

OVERVIEW: The Economy

The American economy is a prime concern of voters in the 2008 election. With gas prices skyrocketing, the labor market contracting, and housing foreclosures endemic across the country, Americans are looking for a change. The broadest indicator of the health of the economy is gross domestic product, which in the first quarter of 2008 grew at a 0.6% annualized rate, well below the nation's historic trend. Furthermore, medium-term GDP growth is forecast between one and two percent for each of the next two years, indicating a period of prolonged weakness.

The cause of such an anemic economy is due to a burst housing bubble and the ensuing credit crisis. Further exacerbating the country's economic problems are sharply increased prices for oil and food, driving up inflation and stretching already tight pocketbooks.

The housing bubble was a result of interest rates held at historic lows by the Federal Reserve during the 2001 recession, and by a lack of banking oversight that allowed mortgage brokers to give home buyers mortgages they knew the buyers could not afford. Those bad loans were mostly in the form of subprime mortgages. When the Federal Reserve started to raise interest rates after the 2001 recession, many home owners with subprime mortgages began defaulting on their debt because their monthly mortgage payments spiked upward with the rising interest rates.

That caused the credit crises, as banks and investors who held the nonperforming mortgages faced huge losses, up to \$250 billion in the US and \$400 billion worldwide, and had to cut their lending to preserve capital. Today, it is more difficult to get a loan for any purpose, even if you have good credit. There is less demand for cars, homes and other consumer products, resulting in a slowdown in manufacturing. Jobs are being lost and new job growth has stalled.

A perennial presidential campaign issue, taxes will be one of the central economic issues debated in the campaign. At the forefront will be the extension, or termination, of President Bush's 2001 \$1.35 trillion tax cuts, most of them due to expire by January 1, 2011. One condition in the debate for further tax cuts is whether the nation can cut taxes at a time of war and huge budget deficits, without harming long-term growth. The future of programs such as Social Security, welfare and educational reform are tied to the federal tax policies and the health of the nation's economy.

America's economic anxieties are not only homegrown, but global. Many Americans are questioning economic globalization. For example, the rapid development of the so-called BRIC countries (Brazil, Russia, India, China) are making many Americans uneasy as their economic growth rates race ahead of ours. A boom in commodity prices has bolstered the economies of oil exporting countries like Russia, while making life more difficult in the United States. And, the world's strongest growth engine is no longer the United States' but China's. Those global economic issues will be at the forefront of the campaign as the candidates adopt economic agendas that will preserve the standard of living American's have come to enjoy.



OVERVIEW: Major Presidential Candidates' Positions on the Economy

Directions : This summary focuses on several significant issues within the major campaign issue -- the economy. For a more comprehensive description and rationale of their positions, see the Web sites of the McCain and Obama campaigns cited in "Sources" below. After studying this issue through research and current events discussion, decide how you feel about each candidate's position on the four specific economic issues. Go to the Comparing presidential candidates chart to record your viewpoint on the candidates' economic policies. To help you decide, write the abbreviation next to each policy statement below:

SA- strongly agree; A- agree; SD- strongly disagree; D- disagree; N- no opinion

Housing, Mortgage & Credit Crisis

John McCain supports:

- _____ a "HOME Plan" to give assistance to responsible homeowners, with strict eligibility criteria.
- _____ a Justice Department Mortgage Abuse Task Force.

Barack Obama supports:

- _____ establishing a Foreclosure Prevention Fund to help responsible homeowners during the current Mortgage Crisis.
- _____ legislation he proposed 2 years ago to end mortgage fraud and predatory lending practices.

Taxes:

John McCain supports:

- _____ continuing President Bush's tax cut beyond 2010.
- _____ cutting corporate tax rate from 35% to 25%.
- _____ giving tax breaks to businesses for investing in equipment and technology.

Barack Obama supports:

- _____ Letting President Bush's tax cut end.
- _____ Increasing tax rates for the wealthiest Americans.
- _____ tax incentives to companies that keep jobs in the USA.
- _____ tax rebates to needy families and an increased Social Security supplement to seniors as part of an economic stimulus plan.

Trade and Globalization

John McCain supports:

- _____ free trade, with open borders to foreign goods and access to foreign markets for American goods.
- _____ reducing restrictions to international trade and improving enforcement of global trading rules.

Barack Obama supports:

- _____ implementing trade policies that benefit American workers and increasing the export of American goods.
- _____ renegotiating the North American Free Trade Agreement to ensure more protection for American jobs.

Increased Cost of Living, especially fuel prices

John McCain supports:

- _____ having the free market determine the cost of essential goods.
- _____ increasing global trade, leading to a stronger U.S. dollar that will help control the cost of living for Americans.

Barack Obama supports:

- _____ raising the federal minimum wage and indexing it to inflation.
- _____ providing additional tax rebates to workers.

Other economic issues important to you: Use the candidate’s web sites cited below to learn their positions.

Issue: _____

Suggested Activity: Summarize each candidate’s position on the economy on another sheet.

Sources:

- Obama — McCain Comparisons at:
<http://www.obama-mccain.info/compare-obama-mccain-economy.php>
- McCain campaign at: www.johnmccain.com/Informing/issues
- Obama campaign at: www.barackobama.com/issues
- Google Election Tools for Teachers at:
http://www.google.com/educators/elections_tools.html#letters

