



## A Struggling Economy

*Sh'ma recently spoke with Diana Furchtgott-Roth and Simon Greer about the economy and their advice for the Obama administration.*

**SUSAN BERRIN:** *How might we navigate the tension, the distance, between a “free market” and the obligations of being moral creatures?*

**SIMON GREER:** I'm not sure that this isn't a false dichotomy. We try to work directly, act as moral creatures within a free-market economy. For example, from the train to Baltimore, you might remember seeing an impoverished neighborhood as you enter the city. Plagued by drugs and violence, the Oliver neighborhood has been in decline for years. Then BUILD (Baltimoreans United In Leadership Development) developed a 10-year plan to rebuild the neighborhood. We matched \$1.2 million in funds raised by BUILD to construct affordable housing as a first step to revitalize the neighborhood. Felicia Antoinetta McKoy now has a home for herself and her family. By giving her a stake in the community and in the local economy she can become a more powerful leader, a more forceful player in her neighborhood's redevelopment. Through our 8<sup>th</sup> Degree program, we invest in small business owners like Otis McDonald, the owner of a cleaning company in New Orleans. With a small loan, Otis can expand his business and hire new employees. After losing everything in Katrina, Otis is back on the job, providing for his family, purchasing services, paying taxes – strengthening his community.

**DIANA FURCHTGOTT-ROTH:** Our free-market system is a moral system because it creates economic growth that is then distributed on behalf of those who don't have jobs or homes. We have achieved tremendous wealth in the U.S., but we also have safeguards: food stamps, Medicaid, Medicare, social programs, etc. We manage to do this within the context of our capitalist free-market system.

**GREER:** At the margins of the economy, people have a doubly hard row to hoe. If we're able to invest in citizens groups and community-based groups, we give people opportunities to participate in the political decision making that affects the economic policies that eventually shape their lives. This process gives birth to a morality at the intersection of our political and economic systems. About 21 years ago we made a grant to a small group in Chicago and the guy who signed the grant agreement with us was named Barack Obama. We certainly didn't give him the grant hoping he'd be president someday. It was our faith that if we invested in small grassroots efforts and created vehicles for civic participation and engagement in community problem solving, we could help create the kind of political system in which people participate meaningfully.

**FURCHTGOTT-ROTH:** We're getting more tax revenue from the top and it's going toward people at the bottom; we've managed to raise standards of living for everybody. We have to find ways to keep our free-market system and incentives strong. Higher taxes encourage businesses to relocate offshore, and we want to avoid that. We're in a very bad recession right now and we want to ensure a flow of capital – to insure that people are encouraged to work and want to invest in the U.S. We mustn't overreact, which might

discourage the private sector from operating and might drive businesses to Mexico or Canada.

**BERRIN:** *Would you recommend a job stimulus program, something like the WPA?*

**FURCHGOTT-ROTH:** Amity Shlaes' book, *Forgotten Man*, shows that the New Deal didn't create a lot of jobs in itself; the economy didn't recover until after World War II. What would be a lot more worthwhile today would be to give individual Americans money and have them spend it as they see fit.

**GREER:** We have had taxes reduced and we've fought two wars and we tanked the economy rather than seeing it recover.

**FURCHGOTT-ROTH:** We've tanked the economy because of the buildup in asset values that was caused by too loose a monetary policy right after 9/11. We didn't regulate Fannie Mae and Freddie Mac even though a lot of people called for regulation and said that they were getting too big. The low tax rates were not a cause of the problem.

**GREER:** To recover from our current national crisis, we need a large-scale response, a "Marshall Plan" that speaks to the political opportunity and economic crisis we're now facing. After hurricanes devastated the Gulf Coast, we made a long-term commitment to support redevelopment of the region, partnering with community-based organizations to ensure that those with little income or influence have a place and a voice in rebuilding efforts. Understanding that affected neighborhoods need large-scale investment to recover, we joined with Catholic, Baptist, and Mennonite groups to launch The Isaiah Funds, interfaith funds for long-term domestic disaster recovery. We need such a "Marshall Plan" now.

