

Hello Everyone,

This is my third Obamagram since the election and 40th in all.

My current thoughts about the economy and the Obama administration started to come into focus last week. Chance encounters with two wealthy friends helped that happen. They had supported Senator Obama's run for president, but were now separately grouching that he was doing too little to fix the economy, wasn't acting fast enough in doing so, and with his three-pronged budget agenda – energy, education, and health care – was trying to do too much at one time. He was taking his eye off the ball.

Those encounters reminded me of how, during the long campaign, supporters periodically questioned Senator Obama's performance, offering up all manner of unsolicited advice. In a November 2007 Obamagram, at a time when Senator Clinton was leading in the national polls by over 20 points, I wrote, “the conventional wisdom is that the game is over”. I added, “I think that’s dead wrong.” I believed then that Obama knew what he was doing and would prevail in the end. I feel the same way again today.

The irony of my friends' criticisms struck me. Here were two honorable men, highly-successful investors and champions of private enterprise, who had amassed fortunes using considerable debt while enjoying individual tax rates as low as 15%. But, now they were demanding a quick governmental fix to a mess made, in part, by our society's excessive use of debt and the stimulative effect of tax cuts. Although I have for years assiduously avoided the former, I readily admit that I have also benefited from the latter.

Culture of Addiction

The New York Times' Joe Nocera's 1994 book, A Piece of the Action, pinpoints an event that may have jumpstarted the American consumer's addiction to debt, the ultimate effects of which we are battling fiercely today.

In 1958, Bank of America (ironically) launched the first credit card – the BankAmericard, now known as Visa. True to its first name, it was the vehicle that, for the first time in history, provided individuals with lines of credit, something previously available only to businesses. This financial innovation introduced consumers to a new and highly addictive means to get and sustain a consumption “high”. Credit cards were the equivalent of “pot”. They ultimately set the stage for the borrowing equivalent of “methamphetamines” -- home equity loans, adjustable rate mortgages, sub-prime mortgages, and all the rest.

Over the past three decades, untold numbers of so-called financial innovations were also used by businesses, financial institutions and investors, producing impenetrable complexity and unanalyzable risk – the equivalent of “opium”.

During my nearly 35-year investment banking career, I witnessed companies repeatedly straining for faster growth or higher returns than their businesses could naturally produce. Diversification into lines of business they did not know and the use of leverage they could not sustain “enabled” these bad habits – what I would call performance-enhancing strategies.

Isn't it fitting, then, that our culture is currently obsessed with Visa cards, Viagra, and steroids? All in the endless pursuit of things that we have not earned and giving the appearance of prosperity that, to some extent, was not real.

We are all culpable for this mess. There is no shortage of culprits. The devil didn't make us do it. Almost all of us have been acting irresponsibly and self-indulgently, in varying degrees, for a long time.

This is also a truly a-partisan problem, spread by social contagion over many different administrations. We need to change our ways and take responsibility for our financial health. As I've said before, getting off the wagon will be painful, but it's not fatal. Failing to get off it almost always is fatal.

I have used debt extensively at various times in my life. I have felt the fear of being over extended. And, I know that the ability to borrow, and to lend, have been essential to societies since the beginning of time. But, I also know that we humans repeatedly have the tendency to overdo a good thing.

I recognize that these fundamental changes will affect tens of millions of Americans, and untold millions around the world. I wish it could be otherwise.

A reporter recently wrote, “The era of easy money fueled by rising house prices and abundant credit [is giving] way to a period in which millions of households are forced to confine their spending to their paychecks.” Think of that! What a radical idea.

The third quarter of 2008 showed the first signs of deleveraging. Household debt declined for the first time since recordkeeping began in 1952.

