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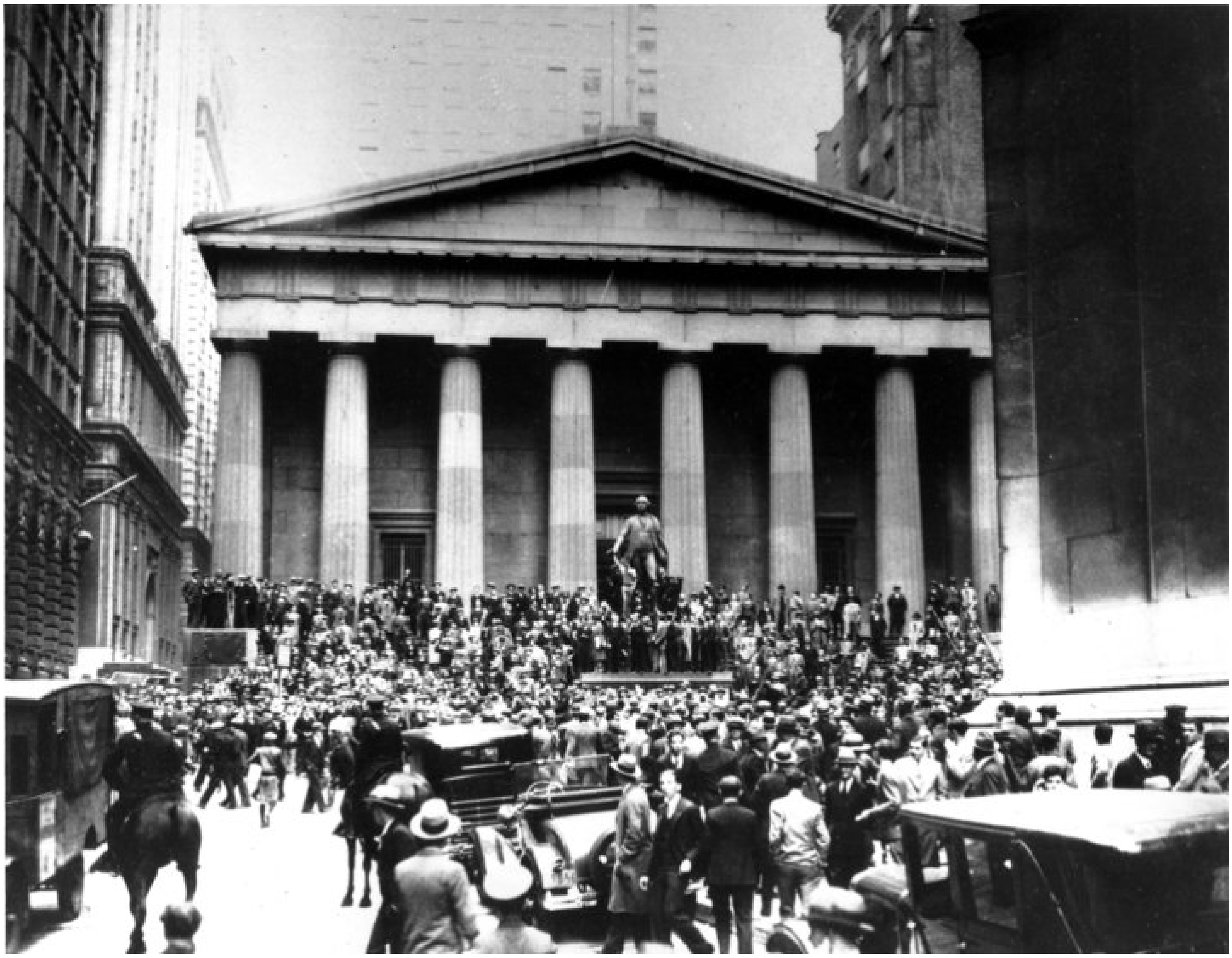
# "Roosevelt Institute Celebrates A New Agenda for America": Eliot Spitzer, Elizabeth Warren And 13 Others Reflect On The 80-Year Anniversary Of The Stock Market Crash Of 1929



***"A New Agenda for America"- On the 80th Anniversary of Great Crash, What Have We Learned and What Lies Ahead?***

80 years ago today, on October 29th, 1929, Wall Street saw the worst day in its history. The shock of "Black Tuesday" came to an end, but the misery of the Great Depression was just

beginning.

