

The Economic Challenges Facing the Next President, or Be Careful What You Wish For

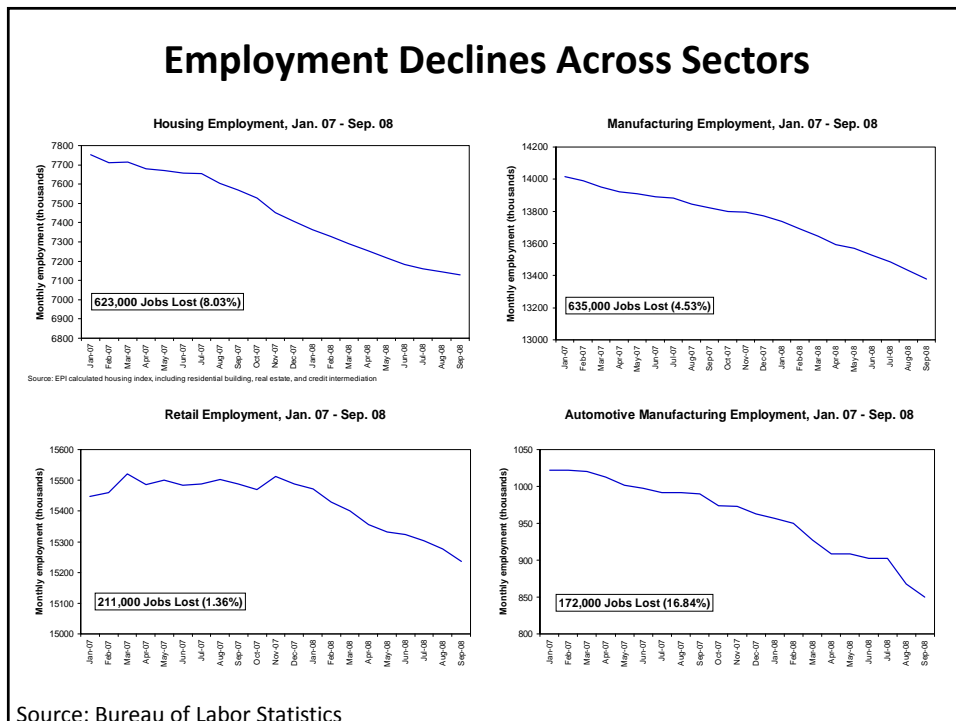
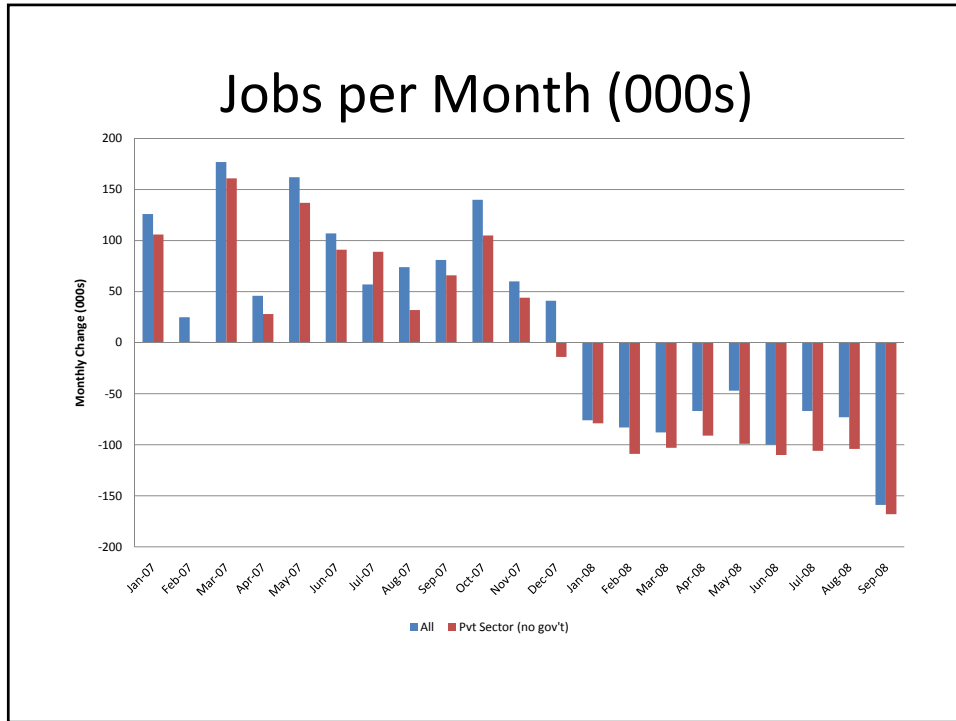
Jared Bernstein

