The 2008 Presidential Elections

A Story in Four Acts

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CHAPTER ELEVEN

A New U.S. Economy?

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America was due for a new economy—regardless of who won the race for the White House. But this truth was far from evident at the outset of what became the longest U.S. presidential election campaign in history. Early on, most attention was focused on the role of the United States abroad and the level of corruption and mismanagement at home: economic policy, at first, did not pique the electorate's interest. For too long it mattered little that John McCain did not understand economics as well as he should (at least, so he admitted).

Then, just as the dust was beginning to settle on the two campaigns, the economic situation took a dramatic turn. In the week before the first presidential debate (scheduled for October 26), Wall Street plunged on the news of a looming financial crisis, and a remarkable coalition of the willing promptly came to its rescue, offering a $700-billion-plus bailout package for the troubled U.S. financial sector. This new economic climate was a game changer, and Barack Obama's tempered response contrasted strongly with the chaotic, stop-and-go jockeying of the McCain team. In the final weeks of the election, economic issues took center stage, pushing the McCain–Palin ticket off into the wings of American political history.

This chapter sets the stage for the new economy under an Obama administration. I outline the economic promises that Obama made to the American electorate during his remarkable campaign. I then describe the growing mess that was the American economy during the months immediately preceding his inauguration. By juxtaposing

Obama's earlier campaign promises with the symbolism embedded in his transition team, I use the third section to outline what sort of economic policy we might expect to see in the years to come.

The Campaign Trail

We can learn much about candidate Barack Obama by looking closely at his campaign promises and the people he relied on to formulate these promises. Under these lights, we can see that although Obama's message may be "Change," his choice of staff denotes "Steady be the course."

With what sort of economic advisers did Obama the candidate surround himself? Starting off as a challenger, Obama did not enjoy access to many of the Democratic Party's leading intellectual lights. These advisers tended toward Hillary Clinton. As a result, the early core of the Obama economic team were highly educated, but relatively inexperienced in national politics, and (in principle, at least) less beholden to the interests that tend to dominate that party.

From the start, Obama's lead economic adviser was Austan Goolsbee, an economics professor at the University of Chicago's Graduate School of Business. A political novice on national economic policy issues, his public record places him very near the mainstream of American economic thinking.[1] I cannot find any hidden hostility to global capitalism, or any apparent desire for large-scale redistribution at home, in Goolsbee's work or writings: he is a problem solver who likes to tinker with the mundane details of the economy.

Accompanying Goolsbee at Obama's side were several respected academics with very centrist views. Two Harvard economists formed the core of his domestic team: Jeffrey Liebman's academic research has been on the earned-income tax credit and its role in moving people from welfare to work,[2] and David Cutler's inclusion on the team signaled the importance of health care reform (as Cutler is a health economist who wants doctors' pay tied to medical outcomes).[3] A Georgetown law professor, Daniel Tarullo, served as Obama's international economy and trade adviser.[4]

In June, Jason Furman took over as Obama's economic director. An economist in the Clinton administration and top aide to John Kerry in 2004, Furman is another middle-of-the-road economist and headed Washington's Hamilton Project—an economic policy group co-founded by Bob Rubin (once Bill Clinton's Treasury

secretary). Furman's research areas include taxes, health care, and the U.S. Social Security program, but he is also well known for his staunch support of free trade (in 2005, he penned an article entitled "Wal-Mart: A Progressive Success Story"—something only very brave Democrats do) and his support for lowering corporate taxes. For these reasons, Furman's selection was not exactly embraced by organized labor.[5]

This initial team of advisers carried the ball through a grueling campaign, but one in which economic issues played a relatively minor role. The only exception seems to have been trade, but the differences between Obama and Hillary Clinton on this point are too often exaggerated: both candidates have been careful not to embrace protectionist positions, while concomitantly voicing many of the critiques used by opponents of free trade.[6]

Later in the campaign, as the U.S. economy nose-dived, Obama circled himself with high-celebrity types such as Bob Rubin, Larry Summers, Warren Buffet, and Bob Reich—a transition team of economic advisers whose breadth and stature were meant to impress (and to calm markets). By the eve of the election, Obama was able to muster a truly incredible economic advisory team, as listed in table 11.1, which included some of the biggest names in the practice and study of the American economy.

