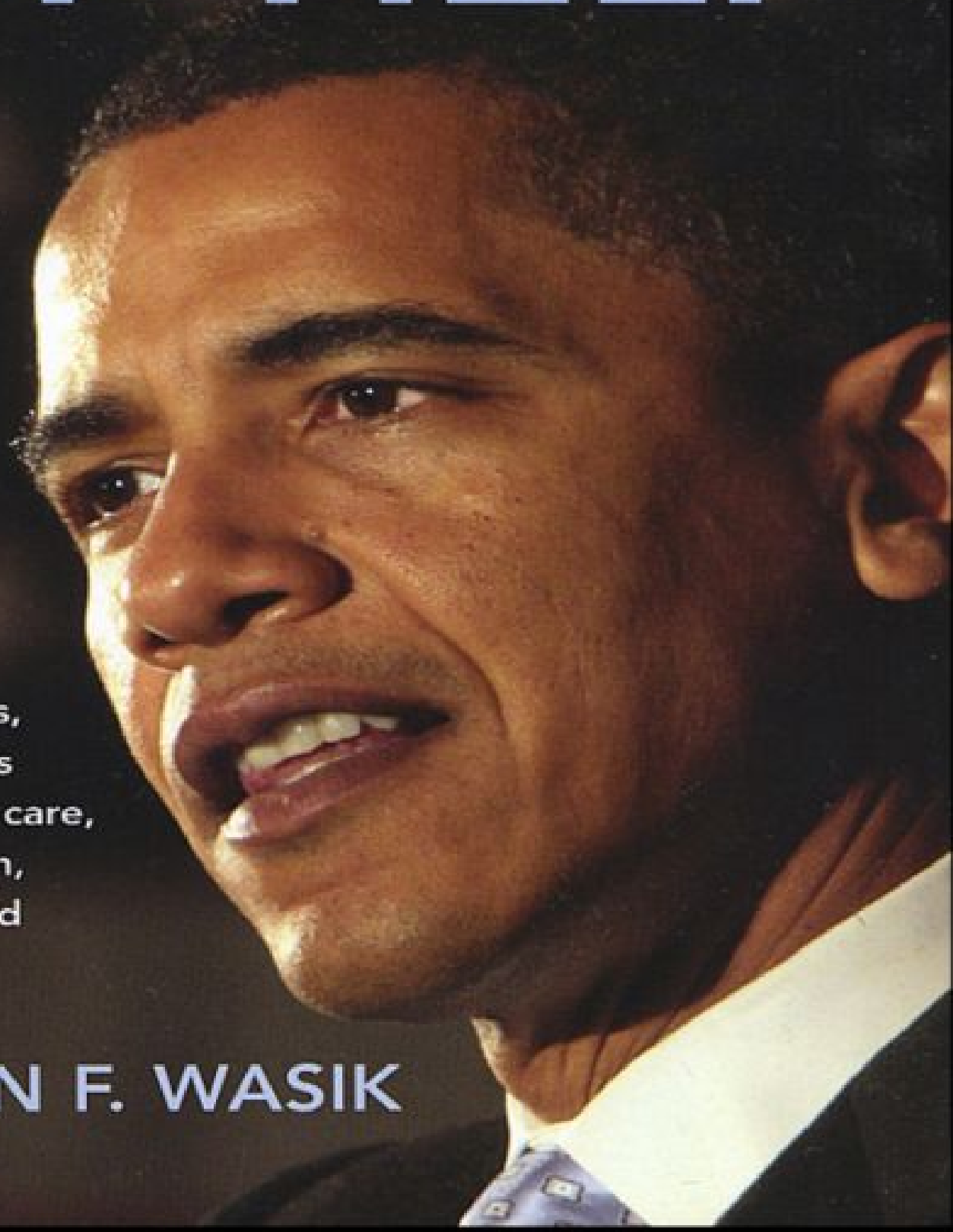


THE AUDACITY OF HELP

Obama's Economic Plan and the Remaking of America

Who wins,
who loses
in health care,
education,
taxes, and
energy

JOHN F. WASIK



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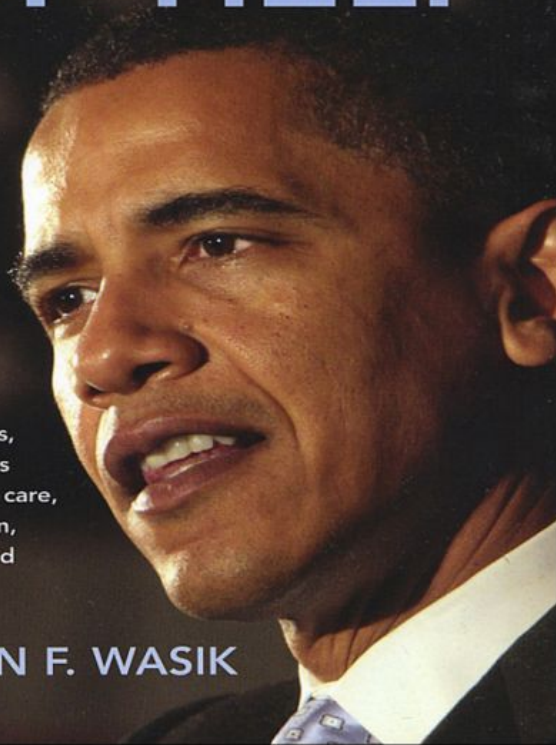


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Praise for The Audacity of Help

Obama's Economic Plan and the Remaking of America

By John F. Wasik

"No crystal ball—even President Obama's—can ever be perfect, but veteran business journalist John Wasik has experience in following economic intent through to economic reality. Wasik has taken the time to carefully sort out the impact of a stimulus program destined to be a significant page in history books."

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THE AUDACITY OF HELP

Obama's Economic Plan and the Remaking of America

JOHN F. WASIK

BLOOMBERG PRESS
NEW YORK

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Library of Congress Cataloging-in-Publication Data

Wasik, John F.
p. cm.

Includes bibliographical references and index.

Summary: "The Audacity of Hope explores how Barack Obama's campaign promises compare with the measures Congress has enacted, detailing what Obama has achieved and what is yet to be realized. The book evaluates how the stimulus package will affect health care, education, the environment, energy, taxes, and more, and includes analysis on which sectors will benefit most"-

Provided by publisher.

ISBN 978-1-57660-356-7 (pbk. : alk. paper)

1. United States-Economic policy-2009 2. United States-Economic conditions-2009 1. Title. HC106.84.W.973-dc22
2009025223



