Harry Kreisler: Welcome to a “Conversation With History.” I’m Harry Kreisler of the Institute of International Studies. Our guest today is James A. Leach who served thirty years as a representative in Congress where he chaired the Banking and Financial Services Committee. He is currently the John L. Weinberg visiting professor at the Woodrow Wilson School at Princeton University. In 2009, he is the first Robert T. Matsui professor at the Institute of Governmental Studies at U.C. Berkeley. Congressman Leach, welcome to Berkeley.

James Leach: Well, honored to be with you, Harry.

HK: Where were you born and raised?

JL: Born and raised in Davenport, Iowa, which is on the Mississippi River, kind of a little north of where one thinks of Mark Twain country.

HK: And looking back, how do you think your parents shaped your thinking about the world?

JL: Profoundly. I think that’s an aspect of most of our lives. I had very well educated, thoughtful parents. My father was a lawyer who didn’t practice law for very long and he was a very shy man, very academic. The law was a little too confrontational for him but he got tied up in the greatest confrontation in human history, World War II, waded ashore at Omaha Beach and walked to the Rhine. And he instilled a lot in me. My mother was a brilliant lady and she had an avocation of contract bridge where she played all around the world, and we had a warm, secure upbringing.

HK: Was there a discussion of politics around the dinner table?
JL: Yes. My grandfather on my mother’s side had been chairman of the Democratic Party, head of the WPA in the State of Iowa, and was quite a liberal Democrat, and my father’s side was very conservative Republican. My parents were moderate Republicans and the most active my father ever was in the political process was supporting his commander in chief for president, Dwight David Eisenhower, in a famous Republican primary battle between Robert Taft and Ike in 1952. But my mother was the activist and she was on all the local boards, kind of the first woman in kind of all the leadership positions in our community. But my parents were immensely well regarded, and that is something that is a gift to any individual, and they were also immensely family oriented.

HK: How did Iowa shape your character, do you think, in retrospect? You represented Iowa as a Republican for thirty years in the Congress.

JL: Well, I think there’re some misunderstandings and my wife and I sometimes talk – my wife’s an art historian – and talk about what we describe as coastal parochialism. There is somehow a belief on the coast that they’re more internationalist, but if you think of the country, the Midwest is a little bit like the hub of a spoke of a wheel and we in the Midwest have to look out, and we don’t have some of the diversions. For example, people that live in the large cities, or on mountaintops, or near the sea, are often more into lifestyle than they are other kinds of academic reading and thinking and contemplating. And I view the Midwest as a contemplative part of the country, especially the rural Midwest. If you visualize a farmer on his tractor listening to the radio, often NPR, if you think of the church movements – we do have a fundamentalist movement that’s of one kind of variety but the establishment churches in the Midwest are also surprisingly international, the Lutherans, the Methodists, the Presbyterians. You have movements of Mennonites and we have a number in our area that are very active in the world, and you have Catholic relief services, Lutheran relief services, that are faith based peace corps. And so, the Midwest has a history of being a little bit more internationalist in outlook than many in the coast would expect.

HK: And internationalism is a piece of your story because throughout your political career you have understood that dimension of American politics. And in addition to what you just said, was your education important in taking you even a step further? I believe after you did your education, you actually went into the Foreign Service. Talk a little about that.

JL: It actually preceded college to some degree. In the eighth grade we had an English teacher that asked us to do a three-page paper on what we wanted to do in life, and of course baffled, I went home to the dinner table and said to my father, “What do I write?” And my father said, “Well, go down to the Davenport Public Library and check out a book on the Foreign Service,” and to my astonishment the library had two such books. Thenceforth to this perpetually exasperating question that all kids get asked by their parents’ friends, “What do you want to do when you grow up?,” I would confidently answer, “I want to work for the State Department.” And so, I went to college with that in mind, and graduate school with
that in mind, and eventually went into the State Department. It was only because the 
actions of a president, I found myself resigning in protest and returning to Iowa where to my 
surprise, there was a chance to run for public office that caught me off guard. But life, 
especially political life, is a combination of preparation and serendipity – well, all life is that 
way, and the politics probably in the extreme. And there was a particular opportunity partly 
because my particular party was in such disarray – that is, this was the year of Watergate in 
1974, and it meant that the Democratic Party was clearly going to sweep in a combination of 
a Vietnam War and Watergate, and so the Republican Party had no candidates. And so, a 
local Party chairman came to see me and asked me if I’d run. Actually he was truly saying, 
“Would you be our lamb?”

