



Obama and McCain make competing appeals to the middle ground

Both candidates will be trying to reach the one-in-three voters who are not aligned



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NOW that the US presidential election campaign is under way, with Barack Obama officially anointed as the Democrat candidate, the assessment of the potential differences in economic policies between the two parties is beginning.

Traditionally the Democrats are seen as the party of bigger government, higher taxes and more regulation and with more protectionist tendencies than the Republicans.

The conventional wisdom is that Republican presidents are better for the management of the US economy and its trade with the rest of the world.

But as Professor Marvin Goodfriend, chairman of the Gaillot Centre for Public Policy at Carnegie Mellon University, notes, this election is characterised by a fight for the middle ground in US politics.

"It's fair to say that Obama is more in favour of raising taxes than (Republican candidate John McCain), he said in a visit yesterday as a guest of the US Studies Centre at Sydney University. But what's very interesting about this campaign is that both candidates are much less specific (about their policies) than you would think.

"They are both fighting for the independents — the third of Americans who are not committed to either party.

"And since they are appealing to the centre, it's less a year of ideological differences between the candidates than it is each candidate trying to appeal to the centre with potentially inconsistent policies."

Goodfriend also says that whoever wins the presidency, it is highly likely the Democrats will continue to hold power in both the Senate and the House of Representatives in the November elections. He suggests they could even increase their hold to the extent where they could have the numbers to override a presidential veto.

This means that whoever gets into the White House, the Democrats will hold the whip hand when it comes to the passage of legislation through Congress.

So, whoever is the next US president will be under pressure from the Democrats in shaping their economic policies.

The problem is, as he says, the Democrats themselves are still split on policies — with half the party wanting a more protectionist approach to trade and the other half happy

with a more free trade approach.

Obama, who has just begun a two-week national tour to outline more of his policies, this week appointed 37-year-old Brookings Institution economist Jason Furman as his economic policy director.

A PhD from Harvard University, Furman was staff economist for the Council of Economic Advisers in the Clinton administration and an adviser to the 2004 Democrat candidate senator John Kerry.

This week he characterised his own views as being in favour of "market-orientated policies and fiscal discipline" and criticised McCain's policies for being "more radical" than those of President George W. Bush.

Atlantic Monthly columnist Clive Crook this week noted that: "Furman appears to be a Keynesian, but as director of the Hamilton Project (at the Brookings Institute) he's joined a group that advocates for a balanced budget . . . over the long term."

Obama criticised Bush's tax cuts as fiscally reckless.

"George Bush has taken us from a projected \$US5.6 trillion surplus at the end of the Clinton administration to massive deficits and nearly \$US4 trillion in new debt today," he said this week in a major economic policy speech in North Carolina.

"We were promised a fiscal conservative. Instead we got the most fiscally irresponsible administration in history and now John McCain wants to give us another."

Obama said he would take the \$US12 billion (\$12.66 billion) a month being spent on "rebuilding" Iraq, and spend it on infrastructure investments such as roads, schools and bridges.

He is in favour of cutting back tax breaks for big business, including oil companies, and clawing back Bush's tax cuts for the wealthy (defined as households earning more than \$US200,000).

He attacked Bush's tax code as involving "billion-dollar giveaways to big corporations and wealthy chief executives" which had "plunged this country deeper into debt".

The speech promised a middle-class tax cut which would "provide \$1000 of relief to 95 per cent of workers and their families".



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The speech reconfirmed his support for policies encouraging renewable energy and called for an immediate \$US50 billion fiscal stimulus package to “help those who have been hit hardest by this economic downturn”.

But he sounded like Kevin Rudd and Wayne Swan before Australia’s last election, promising that “every single proposal I’ve made in this campaign is paid for”.

When it comes to protectionism — read US polices to trade with China — Obama is far more open to the idea of free trade than his vanquished rival Hillary Clinton.

“We can’t or shouldn’t put up walls around our economy,” he said, describing free trade as a “cause I believe in”. But he said it was important that there be a “long-term agenda (which) will also find a way to make trade work for American workers”.

McCain, who has labelled Obama’s policies as “tax and spend”, has so far postponed announcing too many specific policies. After initially opposing the Bush tax cuts as unfair and adding to the deficit, McCain reversed, promising to entrench when they start unwinding in 2010.

McCain has proposed giving workers a \$US2500 tax credit to help pay for their health insurance, while Obama has broader plans to extend healthcare.

Writing this week, Clive Cook argued that “tax policy in the round has not been thought through by the McCain team”.

Goodfriend warns that the lack of funding of the healthcare obligations of the US Government is the biggest single worry for US fiscal policy. And he argues that the policy promises of both candidates in the

election campaign so far will probably make things even worse.

But he points out that while US fiscal policy has serious potential problems, whoever wins in November, monetary policy is still in pretty good hands under the watchful eye of the US Federal Reserve board.

He believes the sharp cuts in US interest rates to date will be enough to prevent the slowdown turning into a recession.

It is not out of the question that the foreign exchange markets could react to an Obama win in November with a temporary selldown in the already weak US dollar.

But all indications are that while he has some specific proposals to raise taxes on the wealthy, and end some tax breaks for big corporations, Obama as president would not cause any great problems for US trade partners or those with fortunes linked to the strength of the US economy.

The real policy differences between the two parties will now begin to sharpen as the campaign begins in earnest.

McCain, who kept a low profile while Clinton and Obama slugged it out for nomination, will now be under pressure to provide more economic policy detail.

With the Democrats controlling Capitol Hill and an apparently independent central bank controlling monetary policy, the real differences in economic policy might come down to how well the winner can withstand the pressures for protectionism from the electorally powerful Midwest states.