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Trees Saved: 69 . Air Emissions Eliminated: 6,546 pounds Water Saved: 31,527 gallons . Solid Waste Eliminated: 1,914 pounds

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To Kathleen Rose *Oui, nous pouvons!*

Preface

IN THE CITY'S FRONT YARD, set against the splendid Lake Michigan on a perfect, warm November day (a miracle in itself given Chicago's typically nasty weather from Halloween to Memorial Day), the hopeful gathered, attempting to get into a park that was tightly cordoned off to anyone without Secret Service clearance. It was November 4, 2008, and Barack Obama was about to make history.

"Who sent you?" was the first question barked at me by a security guard as I showed my press credentials at the gate of the media staging area. How ironic that this time-honored greeting of Chicago ward politicians would welcome my attempt to get a close look at Obamas election-day victory celebration. Alas, I did not obtain Secret Service clearance from the campaign in advance, so I was denied admission. I grimaced and muttered a mea culpa and walked around the perimeter of the park.

The energy was palpable approaching the campaign's epicenter. I closed my eyes and felt the dynamic pulse of optimism and pessimism competing for my attention. The potential dread of him losing because of some widespread fraud, which I am sure would have sparked mayhem, rang in my ears like a maddening tinnitus. Yet my auditory precognition reverberated with the prospect of him winning, an act that could restore some hope to the country and the world after eight destructive years. I chatted briefly with an African-American police sergeant. "It's been pretty quiet today—so far," he said, broadly smiling the whole time.