HK: [laughs]

JL: Anyway, I kind of stepped my toe in. I felt I was quite comfortable, frankly, in the 
issues of the day but had no background whatsoever in how one runs for office. And so, I 
got quite a baptism and was able to run a relatively close race and based on that, got the 
nomination the next time and was able to prevail.

HK: Which leads to a question I always like to ask my guests. What does it take, what is the 
skill set involved in what you do, or in your case what you did? Talk a little about that. 
Were there things that your education at Princeton did not prepare you for when you, as you 
just said, ran for office and then served in Congress?

JL: Well, as in almost any profession, on-the-job training is significant, and on-the-job 
training in politics is campaigning. And I will say there’s an aspect of personality that is a 
function of this, but I’ve noted, as I look around the Congress over the years, that everyone 
has a somewhat different personality. Every district is different, every candidate is different, 
and the challenge is somehow to be yourself. Now one of the things that’s been missed is 
that in legislative politics particularly, but all politics, there is an element that is counter-
intuitive, or counter-natural, to many people. There’s an element of salesmanship; you have 
to sell yourself, you have to sell your ideas. And this is often very different than executive 
kinds of mentalities, and sometimes you get an executive in politics but not often. Usually 
it’s kind of sales, and if you take other countries in the world at other times – I mean, for 
example, China today is being run by a new class of engineers. Philosophically the political 
system is not something that we identify very much with but intriguingly, engineers versus 
salesmen are often oil and water. I mean, it has nothing to do with philosophy, they’re just 
different types of people. Now we’ve had one great engineer, in fact several, as presidents. 
The one had an engineering capacity but he wasn’t principally an engineer, that being 
Jefferson, but the great engineer was Herbert Hoover who was a wonderfully able man but 
had a very unsuccessful presidency.

HK: And he was an internationalist, too.
JL: A huge internationalist. We’ve had two presidents that have actually lived in China, one being George Bush who was an ambassador, or equivalent of an ambassador there, and the other being Herbert Hoover who was a mining engineer in China, as well as Australia.

HK: So, you are known, and I think justifiably so, as a man of principle who brought to the Congress a character and a commitment to values. And I’m sort of curious, is that a fair assessment? And then what overall were some of the guiding principles, as you served as a congressman, and how did they interface with the interests at home, with what the people wanted, their particular concerns?

JL: Well, first, one never self-assesses one’s self when it comes to the issues of…

HK: I’ll assert it then, okay.

JL: I appreciate that. Thank you. But one comes with pinions of background and one aspires to reflect values, as well as judgment, and one of the challenges in electoral life is that there are certain things that are credible to compromise. For example, do you spend X on a given program, or X plus 5%, or X minus 5%? Those are not moral issues and people should never think of them that way. There’re other things that do involve values, and some can divide the country – I mean, the pro-life/pro-choice divide is a major divide and there can be other kinds of issues. But as a basic rule of thumb, it’s wise to have one’s own value structure and then if it is different than those, or many of those, you represent, you must go out of your way to find out why it is people differ. But you always, in my view, have to rely on individual judgment, and then the constituents have every right to ask that you step aside if your judgment doesn’t agree with theirs, if your party is out of step with their views, if the country has swung in new directions. That’s the meaning of democracy and representative democracy. Then you have a balancing act within parties because parties do play a role, and my feeling was always that you gave a benefit of the doubt to the party in process. But you should always reserve the right to differ with the party on judgment of any important substantive issue.

HK: And for thirty years in Congress you watched the Congress change a lot, I guess, as in a way, each congressman had to weight the choices in the way you just described. Talk about that evolution, as you were in Congress, both in the way Congress operated and in the way your party interfaced with the Congress.

