

Opinion

Our false oracles
have failed. We
need a new vision

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America must act now to escape from limbo

Only bold emergency action before the President is inaugurated can prevent a deep recession and raise everyone's spirits

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A week before the presidential election and in the midst of the worst financial crisis in living memory, America is a country on its knees. Despised by its enemies, ridiculed by its friends and paralysed by its Government's incompetence and confusion, the whole country seems to have been infected by the malaise that spread suddenly last month from the Bush Administration to Wall Street.

But out of crisis comes opportunity and just as the stock market has rebounded after its steepest drop since the 1930s, America as a nation may have hit rock-bottom and soon bounce back again. It will depend not only on what happens in Tuesday's election, but also in the three months of limbo before the President's inauguration on January 20.

One thing is certain: by turning this election into a referendum on the Bush presidency, instead of a referendum on Barack Obama — as Republican strategists had hoped and planned — US democracy has worked better than expected. Because the financial crisis has, as Mr Obama put it, "rendered the final verdict" on eight years of incompetent and irresponsible government, a Democratic victory looks extremely likely.

And if you believe, as I have repeatedly argued, that the financial catastrophe that hit the world economy two months ago was also

largely caused by incompetent and ideological government — Henry Paulson wreaking the same havoc in financial markets as Donald Rumsfeld in Iraq — then a dramatic change of political leadership could quickly lift the prevailing mood of despair.

As I travelled around America in the past few days, talking to old friends and new acquaintances, politicians and financiers, shopkeepers and waiters, my overwhelming impression was of fear and despair, lightened only by the gallows humour of the wildly popular late-night satirical shows. Their huge popularity is in itself an indication of the uncharacteristically self-deprecating public mood.

Everywhere one hears stories of pensioners and families locked into unsustainable lifestyles because they cannot sell their houses, of college funds wrecked by collapsing share prices, businesses forced by contracting credit to lay off workers, and students no longer even aspiring to the living standards that their parents enjoyed.

Republican diehards will want to delay an economic rescue plan

More surprisingly in the American context, nobody holds out much hope for material improvements under a new Administration. Even among the most fervent supporters of Mr Obama, enthusiasm is driven more by political and spiritual aspirations than by a tangible economic programme. Indeed, many committed Democrats believe that this could be a dangerous election to win because the new President will

be held responsible for the years of economic hardship that inevitably lie ahead.

Meanwhile, among Republicans there is black despair. Not only do they fear a political wipe-out, they also expect disaster for the US economy and their own personal finances, as profligate Democrats seize control of all branches of government and try to turn America into a French-style socialist state.

Even among the billionaire financiers who had anticipated the present economic crisis and profited handsomely as a result, I heard none of the triumphalism I had expected — only a helpless foreboding about the scale of the financial disaster, the absence of any plausible solutions and the prospect that economic chaos would trigger political chaos, and even war.

So is there really no hope? Of course there is, but the prospects for economic recovery do not lie in this week's sudden rebound on Wall Street, which may or may not continue in the months ahead. Recovery depends on emergency economic measures, which should be quickly implemented. Such measures could include a six-month moratorium on home foreclosures; a compulsory programme for reducing unsustainable mortgage debts; an urgent review of international monetary relations to protect emerging markets from the financial meltdown; and emergency tax cuts to support consumption, paid for by long-term revenues from a large-scale energy or carbon tax.

If enacted within the next few weeks, such a substantial package of anti-crisis measures could still prevent the present recession from degenerating into a long and deep depression. It could also lay the



Après moi: watch out — this could
be a dangerous election to win

foundations for a robust economic recovery before the end of 2009, which would also create the conditions for the re-election of a Democratic majority in the 2010 congressional elections. That, in turn, would allow the incoming President, assuming it is Mr Obama, a full four-year term of unimpeded power in which to implement structural reforms on healthcare, energy, taxation and so on.

But if the incoming Administration fails to act immediately, the downward spiral of depression will accelerate and could soon become irreversible — at least within the two-year timescale permitted by the US electoral calendar.

In that case, the new Administration would be doomed to impotence after the 2010 congressional elections, vindicating

those pessimistic Democrats who still believe, deep down, that their party would be better off losing the election.

The fate of America — and ultimately of the whole world economy — thus depends not only on the new Administration's policies but on the speed of its actions, and specifically on what happens during the three months of constitutional limbo between the election and the inauguration. Consider how the world has changed in the seven weeks since Lehman Brothers went bankrupt. If the President-elect follows constitutional tradition and waits modestly in the wings until after January 20, he may well be too late to avert the deepest and longest recession since the early 1980s and quite possibly something worse.

But if the Democrats try to use their slim majority in the outgoing Congress to push through bold emergency legislation before inauguration day, they may encounter stiff resistance, especially on issues vehemently opposed by the Republicans, such as foreclosure moratoriums and judicial intervention in mortgages.

Republican diehards will see delaying an economic rescue plan as their best hope of undermining the incoming President and preventing the long-term Democrat hegemony that they believe would set their country on the road to socialist perdition. Moreover, opponents of bold emergency action would have the Constitution, which accords no official role for the incoming president or his appointees, on their side.

How this struggle plays out after November 4 could determine the fate of the next President — and of America and the world.