Most of us have been mugged recently by reality. I am referring to the reckless behavior of investment banks in fostering subprime mortgages and then packaging these in securities that inevitably had to crash because of the largely worthless instruments they contained. The whole process from start to collapse changed the view of most Americans of how much risk supposedly responsible bankers were willing to take to earn large short-term profits regardless of the long-term consequences; these proved to be catastrophic to the income and savings of institutions and individuals throughout the world. It is hard to accept the contention that the bankers did not know that the securitites they sold would not endure. My reaction is just the reverse: How could they not know that the near-worthless paper they used to package their securities was—to put it simply—near-worthless? The subprime lenders pitched the proposition to homeowners that “I’m from the bank, and I’m here to help you.” They “helped” many borrowers lose their homes.

The great recession of 2009 brought on by this behavior is now largely behind us, but it has left a residue of uncertainty about the future of the U.S. economy—indeed, of the world economy. The experience of this dissimulation of investment bankers and mortgage providers has left us skeptical of many other declarations that are repeated endlessly by governments, private institutions, and self-interested organizations.

We were told by oil producers that it was safe to drill off the coasts of the United States, and the Obama administration bought these self-interested declarations and said it would authorize drilling off the southeastern U.S. coast. We are now witnessing what may turn out to be the largest and most damaging oil spill in U.S. history in the mile-deep drilling by BP in the Gulf of Mexico. It is rare that decisions by the U.S. government are refuted so quickly and so dramatically, and the BP experience has been extraordinarily sobering. The founding fathers of the U.S. system of government built delay into official decisionmaking, and the rush to judgment by President Obama about offshore drilling demonstrated the good sense of the founding fathers in doing this.

We have heard countless assertions that we can continue to use coal for generating almost 50 percent of the electricity used in the United States because we are able to use “clean” coal. Coal emits large amounts of greenhouse gases, especially carbon dioxide, into the atmosphere, and the phrase “clean coal” was adopted to obfuscate this reality. There is no clean coal. What those who wish to continue using coal to generate so much of our electricity have in mind is capture of the CO2 that is emitted and then storing this underground or under water. Those who favor the capture/sequester process have provided no solid data on what this would cost, how long it could be continued, and what leakage from the stored CO2 could cost. This is akin to the “drill, baby, drill” recommendation for oil drilling off the U.S. shores in that unproven assertions that could be immensely costly, even catastrophic, are being pushed. The issue is difficult because there are many coal miners, but the U.S. public nevertheless deserves more candid and unbiased information.

The “drill, baby, drill” advice is an offshoot of the belief that the United States must achieve energy independence in order to be fully secure in the future of our economy. In a report in 2006, an independent task force sponsored by the Council on Foreign Relations and cochaired by John Deutch and James R. Schlesinger stated that myth number one was that “the United States can be energy independent.” The reasoning of the task force was that imported oil will be needed for transportation for at least several decades. One action taken under the rubric of energy independence is to give subsidies to producers of corn used to make ethanol in the United States at a cost considerably higher than the cost to import sugarcane-based ethanol from Brazil. Brazilian ethanol is also taxed when shipped directly to the United States. The combination of subsidy and import duties costs billions of dollars for a product that has considerably less energy content than imported Brazilian ethanol would provide. The
energy independence argument has been transformed into an expensive way to subsidize U.S. corn growers. The U.S. consumer is badly served, and Brazil and other potential sugarcane-based ethanol suppliers are unreasonably punished.

The U.S. government agreed in the North American Free Trade Agreement (NAFTA) to allow Mexican trucks to bring cargo from Mexico directly to U.S. buyers six years after the agreement came into effect on January 1, 1994. When the date came, the U.S. government did not honor its agreement and asserted that Mexican trucks and drivers were unsafe. The original agreement contemplated that Mexican trucks would have to meet U.S. safety requirements, but this was not allowed to be tested. U.S. violation of the trucking agreement was done at the behest of the Teamsters Union as a way of stifling competition. The U.S. Congress in 2009 removed funds from a temporary trucking program that had been instituted during the Bush administration, again ostensibly on safety grounds—despite the fact that the Mexican trucks and drivers in this experiment had a better safety record than U.S. trucks. This time the Mexican government retaliated, and U.S. exporters of some 40 products (fruits and other commodities) are still suffering from their inability to compete in the Mexican market. The U.S. public was not told the truth, and, as of this writing, Mexican trucks still cannot deliver goods directly to U.S. customers and many U.S. exporters are locked out of the Mexican market.

The United States completed three free trade agreements (FTAs) with Colombia, Panama, and South Korea several years ago. None has been submitted to Congress for approval. The arguments made against the agreements vary, but the common denominator is U.S. protectionism. President Obama has indicated on various occasions that he will submit the agreements for congressional approval, but has not yet done so and may not act this year because of upcoming midterm elections. U.S. exporters will therefore face tariff discrimination in these markets because other countries have concluded or are concluding FTAs with them.

Other examples of lack of candor with the American public abound. The Republicans tout themselves as the party of fiscal responsibility, but the fiscal deficits under both Presidents Ronald Reagan and George W. Bush were higher than under Bill Clinton’s Democratic administration. Indeed, the Clinton administration had fiscal surpluses. President Obama has stated that U.S. exports will be doubled under his administration, but he has given no specific information about how this will be done. The U.S. public, based on recent experience, has little trust in its government. It has even less trust in the Congress because its actions have shown less regard for the public interest than for political advantage.

Much of the foregoing discussion is a reflection on the power of special interests—not a new phenomenon. What is different this time is that these interests—especially those in the financial sector—pushed the U.S. economy and a large part of the global economy into a deep recession. This almost surely would have been transformed into a depression, save for massive government stimulus to compensate for the lack of private spending. This stimulus is now being subjected to criticism by opponents of government action to deal with problems in the private economy because it increased public spending.

What is troublesome in the current context is the lack of candor of once respected institutions. The investment banks failed to live up to their obligations to the public. The oil companies pushed for risky drilling. The U.S. government deliberately violated an important provision on trucking of an important agreement with our neighbor Mexico at the instigation of a labor union seeking to avoid competition. The U.S. Congress went a step too far when it removed funding for a smooth-functioning temporary trucking agreement because this time it convinced the Mexican authorities that the United States did not intend ever to rectify its original violation on trucking—and the Mexicans retaliated. This has not prevented criticism by protectionists that other countries violate their trade agreements with the United States.

The sense that the U.S. government and Congress will not necessarily act responsibly has given rise to growing unease in the public mind. Already the public knows that the U.S. financial sector will look for every opportunity to increase its share of the national product unless constrained by legislation and vigorous public regulation—and the financial sector is lobbying against legislation that limits its freedom of action. It is not a happy time for the United States in that trust in major institutions has dissipated. Restoring this trust is perhaps the major issue that confronts our nation. And the deep conflict that exists between the two major U.S. parties makes that very hard to do.

Sidney Weintraub holds the William E. Simon Chair in Political Economy at CSIS.

Issues in International Political Economy is published by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author.

© 2010 by the Center for Strategic and International Studies. All rights reserved.