Table 11.1 Obama's Transition Economic Advisory Board

David Bonior	Former Democratic congressman from Michigan
Warren Buffet	Chairman and CEO of Berkshire Hathaway
Roel Campos	Former SEC commissioner
William Daley	Former commerce secretary
William Donaldson	Former chairman of SEC
Roger Ferguson	Former vice chairman of the Fed's board of governors
Jennifer Granholm	Michigan governor
Anne Mulcahy	Chairman and CEO of Xerox
Richard Parsons	Chairman of the board for Time Warner
Penny Pritzker	Chairman and founder of Classic Residence by Hyatt
Robert Reich	Former Labor secretary
Robert Rubin	Former Treasury secretary
Eric Schmidt	Chairman and CEO of Google
Lawrence Summers	Former Treasury secretary
Laura Tyson	Former head of Council of Economic Advisors (under Clinton)
Antonio Villaraigosa	Los Angeles mayor
Paul Volker	Former Federal Reserve chairman

Source: http://www.politico.com

Despite his slogan for change and the socialist ghosts whipped up by Fox News, Obama has not surrounded himself with people who are either highly ideological or, indeed, anywhere near the left of American politics. These people are beneficiaries of a system that has failed many. In neither the writings nor the backgrounds of Obama's economic team is it possible to find signs of radical change; this team is about small reform on the margins. Or, in the words of Alan Blinder, a Princeton economist and former vice chairman of the Federal Reserve, they are "mainstream with a dash of creativity.... These are people who think new thoughts—within the mainstream, new without a capital N."[7]

This dash of creativity is evident in a handful of proposed reforms, such as encouraging U.S. automakers to invest in more fuel-efficient hybrid cars in exchange for federal help with the health care costs of their retirees, or allowing wage earners to have the government automatically compute their federal income taxes each year, saving families hours of paperwork. But most of Obama's campaign promises are fairly standard Democratic fare in the post-Clinton era.

Obama's remarkably vague (and often muted) position on trade is indicative of his middle-of-the-road approach. From his campaign's homepage, we learn that

> Obama and Biden believe that trade with foreign nations should strengthen the American economy and create more American jobs. He [*sic*] will stand firm against agreements that undermine our economic security.[8]

This general position is followed up with five bullet points: "Fight for Fair Trade," "Amend the North American Free Trade Agreement," "Improve Transition Assistance," "End Tax Breaks for Companies that Send Jobs Overseas," and "Reward Companies that Support American Workers." Obama's trade message is clear (if implicit): steady be the course.

Obama's centrist credentials are also evident in his willingness to embrace fiscal prudence, as when he resisted some of his rival's more populist ideas. For example, it is to Obama's credit that he rejected proposals to temporarily repeal the 18 cent per gallon federal gas tax for the summer "driving" season. Despite an aggressive Republican campaign that argued otherwise, Obama consistently promised to reduce the deficit and return it to a balanced path.

Obama's main economic platform might be whittled down to three main planks:

- Taxes. Obama plans to end Bush's tax cuts for families making more than $250,000 and to raise the capital gains tax rate to 25 percent (from 15 percent). He wants annual tax credits of $500 for individuals and $1,000 for families.
- Spending. Obama has a long list of big-ticket spending items, such as promising to extend health care insurance, a new energy policy, a stronger education policy, an "infrastructure reinvestment bank," a doubling of foreign aid, and even an increase in the size of the military.
- Regulation. From early in the campaign, Obama called for "a twenty-first-century regulatory framework" based on six principles to improve government oversight (including extending the Federal Reserve's purview, strengthening the capital and disclosure requirements for financial institutions, and creating a financial market oversight commission to anticipate crises and report to the government).

These were the main planks of Obama's early economic platform, and it was this platform that served him well when the economic crisis hit in the early fall of 2008. Indeed, most economists, as polled by *The Economist* magazine, rated Obama's economic plan to be superior to McCain's.[9] Here was a centrist candidate, concerned with balancing the budget, yet aware of the need to modernize the state's role in encouraging and regulating economic activity.