JL: Actually the one precedes the other. There’s a huge change in the American party structure that then influences how the Congress itself operates, and the largeness of the change occurred within the Republican Party, although both parties to some degree are a mirror of each other. And the great weakness in our democracy is the lack of participation at the primary level. We had, in this last presidential campaign, obviously a record turnout for
the presidential nomination, but it is awfully unfortunate how few participate in the
primaries for legislative seats. What that means is that parties are getting narrower and
narrower, and the way I sometimes describe it is if you visualize America over the last
generation as a third Democratic, a third Republican, a third no party, half the Republican
Party is obviously a sixth of the people, half the Democratic Party is a sixth, so a sixth
control. But if at most, one in four – and it’s usually one in eight – participate in primaries,
you multiply one-fourth times one-sixth, so one-twenty-fourth controls the Republican
Party, one-twenty-fourth the Democratic Party. And that’s quite conservative with a new
definition of conservative, that is, a movement in my lifetime from economic conservatism to
social conservatism, the Democratic side – it’s rather liberal. And so, America has a political
system, particularly at the legislative level in Washington, where many Americans are not
represented philosophically. That is, at all times in our history the great American sense is
for the center, and the center is massively underrepresented today in a legislative
environment. And so, one of the things that’s occurred in modern times is both parties have
moved a little bit to the edges, particularly the Republican Party, and that has both a
philosophical dimension; it also has a sociological dimension. And the reason I stress this is,
if you visualize in your own mind who is the type that’s at the new edge of the Republican
Party, who is the type that’s at the old edge of the Democratic Party, they’re not types of
people that have a natural identity with each other. And this causes a great deal of difficulty.
The other phenomenon that is often not thought about is that all Americans that even
casually look at the American presidential primary process know that in the Democratic side
the candidates seem to edge to the left in the primary and then try to move to the center in
the general, and vice versa on the Republican side. But in Congress you do not have this
phenomenon, and I want to stress this, that in the United States Congress there is a tendency
to the parties to nominate, the Republicans to the right, the Democrats to the left, but if you
take the House of Representatives, for instance, where there’re 435 seats, about 380 are
relatively safe one-party seats, and about half of these are Democratic, about half Republican.
If you, sir, are elected as a liberal Democrat and you move to the center, you’re likely to be
challenged by someone more liberal in a primary, and that defines your election. If I’m
elected as a conservative to the right in my party, and I move to the center once elected, I’ll
be challenged from the right. And so, there is a tendency in American politics for people
elected in the right in the left, in the legislative chapters, to absolutely stay there, and then
there’s an assumption, if you’re a legislator, that you’re not as responsible as the Executive.
And so, you’re free to make philosophically extremis votes, or self-preservation extremis
votes, and this causes what I consider to be an increasingly dysfunctional legislative
environment.

HK: Now two questions come to mind. The first one is, based on what you just said, what
motivates the individual congressman. So, is it what he’s hearing when he puts his ear to the
ground and goes back to his district, in the first instance, which gets him elected, and then
he doesn’t want to move away from that path? Or is it that people who arise in the district
who actually believe this philosophically? So, are the two things interfacing, that is, the
people originally elected and how this particular congressperson came forward in the first place?

JL: Well, you’ve heard – and this is new in the last decade or two – but almost casually – the conceptualization, we have to have this vote to appeal to our base. Well, what does that mean? It means that the controlling party wants to throw out votes that the base of that party, on the Democratic side quite liberal, and the Republican side quite conservative, and to adhere to that base. That base may not be the national interest. One thing that when you go into a legislative environment that the goal is to advance the national interest of the United States, but frequently in politics, whether abstract conceptualizations, like the greatest good of the greatest number, which was a utilitarian concept of the 19th century in Britain, or the common good, are not part of the discourse. The discourse all relates to kind of groupism, and the Democratic Party, to a degree, is a collection of groups, the Republican Party is becoming a little bit more that way but it’s largely a couple of groups and related to issues, whether it be gun control, whether it be the abortion issue, and there’s a constant repeat of these issues. Sometimes they’re totally relevant to a political circumstance and totally irrelevant to society. And how you parse this together is a real challenge.

HK: Now the second question I had, based on what you just said, is that you’ve given us the structural reasons why the center does not hold in the Congress, namely the extremes maintaining your district and so on. So, the question becomes basically, does this help us understand what has happened, especially to the Republican Party? We should explain to our audience that you are a leader of the moderates. I guess you would’ve been called, in the olden days, a Rockefeller-type Republican. So, the question becomes, does this help us understand – what you’ve just described – what happened to the Congress and then what happened to the Republican in the Congress?

