OBAMA NEWS & SPEECHES

Remarks of Senator Barack Obama: Renewing the American Economy

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I want to thank Mayor Bloomberg for his extraordinary leadership. At a time when Washington is divided in old ideological battles, he shows us what can be achieved when we bring people together to seek pragmatic solutions. Not only has he been a remarkable leader for New York -he has established himself as a major voice in our national debate on issues like renewing our economy, educating our children, and seeking energy independence. Mr. Mayor, I share your determination to bring this country together to finally make progress for the American people.

In a city of landmarks, we meet at Cooper Union, just uptown from Federal Hall, where George Washington took the oath of office as the first President of the United States. With all the history that has passed through the narrow canyons of lower Manhattan, it is worth taking a moment to reflect on the role that the market has played in the development of the American story.

The great task before our Founders that day was putting into practice the ideal that government could simultaneously serve liberty and advance the common good. For Alexander Hamilton, the young Secretary of the Treasury, that task was bound to the vigor of the American economy.

Hamilton had a strong belief in the power of the market. But he balanced that belief with the conviction that human enterprise "may be beneficially stimulated by prudent aids and encouragements on the part of the government." Government, he believed, had an important role to play in advancing our common prosperity. So he nationalized the state Revolutionary War debts, weaving together the economies of the states and creating an American system of credit and capital markets. And he encouraged manufacturing and infrastructure, so products could be moved to market.

Hamilton met fierce opposition from Thomas Jefferson, who worried that this brand of capitalism would favor the interests of the few over the many. Jefferson preferred an agrarian economy because he believed that it would give individual landowners freedom, and that this freedom would nurture our democratic institutions. But despite their differences, there was one thing that Jefferson and Hamilton agreed on - that economic growth depended upon the talent and ingenuity of the American people; that in order to harness that talent, opportunity had to remain open to all; and that through education in particular, every American could climb the ladder of social and economic mobility, and achieve the American Dream.

In the more than two centuries since then, we have struggled to balance the same forces that confronted Hamilton and Jefferson - self-interest and community; markets and democracy; the concentration of wealth and power, and the necessity of transparency and opportunity for each and every citizen. Throughout this saga, Americans have pursued their dreams within a free market that has been the engine of America's progress. It's a market that has created a prosperity that is the envy of the world, and opportunity for generations of Americans. A market that has provided great rewards to the innovators and risk-takers who have made America a beacon for science, and technology, and discovery.

But the American experiment has worked in large part because we have guided the market's invisible hand with a higher principle. Our free market was never meant to be a free license to take whatever you can get, however you can get it. That is why we have put in place rules of the road to make competition fair, and open, and honest. We have done this not to stifle - but rather to advance prosperity and liberty. As I said at NASDAQ last September: the core of our economic success is the fundamental truth that each American does better when all Americans do better; that the well being of American business, its capital markets, and the American people are aligned.

I think all of us here today would acknowledge that we've lost that sense of shared prosperity.

This loss has not happened by accident. It's because of decisions made in boardrooms, on trading floors and in Washington. Under Republican and Democratic Administrations, we failed to guard against practices that all too often rewarded financial manipulation instead of productivity and sound business practices. We let the special interests put their thumbs on the economic scales. The result has been a distorted market that creates bubbles instead of steady, sustainable growth; a market that favors Wall Street over Main Street, but ends up hurting both.

Nor is this trend new. The concentrations of economic power - and the failures of our political system to protect the American economy from its worst excesses - have been a staple of our past, most famously in the 1920s, when with success we ended up plunging the country into the Great Depression. That is when government stepped in to create a series of regulatory structures - from the FDIC to the Glass-Steagall Act - to serve as a corrective to protect the American people and American business.

Ironically, it was in reaction to the high taxes and some of the outmoded structures of the New Deal that both individuals and institutions began pushing for changes to this regulatory structure. But instead of sensible reform that rewarded success and freed the creative forces of the market, too often we've excused and even embraced an ethic of greed, corner cutting and inside dealing that has always threatened the long-term stability of our economic system. Too often, we've lost that common stake in each other's prosperity.

