

2008-2009

The Election and the Economy

The fundamentals of our economy are strong; but these are very, very difficult times.
—Republican presidential candidate John McCain,
September 15, 2008

What we are not doing—what I have no interest in doing—is running GM.
—President Barack Obama,
June 1, 2009

The year 2008 made history in several ways. A landmark presidential campaign took place amid serious economic problems in the United States and the world.



Background to the 2008 Presidential Election

After voters gave the Republican Party a majority in both houses of Congress beginning in 1995 (with the exception of two years in the Senate, 2001-2003), in 2006 the American people elected Democratic majorities in both the House and the Senate. With President George W. Bush serving the last two years of his second term and the Democratic majorities in Congress resolved to oppose Bush's policies and proposals, little of consequence took place.

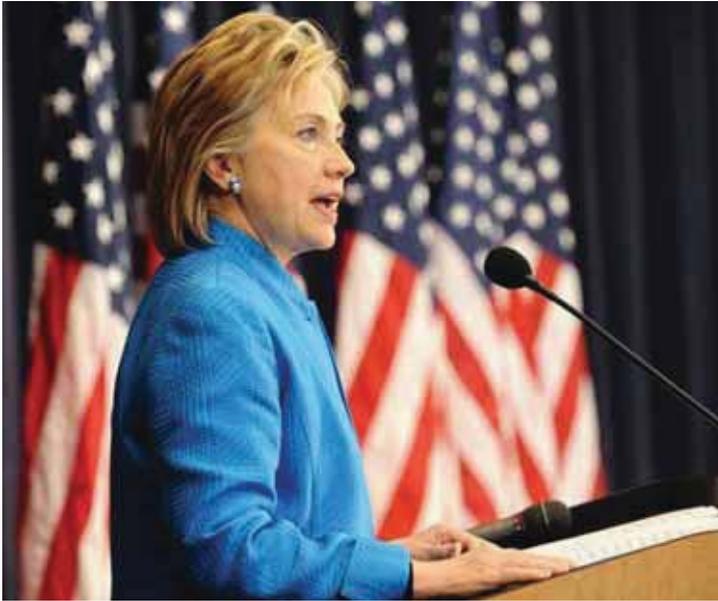
Bush received low popularity and job approval ratings in polls, primarily because of the continuing war in Iraq. The media did not report many military and political successes in Iraq, and American forces seemed to be stuck in a situation that did not offer a quick resolution.

The Democrats

Several Democrats were candidates for the party's presidential nomination. These included Delaware Senator Joe Biden, New York Senator Hillary Clinton, Illinois Senator Barack Obama, Connecticut Senator Chris Dodd, and former North Carolina Senator John Edwards (the party's 2004 vice-presidential nominee). Many people saw Clinton as the front-runner in the months leading up to the 2008 primaries.

During the primaries, however, Barack Obama showed strong popularity; and the contest eventually settled into a race between Clinton and Obama. They each won various primaries, and for a time it appeared that the decision might have to be made at the Democratic National Convention. The last time a national party convention had any real role in selecting a nominee was in 1976, when the Republican convention nominated incumbent President Gerald Ford over challenger Ronald Reagan. The 1968 and 1972 Democratic conventions were chaotic, but even so Vice President Hubert Humphrey in 1968 and Senator George McGovern in 1972 were clear leaders going into the convention.

Before the late 1960s, many state delegations to national party conventions were selected by party officials or state conventions. Since then, more states have begun holding presidential primaries to choose state delegations. As a result, a candidate usually knows



Hillary Clinton

whether he has a majority of delegates pledged to support him well before the convention takes place.

Because of the closeness of the Clinton-Obama contest, it also appeared that the nomination might have to be decided by so-called superdelegates to the convention. In 1972, George McGovern and his supporters worked hard to open the nominating process to rank and file Democratic voters in order to lessen the power held by party leaders. McGovern and his supporters were able to accomplish this change, but party leaders created the role of superdelegates to try to insure that in a close race the party would be sure to nominate a viable

candidate. Superdelegates are national party leaders, members of Congress, and others who are appointed by party leaders to be delegates to the convention. They do not have to be chosen in primaries.