JL: Well, it’s intended to give a feel for how Congress operates and why. I would differ a little bit – again, I want to mention why I differ with your description of Rockefeller Republicans. In the old day, there are these liberal moderate splits in the party and it was Rockefeller contrasted with, let’s say, Barry Goldwater or Robert Taft, and largely, almost exclusively, on economic issues with an emphasis on urbanism on the Rockefeller side. I was never comfortable exactly with either, and partly I came from a rural rather than urban background, partly I’ve always been a little bit anti-privilege, and I have a lot of respect for the Rockefeller family but I lean to those people that make it on their own just as a psychological phenomenon. But putting that aside, the new edges in the Republican Party are really social conservatism, and for example, Barry Goldwater, who really was a standard bearer of the first modern day presidential candidate who was conservative, would be considered today a radical liberal Republican because he favored individual rights, and that meant he was pro-choice.

HK: A libertarian.
JL: Yeah, and he was pro gay rights, pro gay in the military, which are the kind of things that are anathema to the new social conservatism. And so, today I would consider myself more a Goldwater Republican than I would a Rockefeller Republican, although at the time I was for neither, I was championing Bill Scranton who was governor of Pennsylvania. But these are kind of inner party chemistry things and they get tied up with individual names but they also get tied up with philosophical kinds of positioning. But I would say – and I’d maybe just conclude in this part of the discussion – one of the things that’s missed is that the more complicated society, the more the variety of issues that impinge in public policy and vice versa, and the greater the impossibility that any American citizen can totally identify with the total direction of the Democratic Party or the total direction of the Republican Party. I mean, one might say, you know, about ninety percent of the time I kind of favor the Democratic position, or eighty percent the Republican position, but there’s no accident there’re a lot in the middle. From a California perspective I would simply stress that there are two issues, one of which California has handled exceptionally well in the last couple of years and that is a movement towards open primaries, because you’ve got to open up the primary process so people have a vested interest in the candidates that are chosen, and the primaries choose the candidates and philosophies. And to try to block them out and narrow the two parties is a terrible mistake. Secondly, the country has a huge vested interest in competition, and so, neither party wants it but if I could lobby you, Harry, in your state, it would be to have a congressional redistricting reform so that the politicians don’t manipulate the system. And I think it’s imperfect to have it go to a judicial panel but it’s vastly better than to have it done by legislative bodies. And so, anything that moves towards congressional redistricting reform, and open primaries, creates greater competition and that is good. That’s a social good.

HK: I would be interested in your comment on the evolution of the Republican Party, let’s say the movement from Bush I to Bush II, in terms of the party – same family, same lineage, but a very different dealing with the rise of the social conservatism that you’ve just been talking about.

JL: Well, they are profoundly different. The public criticism that is wrong is that there’s some sort of Oedipal rivalry. There is not. This is a family that is truly close, the father wants the son to succeed like mad, the son really helped the father, they both want success for the other. There’s no Oedipal rivalry. There is, however, a huge philosophical distinction, and it’s symbolized in foreign affairs but not exclusively. I mean, George Bush, Sr., put together an international coalition under international law, with a United Nations sanction, to intervene in the Gulf War. The son articulated a doctrine called the “Bush doctrine” that said the United States could be above the law, it said that we could properly attack a country that did not attack us, and if there’s a contrast of an international legal approach versus a peremptory American nationalism, these two symbolize it. I have a kind of personal anecdote I will never forget that no one thinks is important but me.
HK: Let’s hear it.

JL: I had basically helped run George Bush, Sr.’s primary campaign in 1980 in Iowa, when we surprisingly upset Ronald Reagan in the Iowa caucuses, and I was close to the family. In 2000, his son announced for president in my area of Iowa, in eastern Iowa, a very unusual step because the Iowa caucuses – he didn’t announce in his own state as the initial announcement. And so, he asked me to stand with him, which I was honored to do at the time, and afterwards someone came and put a microphone in front of him and said, “What is the difference between your father and you?” And he immediately responded because he’d been asked that hundreds of times in Texas, and he asserted just firmly, “The difference between my father and me is that I am from Midland.” And that is a non-substantive response but it had great meaning. What he was saying was his father was a Connecticut Yankee but he understood true blue, in the gut, Texas conservative values. And those are a very different set of values, and the father, with the exception of a shift that he was mandated to make to become the vice presidential nominee in 1980 where he switched from being pro-choice to pro-life, his father, all his life, maintained that kind of Connecticut Yankee gentility. And the son is kind of the scrappier southwester, frankly a personality up close more like Bill Clinton than people might suspect, but a value structure of how you approach things very differently.

