

# Comparing the candidates' economic remedies

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*San Francisco Chronicle*, Monday, September 15, 2008, page A1.

The 2008 presidential contest between Democrat Barack Obama and Republican John McCain is taking place against an economic backdrop that is more troubled than at any time in the past generation.

Rising unemployment, falling real incomes and resurgent inflation are exacting a tremendous toll, putting the economic security of tens of millions of Americans at risk. The disparity of wealth and income between those at the top of the economic scale and everyone else is greater than at any time in decades. And the next president will take office in the teeth of the worst housing crash since the Great Depression.

The two major-party candidates offer sharply varying prescriptions for how to stabilize housing, fix the economy and put the standard of living for working people and the middle-class once again on a rising path. The differences between Obama and McCain are deep-seated, both in their philosophies and their likely policies.

Voters will have a choice between the two dominant economic philosophies that have defined American politics for decades, represented by Democrats and Republicans. For all the focus on personalities, Obama and McCain are not unique. When it comes to economic policy, both are firmly rooted in the main current of their parties.

McCain hews to the Reaganite philosophy that the free market works best to manage the economy. He believes that economic growth cures most ills, benefiting rich, poor and middle class alike. Government should promote growth by cutting taxes across the board and getting out of the way of business. He seems more genuinely committed to small government than the Bush administration and recent Republican majorities in Congress, which stuck to the party's program on taxes, but didn't follow through on spending.

Obama is guided by the notion that growth alone doesn't automatically provide people health care, help them pay for college or offer them training for 21st century jobs. Government should use its powers of taxing, spending and regulating to reduce inequality and benefit people at the bottom and middle of the income spectrum. He would cut taxes for most households, but raise them for those with the highest incomes.

## **Emphasis on growth**

"McCain seems to have put a tremendous amount of emphasis on economic growth. The policies to achieve that are to keep taxes low and government small," said Isabel Sawhill, a senior fellow at the Brookings Institution, a center-left Washington think tank.

"Obama is concerned about the fairness of the tax burden, and he wants to make investments in things that will strengthen the economy, such as infrastructure. His priorities will be a fairer shake for the middle class and more active help for people who are struggling."

Although voters will have genuine alternatives, the fog of campaign rhetoric is obscuring their true nature. Both Obama and McCain are putting forward economic plans that are more properly viewed as programs for getting themselves elected than for governing.

"Both are proposing massive tax cuts, and the spending cuts they're talking about don't come remotely close to paying for them," said Howard Gleckman, senior research associate at the nonpartisan Urban Institute in Washington. "These guys are both making promises they can't possibly keep."

Specifically, McCain says he would make permanent the Bush administration's individual income tax cuts, most of whose benefits have gone to upper-income households. He would press for an array of additional tax cuts, including a reduction in the corporate tax rate.

In contrast to George W. Bush, who pumped up federal spending more than any president since Lyndon Johnson, he would freeze the discretionary portion of federal spending - which doesn't include Social Security, Medicare and military spending - and eliminate so-called earmarks, the funding for special projects pushed by members of Congress.

"We're not about business as usual," said Douglas Holtz-Eakin, McCain's senior policy adviser. "McCain would return to an era when every year we made tough spending decisions."

On housing, McCain proposes a program similar to the one President Bush put in place to encourage private lenders to refinance subprime borrowers who can't meet loan terms.

Obama offers a scaled-down, 21st century version of traditional liberalism in which tax cuts play a larger role than new spending initiatives. He would offer tax credits of up to \$1,000 for an estimated 150 million low- and middle-income Americans, roll back Bush tax cuts for those making more than \$250,000 a year but keep them for those making less, subsidize health insurance for low- and middle-income workers, and boost spending for education, infrastructure and alternative energy development.

He would also crack down on predatory lending and create a fund to help hard-pressed mortgage borrowers keep their homes, though he hasn't provided details.

"This is not a big government plan," said Austan Goolsbee, Obama's senior economic adviser. "The single biggest line in the Obama budget is tax cuts for ordinary Americans."

Both candidates have voiced support for the government takeover of the giant mortgage resellers Fannie Mae and Freddie Mac. McCain has said he wants to see the two agencies turned back to the private sector and broken up into smaller companies.

