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ISSUE GUIDE

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Obama on:
The Economy



Obama's Economic Plans at a Glance

Barack Obama proposes a wide-ranging government intervention to right the foundering U.S. economy, at great cost. He offers several initiatives -- and would spend at least \$20 billion -- to stave off the next round of foreclosures. He would dedicate another \$50 billion to economic stimuli, plus send "energy rebate checks" of up to \$1,000 to each household. Finally, Obama has conditionally supported the big Wall Street bailouts of 2008 but would devise a new system of financial regulation that simultaneously streamlines the bureaucracy while tightening the rules.

The Obama Agenda, in Detail

Stabilizing the Housing Crisis

Barack Obama has proposed ([pdf, right-click to save](#)) several initiatives that go well beyond the modest relief for subprime borrowers that President Bush signed into law in July. He would:

- Establish a \$10 billion "Foreclosure Prevention Fund" to provide pre-foreclosure counseling, help stressed borrowers sell homes they can't afford before they're seized, and fund efforts by local governments and community groups to help borrowers.
- Fund an additional \$10 billion in mortgage revenue bonds, used to provide mortgages with below-market rates to first-time low-income homebuyers.
- Change bankruptcy laws so debtors may renegotiate the terms of their primary residence (currently only second homes and investment properties can be renegotiated in Chapter 13 bankruptcy).
- Encourage lenders to write down conventional mortgages on homes that have lost value and also make it easier for loan servicing companies to negotiate with borrowers on behalf of diffuse investors.
- Crack down on predatory lending and fraud, and strengthen loan disclosure requirements.

Stimulating the Economy

Obama's stimulus proposals have gotten considerably more generous as 2008 has progressed, ostensibly owing to the worsening economy. The [latest version](#) (from August; detailed [pdf here](#)) would first provide energy rebates of \$500 for individuals (\$1,000 for families), funded by a surtax on oil companies' "windfall" profits for five years. (The campaign calls this a "down payment" on the Democrat's [promise](#) of tax relief to the middle class.) Obama would also create two \$25 billion funds to assist the states. The "State Growth Fund" would provide emergency relief to state and local governments to protect essential services and meet payroll. The "Jobs and Growth Fund" would save one million jobs by replenishing the [rapidly vanishing](#) highway trust fund, preventing cutbacks in road and bridge maintenance, and repairing schools. Earlier versions of Obama's stimulus ([here](#) and, as a pdf, [here](#)) included a \$10 billion extension of unemployment insurance.)

Stabilizing and Regulating Financial Markets

Obama seems skeptical of -- but not actually opposed to -- the government bailouts of big financial institutions. When the government engineered JP Morgan Chase's takeover of Bear Stearns, the Illinois Democrat pointedly said, "If we can extend a hand to banks on Wall Street when they get into trouble, we can extend a hand to Americans who are struggling, often through no fault of their own." Obama supports the government takeover announced in early September of Fannie Mae and Freddie Mac, provided that shareholders and management aren't bailed out and that it "clarifies the true public and private status of our housing policies" -- that is, that going forward gain isn't wholly private when losses are borne by the taxpayers.

Shortly after Bear Stearns collapsed, Obama **outlined** a framework ([pdf](#)) for reforming financial regulation:

- Streamlining oversight by ending "our balkanized framework of overlapping and competing regulatory agencies" and regulating financial institutions "for what they do, rather than who they are."
- Granting the Federal Reserve the right to supervise any financial institution to which it provides emergency credit. "The nature of such oversight should be commensurate with the degree and extent of contingent exposure for the Federal Reserve to specific institutions," according to the campaign.
- Establishing or strengthening capital, liquidity, and disclosure requirements for all financial institutions. Obama also supports an investigation into credit ratings agencies and their relationships with securities issuers.
- Cracking down on market manipulation. Obama has also **called for** new commodities trading regulation to ensure transparency and to clamp down on the alleged excesses of speculation.
- Identifying systemic risks to the financial system by creating an oversight commission that would meet regularly and report to the president.

The Obama Record

Though Obama **supported** the Housing and Economic Recovery Act, which provides some relief to subprime borrowers and gave the government authority to shore up Fannie Mae and Freddie Mac, he was not present for the vote. In the U.S. Senate, Obama has twice introduced **legislation** to step up prosecution of mortgage fraud. Obama supported the 2008 economic stimulus, but wasn't present for that vote, either.

What the Experts Say

Stimulating the Economy

In the eyes of economists, not all stimuli are created equal. According to Mark Zandi of Economy.com, the best ways to jumpstart the economy are those that target the lowest-income Americans quickly and directly. That means spending increases. Zandi **calculates** that the most effective measures boost food stamps (\$1.73 in added GDP per dollar spent), extend unemployment insurance (\$1.64), and build or repair infrastructure (\$1.59). By Zandi's math, Obama's \$25 billion infusion for state and local government services also packs a punch; it would deliver \$34 billion in growth. By this measure Obama's stimulus fares well -- much better, in fact, than the stimulus package passed by Congress last winter. Those business incentives and personal tax rebates will generate just 27 to 29 cents in activity for every dollar they cost the Treasury.

On the other hand, the non-partisan Congressional Budget Office **says** that an effective market jolt must "focus on the time period when stimulus is most likely to be needed." In that light, Obama's \$25 billion in infrastructure spending looks less appealing. "Large-scale construction projects of any type require years of planning and preparation," says the CBO. "Even those that are 'on the shelf' generally cannot be undertaken quickly enough to provide timely stimulus to the economy."

Regulating Financial Markets

While financial interests generally oppose more intrusive federal regulation, there is widespread acknowledgment in the wake of the mortgage meltdown and the current economic distress that something is likely to change -- and probably should change. In particular, Obama's sweeping call for revamping federal oversight makes sense to many experts. As the Illinois Democrat noted in his speech, "the large, complex institutions that dominate the financial landscape do not fit into categories created decades ago. Different institutions compete in multiple markets -- our regulatory system should not pretend otherwise." Meanwhile, mortgage companies issued two-thirds of the subprime loans but did not fall under the tough guidelines for lending that applied to banks and thrifts.

The principles Obama has laid out follow the thinking of Congressional Democrats, but the notion of wholesale streamlining taps into a bipartisan agenda. A 2007 study by McKinsey & Company for Democratic Senator Charles Schumer and (then-Republican) New York City Mayor Michael Bloomberg found that financial executives are gravitating toward the United Kingdom, which has a single financial services regulator: "Many of the executives interviewed find a single regulator easier to deal with - there is a single point of contact and a single institution to whom regulated parties are held accountable. Increasingly, they prefer to operate under a single, expansive universal banking license, as opposed to working through multiple chartering regimes and a variety of licenses and legal entities." The Bush Administration **released** its own plan for reform, which embraced a similar ethic. The Treasury plan, however, is much more cautious. It does not call for tighter regulation -- in fact in places it calls for less -- and while it proposes to give the Federal Reserve more information about non-bank institutions, it wouldn't grant it authority over those institutions except in a crisis.