HK: And what is the comparison with Bill Clinton?

JL: Just at a personal level, quite likeable. Bill Clinton’s quite likeable.

HK: But more disciplined than Clinton was, or…?

JL: Oh, surprisingly more disciplined, and I don’t want to get into moral issues but how you manage the day. Bush tried to structure his White House the way Richard Nixon did, very structured meetings, always being on time, and part of the reason for that – I don’t think it fit his nature but they did a study of the Clinton White House, which they considered to be dysfunctional. And so, in contrast with Clinton – and all presidents seem to want to contrast predecessors – he tried to run a more disciplined White House. Unfortunately, in my view, the great mistake of George Bush was that he did not bring people like Brent Scowcroft into office, and Jim Baker, and instead came almost accidentally, but partly by choice, to surround himself with a new breed of people called neo-cons, and in the year 2000 when he took office, I don’t think there were more than several hundred neo-cons in the world but they came to control American foreign policy, people like John Bolton, Paul Wolfowitz, Dick Cheney as a neo-con. I mean, it was kind of a surprise because it wasn’t expected. When he first too office it looked like an establishment group of people, Don Rumsfeld at Defense was considered quite establishment, Colin Powell at State, Dick Cheney, were extremely well received around the world in their appointments, and yet
somehow the totality of the system turned ideological in ways that were unexpected by myself, and I think by many Americans.

HK: In the Congress you focused on economic issues and you brought your internationalism to that agenda. As I mentioned, you were chairman of the Banking and Financial Services Committee, and most importantly, sub-committee on Asian and Pacific Affairs, and the Congressional Executive Commission on China. So, here we are in the spring of 2009 and we are dealing with the “Great Collapse,” I guess is what we want to call it, to distinguish it from the Great Depression. So, I would like to probe this with you and what it tells you about what we got wrong, what we got right. You were the co-author of the Gramm-Leach-Bliley Bill, which essentially overturned Glass-Steagall, the regulate…

JL: Modified Glass-Steagall.

HK: Modified. So, let’s talk a little about that. What was the Congress trying to achieve with that legislation? What was the main aim there? And in retrospect, what would you do differently, if anything?

JL: Well, actually that legislation has received certain attention in modern reviews but it’s a misunderstood attention. All the bill did was allow three industry groupings that were in cocoons of non-competition, meaning commercial banking, investment banking and insurance, that they could compete against each other. But it also maintained and increased the regulatory framework. And so, what it did was it said if the bank operated an insurance company, the insurance company would come under insurance regulation, the bank would remain under banking regulation. The great mistake of modern times is one of regulatory judgment, and people kind of know the name “Brownie” is a symbol of incompetence.

HK: This is FEMA and the response to Katrina.

JL: But somewhat strikingly, some of the most prestigious individuals, and the most prestigious institutions of American government and private sector made judgmental mistakes of an absolutely inexplicable dimension. I mean, for example, in the Bush years financial institutions were allowed to treble their leveraging, and leverage is all about doing better if you bet right and vastly worse if things go against you. And both nationally and internationally, in something called the Basel Accords, leveraging came to be the game in international finance, all in the last seven or eight years, having nothing to do with that structural dimension, having to do with regulatory judgments. At the same time, we had these phenomena of housing prices going up and the criteria by which loans were made going down. And you also had a rise in certain mortgage fraud, particularly in inner cities, coupled with conflicts in rating agencies. You tie them all together and you’ve got the mess that we currently have. And then you add to that – and this is part of the leverage game – the introduction of swaps and derivatives products, which are leverage products, and what to
some degree has happened – products designed to offload risk for an individual market, participant can increase risk for the system as a whole, and all of a sudden you have a challenge to the system and you have an implosion of a rather extraordinary dimension. It all stands in itself, as a whole, in the financial system but beyond that, it impinges on something that there’s not an American that hasn’t talked about for twenty or thirty years, that is, the more you go into debt – you have these twin deficits, trade and fiscal – at some point there’ll be an accounting. And that point has arrived. America will not be able to continue to spend six or five percent more a year than it produces, and we’ve been able to do that largely on credit, credit established by a rising stock market and rising housing values. If you have the market go down, and you have housing values go down, the basis for credit extension ceases, and so, we’re going to go through a period in which the average homeowner, for the first time, is going to have to live within their means. And then the government is attempting, in a counterintuitive way, to pick up the slack and leave even further from its means, and you have a cycle of unprecedented circumstance in terms of challenge, and unprecedented response, and only time will tell if it works.