The fete was on hallowed ground in the history of the Republic. Abraham Lincoln was nominated in a long-

forgotten place called the WigWam a mile north of the site, in an election that fomented the Civil War. An even more forgotten statue of Union General John Logan sat opposite the Obama fest site. Vendors were selling T-shirts with images of Martin Luther King and Obama. Some were emblazoned with “Rosa [Parks] sat so Martin [Luther King Jr.] could walk, so Obama could run, so our children could fly”

The Chicago police riots during the 1968 Democratic National Convention—when the cops beat up Vietnam War protesters—took place two blocks away. In the middle of that violence, Mayor Richard J. Daley blustered, “We are here to preserve disorder, not to create it.” A few years earlier, Dr. Martin Luther King, marching in Marquette Park, was hit in the head with a brick a short bus ride from Obama’s current home.

In the years since, much progress has come to the former “hog butcher to the world” and the nation. Jim Crow, apartheid in schools and public places, came and went in my lifetime. Voting rights came to minorities in the South. Americans landed on the moon several times. But despite that, a president, his brother, and Dr. King were assassinated, and Chicago remains one of the most segregated cities in the United States.

Who Is Obama?

Who is Barack Obama, the first person of color to be elected president? The son of a wayward Kenyan economist and a teenage mother. Community organizer. Harvard Law School graduate. University of Chicago Law School professor. State senator and U.S. senator. Once a little-known Illinois lawmaker, he ascended to his U.S. Senate seat when wealthy commodities trader Blair Hull bowed out of the race

as details of his ugly divorce became public. His initial Republican opponent also had domestic issues.

With roots in the Midwest and Africa, Hawaii and Indonesia, Obama brings to the job a worldly genome and deep experience of many cultures. Because of his unique background, he may have a greater understanding of economic violence and social dislocation than any modern president.

When I met Obama during his Senate campaign in 2004, a voice echoed in my head: “This man can become president. He has the complete package.” Millions agreed with me, taken by his calm confidence, intelligence, and eloquence. Unlike George W. Bush, he spoke to us, rather than *at* us. Obama organized a volunteer army of more than 13 million people, mostly through the Internet and text messaging. The Bush-weary twenty-first-century electorate was ready for Obama and was not put off by the strangeness of his name, his heritage, or his elite education.

During the campaign, he spoke to me and my neighbors in Prairie Crossing, about 45 miles northwest of Chicago and deep in Republican territory. At the time, and in many speeches thereafter, Obama echoed Lincoln when the sixteenth president spoke of his central idea of equality: “the principle that clears the path for all—gives hope to all—and, by consequence, enterprise, and industry.”

By elucidating his concept of economic equality, Obama’s message had a powerful resonance. Obama took office at a time when inflation was outpacing wage growth, companies were cutting pensions, and market disruptions and unemployment were leaving more than 45 million people without health insurance or retirement security. Obama also spoke to those raised to believe that they *would* be better off than their parents yet who were falling behind, losing their homes, and going bankrupt.

Big Troubles

With the economy a priority, the man who had been drawing millions of people to his speeches and ideas probably was not about to neglect the streets of Chicago or the forlorn urban pockets of despair from the Central Valley of California to the Bronx. Time will reveal if he is a man for all seasons; he first must assemble and execute an economic revival plan of historic proportions that may take years to transact, if it works at all.

His economic revival plans are ambitious and include everything from middle-class tax cuts to fixing the banking system. Everything that needed to be fixed was on the table in an effort to promote financial equality. Not all of it will survive congressional scalpels, but I hope to document what Obama promised and what Congress delivered.

The U.S. economy will be altered in some modest ways, but do not expect too much. Those who dismiss Obama as a socialist should look to his intellectual roots at the University of Chicago, the mother ship of market economics. The virtual Nobel Prize factory has cradled or crippled the global economy, depending on your worldview. Some of his top advisers are from that Hyde Park enclave, the spiritual home of free-market godfather Milton Friedman.

Will Obama be able to replace the more than 4 million manufacturing jobs that have been lost since 2000? Will he be able to repair and re-regulate the disemboweled financial system? Like any president, he may not have that much direct impact. It took World War II to fully re-engage the U.S. economy after a decade of FDR's New Deal programs.