Lynn Parramore, Editor of New Deal 2.0 , the Roosevelt Institute's economy blog, asks some provocative thinkers - lawyers, economists, historian, civil rights leaders, authors, financiers and public figures— to talk about what the past can teach us and what our focus for the future should be.

250 words.  15 voices.  And a new Agenda for America.

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**Is it Good for the Children?**

By Bill Black

Our economy is addicted to waste. It wastes human beings. It leaves them unemployed and often impoverished - and it leaves their children in poverty. Of all the things we have come to accept in America, childhood poverty is the most appalling. We can end most childhood poverty whenever we decide that we are no longer willing to accept it. Poverty used to be common among elderly Americans. Social Security largely ended that disgrace.

We need to take care of parents and grandparents in order to help them take care of children. We must reach out to explain to as many mothers as possible why prenatal care and healthy pregnancies lead to healthy kids, and we must provide that care. We need a foster care system funded well enough to make scandals rare. and we need an adoption system that works for as many kids as possible.

Ultimately, we can't protect kids unless we protect their parents. That brings us back to where we started — ending the waste of leaving people that want to work unemployed. The government needs to serve as the employer of last resort and the educator of first resort. Kids left in poverty do not get the education they need. Middle class children and their parents must choose between graduating with crushing debts or giving up their educational dreams. The GI Bill transformed America, making college a realistic for millions of veterans. We need a Student Bill for all our children.

*Roosevelt Institute Braintruster William K. Black is an Associate Professor of Economics and*

*Law at the University of Missouri-Kansas City. He is a white-collar criminologist and was a senior financial regulator. He is the author of The Best Way to Rob a Bank is to Own One.*

**The Great Lesson**

By Elizabeth Warren

Historians generally focus on the October 29, 1929 stock market crash as the triggering event for the Great Depression. But the story has a longer arc.

From 1792 through the Great Depression, booms and busts followed each other like day follows night. But President Roosevelt and the New Dealers had an innovative idea: regulation might tame the boom-and-bust cycle. So they created a new Securities and Exchange Commission to bring some discipline to the financial markets, established the Federal Deposit Insurance Corporation to make it safe to put money in banks, and passed the Glass-Steagall Act to separate ordinary banking from high-risk financial speculation.

America was protected from another financial crisis for almost 50 years. But in the late 1970s, we began to pull the threads from our regulatory fabric, overturning laws and cutting enforcement. The results were the S&L crisis, Long Term Capital Management, Enron, and now, the subprime mortgage meltdown.

There are signs that we may have learned our lesson. Last week, the House Financial Services Committee voted for a new Consumer Financial Protection Agency that would consolidate scattered and ineffective consumer credit regulations and establish a home in Washington for policymakers dedicated to rebuilding the middle class. Other reforms are also starting to move.

The banking lobby is as powerful and deeply entrenched as ever, but it was powerful in the 1930s, too. Nonetheless, the New Dealers learned the Great Lesson: Powerful insiders cannot be permitted to write the rules, and prosperity and security depend on a playing field that supports a vibrant middle class. Today, we face a similar set of questions as we faced then. Will the institutions that created the crisis continue calling the shots and writing the rules, or will Washington take the side of families? Have we learned the Great Lesson?

*Elizabeth Warren is chair of the Congressional Oversight Panel created to oversee the banking bailouts and first proposed a new federal agency for consumer financial products in 2007.*

**Will the Day that Lehman Died Mark the Movement to a New Paradigm?**

By Rob Johnson

Today marks the 80th anniversary of an epochal day in this country's history — the beginning of what became the Great Depression. The widespread misery that followed changed our ways of conceiving of the economy and how a good society should operate. While there have been other dark days on U.S financial markets, these have not resulted in an overhaul of the way the economy runs. But September 15th, 2008 — the day that Lehman folded — may turn out to mark the movement toward an alternative paradigm.

