

# Economics: Which Way for Obama?

John Cassidy

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## Reviewed:

### Nudge: Improving Decisions About Health, Wealth, and Happiness

by Richard H. Thaler and Cass R. Sunstein

Yale University Press, 293 pp., \$26.00

The bursting of the housing bubble and the associated credit crunch has so far wiped out about \$3 trillion of wealth—nobody knows the exact amount—caused havoc in the financial markets, and prompted hundreds of thousands of homeowners to default on their monthly mortgage payments. Some experts predict that by the end of 2009, the number of homes entering foreclosure could reach two million. Not surprisingly, the question of what to do about the housing crisis has emerged as a divisive policy issue in the 2008 presidential election, with each of the three leading candidates representing a distinct economic ideology.

John McCain, for all his protestations that economics is not his strong point, has put forward a coherent, if somewhat heartless, case for doing nothing, or very little, anyway. Echoing the arguments that Andrew Mellon, Friedrich Hayek, and other enthusiasts of the free market espoused in the early years of the Great Depression, McCain has said it is no business of the government to bail out people who took out loans they couldn't afford. Evidently such socialistic interventions would only reward reckless behavior, and, in any case, they wouldn't work. The laissez-faire argument says it is better to let the market "correct"—i.e., let the foreclosures mount up—until people learn to live within their means and prices become more affordable, at which point sustainable economic growth will resume.

Hillary Clinton, after initially equivocating, has emerged as the would-be heir to FDR and John Maynard Keynes. In addition to imposing a ninety-day moratorium on foreclosures and a five-year freeze on certain adjustable mortgage rates, she would have the federal government buy up an undetermined number of troubled home loans, enabling lenders to convert them to more affordable deals and putting a floor under the housing market.

Clinton would also allow bankruptcy judges to reduce the value of mortgages, a proposal the banking industry vigorously opposes, and she has criticized McCain as the reincarnation of Herbert Hoover—a comparison that is a bit unfair to the thirty-first president, whose intellectual commitment to voluntarism didn't prevent him from

expanding public works programs, raising taxes on the wealthy, and creating two institutions that funneled federal money into the housing market: the Federal Home Loan Bank and the Reconstruction Finance Corporation.

Barack Obama has also criticized McCain for sitting back and watching while so many American families face eviction. Yet his own proposals are more nuanced than Hillary's. They include setting up a \$10 billion fund to help prevent foreclosures, cracking down on mortgage fraud, providing tax credits to low- and middle-income homeowners who don't currently itemize their interest payments, and standardizing the terms of mortgages so that potential borrowers can more easily figure out when they are being hoodwinked. Obama has also expressed support for Democratic Senator Chris Dodd's plan to



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## John Cassidy

John Cassidy is a staff writer at *The New Yorker* and the author, most recently, of *How Markets Fail: The Logic of Economic Calamities*. (May 2014)