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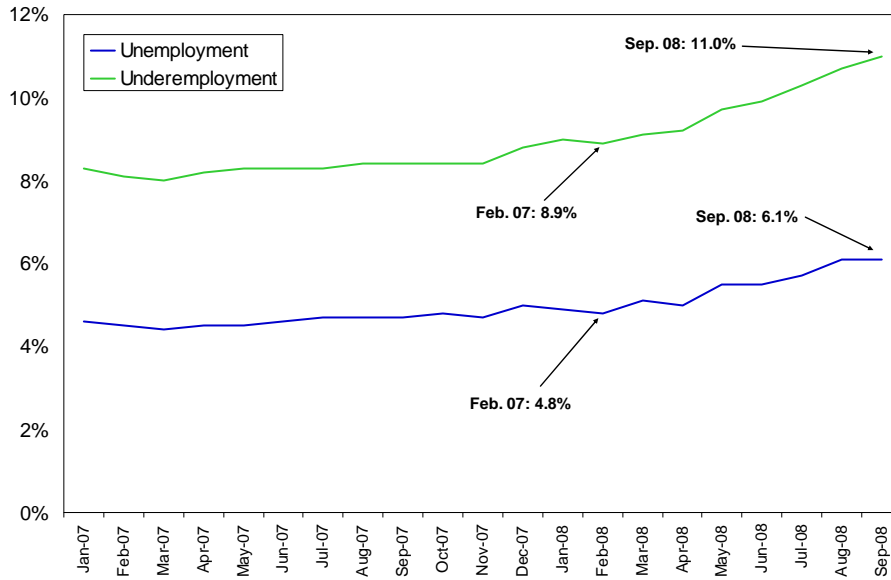
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Real Economy

- Job market: solidly in recession, real wages down.
- Consumer: finally retrenching?
- Investment: squeezed on credit and profit sides
- Exports/Imports: Maybe, maybe not...
- Government: most reliable source of short term growth?