There are several important differences between the economies of the 1920s and 1930s and today's economy. In 1930, the government share of GDP was a sixth of what it is now and the manufacturing sector accounted for a larger proportion of the national output. Because of this, government intervention could have immediate and drastic impacts both on the ground and psychologically (witness Roosevelt's fireside chats). In those days, the United States was positioned to be the ascendant superpower, running a trade surplus in most months of the troubled 1930s. The U.K was the power in decline, an empire which ran continual trade deficits.

It is too early to say whether the current crisis will have the same impact on our ways that the '29 Crash did. But clearly, several lessons of that traumatic period will need to be relearned. We must once again understand that financial markets need regulation, accept the necessity of government intervention, and move beyond the outmoded thinking that exacerbated a global downturn. Hopefully, our political leaders can learn from history and move beyond market fundamentalism to meet the challenge now and in the future.

**Where We Could Have Been - and Where We Might Be Headed**

By Bo Cutter

Even in the middle (hopefully the end-game) of our own financial crisis, we should consider where we could have been and where we are going. We could have easily been headed - by this time inexorably - toward a 1930's style depression: but over the ensuing 80 years, scholars and policy makers actually learned — a phenomenon that is depressingly rare. In particular, Ben Bernanke, a scholar of the Depression, learned how to act, and then had the courage to act. There will be endless post mortems as we come out of the hills with the battle over. But Bernanke acted.

Without taking anything away from this, it is always easier to take hard decisions in a crisis. As the crisis ebbs, all of the special interests, the organizational turf, and the natural aversions to risk quickly rise up again. Actions become harder and harder, and slower and slower. That is happening today. We have not made fundamental decisions about the structure of our finance sector, about financial regulation, or about broader questions involving the shape and nature of the U.S. economy in the post-crisis world. The driver of the next crisis could easily be the U.S. deficit and debt position. This issue will move to center stage over the coming decade, but unless we begin very soon to set a different course than the one we are on, we will be increasingly unhappy with the U.S. economy we have to live in then.

*Roosevelt Institute Braintruster Bo Cutter is formerly a managing partner of Warburg Pincus, a major global private equity firm. Recently, he served as the leader of President Obama's Office of Management and Budget (OMB) transition team.*

**Mirror, Mirror on the Wall...**

By Thomas Ferguson

Those who gaze into Harry Potter's Mirror of Erised see not their faces, but their deepest desires. The Great Crash and the even greater Depression that followed work the same way, except that their magic is pitch black: Viewers see their worst nightmares.

In the thirties, as New Deal programs ushered in the 40 hour week, Social Security, and unemployment compensation while regulating utilities, stock exchanges, banks, and labor markets, many otherwise sensible people saw Red. They became passionately convinced that America was only steps away from totalitarianism and that swelling public deficits implied a German-style Great Inflation. More recently, we have been told that a tariff bill that passed many months after the Crash was really responsible for the whole mess; that somehow, with all the banks closing as FDR took office, that just doing nothing would have been better than putting people back to work, and that forcing Wall Street to disclose basic information about the products it sells was either un-American or counterproductive or both.

The real lesson of the Crash, of course, was what happens when you fail to regulate markets, especially financial markets. And the lesson of the New Deal is how you fix this. You can safely disregard claims that regulating banks and stock exchanges destroys profits or the capitalist system or somehow threaten "freedom." The caterwauling about "socialism" is extensively a smokescreen for private interest and avarice; and if banks are deleveraging — cutting back their lending — then vigorous state action to secure credit and mortgage markets is no threat to the future of anyone but loan sharks.