But this strong support from economists does not mean that Obama's numbers ever added up. Indeed, both Obama and McCain were guilty of hiding being elaborate façades of fiscal balance. On the eve of the election, on October 29, when Obama offered his closing argument in a half-hour infomercial—with the seriousness of the economic crisis evident to all—he continued to pretend that his promises could be paid for, claiming to have "offered spending cuts above and beyond" the cost of his proposals.

But at least two independent organizations questioned this claim. The Tax Policy Center (TPC) estimated that Obama's proposed tax plan would substantially increase the national debt over the next ten years, as his plan would not significantly increase economic growth unless it was offset by spending cuts or tax increases that the campaign had not specified. Compared with current law, the TPC estimated that

Table 11.2 Summary of Senator Obama's Fiscal Policies

	2013
Tax Policy	
Close tax loopholes and shelters	+$77 billion
Reinstate a smaller estate tax	+$49 billion
Increase income taxes on higher earners	+$48 billion
Raise capital gains & dividends taxes	+$28 billion
Increase the future payroll tax on high earners	$0
Expand the child and dependent care tax credit	-$3 billion
Expand the earned income tax credit	-$5 billion
Eliminate income taxes for many seniors	-$7 billion
Make the research and experimentation tax credit permanent	-$9 billion
Create a universal refundable mortgage credit	-$13 billion
Create a new college tax credit	-$13 billion
Cut corporate taxes	-$13 billion
Modify the saver's credit and implement auto-savings	-$21 billion
Create a "Making Work Pay" tax credit	-$72 billion
Patch the alternative minimum tax	-$106 billion
Extend most of the 2001 & 2003 tax cuts	-$294 billion
Total	**-$354 billion**
Health Care Policy	
Find savings to finance Part D reform	+$43 billion
Reduce overall health care costs	+$41 billion/+$24 billion
Cut Medicare and Medicaid costs	+$22 billion/+$14 billion
Close "doughnut hole" in Medicare Part D	-$43 billion
Expand health care coverage	-$115 billion/-$144 billion
Total	**-$52 billion/-$106 billion**
Energy Policy	
Implement a cap-and-trade system	+$100 billion
Provide tax rebates and transition assistance	-$85 billion
Invest in green technology	-$15 billion
Total	**$0**
Other Spending/Savings	
Initiate a phased withdraw from Iraq	+$156 billion
Reform government spending	+$40 billion
Reduce wasteful spending	+$20 billion
Reduce and reform government contracting	+$17 billion
Eliminate the Federal Education Loan Program	+$4 billion
Create infrastructure reinvestment bank	-$6 billion
Expand support for higher education	-$9 billion
Increase spending on basic research	-$15 billion
Increase pre-K – 12 education spending	-$18 billion
Increase the size of the military	-$20 billion
Double foreign aid	-$25 billion
Total	**+$144 billion**
Grand Total	**-$262 billion to -$316 billion**

Source: US Budget Watch (2008). "Promises, Promises: A Fiscal Voter Guide to the Election." 31 October Report (Washington, D.C.: Committee for a Responsible Budget).

the Obama plan would cut taxes by $2.9 trillion over 2009–2018.[10] The nonprofit, bipartisan Committee for a Responsible Federal Budget's *US Budget Watch* found that Obama's policy changes, when fully implemented in 2013, would result in a national deficit of between $262 and $316 billion. According to this group, Obama's tax policy alone is poised to deliver a $354 billion deficit. Although this deficit will be partially offset by plans for reduced spending and increased savings (totaling $144 billion), these savings are far from enough to balance the government's books.[11]

The Committee for a Responsible Federal Budget's analysis provided a detailed breakdown of the economic impact of Obama's campaign proposals, and this overview can be found in table 11.2. Here we can get a better idea of where Obama intends to spend (and save). Obama's costliest ticket items are his plan to extend Bush's previous tax cuts to those earning less than $250,000 (totaling $294 billion), his ambitions to extend health care coverage (costing between $115 billion and $144 billion), his hope to patch the alternative minimum tax (to the cost of about $106 billion), and his plan to jump-start a new energy policy with tax rebates and transition assistance (price tag: $85 billion). To pay for these plans, Obama's biggest income generators are phasing out the war in Iraq (a gain of $156 billion), the implementation of an energy policy that includes a cap-and-trade system (another $100 billion gained), and closing tax loopholes and shelters (add $77 billion).