Let me be clear: the American economy does not stand still, and neither should the rules that govern it. The evolution of industries often warrants regulatory reform - to foster competition, lower prices, or replace outdated oversight structures. Old institutions cannot adequately oversee new practices. Old rules may not fit the roads where our economy is leading. There were good arguments for changing the rules of the road in the 1990s. Our economy was undergoing a fundamental shift, carried along by the swift currents of technological change and globalization. For the sake of our common prosperity, we needed to adapt to keep markets competitive and fair.

Unfortunately, instead of establishing a 21st century regulatory framework, we simply dismantled the old one - aided by a legal but corrupt bargain in which campaign money all too often shaped policy and watered down oversight. In doing so, we encouraged a winner take all, anything goes environment that helped foster devastating dislocations in our economy.

Deregulation of the telecommunications sector, for example, fostered competition but also contributed to massive over-investment. Partial deregulation of the electricity sector enabled market manipulation. Companies like Enron and WorldCom took advantage of the new regulatory environment to push the envelope, pump up earnings, disguise losses and otherwise engage in accounting fraud to make their profits look better - a practice that led investors to question the balance sheet of all companies, and severely damaged public trust in capital markets. This was not the invisible hand at work. Instead, it was the hand of industry lobbyists tilting the playing field in Washington, an accounting industry that had developed powerful conflicts of interest, and a financial sector that fueled over-investment.

A decade later, we have deregulated the financial services sector, and we face another crisis. A regulatory structure set up for banks in the 1930s needed to change because the nature of business has changed. But by the time the Glass-Steagall Act was repealed in 1999, the $300 million lobbying effort that drove deregulation was more about facilitating mergers than creating an efficient regulatory framework.

Since then, we have overseen 21st century innovation - including the aggressive introduction of new and complex financial instruments like hedge funds and non-bank financial companies - with outdated 20th century regulatory tools. New conflicts of interest recalled the worst excesses of the past - like the outrageous news that we learned just yesterday of KPMG allowing a lender to report profits instead of losses, so that both parties could make a quick buck. Not surprisingly, the regulatory environment failed to keep pace. When subprime mortgage lending took a reckless and unsustainable turn, a patchwork of regulators were unable or unwilling to protect the American people.

The policies of the Bush Administration threw the economy further out of balance. Tax cuts without end for the wealthiest Americans. A trillion dollar war in Iraq that didn't need to be fought, paid for with deficit spending and borrowing from foreign creditors like China. A complete disdain for pay-as-you-go budgeting - coupled with a generally scornful attitude towards oversight and enforcement - allowed far too many to put short-term gain ahead of long term consequences. The American economy was bound to suffer a painful correction, and policymakers found themselves with fewer resources to deal with the consequences.

Today, those consequences are clear. I see them in every corner of our great country, as families face foreclosure and rising costs. I seem them in towns across America, where a credit crisis threatens the ability of students to get loans, and states can't finance infrastructure projects. I see them here in Manhattan, where one of our biggest investment banks had to be bailed out, and the Fed opened its discount window to a host of new institutions with unprecedented implications we have yet to appreciate. When all is said and done, losses will be in the many hundreds of billions. What was bad for Main Street was bad for Wall Street. Pain trickled up.

That is why the principle that I spoke about at NASDAQ is even more urgently true today: in our 21st century economy, there is no dividing line between Main Street and Wall Street. The decisions made in New York's high-rises have consequences for Americans across the country. And whether those Americans can make their house payments; whether they keep their jobs; or spend confidently without falling into debt - that has consequences for the entire market. The future cannot be shaped by the best-connected lobbyists with the best record of raising money for campaigns. This thinking is wrong for the financial sector and it's wrong for our country.

I do not believe that government should stand in the way of innovation, or turn back the clock to an older era of regulation. But I do believe that government has a role to play in advancing our common prosperity: by providing stable macroeconomic and financial conditions for sustained growth; by demanding transparency; and by ensuring fair competition in the marketplace.