*Thomas Ferguson is Professor of Political Science at the University of Massachusetts, Boston, Senior Fellow of the Roosevelt Institute, and a member of the Advisory Board of INET.*

**Lessons from the Great Crash and its Aftermath**

By David Woolner

The collapse of Wall Street that eighty years ago ushered in the worst economic crisis in America's history. By the time Franklin Roosevelt took office three years later, the downturn had reached unimaginable proportions. The GNP had plunged by 67%; total stock values by over 80%; nearly 11,000 banks had closed their doors, bringing about the total collapse of the US banking system. Roughly 45 % of all homes were either in foreclosure or were in danger of being foreclosed; personal income had fallen by 44%, and more than one quarter-one quarter-of the national labor force was unemployed.

FDR assumed power at a time when the "state capacity" of the American government to intervene in the social and economic well-being of the average American was extremely limited. There had not yet been a New Deal, which meant no unemployment insurance or social security, no federal deposit insurance, no SEC to regulate the stock market, no minimum wage, no Home Owners Loan Corporation or Federal Housing Authority, and no major effort to build a modern infrastructure.

But this is not the whole story. The global crisis tested not only capitalism, but of democracy itself. Thanks to FDR's efforts, the United States avoided extremist solutions and attempted to refashion capitalism in such a way as to restore the faith of the people.

Our government must play a role in providing the security and independence that the free market alone cannot. If we can embrace the spirit of innovation and faith in government that animated the New Deal, the prosperity that managed capitalism can bring is ours to enjoy.

*David Woolner is senior vice president of the Roosevelt Institute.*

**Emergency Checklist**

By Jeff Madrick

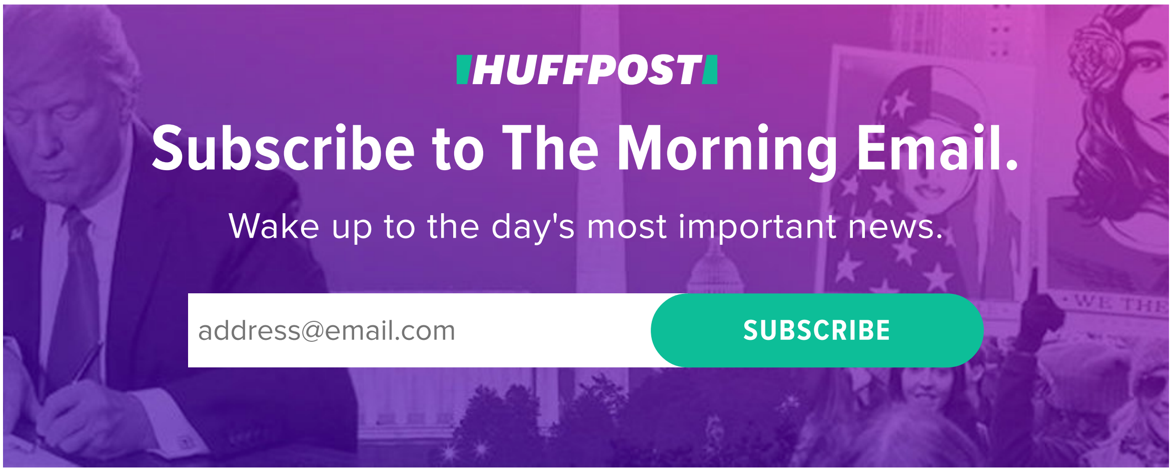
We have lost a generation in America to a simple ideology that government is at best a necessary evil whose influence is to be minimized. Going forward, there is much to do: reform healthcare; re-regulate finance; build a universal pre-k system; build a light rail and public transportation system; radically reduce carbon emissions, create a sensible Bretton Woods III.

Once we are well out of the woods of the crisis, here is where I would begin: raise income taxes. America's government must lead us back to the path of excellence and global competitiveness. The nation must invest in its healthcare, education, and infrastructure. It must subsidize new industries, new technologies. It must reinvigorate manufacturing. It must expand radically its safety net to protect those who lose jobs and even careers. It must borrow less from overseas to do all this.