In the best of times, these campaign pledges constitute a marvelous exercise in wishful thinking. And if Obama actually managed to get all the things on his wish list (such as a timely withdraw of troops from Iraq) and his world were restricted to these budget sheets, then a $300-billion deficit in 2013 would probably be manageable for an economy expected to generate more than $18 trillion.[12] But Obama's budget sheet has been forced open by events beyond his control.

Changing Contexts

Obama has inherited an economy that is facing its most serious challenge since the 1930s. While he prepared for his inauguration, a terrible situation grew worse, as markets began to sense a power vacuum in Washington. This section documents the changing economic context in the closing months of the election, with an eye to showing the enormity of the challenges that face the Obama presidency.

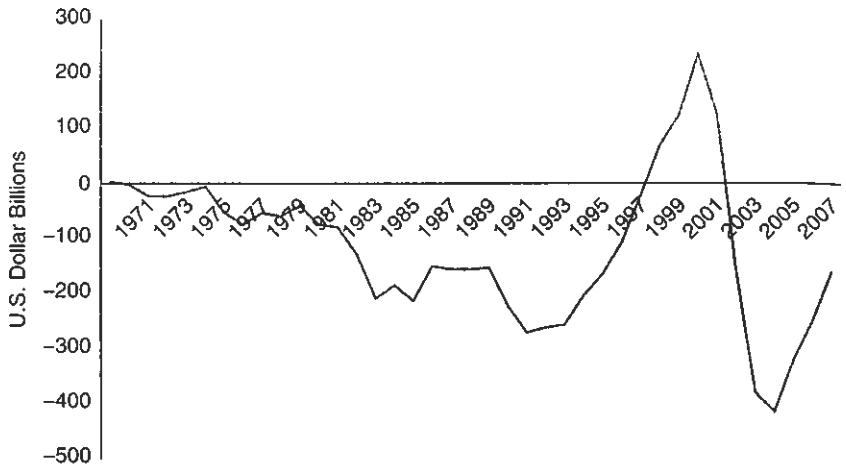

Figure 11.1 Federal surpluses and deficits, 1968–2007

Source: Congressional Budget Office

At the most general level, America's economy was in need of change, but the magnitude of that change was not entirely clear until the fall of 2008. The American economy had been growing annually (if slowly) since 2004, with the 2007 GDP estimated at $13.6 trillion and projections that it would grow by about 2.2 percent annually.[13] Even the federal deficit seemed to be under control, if one conveniently ignored the costs of the war in Iraq. According to the official overview of the president's 2008 budget,[14] the fundamentals of the American economy were strong, and significant revenue growth had reduced the budget deficit in 2004–6 (as a percentage of GDP); by 2008 the budget deficit was predicted to be just 1.6 percent of GDP. Rather remarkably, the Bush administration—as late as its 2008 budget—believed that the government was on course to balance its budget by 2012.

With a longer-term perspective, as shown in figure 11.1, we can see that the United States has a long history of budget deficits (at least during Republican administrations), and we know that a history of deficits contributes to a growing level of public debt. The United States is not special in this regard, except perhaps for the size of its obligations. At the end of 2008, the total U.S. federal debt spilled over the $10 trillion mark, or approximately 65.5 percent of GDP. To get an idea of the enormity of this debt, we might look at its extent and makeup on a given day, say November 20, 2008, as shown in table 11.3 (look at all those commas!).

Table 11.3 Total public debt outstanding

Date	*Debt Held by the Public*	*Intra-governmental Holdings*	*Total Public Debt Outstanding*
20/11/2008	$6,393,926,893,617.82	$4,261,530,336,304.52	$10,655,457,229,922.34

Source: Treasury Direct (2008) "The Debt to the Penny and Who Holds It." 20 November. Online at: http://www.treasurydirect.gov/NP/BPDLogin?application=np. Accessed 20 November.