HK: Now there’s an element of this – but first, I do want to ask you about – do you think, in retrospect, it was a mistake for this kind of union of investment banks and…?

JL: No, not – well, among other things it’s helped in this crisis, definitively helped. And let me explain very precisely – we’ve had three investment banks in effect go under, and they’ve been brought under the umbrella of three commercial banks. If you didn’t have this, the taxpayer would have had to pick up vastly more of the pieces or they would have fallen in the control of foreign interests. And so, it’s good – well, one did, Barclays Bank picked up most of the pieces of Lehman Brothers, but Merrill Lynch has come under the umbrella of Bank of America, and Bear Sterns under the umbrella of JP Morgan Chase. And so, this has been helpful. In addition, that particular statute has created through something called the Federal Home Loan Bank System a way for which America’s community banks can offload certain kinds of loans, agriculture and small business, to provide it more liquidity.

HK: So, the other question I want to probe with you about all of this is, you are an internationalist and your career shows that, and after the fall of the Berlin Wall, America became committed to the notion of globalization, really. And so, I’m curious – what we’re seeing now is at least a partial unraveling of globalization. We’re seeing the failure of institutions to respond to the current crisis. You mentioned yesterday that you had passed legislation that might have created institutions that would have dealt with the problem of AIG in a more stable way. But now what we have is a black hole, which the Executive is having to fill the losses, or compensate for the losses, of AIG, and as this thing is unraveling what we’re discovering is that a lot of this money has gone to European banks. Hence we’re back to globalization, and if you have a populist reaction it would seem that this is going to be a major blow to all of the people in Congress and in the Executive who see the
importance of America’s global role. Talk a little about that. And as a congressman how do we have to hope that this will be managed?

JL: Well, first, let me talk a second about globalization and then to your precise issue. What has been missed in the whole globalization circumstance is there’s also been a rise of localism around the world in reactions A, to globalization and B, a desire for people to control their own destinies to a greater extent. And so, you’ve seen nation states like Yugoslavia break into a multiplicity of nation states, Czechoslovakia becoming the Czech and Slovak Republic, you have that possibility in Iraq. In American politics we have people like Tip O’Neill saying all politics is local, which is true. Then the corollary, of course, is that all local politics are affected by global events, everywhere in the world. You can’t hide out from global circumstances. With regard to international politics there’re two dimensions, one on the political side, one on the economic, and the political side you can say it’s internationalist to intervene in war in Iraq. That’s true, it is internationalist, but that doesn’t mean it’s wise internationalism. Internationalism is a neutral concept and sometimes it’s quite wise and sometimes it’s less than wise. On the economic front – and I also would stress – when I was in the State Department, when I was growing up, I always thought the greatest issue in the world was war and peace, and that the greatest circumstance was the merging with technology of these challenges, because for the first time, because of the A-bomb, we have a capacity not only to win and lose wars but to destroy civilization. And so, arms control has to be considered a fundamental issue of our times and that can only be dealt with on an international basis. Einstein once said that splitting the atom had changed everything except our way of thinking. Now we have smaller events that you were drawing the same lessons from. I mean, anarchy is a much greater danger than we had ever considered. Then you take the issue of economics, and for most of this last century the United States has led the world progressively in a freer trade environment. Our country has a sense that fair trade has moved a little bit against us but we’ve always been freer trade oriented. But as the economy weakens, as job losses escalate, this country could lead the world in a less than progressive fashion on trade issues, and this becomes a very important phenomenon. It ties particularly to the international financial dimension where the rest of the world leaves the United States precipitated this crisis, and the rest of the world has a point. Not that there aren’t accountabilities – I mean, for example, the European banking framework was a disgrace and it’s no accident European banks are in some difficulty, but part of the reason they’re in difficulty are American financial instruments that we hawked to them; part of the reason they’re in difficulty relate to their own internal structures and judgments. How we come out of it is a real challenge. I believe that this last administration will go down as an administration in which regulation, which is an abstract concept and one would consider a dull thought, was as great a downfall as its international political misjudgments. But not only did it regulate poorly, it did not conceptually prepare for a catastrophe. And so, some of the mechanisms that it could’ve put in place, for example, clearing mechanisms for swaps and derivatives products, are not in place, although they will be in the next three to six months, and that will help stabilize somewhat the international swaps and derivatives market
that is having such an effect on the world trade. And I think that as you look at it, the country is going to be very upset on this issue of fairness or equity. It looks as if we are infusing resources in the big and powerful that caused the problem. It also looks as if we’re infusing resources into the big and powerful abroad where they believe we caused the problem, therefore have the obligation to rectify, but the taxpayer doesn’t assume that they’re responsible for solving the problem but it’s the taxpayer money that’s going into, today, European banks, as well as Wall Street in dimensional ways that are widely not understood, perhaps totaling half a trillion dollars. That’s a lot of money and it’s still growing. And I think everyone’s going to have to think through new regulatory regimes with new discipline, in new kinds of ways.