And what of the human misery that is born of economic despair? The meanest streets of Chicago, where joblessness and street gangs claimed more than 400 lives in 2008, were

just blocks away from Obama's celebration. Such an ongoing waste of human potential needs to end.

Obama's Insights

Fortunately, Obama is a uniquely qualified expert on economic violence. When he was a community organizer on the South Side of Chicago, he tried to restore a measure of dignity to tens of thousands of steel and other manufacturing workers who were impoverished by the brutal recession of the late 1970s and early 1980s.

It was ironic and utterly mean-spirited that he was ridiculed for his community efforts on the floor of the Republican National Convention in the summer of 2008. We could want for no greater authority on how neighborhoods and families could suffer during a recession than Obama.

I know of his work because I walked the same streets when I was writing (as a business-labor reporter for the long-defunct *Daily Calumet* newspaper) about the same people who had gone from decent wages and guaranteed benefits to poverty nearly overnight. Their ranks were legion and included men such as Frank Lumpkin, a bare-fisted boxer who came from a Georgia sharecropping family to a decent job in a steel mill only to end up being a jobless coalition organizer when his mill (Wisconsin Steel) closed in 1980, depriving him and more than 4,000 others of back pay and benefits. Most of those same economic-security problems, sadly, were still hounding working Americans when I began this book. If you lost your job, you lost your health and retirement benefits—and a chance to get ahead. Why is this still a problem that bedevils our prosperity?

The Future

As I watched a gaggle of Chicago school kids march into Grant Park to see the spectacle of history on election day, my heart skipped a beat. As I was walking away from the park, they were strolling into it. The future was striding by. They were the heirs of everything Chicago had given the world: the modern electrical grid, commodities markets, transportation nexuses and countless tons of steel, machine tools, and candy. These children were players in the worldwide network, connected through aspirations and intelligence to street dealers in Rio, AIDS orphans in Tanzania, souk urchins in Cairo, and taxi drivers in Mumbai. Somehow, because of Obama's ascension to the highest office in the land, they had a feeling that they, too, could make a difference.

Would these future agents of change find room and hope in Obama's new network of progress, one so remarkable that it linked young and old, rich and poor in raising more than \$600 million, a record amount for any campaign? Obama may not be able to boost incomes, restore sanity to financial markets, or even make health care affordable and available to all, yet he has provided a new agenda for tackling these problems. In his first days in office, he gave some direction by ordering the closing of the Guantanamo Bay prison, signing a law allowing women to sue for job discrimination, and lifting restrictions on stem-cell research.

As the ghosts of one of the most avaricious periods in American history continue to haunt our culture, will Obama restore market economics or simply create a new form of government-guided, compassionate social capitalism otherwise known as *Obamanomics*? Given the huge agenda he has taken on for reviving the economy and fixing the housing, financial, and mortgage markets as well as creating jobs, it will be this compelling fusion I call the "Green Deal." It will be holistic and looking far beyond his time in office. It is nothing less than restructuring the

economy and industrial goals of the United States for the twenty-first century.

As a personal finance columnist for Bloomberg News, I have followed Obama's every move since he arrived on the national scene. Not only do I have a deep professional interest in seeing how he attempts to rebuild the economy, but also I want to know how individuals will benefit from his programs. I also want you to understand what he has promised and how Congress is reshaping—and sometimes sidelining—his ideas to deliver final pieces of legislation.

Genius for Reinvention

America has always possessed this genius for invention and reinvention. It's been a Valhalla for second chances. Illinois has had its share of makeovers and leaders who were pillars of power and purpose. Remember other renowned Illinois-bred politicians who reinvented themselves, including Ulysses S. Grant, who was transformed from merchant to general, and then got elected to two terms as president, eventually finishing his life as one of the greatest autobiographers in history; Adlai Stevenson, the intellectual turned presidential candidate and United Nations ambassador; and Ronald Reagan, the "B" actor turned governor, president, and Republican lion.

There was also the Great Emancipator, an icon whose prose Obama seeks to emulate. Lincoln himself was transformed from uneducated rail-splitter, failed shop owner, and railroad lawyer to win two short terms in the Illinois legislature and Congress and to become perhaps our most revered president. He was self-taught and born poor.