In the second column, "Debt held by the public," more than $6 trillion of federal debt is held by states, corporations, individuals, and foreign governments. On top of this debt is the $4-plus trillion in the third column, "Intragovernmental holdings," which includes all the funds held by the government (i.e. the Social Security Trust Fund). As if this were not enough, to these frighteningly large figures it is possible to add more debt in the form of the contingent liabilities associated with Medicaid, Social Security, Medicare, veterans' pensions, and other obligations. If these are added to the debt tally, the total U.S. debt figures rise to $59.1 trillion.[15] As the U.S. GDP for 2008 is estimated to be about $14.5 trillion, this debt is large enough to cause concern (at roughly four times GDP). As is well known, much of this debt—about 25 percent—is held by foreigners. In September 2008, these foreign holdings totaled about $2.8 trillion, with mainland China ($0.59 trillion), Japan ($0.57 trillion), and the United Kingdom ($0.34 trillion) being the largest lenders.[16]

An equally ominous and troubling development can be found inside the workings of the American economy, in the rise of American income inequality. Data from the U.S. Internal Revenue Service indicate that income inequality has been increasing since the 1970s. In 2006 this inequality reached its zenith, when the United States had one of the developed world's highest levels of income inequality.[17] Although the U.S. Gini index began to fall in 2007 (for the first time since 1968), its current score (40.8) is much closer to those of Sri Lanka (40.2), Georgia (40.4), and Turkmenistan (40.8) than it is to those of other developed countries, such as Canada (32.6) or Germany (28.3), not to mention the world leader, Norway (25.8).[18]

This was the gloomy economic backdrop to the campaign *before* things got ugly. In the closing months of 2008—both immediately before and immediately after the election—the U.S. economy was being held hostage to a number of housing, credit, and financial woes and the threat of a deep recession.

At the eye of the current tempest is a financial crisis that began a year earlier, in July 2007. It was then that Wall Street began to realize that it could no longer hide the problems that were buried in a mountain of bad, securitized, mortgages. Nevertheless, it seems the crisis was relegated to the back-burner, where it was conveniently ignored and allowed to simmer over the year that followed. Then, in September 2008, the crisis boiled over as the world's stock markets crashed, taking with them a number of big banking, mortgage, and insurance companies. It is hard to exaggerate the volatility of these markets in mid-September 2008, when Lehman Brothers declared bankruptcy, AIG sought the first of its enormous bridge loans, and several banks became insolvent. On September 15, Wall Street buckled under and the Dow Jones industrial average dropped more than 500 points, the biggest daily decline since 2001.

The result of this initial turmoil was the Emergency Economic Stabilization Act of 2008, a promise by the U.S. Treasury to spend up to $700 billion to purchase distressed assets (especially mortgage-backed securities) and to inject capital into needy banks. A month and a half later, American automakers were following suit: looking to Congress for a bailout after posting enormous third-quarter losses.

Although most political attention was focused on the liquidity crisis, the real economy was also in need of desperate attention. This need became more evident immediately after the election, when the government announced that more than 500,000 jobs had been lost in the month of November alone—lifting the unemployment rate to 6.7 percent, or 10.3 million jobless, a fourteen-year high. Since the start of the current recession (December 2007), more than 2.7 million people have become unemployed, and most of these jobs were lost in the three months before and immediately after the election.[19] As if this were not enough, the threat of deflation emerged as the consumer price index dropped 1 percent in October on account of tumbling energy prices.

These pressing developments at the end of a long campaign will surely tie the hands of the new president. Even before the current crisis, it was doubtful that Obama could pay for all that he had promised. But during the final months of the Bush presidency, the fiscal burden of dealing with this crisis was becoming all the more evident, threatening to undermine government revenues (lower growth means lower tax revenues) as well as future expenditures (in the form of enormous stimulus and bailout packages).