We can raise taxes by 3 to 5 percent of GDP, thus generating $450 billion to $750 billion of money to invest infest in the future. That is enough money to get the job done and it would still leave government spending in America at all levels below 40 percent of GDP-and below most of what the rest of the rich world spends. Would it impede growth? No way. Not if invested properly. It hasn’t overseas, and it won’t here.

If we do not find the will to do these things, growth will be impeded. Here is a cliché that is true: The nation’s future is at stake. This is an emergency. Sound the sirens.

Roosevelt Institute Braintruster Jeff Madrick is fellow at the Schwartz Center for Economic Policy Analysis, The New School.




**Cure for Collective Amnesia**

By Eliot Spitzer

How little we have learned! Reviewing the 80 years that have passed since the ‘29 Crash and reflecting on the abyss into which we descended just over a year ago, it is easy to feel despondent at our lack of accrued wisdom. Sure, we had several decades where sound banking principles were foisted upon a cowed banking community. For a time, institutions were permitted neither to be “too big to fail” nor “too big to manage.”

But the story changed.

Over the past several years, we have seen the all-too-predictable return of irrational euphoria and the belief that those who ride a speculative wave have actual wisdom, not luck. We have suffered collective amnesia with respect to the cost of undervalued financial risk. We willingly believed in an alchemy that pretends to turn debt into equity. We subscribed to a naive view that unbridled leverage is a sound financial architecture.

Is there a way to shake off our amnesia? Of course: We need reasoned rules limiting the rapacious excesses of the untamed financial world, regulatory symmetry between risk and reward, safe guardianship of the public fisc, regulators willing to brave prevailing winds and power brokers, and a sense of humility whenever we believe we are truly smarter than those who preceded us.

*Eliot Spitzer is the former governor of the state of New York.*

**Economic Lesson Unlearned**

By Henry C.K. Liu

Milton Friedman thought the Fed could have prevented the Great Depression of the 1930s, if only it had engaged in monetary easing to counteract destructive market forces. Friedman's counterfactual conjecture — though not provable — has been accepted by central bankers as monetary magic to rid capitalism of the curse of business cycles. Friedman held out the false hope that central bankers could negate debt-deflation instability with wholesale liquidity injections (the term "debt-deflation" was coined by Irving Fisher in 1933 to describe the way debt and deflation can destabilize each other).

The problem is that negating debt-deflation does not work. Unfortunately, Greenspan's acceptance of the idea led to a series of increasingly-large debt bubbles. The final one burst in 2007.

The economist Hyman Minsky, famous for developing a psychological theory of financial crises, explained how debt-deflation really works by illuminating its effect on the asset market. He recognized that when panicked people start distress selling, asset prices drop. This causes losses to agents with maturing debts, which, in turn, reinforces more distress selling and reduces consumption and investment spending which deepens deflation. This spiral of debt came to be known as the "Minsky Moment."

Alas, mainstream economists have largely ignored Minsky's insight. Friedman's counterfactual conclusions obscured the great lesson the world could have learned from the crash of 1929 and condemned the world to another disaster 80 years later. It is time for a sea-change in economics in which the realities of instability and speculation are properly understood. Only then can we prevent another epic economic disaster.

*Roosevelt Institute Braintruster Henry C.K. Liu is an independent commentator on culture, economics and politics.*

**Income Inequality Threatens America's Basic Economic and Political Systems**

By Bruce Judson

Today, we have the highest level of income inequality in our nation's recorded history. We must address the structural flaws in our economy that created, and continue to widen, this divide. History teaches that extreme inequality leads to political instability. We cannot assume that we are immune.

In President Obama's words, the middle class is experiencing "the American Dream in reverse." Rising long-term joblessness and the possibility of 13 million foreclosures (more than one in every four American mortgages) create the potential for the former middle class to move from frustration to anger — an anger sparked by reduced circumstances and the belief that they have been treated unfairly.