HK: So, this is going to take global leadership and what we’re seeing now, and the Obama administration is dealing with the Europeans, is apparently a division between regulation, which the Europeans are advocating, versus stimulus on the part of the Obama administration. So, it would seem that we still are the only ones with a global sense of what the whole system requires and that these other actors are retreating more quickly to worry about their own garden. I know you’ve thought a lot about the whole question of the IMF and its role in responding to the crises that we’re seeing at the – not in the major European powers but in eastern Europe and in the developing countries.

JL: Well, we have two international organizations set up, first visualized in World War II. We sometimes forget, 1944 was the Bretton Woods Conferences which established the post-war setting of the creation of the International Monetary Fund and the World Bank, both of which play a role, although not huge but a role, and for particularly countries that don’t have deep wherewithal, that are buffeted by countries of larger dimension. In any regard, they’re going to be very important in eastern Europe, as well as in Africa. In terms of this conflict between the United States and Europe, oddly Europe is right about the need for greater regulation, America’s right about the need for greater stimulus, and America’s going to move in both directions. Europe appears at the moment putting its feet in the ground and moving only one, but the Obama administration is exactly correct that we need international stimulus. Europe would like to see the United States stimulate and then have the United States pay for part of their structural problems, which through bailouts of AIG, as well as Fannie Mae and Freddie Mac, we are unwittingly doing. And that could continue but I don’t know for how long.

HK: What does leadership, the ideal leadership, look like in the midst of this crisis? This interview is taking place in late March and with regard to the banking crisis, particularly with regard to AIG and this black hole, there seem to be some stumbles by the Obama administration. So, without criticizing a particular action of his I’m just sort of curious, both in the Executive and in the Congress, this is going to take a new kind of leadership. How are our leaders going to change, and what should we be looking for to see not if they’re getting a
particular policy right but the broader sense, the principles that will lead us to the right place?

JL: Well, this is a profound challenge. I happen to think we have the right president at the right time. Congress is a very difficult circumstance because the minority party does not want to cooperate, partly psychologically. It lost part of its historical rationale for existence in the Bush years in losing track of fiscal policy, and in losing track of fiscal policy it precipitated huge deficits. It fought a war and financed it with tax cuts, first time in human history. As a judgmental circumstance it looks less than impressive. And so, now it wants to recapture its old fiscal restraint and this means objecting to everything that the Obama administration might want to do. At the same time, the new administration knows that it is the only institution in the country that can hope to sustain some sort of activity so that the economy doesn’t go into a free fall. And so, it has to stimulate, and one can have different preferences in just how to do it but it has to be done. Widely overlooked, the Federal Reserve has taken on certain kinds of activities it’s never done before. It’s buying commercial paper which means lending to business, it’s intervening and propping up hedge funds, or other kinds of investment vehicles other than banks – never done before, under the assumption that you have to stabilize the economy. It’s put out a couple trillion dollars. With the Congress and their deficits it’s over a 25% of GDP stimulus that’s in place, vastly more from the Federal Reserve than the Congress. But in leadership I think the Fed is very well led today since about September 15th. Up to September 15th, I think it made some decisions that will go down as the worst in Federal Reserve history, second only to the decisions made at the time of the Great Depression.