Whatever Obama will do, we can hope that he will not be the captive of the efficient and ruthless Chicago political

machine or acquiesce to the powerful overlords of K Street and Wall Street. I trust he will stay true to Lincoln's dedication to the ideals of universal equality.

It is no small irony that Obama was inaugurated during the bicentennial of the births of both Lincoln and Charles Darwin. America is still on the tortured road to equality and evolves to seek the angels of our better nature. So goes the audacity of hope.

Thanks

I want to thank my fine editorial team at Bloomberg Press: Mary Ann McGuigan, Stephen Isaacs, and Yvette Romero; my agent, Robert Shepard; and my ever-patient wife, Kathleen, and daughters Sarah and Julia.

The Ownership Society doesn't even try to spread the risks and rewards of the new economy among all Americans. Instead, it magnifies the uneven risks and rewards of today's winner-take-all economy.... That's not a recipe for sustained economic growth or the maintenance of a strong American middle class.... Fortunately there's an alternative approach, one that recasts FDR's social compact to meet the needs of a new century.

—Bafack Obama, *The Audacity of Hope*

INTRODUCTION

A Brief History of Obamanomics

Hope floated Barack Obama into the presidency. Elected with the boreal tailwind of an electorate facing a deep recession, buffeted by the myriad failures of the previous administration, and an old-fashioned lack of confidence in the status quo, the candidate for change had Herculean tasks ahead of him. The economic underpinnings of the American Dream were popping like rivets in a submarine that had gone too deep in the ocean. The most visible malady was the economy: in 2008, the stock market suffered its worst loss since 1937. Global credit markets nearly shut down, threatening a devastating depression. Millions of homeowners were either in or facing foreclosure. Average household income wasn't beating inflation.

“Something has gone terribly wrong with the American dream,” wrote Kathleen Parker in the *Washington Post* the week before Obama's inauguration. “No longer is a college degree—or even an advanced degree—a guarantee of employment or job security.”

Few Americans felt like they were getting ahead anymore, and more than 10 million were pounding the pavement. It was this vexing economic insecurity that propelled Obama's "change" and "Yes, We Can" campaign to the White House.

Why did the American people entrust an unknown, not-quite one-term senator from Chicago with the highest office in the land—one who promised just a broad outline of a plan for revival? Imbued with soaring intelligence, a gift for language, and jazz-age cool, Obama deftly delivered a disciplined message: I will create jobs, expand health care, improve environmental protection, and rebuild the country's sagging energy infrastructure. In many ways, his Green Deal was closer to Harold Ickes's (Franklin D. Roosevelt's Interior Secretary) utopian vision for the New Deal reforms FDR ramrodded through Congress during his first 100 days. Obama, too, aimed for the political stratosphere, knowing that Americans yearned for effective leaders, even in the depths of their despair. Alluding to Lincoln, FDR, John F. and Robert Kennedy, and Martin Luther King Jr., Obama's speeches not only told Americans what he hoped to accomplish but also articulated his blueprint for remaking America.

Obama took on the most immediate financial crisis and vowed to tackle looming unfunded liabilities that threatened to further wreck the retirements of baby boomers and their children. Just three days before his inauguration, he pledged a new "bargain" for Medicare and Social Security—that is, trying to find a way to sustain both of the huge, popular programs.

As if that wasn't enough to add to his impossibly gargantuan agenda, Obama also promised to create a new financial regulatory system that would better police the complex global markets that were still staring into the abyss as he took office. Pragmatism met the age of reckoning.

Was he still in campaign mode in his first 100 days, unnaturally confident, or not fully aware of the hydra he was about to face? Estimates of what it would take to attack the immediate economic maladies had risen to \$1.2 trillion on the eve of his assumption of power. That was in addition to the \$12 trillion pledged or lent to various institutions and companies by early 2009. Perhaps the intoxicating adulation that permeated the country before and during his inauguration had altered his sense of reality? Cleaning up the economic mess was one crisis. Making health care affordable and efficient was another. Social Security and Medicare were still the third rails of American politics. On top of all that, he called for the creation of 3 million to 4 million jobs. History would judge whether he would be seen as a twenty-first-century FDR—or a P. T. Barnum.