Consequently, the projected fiscal deficits for 2008 and 2009 had to be recalibrated almost continually and the projected 2008 deficit has

jumped from $389 billion (July estimate) to $455 billion, or 3.2 percent of GDP (in September). The Congressional Budget Office's (September 2008) projection for 2009 was for a deficit on the order of $438 billion, but Peter Orszag, the agency's director, acknowledged that it might rise to $750 billion (or about 5 percent of GDP) as a result of the recession's impact on revenue and spending and the costs associated with various bailouts.[20] With the end of the crisis nowhere in sight, still others have predicted that the 2009 deficit might tip over $1 trillion, or 7 percent of GDP. In the end, even these most pessimistic estimates fell well short of the mark.

The Transition and Onward

How will the crisis affect the Obama presidency and the economy over which it will preside? It is impossible to answer this question with any degree of accuracy, as the nature and depth of the crisis are still unknown. But as the inauguration approached, the outlines of Obama's all-star economic team began to take shape, and in them we find signs for the road ahead.

During this time it was becoming evident that the scale of the economic problems facing the new administration and the fiscal legacy of the previous administration were both much larger than originally feared. Although Obama inherited an economic mess that would surely limit his scope of activity, his transition team tenaciously held to the belief that the crisis would not stop his plans for expanding health care, overhauling education and energy policy, and passing a middle-class tax cut.[21]

In addition to these costly campaign promises, Obama inherited a pressing need for a massive fiscal stimulus. Indeed, in his first post-election news conference, Obama announced that his top concern was the passage of a multibillion-dollar stimulus package to create 2.5 million jobs over a two-year period. Although the Obama team initially refused to put any specific numbers into play, economists first bandied around figures that corresponded to roughly 2–3 percent of GDP, or $300–400 billion.[22] As the economic crisis deepened, it became apparent that the eventual stimulus package would need to be much larger than this.

With the economic crisis deepening, and in the hope of calming nervous markets, Obama's first order of business was to assemble an all-star economic team. On November 25, some of the main players in that team were announced to the public: Timothy Geithner as Treasury secretary, Lawrence Summers as the director of the National Economic Council, Christina Romer as chair of the Council of Economic Advisers, and Melody Barnes as director of the Domestic Policy Council. In the days that followed, Peter Orszag was tapped to be the Office of Management and Budget director, and Paul Volcker agreed to lead the president's Economic Recovery Advisory Board. Later, Obama chose Gary Locke to head the Commerce Department and Hilda L. Solis as his labor secretary.

What can be said about Obama's economic team? Two impressions come to mind. First, this is a remarkably well-educated, experienced, and competent team that can hit the ground running. In light of the selection criteria used by the previous administration, the choice of experienced economists (rather than friend-lawyers) is a refreshing and welcome change. Despite his young age, Tim Geithner is a highly respected central banker with hands-on experience dealing with the current crisis (at his current position as president of the New York Federal Reserve Bank). Larry Summers is a top-shelf economist and former Treasury secretary who has secured almost deity status in the U.S. media. Christina Romer is a leading economic historian at the University of California, Berkeley, whose work focuses on the causes of (and U.S. response to) the Great Depression. Melody Barnes brings tons of legislative experience to the table, with a history as chief counsel to Mr. Kennedy on the Senate Judiciary Committee. Peter Orszag, as the current director of the Congressional Budget Office, knows the numbers inside out, and Paul Volker was, of course, two-term chair of the Federal Reserve. Such an all-star team should provide comfort to troubled markets.

But experience can dirty the hands, and this brings me to my second impression. Although this team may provide "Hope," it does little to signal "Change." The experience that pads this team's portfolio of résumés also implicates many of them in the problems that currently ail the U.S. economy. It is also noteworthy that Obama did not announce his choice for labor secretary until weeks after the core economic team was unveiled, as if the interests of labor were an afterthought for the transition team.

