

Extra Feature Story

Financial Crisis Tests Notions of the President's Role in the Economy

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As the Bush administration and Congress try to prevent what many fear is the biggest economic meltdown since the Great Depression, presidential candidates John McCain and Barack Obama face a new era in government intervention in the economy.

After a dramatic realignment of large investment banks and government intervention to stop one of the world's largest insurance companies from failing, President Bush and his advisers are asking for \$700 billion in taxpayer money to buy bad investments from banks and stop an economic meltdown.

The situation highlights the opportunities and limits of the president to manage the economy. While voters in this election cycle routinely list the economy as their biggest concern, the president has limited, but important, tools to influence what happens in the economy.

History of presidential action

The president's role in managing the economy has changed dramatically over the course of American history, but one president, Democrat Franklin Delano Roosevelt, stands out as a leader who reshaped the role of presidency in managing the economy.

Richard Norton Smith, a historian at George Mason University, said that for much of American history before Roosevelt's election in 1932, presidents were not expected to respond to economic troubles.

But after banks collapsed during the devastating stock market crash in September 1929, the United States entered the Great Depression and a worldwide economic downturn ensued. When Roosevelt was elected, he enacted the New Deal, a series of government reforms and programs aimed at improving the economy.

"It redefined the relationship of most citizens to their government, he created a safety net. Before that banks and Wall Street were unregulated," Smith said.

On the other end of the government involvement scale, Republican President Ronald Reagan in 1980 was part of a movement to decrease the influence of the federal government in people's lives. Reagan, who was in office until 1988, focused on cutting taxes and reducing Washington D.C.'s regulation of business.

"The Reagan revolution was an effort to empower state (governments) to attack the same social ills that Washington tried to take care of," Smith said.

Current role of the president

While the president can't manage all aspects of the economy, he or she can enact policies, like FDR and Reagan, to shape certain aspects of the economy. According to NewsHour economics correspondent Paul Solman, the primary tools the president has to influence the economy are government spending, taxes and regulatory oversight.

The president appoints a Chairman of the Federal Reserve, the head of the government's central bank, and the Secretary of the Treasury, who serves as the president's chief economic adviser.

The president can also set the agenda for Congress by outlining plans for tax cuts or increases, which Congress can approve or reject. Similarly, he presents a budget to Congress in which he can suggest cuts or increases in spending.

While the Chairman of the Federal Reserve is independent of the president, he or she can change important interest rates that affect how much money is flowing through the economy.

Crisis changes the equation

The current presidential candidates face challenges unprecedented in election history.

Richard Norton Smith said this election represents a crossroads for the presidency, as McCain and Obama move toward embracing messages of regulation of the financial system that Reagan rejected almost thirty years ago.

Before the crisis, both candidates were promising new spending or tax cuts that might prove impossible if Congress approves hundreds of billions of dollars for the government bailout of Wall Street. McCain's tax cuts and Obama's green jobs and health care plans could be put on hold.

"Most impartial observers fault both candidates for avoiding really difficult choices we confront," Smith said. "An honest candidate would rise to this challenge and say that we need to tighten our belts. There are not a lot of calls to sacrifice – it's a measure of 30 years of a culture that has consumed more than it has produced," Smith added.

-- By Quinn Bowman for NewsHour Extra

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