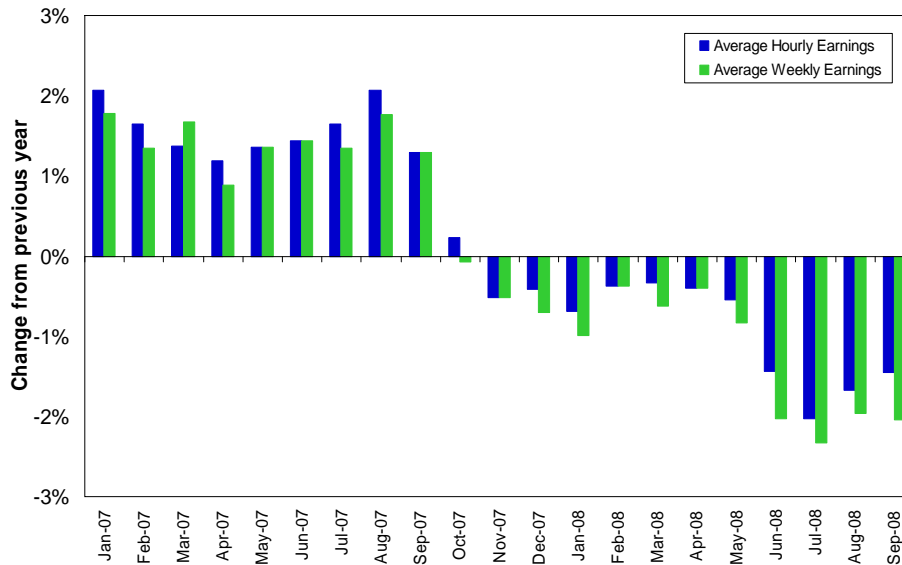


Unemployment and Underemployment, Jan. 07 - Sep. 08

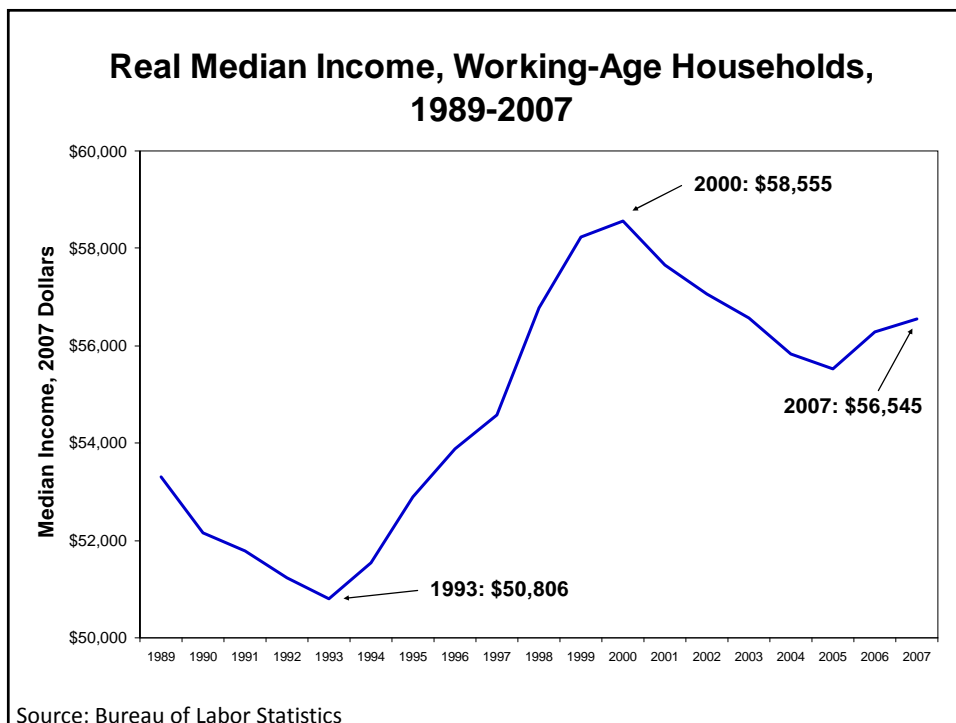
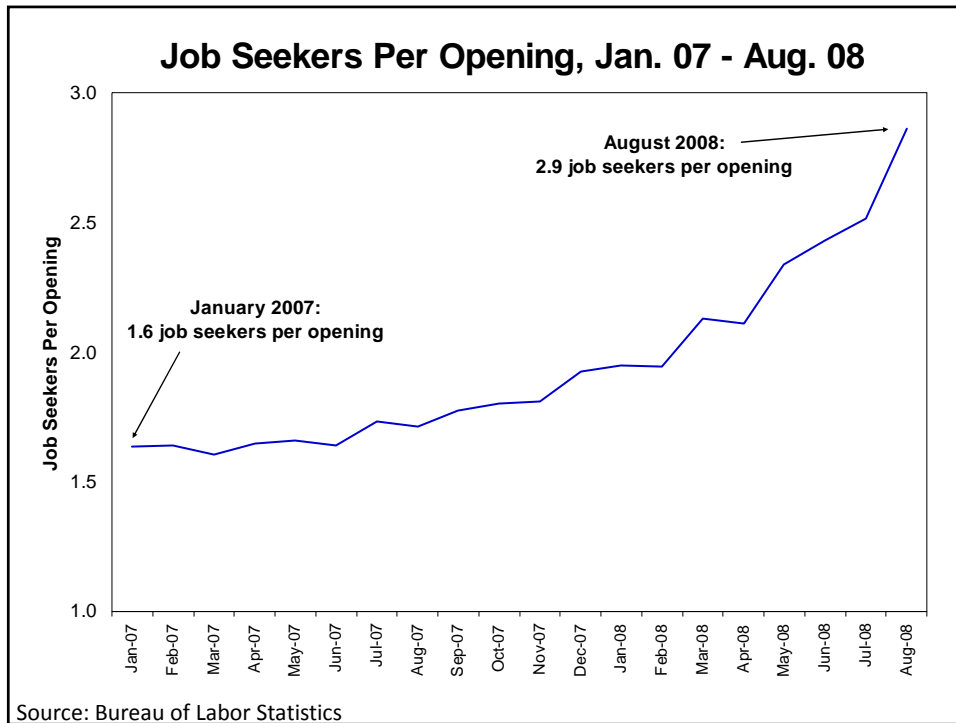