### **Digging a deeper hole**

Looming over the economic choices the next chief executive will make is a ballooning federal budget deficit, estimated by the Congressional Budget Office at a near-record \$407 billion this fiscal year and \$438 billion next year, equal to about 3 percent of the entire U.S. economy. The fiscal shortfall could grow even larger as the bills come due for Fannie Mae and Freddie Mac rescue costs, plus other outlays to safeguard the financial system. The deficit will restrict the new president's ability to carry out some of the initiatives the candidates tout in their campaigns.

Both candidates promise to slash the deficit or even bring the budget back to balance during his term in the White House. Independent experts scoff.

"Both will simply dig the fiscal hole deeper and put us more into hock to foreigners," Sawhill said. "McCain's proposals are even less fiscally responsible than Obama's."

The Tax Policy Center, a joint project of the Brookings Institution and the Urban Institute, calculates that Obama's tax cuts would reduce revenues by a total of \$5.4 trillion from 2009 to 2018. McCain tax plans would dig a deeper \$7.4 trillion hole based on policy documents provided by his

campaign and reach a staggering \$11 trillion if the candidate's promises made in stump speeches are taken at face value.

Goolsbee counters that Obama would trim the deficit by ending the Iraq war and removing subsidies now going to Medicare and student loan providers, among other steps. McCain would rely on economic growth and unspecified spending cuts to eliminate the deficit, Holtz-Eakin said.

### **Some things will have to go**

Skeptics argue that spending reductions and economic growth couldn't possibly make up for lost revenue of this magnitude, making large deficits inevitable. The key question, they say, is what campaign promises will be sacrificed when the new president faces the harsh reality of limited resources.

"Obama will have trouble with the ambition of spending he's looking for," said Jonathan Nagler, a political scientist at New York University. "Somewhere, something will have to go, but I don't think it will be the middle-class tax cut, and I don't think it will be health care."

As for McCain, "if he makes the Bush tax cuts permanent, I don't know what he will do," Nagler said.

It's not just the deficit that will set limits on economic policy. Given McCain's commitment to Republican tax-cutting politics and Obama's embrace of Bill Clinton-style limited government, the real issue is how much either man would alter the economy's fundamental direction.

"So much of what's going on is a consequence of open markets and globalization. When you look at what these guys are talking about doing, it's pretty minor stuff," the Urban Institute's Gleckman said.

"When I was in Minneapolis, I talked with a cabdriver who had lost his job refurbishing cell phones when the company moved the plant to China. What would Barack Obama or John McCain do for him?"

Where the candidates stand on key economic issues

	Barack Obama	John McCain
<b>Taxes</b>	Supports ending Bush income tax cuts for households with income above \$250,000. Would offer tax credit up to \$1,000 to middle-class households and eliminate taxes on seniors making less than \$50,000. Would raise top rate on capital gains.	Would extend all Bush income tax cuts. Would lower corporate tax rate and maintain current capital gains rate. Would offer tax credit of up \$5,000 for those buying health insurance. Would ban Internet taxes.
<b>Spending</b>	Would spend \$15 billion annually on alternative energy development and \$18 billion on education. Would cut earmarks to 2001 levels and end subsidies to the oil and gas industry.	Would institute a one-year freeze on nonmilitary discretionary spending. Would veto earmarks. Would provide \$7 billion to \$10 billion in subsidies to state health insurance pools for high-risk patients.
<b>Budget deficit</b>	Seeks to reduce the deficit by raising taxes on wealthy, cutting special interest spending, closing corporate tax loopholes and ending Iraq war. Supports pay-as-you-go rules that require new spending or tax cuts to be paid for by new revenue or cuts in other programs	Would balance the budget by 2013 by boosting economic growth and clamping down on spending. Would work with Congress on a bipartisan deficit reduction plan.
<b>Social Security, Medicare</b>	Opposes benefit cuts or privatization. Seeks greater efficiencies and cuts in subsidies to Medicare providers. Would impose payroll tax on earnings above \$250,000.	Would supplement Social Security with private accounts. Says reform of the programs is needed to address long-term budget deficit. Opposes payroll tax increases.
<b>Trade</b>	Supports free trade agreements only if they include protections for labor and the environment.	Believes globalization is an opportunity for Americans and supports initiatives to reduce trade barriers.
<b>Housing</b>	Would create fund to help homeowners avoid foreclosures.	Would encourage lenders to refinance responsible subprime mortgage borrowers who can't afford existing loans.

Source: Brookings Institution, Tax Policy Center, Obama for America, John McCain 2008

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