Indeed, what is most remarkable about the new team is how many of its roots can be traced back to the Clinton era and his Treasury secretary, Robert Rubin: Summers was Rubin's deputy secretary and later succeeded him as Treasury secretary; Geithner was undersecretary of the Treasury for International Affairs (1998–2001) under both Rubin

and Summers; Orszag is yet another Rubin protégé. These links to Clinton's Treasury continue at the next level of advisers being discussed, including Michael Froman, who was Rubin's chief of staff at the Treasury (and eventually followed him to Citigroup), and even Rubin's son, James Rubin. In short, this team is chock-full of Rubin disciples, without a single dissenter in the senior group.

The influence of Clinton-era thinking is most evident at the highest levels: in the person of Larry Summers. Although Summers' formal title will be director of the National Economic Council, his real role will be much bigger than this title implies. This is problematic, if only because Summers was an early supporter of the sort of financial deregulation that helped to fuel the current housing bubble. Worse, he is known for his earlier lack of concern about the threat of financial asset bubbles and his willingness to bail out earlier Wall Street failures.[23] Finally, Summers and Geithner were largely responsible for the design of the East Asian bailout (after the 1997 financial crisis). Their solution produced the overvalued dollar and large trade deficits that are the source of many of the imbalances that created today's problems.[24]

Of course, Summers is a bright man—capable of learning from past mistakes. Indeed, he has clearly been ahead of the curve when commenting on the unfolding economic crisis in his regular *Financial Times* columns, and he has been a vocal and early advocate for a massive stimulus package. But Summers is not the soothsayer that the media often portrays him to be, and he is surely not the breath of economic fresh air that many of Obama's supporters were hoping for.

Conclusion

President Obama faces enormous and ominous challenges. The world economy is neck-deep in crisis, the likes of which we have not seen since before the Second World War. It is hopeful, then, that the new president has surrounded himself with people who are familiar with the Depression era and that he himself has studied earlier administrations facing similar problems. It was, after all, under two previous Democratic administrations—those of Franklin D. Roosevelt and Harry Truman—that the United States helped to lead the world out of the depression and away from the autarkic policies that mired the interwar economy. Clearly, the United States cannot now turn its back on the world it helped to shape, even as it grasps for necessary changes at home.

Another lesson that might be learned from earlier experiences is the need for creative and radical reforms. On this front, I fear, there are fewer grounds for optimism. Obama's economic team is frighteningly short of people with the sort of perspective that can bring about real change.[25] This is a team assembled to protect the backs (and wallets) of established financial interests. Although this sort of team may be necessary to lead the United States out of its current difficulties, it is not particularly well suited to make any significant changes at the core of the American economy and in the powers that sustain it.

The massive grassroots movement that brought Obama to power is bound to be disappointed by an administration that will be forced to spend its strapped budget on bailing out those who profited most from the excesses of financial deregulation. Organized labor—to whom Obama is also heavily indebted—has already seen the writing on the wall, when Jason Furman was selected as Obama's economic director.

For the pessimist, the Obama presidency is bound by shackles that were forged during the Bush administration. A suffocating economic crisis will place enormous fiscal pressures on the new administration, and many of Obama's election promises will need to be set aside in order to stop the economic hemorrhaging. With so much money and attention being thrown at getting us back to where we were, one has to wonder how much money or attention will be left to take us to a better place.

At the height of the election, Obama secured victory by holding firm in the face of a looming crisis. When Senator McCain placed his campaign on hold to focus his attention on the economic crisis, Obama seized the initiative by explaining that a president should be able to do more than one thing at a time. In this simple truth I find some grounds for optimism. Perhaps, if we are lucky, Obama may be able to press his very conventional team to think in unconventional ways. It may just be that Obama can find a new economy buried in the pile of economic ashes bequeathed to him by Bush.

After all, the incoming president enjoys a substantial mandate that he can spread over both the short and the longer terms. In the short term, he can fulfill many of his campaign promises by including them in the sort of *enormous* stimulus program that everyone has come to expect. Indeed, the appalling state of the economy provides Obama with some unexpected elbow room, and it is clear that the country is eager to set out on a new economic heading. Obama can use this broad mandate to green the economy; to rebuild the nation's education, information, and transportation infrastructures; and to better educate the American

labor force. This is possible, but the new president needs to think *big* thoughts.