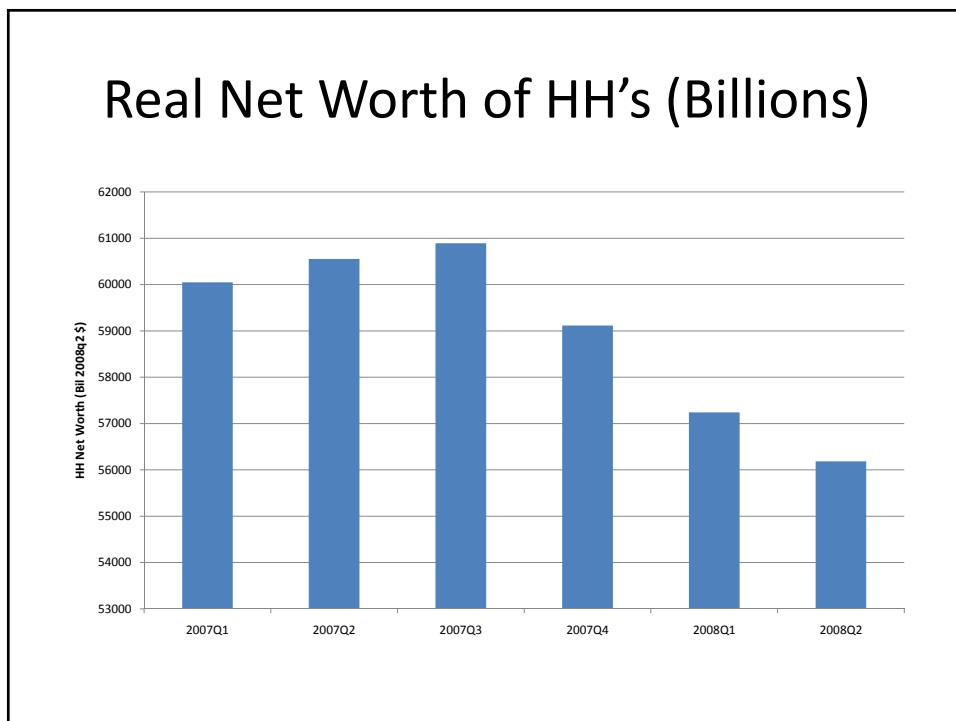
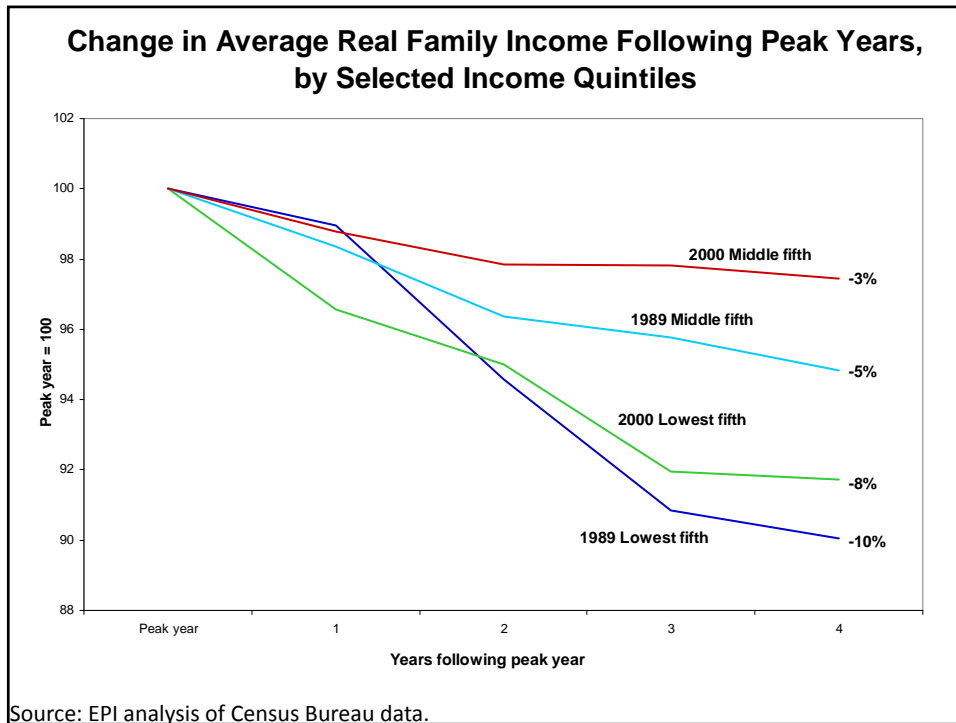
Source: Bureau of Labor Statistics