New Deal Reborn?

It was convenient to draw parallels between the New Deal and Obama's Green Deal. Both programs were geared to create jobs quickly, get the economy moving again, and attempt to instill some public confidence in the role of government. George W. Bush had become the baby boomers' Herbert Hoover, for the most part naively trusting market forces to repair the vast damage of an unregulated, greed-obsessed financial services juggernaut. FDR, of course, had it much worse when he took office in March 1933. One-quarter of the workforce was jobless. More than 26,000 businesses and 10,000 banks failed, eventually prompting "bank holidays" to give the government time to think and attempt to stem the losses. In the immediate aftermath of the 1929 crash, there was no financial regulation to speak of, so the greed that had ruled most of the 1920s turned back on itself to destroy the rest of the

economy. Unlike today, the Federal Reserve Board and Treasury Department were feeble players during the 1930s.

While scholars continue to debate the lasting impact of the New Deal on the economy, it's indisputable that Roosevelt put millions of people back to work on projects that continue to provide social benefits. The most successful of Roosevelt's "alphabet soup" programs was the Civil Works Administration. The agency put 4 million citizens to work by the end of 1934. Thousands of public works projects were tackled, including roads, bridges, schools, parks, playgrounds, hospitals, airports, flood-control facilities, and privies.

Another make-work agency was the Civilian Conservation Corps, which employed as many as 3 million "soil soldiers" who built 97,000 miles of truck trails, 65,100 miles of telephone lines, and 3,470 fire towers and planted 1.3 billion trees. That last fact may have earned FDR the honor of being one of the great early champions against global warming (had he known it would later be a problem). Many New Deal programs, of course, didn't have much impact on the rest of the country, got mired in bureaucracy, or were political giveaways. The Public Works Administration, for example, bestowed most of its funding on New York City, thanks to the influence of its scrappy mayor, Fiorello La Guardia, and his powerful parks commissioner, Robert Moses, notes historian T. H. Watkins.

As with Obama's vision, New Dealers were accused of attempting to create a socialist Utopia. "Utopian goals?" said Ickes in 1934, when posed a question about the real intent of the New Deal. "Yes, utopian indeed, but I do not apologize for suggesting that Utopia is a proper goal for us to strive for and that we are worthy of such a realm if we can achieve it."

What Went Wrong

Like FDR, Obama proposed a lofty agenda that will concentrate on creating employment and eventually economic security for working Americans. As a president who has a deep sense of history—it's evident in his speeches, writing, and policy proposals—Obama stated in his *Audacity of Hope* that “today, the social compact that FDR helped construct is beginning to crumble.” Obama was distressed that job, retirement, and health security had been dismantled because the painful excesses of free-market policies wouldn't protect the country in a global economy. European, Japanese, and Canadian workers don't have to worry about their pensions or health care. In a global marketplace, Americans simply can't compete with countries that have a better social safety net.

“If the guiding philosophy behind the traditional system of social insurance could be described as ‘We're all in it together,’” he continues in *Audacity*, “the philosophy behind the Ownership Society seems to be ‘You're on your own.’”

What had been sold as a panacea during the 1990s and the first decade of the twenty-first century, the market economy, blew up with the triple explosions of the dot-com, housing, and credit bubbles. Wall Street and bankers sold the myth that stocks and homes were guaranteed ways to wealth. Over the past thirty years, they convinced employers to dump hundreds of thousands of guaranteed, defined-benefit retirement plans for 401(k)-like plans, which subjected employees to unchecked market risk.

Homeowners wanting to participate in the American Dream by building home equity succumbed to the promise that adjustable-rate mortgages—which actually subjected them to the perils of credit markets—would create solid nest eggs. Entrepreneurs and, increasingly, corporate employees

were hawked the idea of fending for themselves for health insurance, where they were effectively punished in the form of unaffordable rates for any preexisting conditions. Such was the big lie of the ownership society. It was the obverse of the New Deal philosophy. It was a *raw* deal.