However, the Democratic nomination was decided on June 3, 2008, when Barack Obama won enough delegates through party primaries to insure that he would be the nominee. Obama was the first African American to be a major party nominee for president. He was born in Hawaii in 1961 to a black man from Kenya and his white wife from Kansas. Obama's father left his family when Barack was two years old. The couple eventually divorced and Obama's mother married a man from Indonesia, where the family lived for several years. Obama returned to Hawaii and lived with his maternal grandparents until he finished high school. He attended Occidental College in Los Angeles for two years and then transferred to Columbia University in New York City, where he graduated in 1983. Obama worked in New York for a time, then he moved to Chicago where he worked as a community organizer in a program sponsored by the Roman Catholic Church. He was involved in such projects as a job training program, a tutoring service for aspiring college students, and an effort to protect the rights of tenants.

Obama entered Harvard Law School in 1988. In early 1990 he was elected as president of the *Harvard Law Review*, the first black person to attain that position. After graduating, Obama wrote his memoir, *Dreams of My Father*; led a voter registration drive; and taught constitutional law at the University of Chicago School of Law. He also practiced law until 2002. He was elected to the Illinois State Senate in 1996 and to the United States Senate from Illinois in 2004. Obama delivered the keynote address at the 2004 Democratic National Convention, which gave him favorable national recognition. His second book, *The Audacity of Hope*, published in 2006, outlined his thinking on several political issues.

Obama selected Joe Biden as his running mate.

The Republicans

The Republican Party also had a wide-open primary season. Among those who sought the party's presidential nomination were former New York City Mayor Rudy

Giuliani, Colorado Senator Sam Brownback, former Arkansas Governor Mike Huckabee, Texas Congressman Ron Paul, former Massachusetts Governor Mitt Romney, Arizona Senator John McCain, and former Tennessee Senator Fred Thompson. McCain clinched the nomination with victories in primaries that were held on March 4, 2008.



John McCain

John McCain was born in 1936 in the Panama Canal Zone, a U.S. territory, where his father was serving as an officer in the United States Navy. McCain's father eventually became a four-star Navy admiral (as his father,

John McCain's grandfather, had been before him). John McCain attended the U.S. Naval Academy at Annapolis, Maryland. He became a Navy pilot and served in the Vietnam War. McCain was shot down over North Vietnam in 1967. He was held as a prisoner of war in North Vietnam for five and a half years and suffered harsh treatment and even torture while he was imprisoned. He was released in 1973.

McCain left the Navy in 1981, moved to Arizona, and was elected to the U.S. House of Representatives the next year. He was elected to the U.S. Senate in 1986 and has been

The Republican convention in St. Paul, Minnesota was delayed a day as the nation watched Hurricane Gustav strike the Texas and Louisiana coast, almost exactly three years after Hurricane Katrina devastated New Orleans and the area around it. The damage caused by Gustav was less extensive than the damage from Katrina.

re-elected every six years since then. McCain has become known as a maverick, who sometimes opposes the leaders of his own party and who sometimes works with Democrats to promote issues in which he believes strongly.

In a surprise move, McCain selected Alaska Governor Sarah Palin as his vice-presidential running mate. Palin had been governor for less than two years. She had served as mayor of Wasilla, Alaska before that.

The Fall Campaign

Economic issues dominated the presidential campaign. First, a sharp rise in gasoline prices during much of the year caused widespread concern. Some of the increase was related to production cutbacks in the Gulf of Mexico because of hurricane threats and damage, but that was not the sole reason. Increased demand around the world challenged the global supply of gasoline and drove prices higher. By the time of the election, gas prices had come down to some degree.

A more pervasive economic issue was the credit crunch that climaxed in the fall of 2008. Much of the problem was related to a dramatic increase in the number of home mortgage failures. During the previous few years, many lenders had approved mortgages for people who had experienced problems with their personal finances or who wanted

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mortgages much larger than they could have obtained under traditional banking practices. These subprime mortgages (so called because they were given to people who did not have prime or excellent credit histories) were risky loans to begin with. But then these mortgages were re-packaged as investments and sold to large banks and investment companies. The mortgages were supposed to serve as assets that allowed the financial institutions to make other loans to businesses. However, when many of the mortgage holders defaulted on their loans, house prices fell and the mortgages became liabilities. This prevented banks from making loans to businesses that the businesses needed to pay for their regular operations. Several major banks and Wall Street investment firms went bankrupt or had to be bought by other companies.