By securing these short-term objectives, Obama can provide the economic foundation necessary to support his long-term goals, such as decreasing income inequality, rebuilding a middle class that can rely on solid wages (and retirement packages), securing a greener and more independent energy footing, and (most dauntingly) reforming the American health care system. It is here, on the temporal horizon of Obama's first term, that his mettle will be truly tested.

This test will not be of the typical sort. Bringing about real change will depend only in part on securing the majorities needed in Congress. There is, after all, broad political support for the sorts of changes that Obama has promised, and the incoming president has shown that he is capable of securing delicate political balances. The problem is that real change—"Change We Can Believe In"—finds little traction among Obama's own team of advisers. For Obama to be true to his campaign promises, and the hopes that they engender, he must harness this experienced team and shorten their reins significantly for the very long and heavy pull ahead.

Notes

1. This record became known from Goolsbee's Slate.com and *New York Times* columns. For a brief résumé, see www.nytimes.com/2008/11/12/us/politics/11web-goolsbee.html?_r=1. His own homepage can be found at http://faculty.chicagogsb.edu/austan.goolsbee/website.
2. Liebman's centralist credentials were secured by his coauthorship of a paper on the feasibility of privatizing social security (when he was an advisor to Bill Clinton) and a book on social security reform with Martin Feldstein (chairman of the Council of Economic Advisors under Ronald Reagan). His homepage can be found at www.hks.harvard.edu/jeffreyliebman.
3. Cutler also brings much public experience to the table, having served on the Council of Economic Advisers and the National Economic Council during the Clinton administration, and having advised the presidential campaigns of Bill Bradley and John Kerry. His homepage can be found at www.economics.harvard.edu/faculty/cutler.
4. Tarullo held several senior positions in the Clinton administration, ultimately that of assistant to the president for international economic policy, responsible for coordinating the international economic policy of the administration. He was a principal on both the National Economic Council and the National Security Council. Before his appointment to that position, he was deputy assistant to the president for economic policy, with special responsibility for regulatory and international issues. His homepage can be found at www.law.georgetown.edu/faculty/facinfo/tab_faculty.cfm?Status=Faculty&ID=1298.
5. Tom Hamburger, "Obama's Selection of Jason Furman as Economic Advisor Is Criticized," *Los Angeles Times*, June 11, 2008, http://articles.latimes.com/2008/jun/11/nation/na-furman11 (accessed December 2, 2008).
6. Don Pedro, "Obama Economic Policy: Clinton vs. Obama on Trade," Economists for Obama, January 17, 2008, http://econ4obama.blogspot.com/2008/01/obama-economic-policy-clinton-vs-obama.html (accessed December 1, 2008).

7. Mike Dorning, "Obama's Policy Team Loaded with All-Stars," Chicagotribune.com, September 17, 2007, www.chicagotribune.com/services/newspaper/printedition/chi-obama_mon_nusep17-archive,0,908712.story (accessed December 1, 2008).
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22. Indeed, a letter dated November 19, 2008, and signed by more than 375 economists (including Nobel Laureates Joseph Stiglitz, Robert Solow, and George Akerlof) urges Congress to move quickly and decisively to pass an effective new economic stimulus package of this magnitude. See www.cepr.net/documents/publications/Economists_letter_2008_11_19.pdf (accessed May 24, 2009).
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24. In particular, the Treasury Department chose to show forbearance to companies and countries in the region in the form of short-term loans and a commitment to keep U.S. markets open to the enormous supply of exports from the region (to ensure they could repay the loans). This was done by securing grossly undervalued currencies in the region. With time, these countries accumulated massive volumes of foreign exchange through their trade

surpluses with the United States, and an overvalued dollar meant job losses in the U.S. export sector.
25. For example, Christina Romer—the team member most familiar with the Great Depression—has consistently argued that monetary policy is far more important than fiscal stimulus in encouraging economic recovery. Her homepage can be found at http://elsa.berkeley.edu/~cromer/index.shtml. See Edward L. Glaeser, "Obama's Most Interesting Pick," *New York Times*, December 2, 2008, http://economix.blogs.nytimes.com/2008/12/02/obamas-most-interestin-pick (accessed December 2, 2008).