**FURCHGOTT-ROTH:** I have three suggestions. First, I'd give unemployed workers the choice of either accepting the extended unemployment benefits or taking a check for \$5,000 to use for retraining, getting a car or relocating for work. Second, capital gain taxes should be held at zero for the next five years to encourage people to invest. And third, we should sell offshore leases to oil companies for drilling (to improve our energy situation) and use those funds to recapitalize the banks. There are many alternatives to large-scale public works programs, which though well intended, sometimes waste money. In terms of infrastructure spending, how would we ensure that we're building roads and bridges where they're needed most, where they'll encourage mobility – not where the most powerful politicians locate them? How to spend government money is a very difficult question; when private individuals have opportunities to invest, they generally do so a lot more effectively.

**GREER:** We often do have the gems of our solutions right in our midst. I'd like to see the Obama administration and policy makers at all levels look at success stories like the state

of Massachusetts, which has taken responsibility for the health and wellbeing of all of its residents. We can also learn how CDFIs make loans to lower-income populations and manage to see success in those investments, both financially and socially. I'm really intrigued by the investment in the green jobs movement. The president is offering a vision of a just society through an environmentally sustainable economy that also holds a great amount of promise. We need people to work in their own communities, forging first the local solutions that would create community infrastructure, then the mechanisms that would experiment with new strategies and other opportunities to engage large-scale

decision making. We need to work with what's working on the ground and expand the capacity of the folks who can then build on their models of success.

**BERRIN:** *Innovation and creativity are the cornerstones of the American economy. What advice would you give the next administration to nurture both innovation and a “safe” policy of risk-taking, which is inherent in most creative ventures?*

**GREER:** Innovation, creativity, and opportunity are the fibers of American life. The next administration must create incentives to build each of these things. But to foster innovation and creativity we have to create room for people to take true risks. And with risk-taking comes real failure. We need to take risks that offer breakthrough benefits, such as those achieved in 1994 when Baltimoreans United in Leadership Development took a risk on a living wage campaign, and won, and 15 years later more than 100 municipalities have taken the same risk, which has served their communities well. Similarly, we might have some personal investments that are higher risk, some that are very reliable, and some that are in the middle. In our philanthropy we'd like to be on the more aggressive and risk-taking side, be nimble and responsive to new situations. We don't mind taking the biggest gamble and falling, so long as we learn from our failures. President Obama was a community organizer, so he knows that the best solutions are often found locally. Therefore, instead of taking a risk on massive national initiatives that are divorced from local track records, let's seek solutions from people in relationships and in communities, not from those in seclusion. I'd encourage the president to invest in the most talented people at all levels, and then take real risks with them, giving them opportunities to break through to new solutions. Trying to solve our economy's problems by debating the same old frameworks and creating the same false dichotomies may give us a way out of this cycle, but I believe that we'll simply see another downturn (and more quickly than we could like). We need to challenge our sacred cows.

**FURCHTGOFF-ROTH:** Liquidity is not one of the barriers to entrepreneurship. Entrepreneurs and innovators face three main problems when they're building and growing their own small firms: too much regulation, difficulties with immigration (wanting to hire people who don't have visas), and the high cost of health care. My advice to President Obama, then, would be first, to streamline regulations for small businesses and entrepreneurs who want to innovate. Second, fix H1B visas and more low-skill visas; we need a more flexible system whereby the government can respond to entrepreneurs' requests for additional help that will grow our economy. And third, fix health care. It's really absurd that an individual can buy life insurance, or auto insurance, or home insurance, but cannot buy health insurance. If you have a job, you might have health insurance, but with rising unemployment, you may be losing that insurance. Nobody says, "I've lost my job; I've lost my car insurance." People need to be able to buy health insurance that's not tied to an employer. Entrepreneurs especially feel the pinch, because it's hard for small firms to get health insurance.