Religion was a significant issue at times during the 2008 campaign. Barack Obama was accused by some of being a Muslim, but he actually had been a member of the United Church of Christ for many years. The pastor of the Chicago church where Obama was a member was widely criticized during the campaign for some inflammatory, anti-American remarks that the pastor made in a sermon. Obama eventually resigned as a member of that church and distanced himself from the pastor. Republican Mike Huckabee is a former Baptist minister. Mitt Romney's Mormon faith raised concerns in the minds of some voters. Sarah Palin grew up in the Assembly of God church and holds a conservative Christian faith.

The Federal government took several steps to try to ease the financial crisis. First, economic stimulus payments were sent to taxpayers beginning in May. The government encouraged people to spend the money to increase economic activity. Then the U.S. government became involved in the financial markets in unprecedented ways. The government helped with the bailout of several mortgage and investment companies, although the Lehman Brothers investment firm was allowed to go bankrupt. In October, Congress approved a \$700 billion plan for the government to buy up risky mortgages to take them off the books of financial institutions so loans could once again be made to businesses.



Barack Obama

The Election Results

On November 4, 2008, Barack Obama was elected as the 44th President of the United States and the first African American President. Obama received 52.9% of the popular vote and 365 electoral votes compared to McCain's 45.7% of the popular vote and 173 electoral votes. Over 131 million people, or 63% of eligible voters, cast ballots in the election, the highest number ever.

The Democrats also swept to larger majorities in the U.S. House and Senate. In the 111th Congress that convened in January 2009, the Senate had 56 Democrats, 41 Republicans, and 2 Independents who usually vote with the Democrats. The House of Representatives had 257 Democrats and 178 Republicans.

Obama's election had an impact in Illinois state politics. The Democratic governor of Illinois, Rod Blagojevich (pronounced Blah-GOY-oh-vich) came under investigation for routinely soliciting bribes from potential appointees and businesses wanting to obtain state contracts. Evidence came to light that Blagojevich and his aides had also sought to obtain payment in return for appointing someone to fill Obama's Senate seat that the President-elect was vacating. Blagojevich was arrested December 9, 2008.

Outrage at the governor's actions was almost universal. The Illinois legislature acted quickly to impeach Blagojevich. In January of 2009, the State House of Representatives voted to impeach the governor 114-1, and the State Senate convicted him and removed him from office by a vote of 59-0. During the controversy and before he was removed from office, Blagojevich appointed long-time Illinois political figure Roland Burris, an African American Democrat, to fill Obama's seat. After some initial reluctance by U.S. Senate leaders, Burris was allowed to take his seat.



Charles Curtis, who was Herbert Hoover's Vice President, was one-eighth Kaw Indian and is considered to be the first person from an ethnic minority to hold national office. Curtis lived on the Kaw reservation in Kansas as a child.

The National Bureau of Economic Research determined that a recession began in December of 2007. That was the month when economic expansion peaked and the downturn began. The economy actually grew during the first part of 2008 but at a slow rate. Business activity fell dramatically during the last quarter of the year.

Further Economic Developments

Late in 2008, the Federal Reserve System lowered a benchmark interest rate for its loans to banks to between zero and .25 percent. Yet another stimulus package that enabled additional significant Federal spending was approved by Congress in early 2009.

During 2008 and into early 2009, the Dow Jones Industrial Average lost over half of its value from its all-time high in 2007. General Motors and Chrysler sought and received government-backed assistance to

be able to stay in business as their sales fell. Some banks failed as their liabilities exceeded their assets. Many state governments, which are heavily dependent on sales tax revenues, faced budget deficits as consumer sales slumped. Unemployment began to rise as business conditions worsened. Many economists described the situation as the worst financial crisis since the Great Depression.

A mystery related to the tragic events of 2001 was apparently solved in 2008. Shortly after the terrorist attacks of September 11, 2001, letters containing the deadly anthrax bacteria started arriving at government offices and other prominent places. Five people died from exposure to the anthrax, but for years investigators never determined who sent the letters. In 2008, the FBI identified Bruce Ivins, a researcher at a government biodefense lab in Maryland, as the likely suspect. Ivins had co-written numerous studies on anthrax. When the Justice Department was close to filing charges against him, Ivins took his own life. The Justice Department considers the case to be closed.