HK: Such as what decisions in particular, are you talking about?

JL: Well, I’m talking about regulatory decisions. Normally when you think of the Fed you think of it as monetary policy, and that’s a true function of the Fed and a major function. And one can disagree with aspects of monetary policy. There’re people today that think it kept interest rates too low for too long. I don’t know if that’s right or wrong, but I can say, in my own humble view, that it helped lead the world in the Basel process in over-leveraging of financial instruments that helped precipitate this calamity and that it erred in not standing up to Treasury, in allowing Lehman Brothers to fail, but subsequent to that particular event, which was very dicey for the whole international system, the Fed has moved with absolute alacrity and stretching its own legal mandates to try to meet this crisis. And I think Mr. Bernanke is, particularly since mid-September, is as appropriate a Fed chairman as we could have.

HK: Do you think that our institutions, the Congress and the Executive, and in addition, the people who essentially have the vote as to what direction those – do you think that we will be able to successfully navigate this decline of American power, relative decline, that we’re going to be facing?
JL: Only time will tell. I’m a long-term optimist and I certainly believe that when this situation stabilizes and America will return to a rate of growth, whether that rate of growth will average anything like it did in the last half of the 20th century is a question mark. We’ve put ourselves behind the eight ball in terms of deficits. We’re facing a demographic dilemma with more people hitting retirement age. You know, as you talk to people that you know in the streets, it is impressive how many people say, “Well, I was going to retire next year. Now I’m going to put it off two, three or four years.” It’s impressive that if you take the last few months, the new statistics coming in are that Americans are starting to save again, for the first time. We were at a nil savings rate. Now there’re some problems out there that we could make things worse. I mean, there’s a movement in Congress to authorize what’s called Internet gambling. I can’t think of a more foolish endeavor at this time. I mean, there’s a libertarian case for it but if we move to a gambling oriented culture, rather than an investment culture, I think you’re going to have dilemmas that will not cease.

HK: One final question, a brief answer. It seems like political education is going to be very important in all of this, whether it’s the congressman who has to go back to his district and explain what’s going on and why he wants a move in one direction or another, or the President and his bringing to us again the fireside chats of Roosevelt.

JL: I think you’re going to see new types of political interchanges and communication. Partly related, Roosevelt used modern technology at the time, the radio, to – and not that many addresses. In fact, there is an assumption that too many would be more counterproductive than too few. This president is into the new technologies of the Internet, and other ways of communicating beyond the radio and beyond television but including radio and television. So, I think you’re going to see new communication, but I’m also confident that if the public sees a country that isn’t responding well and effectively, it could seek alternatives. And everybody knows this president was handed probably the greatest set of challenges in modern times, and with greatness of challenge you can have greatness of response. I personally, unlike the last president, am very impressed with the people he surrounded himself with, and that is of seminal significance, but sometimes the best and the brightest err, too. For example, as far as I’m concerned, the perfect background in a Secretary of Defense was Bob McNamara and yet his undoing was the War in Vietnam. I can’t think of a more thoughtful president than Herbert Hoover and yet the Depression was too great for a man of even his ability. And so, you have – great men have to have some cooperation with people in other branches of government, such as your legislature, and they also have to have some things go their way. And the one thing all of us, right, left, center, concur in is that we have a vested interest in the success of the Obama presidency and we hope that that does occur.

HK: On that note of hope, I think, for the future, Congressman Leach, I want to thank you for coming to the campus, for being the Matsui lecturer, and also appearing on our program.
JL: Well, I’m honored to be with you, Harry.

HK: And thank you very much for joining us for this “Conversation With History.”

[End of Interview]