With each job loss or foreclosure, another family — now on a down-ward spiral — potentially loses its faith in our basic economic system and our basic system of governance. America's ongoing vitality requires that people trust that these systems work, and that our democracy is self-correcting. With rising income inequality, this trust is now at risk.

America has never been a nation of haves and have nots. If the gulf widens, it's hard to imagine that our future will be marked either by a healthy economy or a healthy democracy.

The only other time in our nation's recorded history that income inequality approached current levels was 1928, just before the Great Crash. The New Deal eliminated the excesses of an unsustainable system. It was not easy then, and it will not be easy now. But it is essential.

*Roosevelt Institute Braintruster Bruce Judson is a Senior Faculty Fellow at the Yale School of Management and the author of the new book on economic inequality, It Could Happen Here: America on the Brink.*

**Rethinking Capitalism**

By Maya Rockeymoore Cummings

Eighty years after the Great Crash, skyrocketing unemployment, rising foreclosure rates, and exploding national debt indicate that our country has failed to learn important lessons from the past.

Wall Street, the federal government and the mainstream media tell us that things are not as bad as they seem. We hear terms like "jobless recovery", but Americans across the country can tell you that if there are no jobs, there is no recovery. The very engine that drives the U.S. economy — the American workers — is fundamentally broken.

We got here through capitalism run amok, driven by anything-goes bankers and Wall Street charlatans. After a series of bursting bubbles, Wall Street got a helium injection from the largest transfer of public wealth our nation has ever seen. Too-big-to-fail banks got over by capturing the institutions and levers of government, perverting the will of the people and nullifying our democracy in the process.

We have reached an inflection point as a society. We must stand up or risk being steamrolled into a corrupt oligarchy. We must rethink capitalism. This is not about a socialist, fascist, or communist agenda. It is about confronting free market fundamentalists. It is about regulation without apology. It is about protecting people from fraud. It is about building wealth and security for American people of all backgrounds. And about creating transparency in our financial institutions and our democracy.

We can achieve a fair, balanced and just economic system. But we must pound on the doors of our democratic institutions to make it happen.

*Braintruster Maya Rockeymoore Cummings is president and CEO of Global Policy Solutions.*

**How to Start Anew**

By Marshall Auerback

Much like Herbert Hoover, who failed to respond adequately to the fallout from the Crash of 1929, Barack Obama cannot seem to cut himself free from conventional wisdom. The Administration is attempting to reform the unreformable — to revive a zombie economy full of insolvent banks instead of shutting them down and restarting them anew as FDR did.

Obama and his advisors must free themselves from the discredited dogmas of neo-liberalism and channel the spirit of FDR’s bold experimentation. We need less deficit terrorism. Fiscal policy must be much more oriented to personal balance sheets, not bank balance sheets. We need to turn around the private sector and begin to produce more tax revenue, so that the large deficits would be short-lived. If we continue down the current path, we slow recovery and court large budget deficits for many years to come. Far better to spend now to create jobs and get the private sector growing again.

We need to make loans truly affordable for households. We need large -scale employment programs that restore households’ capacity to pay. We need to deal with the over-supply of homes. And we need swift and cheap bankruptcy procedures that provide households a fresh start.

Most of all, we need to turn the financial system away from the trade-and-fee model and toward a system that focuses on carefully evaluating creditworthiness and on limiting the growth of Ponzi processes over an enduring period of economic growth.

*Roosevelt Institute Braintruster Marshall Auerback is a market analyst and commentator.*

**Did We Hit 'Rewind'?**

By Barbara Arnwine

On this anniversary of the Great Crash of 1929, we continue to battle critical issues of economic and social policy that adversely impact minority and low-income communities. Policymakers must aggressively address and equate economic and civil rights matters, like the ongoing foreclosure crisis, payday lending, mortgage scams and disparities in education. The elimination of the racial wealth divide is essential in ending institutional racism that has long pierced this nation.

