the

campaign.

"The benefit is that he can feel his way," Mr. Reich said. "The downside is that none of the initiatives may be quite bold enough to solve the problems at the scale they present themselves."

The economic philosophy that Mr. Obama developed during the presidential campaign drew from across the ideological spectrum even as it remained rooted on the center-left. As that philosophy has been tested in practice through his early months in office, the president has if anything become more comfortable with an occasionally intrusive government as a counterweight to market forces that are now so powerful and fast-moving that they cannot be counted on to be self-correcting when things go wrong. He regularly rebuts conservative criticism on that score by pointing out that it was [George W. Bush](#), just before he left the White House, who put the government in the business of deciding which financial institutions would fail and which would be allowed to survive.

Yet if Mr. Obama's position brings the United States full circle from [Ronald Reagan's](#) nostrum that government is the problem, it also stresses continuity and a commitment to the most basic conservative tenets: the power of markets as an engine of innovation and prosperity, and the necessity of economic growth for improving incomes and living standards.

"There is a vibrancy to our economic model, a durability to our political model and a set of ideals that has sustained us through even the most difficult times," Mr. Obama said on his recent trip to Europe when asked about the decline of the American version of capitalism.

He would be willing to use the usual liberal policy tools to redistribute wealth after a recent period in which the gains have gone primarily to a relative few at the top of the income scale. But he would stress personal responsibility rather than entitlement. He would promote trade, but codify the Democratic push of the last 15 years for more labor and environmental protections in trade agreements.

If more activist government is the most controversial aspect of his long-term approach, the most ambitious might be his aspiration to reduce the degree to which the United States is a consumer-driven economy — or at least to develop policies that recognize the likelihood that consumer demand cannot grow at the rates it has been without being accompanied by a growing and destabilizing mountain of debt.

"We must lay a new foundation for growth and prosperity — a foundation that will move us from an era of borrow and spend to one where we save and invest, where we consume less at home and send more exports abroad," Mr. Obama said in his economic speech last week.

Embedded in that approach is a far-reaching implication: that the rest of the world should no longer count on the United States to snap up imported goods or run up large trade deficits.

It is by no means clear that Mr. Obama has the policy tools needed to bring about that kind of

change; we are, after all, fundamentally a consumer society. His advisers point to his support for innovative ways of increasing personal savings.

To drive economic growth in the place of debt-fueled consumption, Mr. Obama is banking on the emergence of alternative fuels, pollution-limiting technology, health care technology and other new industries linked to broader policy goals.

But the viability and scale of those opportunities is open to debate. And some of the administration's own policies suggest that there are limits to Mr. Obama's willingness to bolster investment in new production capacity at home. His unwillingness so far to confront China aggressively over its currency and trade practices, for examples, leaves many American manufacturers at a disadvantage.

Even with the economy and the financial markets showing a few tentative signs of improvement, which may be deceptive, it will be some time before Mr. Obama has the luxury of focusing on the long run. Still, in his first three months in office he has not been reluctant to think big — and there may be no better time to start redirecting an economy as huge and complex as this one than when it is in flux.

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