Coupled with the myth that ordinary consumers could somehow make rational, informed decisions in an unpoliced market economy was the Nero-like fallacy during the Bush years that nothing was wrong with our energy infrastructure or climate. The surge in oil (to \$147 a barrel) and gasoline (\$4-plus per gallon) prices in the middle of 2008 showed how utterly senseless this policy had been. The popularity of former Vice President Al Gore's *An Inconvenient Truth*, which won him both an Academy Award (for the movie version of his book) and a Nobel Prize for Peace, illuminated the folly of the Bush regime's anti-environment policies. Hurricanes, cyclones, and precipitation cycles have become more intense. Drought and forest and wildfires ravage densely populated regions, causing famine, dislocation, and war.

The Bush administration's criminal inattention to the victims of Hurricane Katrina in 2005 was emblematic of his disconnect from human reality (New Orleans is still a shell of its former self). It was pathological neglect like this that spurred much of the Obama Green Deal. Obama links a need for a new social compact with employment, education, and environmental concerns.

If most of his programs survive the contentious legislative process, Obama will have succeeded in reviving social capitalism, a blend of humanistic service, pragmatic government supervision, and some free-market principles. Better yet, if his initiatives excel in launching private-sector investments—and broad-based employment from inner cities to Silicon Valley—in clean energy, infrastructure,

broadband expansion, and exportable technologies, he may even be seen as a social or compassionate capitalist.

The Green Deal is the spiritual heir of the New Deal, only much more focused on creating an economy specifically rebuilt for the twenty-first century. After all, FDR never believed capitalism was dead, he only sought to build new institutions and preserve old ones that failed because of an overreliance on unfettered market forces. Although a stern critic of market forces, Obama is attempting to frame humanistic economics in a different light: government can work to create a stronger private sector while creating jobs, educating everyone, rebuilding our infrastructure, addressing climate change, and helping the poor.

Basic Obamanomics

Boiled down, what Obama promises is a more *ecological* sense of shared responsibility. By ecological, I'm referring to interrelationships within society and the economy and not just the environment. Green jobs for inner-city residents mean better education and opportunity. Reshaping the energy infrastructure translates into less dependence on foreign energy sources, lower greenhouse gas emissions, and lower home-ownership expenses. Can the more than \$350 billion the U.S. spends annually on energy imports be rechanneled into domestic energy production and jobs? Obamanomics provides the impetus to transform the United States into a greener economy.

This new economy, in Obama's plan, means redefining connections between government investments and economic growth. Spending money on health-record digitization, renewable energy, and general education will better position the United States to compete in global trade.

More affordable and portable health care will create more economic security for everyone, particularly entrepreneurs.

Job creation and economic stimulation, naturally, topped the “to-do” list—in addition to a comprehensive bank bailout. The \$787 stimulus plan passed by Congress, the focus of most of this book, was the first salvo. In his January 8, 2009, speech, when he introduced the main parts of his “American Recovery and Reinvestment Plan” (which I refer to throughout simply as the “stimulus” plan), he echoed FDR and laid the groundwork for his economic policy on the ruins of the ownership society and the botched bailouts of 2008:

If nothing is done, this recession could linger for years. The unemployment rate could reach double digits. Our economy could fall \$1 trillion short of its full capacity, which translates into more than \$12,000 in lost income for a family of four. We could lose a generation of potential and promise, as more young Americans are forced to forgo dreams of college or the chance to train for the jobs of the future.... This crisis did not happen solely by some accident of history or normal turn of the business cycle, and we won't get out of it by simply waiting for a better day to come, or relying on the worn-out dogmas of the past. We arrived at this point due to an era of profound irresponsibility that stretched from corporate boardrooms to the halls of power in Washington, DC.... Banks made loans without concern for whether borrowers could repay them, and some borrowers took advantage of cheap credit to take on debt they couldn't afford. Politicians spent taxpayer money without wisdom or discipline, and too often focused on scoring political points instead of the problems they were sent here to solve. The result has been a devastating loss of trust and confidence in our economy, our financial markets, and our government.