

For Obama, the economy can't wait

By Mark Trumbull

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(AXcess News) - The economy and financial markets are amplifying a message that Barack Obama knew about well before Election Day: The president-elect must start acting right now - not just upon his Jan. 20 inauguration - to forge his response to the crisis.

As of Thursday morning, US stocks had erased the gains of an Election Day rally. A sagging world economy also hammered stock markets overseas Thursday. And the weekly pace of unemployment claims continues to hover near the half-million mark.

Honeymoon? Victory lap?

Presidential transitions tend to be hectic, but for President-elect Obama, the combination of economic weakness and financial-market volatility calls for front-loading some big decisions:

- Next week, a so-called G-20 summit of 19 nations plus the European Union gathers in Washington to consider how to repair the global financial system. President Bush will host the meeting, but Obama will want to help shape the agenda, since this effort will continue under his watch.

- Congress is considering additional stimulus measures to restart economic growth and end a downward spiral in the housing market. Again, Obama will want to put his stamp on those plans.

- Naming his economic team, starting with the Treasury secretary, is an immediate priority - driven both by the policy decisions such as those involving the G-20 summit and also by the broader benefits of reassuring Wall Street that steady hands will be at the economic tiller.

"He needs to have a transition team that identifies the best people ... and puts them in place as quickly as possible," says Scott Lilly, an economic policy expert at the Center for American Progress in Washington. "You're already seeing this."

The urgency is such that Obama's pick for Treasury secretary may be known by Friday or even Thursday, although no announcement had come by press time for this story.

Potential nominees include people with hands-on experience in periods of financial crisis: Timothy Geithner, president of the Federal Reserve Bank of New York; former Treasury Secretaries Lawrence Summers and Robert Rubin; and former Federal

Reserve Chairman Paul Volcker. The last three served as advisers to Obama during his campaign.

Mr. Geithner rose through the ranks at the Clinton Treasury Department, while his current job puts him at the center of efforts to restore confidence in a banking system battered by mortgage losses.

"Considering the economic backdrop ,... getting a team in place sooner rather than later and starting the transition quickly would make a lot of sense," says Michael Darda, chief economist at MKM Partners, an investment firm in Greenwich, Conn.

An imperative for the new team will be to send signals that they will do no harm to an economy now in recession. Mr. Darda predicts that the unemployment rate could climb to 8 percent in the next year or so, up from 6.1 percent last month.

In that environment, he says, it could make sense for Obama to signal that his proposed tax hikes on upper-income households will be postponed, perhaps until 2011.

In fact, Obama faces a difficult range of choices regarding which of his policies to try to fast-track, which ones to postpone, and what actions may be needed that weren't part of his economic blueprint.

With some advisers and lawmakers pushing for aggressive stimulus efforts and others looking warily at a rising federal deficit, one big decision is the scale of a stimulus package.

"The immediate priority is to determine the extent and nature of the next stimulus," says Robert Shapiro, a former Commerce Department official now at Sonecon, an economic advisory firm in Washington.

It's possible that Congress will pass a modest stimulus package, in a lame-duck session after the election, and that President Bush will sign it. Then a larger stimulus may follow in January.

Many Americans saved their tax rebates earlier this year, so the economy didn't get much bang for each buck spent on that initial effort to boost the economy. Next up are measures including funds for cash-strapped state and local governments, new infrastructure projects, and expanded unemployment insurance.

"The core of this stimulus ought to be ... down payments on the investments that the president-elect has said he wants to aggressively advance during his term in office," Mr. Shapiro says.

Those could include efforts to modernize the electric grid, digitize medical records, and make federal buildings more energy efficient.

The focus on economic revival may also cause Obama and his team to focus with keener attention on the housing market and the possibility of a new mortgage-modification plan designed to prevent foreclosures.

The risk in housing is that once-booming home prices overshoot on the way down, further damaging consumer confidence and the health of banks. If that happens, it only makes it harder for Obama to succeed in the rest of his agenda.

Although Obama's team will begin to influence policy well before January, much of the effort focuses on simply being ready to go upon inauguration. That alone is a daunting task, given the range of economic woes and the complexity of Treasury Department rescue measures that the Obama administration will take over.

The good news is that the Obama and McCain campaigns both started working on potential transitions ahead of traditional schedules, Mr. Lilly says.

"That was at the urging of a lot of people who have been through transitions" and have seen how important and difficult they are, he says. "There are lots of things that happen during a transition that you can't go back and redo a year later."

Officials at the Bush Treasury Department will have Obama's incoming team at their sides in coming weeks, so they are ready to manage the billions of dollars recently appropriated to fund a rescue of the banking system.

An added complexity: The financial crisis is global in scope. The G-20 summit highlights the demand for new approaches to regulating and supervising large financial firms.

Already, nations have moved simultaneously to cut interest rates - a trend that continued in Europe on Thursday. At next week's meeting, world leaders and their finance ministers plan to outline goals and principles that will guide an effort to put the financial industry on sounder footing.

The details will have to be worked out during Obama's term.

"He's obviously going to want to control that agenda" as much as possible, says Benn Steil, a financial expert at the Council on Foreign Relations in New York. He says Obama himself may stay on the sidelines, while newly named Treasury picks confer with their foreign counterparts.