Crisis of Profligacy

Andrew Bacevich devotes the first third of his book, The Limits of Power, (which I have recommended before) to what he calls “The Crisis of Profligacy”. He argues that our understanding of the last of “Jefferson’s trinity” – life, liberty and the pursuit of happiness – has been radically reshaped over the centuries. “If you were to choose a single word to characterize [what it means to be an American in the twenty-first century], it would have to be ‘more’,” he claims. “For the majority of contemporary Americans, the essence of ... the pursuit of happiness centers on a relentless personal quest to acquire, to consume, to indulge, and to shed whatever constraints might interfere with those endeavors.”

He goes on to report that as early as “the 1830s, Alexis de Tocqueville, astute observer of the young Republic, noted the ‘feverish ardor’ of its citizens to accumulate.”

I am the first to admit that I have not been immune to such ardor. But, I have come to believe I/we have overdone it.

Bacevich continues, “Americans, Reinhold Niebuhr once observed, ‘seek a solution for practically every problem of life in quantitative terms,’ certain that more is better.” (Note that President Obama is well-steeped in Niebuhr.)

Nocera traces the beginning of our over-indulgence to 1958 and the credit card. Bacevich argues the tipping point occurred in the late 1960s when President Johnson pursued both guns (the Vietnam War) and butter (his Great Society program). President Bush’s simultaneous pursuit of the Iraq War and massive tax cuts is only the latest example of America’s a-partisan profligacy.

“War costs money,” Franklin D. Roosevelt reminded us after Pearl Harbor. “That means taxes and bonds and bonds and taxes.”

Perhaps the financial crisis we’re currently enduring is the economic system’s way to say, “Enough is enough”. We’ve over-indulged. It’s time to restore our economic health. A time “to put aside our childish ways” (as the President put it in his inaugural address) and enter “A New Era of Responsibility” (the title of his budget proposal).

Culture of Impatience

That brings me to my friends’ other complaint. Obama’s trying to do too much.

It seems to me that this is symptomatic of our “culture of impatience,” as others have labeled it. As a people, we are always in a hurry. Think McDonald’s or BlackBerries.

We even want our problems fixed fast. We want our recessions to be short. Hence, we as a people tend to be very shortsighted. And our governance reflects that.

Our current dilemma is the result of bad habits acquired over more than 4 decades. They won’t be fixed in 4 quarters.

Recently, I read an article about altering post-operative behaviors of heart bypass patients that another friend had sent me. When considering how to change the patients’ behaviors in order to prolong their lives, research suggests that “radical, sweeping, comprehensive changes” are more effective and more sustainable than “small, incremental ones.”

I think that’s a good metaphor for the approach President Obama is taking. Talking about his energy-education-health care agenda, here is what he said recently, as reported by Bob Herbert:

I am not planning based on a one-day market reaction. In fact, you can argue that a lot of the problems we're in have to do with everybody planning based on one-day market reactions, or three-month market reactions, and as a consequence nobody was taking the long view.

My job is to help the country take the long view — to make sure that not only are we getting out of this immediate fix, but we're not repeating the same cycle of bubble and bust over and over again; that we're not having the same energy conversation 30 years from now that we had 30 years ago; that we're not talking about the state of our schools in the exact same ways we were talking about them in the 1980s; and that at some point we say, "You know what? If we're spending more money per-capita on health care than any nation on earth, then you'd think everybody would have coverage and we would see lower costs for average consumers, and we'd have better outcomes."

Near the end of the interview, the President said that there are certain moments in history when significant change is possible.

He obviously thinks this is one of them. I agree.

We have been talking about fixing our health care system at least since the Truman administration in the mid-1940s. We have been talking about energy independence at least since the oil embargo in 1973. And, we have been promising to fix our public schools at least since "A Nation at Risk," the famous report by a Reagan commission published in 1983.

There are those (including one of my favorites, David Brooks) who claim that President Obama should focus exclusively on ending this recession. But, President Obama understands the need to address these greater, more systemic problems, if we are to restore our economic health for the long-term, not just for the balance of his presidency. He understands that we as a society must change our bad habits and that "comprehensive change" is what's needed now.

We must change our addiction to debt and our culture of impatience. And, we must do it now.

Please, as always, pass it on.

Chuck