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The economic woes that many Americans were feeling were made worse for some by the uncovering and collapse of an illegal investment scheme by Bernard Madoff. Madoff engaged for over a decade in what is called a Ponzi scheme. In this scheme, investors were convinced that if they gave money to Madoff, they would receive a sizable return. What actually happened, however, was that early investors were paid not with profits but with investments made by individuals who gave money to Madoff later. These supposed results encouraged even more people to invest with Madoff. The scheme took in over \$50 billion, but victims will get little or nothing back. Madoff eventually pleaded guilty to charges against him and was sentenced to 150 years in prison. The name for the scheme comes from Charles Ponzi, an Italian immigrant who in 1919-1920 convinced people to invest \$10 million in a bogus plan that supposedly involved international postal currency. Ponzi was convicted of mail fraud and was deported in 1934.

Economic developments and the transition to a Democratic president led to significant changes in the operations of government. The Federal government became involved in investment banking, mortgage loans, and the automobile industry at levels never before seen in the United States. This degree of government involvement led to concerns about industries becoming nationalized and a movement toward a socialist economy. The economic stimulus



U.S. Troops in Afghanistan, August 2009

efforts were carried out with borrowed money, which significantly increased the Federal budget deficit and the overall national debt. President Obama pursued an agenda that included increased Federal health insurance coverage for children, overturning the ban on new embryonic stem cell research that had been put in place by George W. Bush, and active consideration of health insurance changes that would mean increased government involvement in the health care industry. Obama also announced his intention to withdraw the bulk of American troops

from Iraq and to increase American troop strength in Afghanistan because he saw conditions in the latter country as more central to the fight against terrorism.

Political Events in 2009

Pennsylvania's Republican Senator Arlen Specter announced that he was becoming a Democrat. Specter had long held moderate to liberal views, and some observers thought that he made the change because he feared losing his re-election campaign in 2010 if he ran as a Republican.

After a long process of recounts and court battles, Democrat Al Franken was declared the winner of the U.S. Senate race in Minnesota. This gave the Democrats a 58-40-2 majority in the Senate (as noted earlier, the two Independents usually vote with the Democrats). Since a filibuster to prevent action in the Senate requires 41 votes, the Democrat majority was considered filibuster-proof against Republican attempts to block action. However, not all Democrats could be counted on to vote with the majority on all questions.

Sarah Palin resigned as governor of Alaska in July of 2009. This surprise move generated much speculation on the part of political observers. Palin had been considering running for

the Republican nomination for president in 2012. However, Palin herself and some people close to her said that the intense media attention focused on her and her family had taken a toll on her family and she wanted to get out of the publicity spotlight.

Update on Spring Hill, Tennessee

Lesson 53 in *Exploring Government* focused on the little town of Spring Hill, Tennessee and how it had handled rapid growth. One change from what that lesson reported was that in 2008 the city reinstated a property tax to meet its budget needs. A much more significant change involved the General Motors manufacturing plant in the city.

In 2009 GM and Chrysler declared bankruptcy, even after receiving billions of dollars in loans from the Federal government. Chrysler entered into an agreement with Italian automaker Fiat that allowed it to continue operating. General Motors closed some manufacturing facilities, sold off some of its vehicle brands, including Saturn and Hummer, and reorganized itself as a new company. The Federal government became majority owner of the new General Motors. In the process of cutting expenses, both automotive companies ended agreements with hundreds of dealers around the country. GM also announced that it would not use the production facility in Spring Hill to build a new small car. As of this writing, the company continues to own the plant, and some hope that it might be used to make another GM product or be sold to another company; but about 2,500 workers were affected by GM's decision.

As was noted in *Exploring Government*, Spring Hill's growth was not exclusively tied to the GM factory. However, the city and county began to anticipate major changes in its economic basis.

*Do not worry then, saying, "What will we eat?" or "What will we drink?"
or "What will we wear for clothing?"
For the Gentiles eagerly seek all these things;
for your heavenly Father knows that you need all these things.
But seek first His kingdom and His righteousness,
and all these things will be added to you.
So do not worry about tomorrow; for tomorrow will care for itself.
Each day has enough trouble of its own.
Matthew 6:31-34*

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