Yearly Changes in Average Weekly and Hourly Earnings, Jan. 07 - Sep. 08

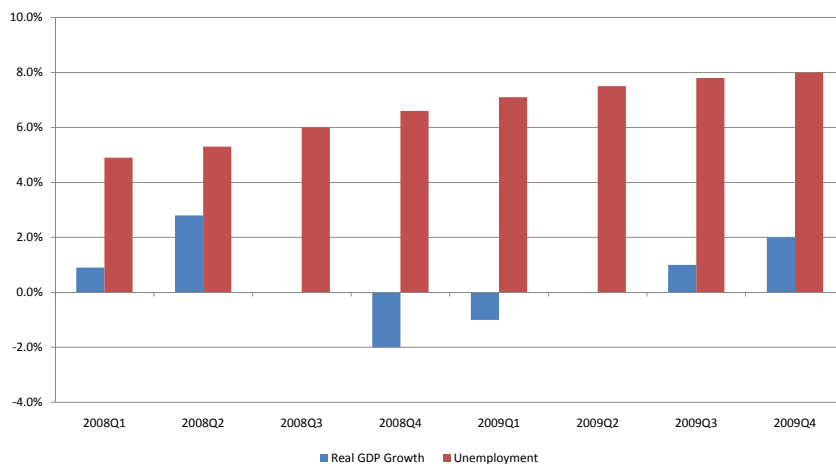


Source: Bureau of Labor Statistics





Real GDP, Unemp: 2008q1-2009q4



Source: Goldman Sachs Forecasts

Un-Real Economy

- Financial Markets: Dow, Nasdaq, S&P 500, Russell 2000...all down about 40% ytd.
- But: good news...Ted Spread responding (4.6 10/10; 2.7 10/24)?
- Housing: some signs bottom in sight, but no signs re uptick...prices still falling...inventory overhang;
- TARP: Certainly not a confidence builder yet.
- Fed: pushing on string but not giving up.

Next pres...

- Fiscal constraints?
- Deficit could go as high as 6% of GDP, but debt around 40% (avg 46% in 1990s).
- McCain would likely add more to deficit/debt than Obama (Tax Policy Center)
- But would they alter their plans?
- TARP will not cost \$700b
- There is a time for budget austerity; this ain't it.

Obama

- Recovery Package (Making Work Pay tax cuts; new jobs tax credit; mortgage relief; small biz, UI)
- Energy
- Health Care
- Tax agenda
- Infrastructure
- Regulation (Cooper Union speech)

McCain

- Recovery package (tax cuts—K gains, mortgage buy-backs but at face value)
- Tax cuts
- Health care
- Cap/trade?
- Drill, baby, drill
- Freeze parts of budget?