The current housing collapse was premised on a subprime market inundated with racially discriminatory and predatory lending, which led to economic displacement of unprecedented scale. According to the Center for Responsible Lending, black homeowners lost more than $92 billion to foreclosures since 2007 and over the next several years, are projected to lose a total of $122 billion, while Latinos are expected to lose $98 billion.

Americans cannot attain the asset growth necessary to build "wealth" if simultaneously their biggest assets — their homes — are being unceremoniously depleted. African Americans own significantly less property than they did more than 80 years ago. The typical Black family owns 10 cents to the White family's dollar and the typical Latino family owns 12 cents. In what has been called the "Silent Depression," people of color continue to experience unacknowledged economic hardship.

We must act to reverse these alarming trends … it's time to hit "fast forward"!

*Roosevelt Institute Braintruster Barbara Arnwine has been the executive director of the Lawyers' Committee for Civil Rights Under Law since 1989.*

**Will History Repeat Itself?**

By Heather Gerken

Rahm Emanuel summed up the most important lesson of the Crash of 1929: "never let a serious crisis go to waste."

The reason is simple. Policy depends on politics, and our democracy is not well suited to getting a lot done quickly. A year ago, many thought that the Obama administration would be able to pass any legislation it wanted because it had so many energized supporters and such an impressive grassroots network. That was a mistake. Electioneering is different from governing. Note, for instance, how hard it's been to convert 'Obama for America' into an equally muscular'Organizing for America'. Elections are the rare moments when voters pay attention; the drama of the race focuses people's attention on the issues, and candidates provide human stand-ins for abstract policy proposals.

When candidates turn to the workaday project of governing, voters tend to fall away. They stop organizing, they stop volunteering . . . they even stop paying attention. That's a problem if you want to pass something in Washington, where killing legislation is perhaps the ugliest form of blood sport, if only because it's so easy to do.

The New Deal 1.0 got passed because voters stayed engaged even after Roosevelt moved from campaigning to governing. If that were just because of Roosevelt's personal appeal, then we might think that the charismatic Obama can match his achievements. But the architects of the New Deal 1.0 had a good deal more than a charismatic president. They had the Great Depression. Depressions involve terrible human costs, which is precisely why they have such a powerful ability to concentrate the electorate's mind. The New Dealers used voters' hunger for change to push through massive reform. They didn't let the crisis go to waste. The question is whether historians will be able to say the same thing of the Obama administration.

*Roosevelt Institute Braintruster Heather Gerken is the J. Skelly Wright Professor of Law at Yale Law School.*

**Prescription for Economic Health: Booster Shots of Confidence**

By Mario Seccareccia

The Great Crash of 1929 taught us that a modern monetary market economy is governed by confidence. As John Maynard Keynes put it, monetary relations and, more precisely, asset values, are held up by one's belief in the future. Without it, the whole credit-driven economic system comes to a halt and economic agents scramble for cover by seeking to acquire liquidity.

While in a non commodity-based monetary system a central bank can quite easily supply liquidity in its role as lender of last resort, a central bank cannot single-handedly instill confidence in the future. When confidence is lost, monetary policy is impotent in building up asset values, which can only be sustained if people believe in future revenue arising from future production. The economy remains trapped in a state of paralysis in which everyone is seeking to remain liquid. History tells the tale: Excessive optimism prior to the Great Crash turned to hopelessness during the early 1930s.

The New Deal changed things because we recognized the power of fiscal policy to remold expectations. Public spending sparks increased incomes, and also triggers great expectations. Once confidence returns, private initiative takes hold, and private economic agents begin to borrow and spend. This was the discovery of the New Deal era. Unfortunately, New Dealers did not understand that the fiscal injection could not be a one shot “deal”. We need booster shots.

Obama’s policy makers have come to recognize the power of fiscal policy to move the economy out of a slump. What they have not understood is that fiscal authorities must regularly rebuild confidence by reestablishing growth. Policy makers should not fear applying booster shots of further public spending.

*Roosevelt Institute Braintruster Mario Seccareccia is editor of the International Journal of Political Economy.*

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