Our history should give us confidence that we don't have to choose between an oppressive government-run economy and a chaotic and unforgiving capitalism. It tells us we can emerge from great economic upheavals stronger, not weaker. But we can do so only if we restore confidence in our markets. Only if we rebuild trust between investors and lenders. And only if we renew that common interest between Wall Street and Main Street that is the key to our success.

Now, as most experts agree, our economy is in a recession. To renew our economy - and to ensure that we are not doomed to repeat a cycle of bubble and bust again and again - we need to address not only the immediate crisis in the housing market; we also need to create a 21st century regulatory framework, and pursue a bold opportunity agenda for the American people.

Most urgently, we must confront the housing crisis.

After months of inaction, the President spoke here in New York and warned against doing too much. His main proposal - extending tax cuts for the wealthiest Americans - is completely divorced from the reality that people are facing around the country. John McCain recently announced his own plan, and it amounts to little more than watching this crisis happen. While this is consistent with Senator McCain's determination to run for George Bush's third term, it won't help families who are suffering, and it won't help lift our economy out of recession.

Over two million households are at risk of foreclosure and millions more have seen their home values plunge. Many Americans are walking away from their homes, which hurts property values for entire neighborhoods and aggravates the credit crisis. To stabilize the housing market and help bring the foreclosure crisis to an end, I have sponsored Senator Chris Dodd's legislation creating a new FHA Housing Security Program, which will provide meaningful incentives for lenders to buy or refinance existing mortgages. This will allow Americans facing foreclosure to keep their homes at rates they can afford.

Senator McCain argues that government should do nothing to protect borrowers and lenders who've made bad decisions, or taken on excessive risk. On this point, I agree. But the Dodd-Frank package is not a bailout for lenders or investors who gambled recklessly, as they will take losses. It is not a windfall for borrowers, as they will have to share any capital gain. Instead, it offers a responsible and fair way to help bring an end to the foreclosure crisis. It asks both sides to sacrifice, while preventing a long-term collapse that could have enormous ramifications for the most responsible lenders and borrowers, as well as the American people as a whole. That is what Senator McCain ignores.

For homeowners who were victims of fraud, I've also proposed a $10 billion Foreclosure Prevention Fund that would help them sell a home that is beyond their means, or modify their loan to avoid foreclosure or bankruptcy. It's also time to amend our bankruptcy laws, so families aren't forced to stick to the terms of a home loan that was predatory or unfair.

To prevent fraud in the future, I've proposed tough new penalties on fraudulent lenders, and a Home Score system that will allow consumers to find out more about mortgage offers and whether they'll be able to make payments. To help low- and middle-income families, I've proposed a 10 percent mortgage interest tax credit that will allow homeowners who don't itemize their taxes to access incentives for home ownership. And to expand home ownership, we must do more to help communities turn abandoned properties into affordable housing.

The government can't do this alone, nor should it. As I said last September, lenders must get ahead of the curve rather than just reacting to crisis. They should actively look at all borrowers, offer workouts, and reduce the principal on mortgages in trouble. Not only can this prevent the larger losses associated with foreclosure and resale, but it can reduce the extent of government intervention and taxpayer exposure.

Beyond dealing with the immediate housing crisis, it is time for the federal government to revamp the regulatory framework dealing with our financial markets.

Our capital markets have helped us build the strongest economy in the world. They are a source of competitive advantage for our country. But they cannot succeed without the public's trust. The details of regulatory reform should be developed through sound analysis and public debate. But there are several core principles for reform that I will pursue as President.

First, if you can borrow from the government, you should be subject to government oversight and supervision. Secretary Paulson admitted this in his remarks yesterday. The Federal Reserve should have basic supervisory authority over any institution to which it may make credit available as a lender of last resort. When the Fed steps in, it is providing lenders an insurance policy underwritten by the American taxpayer. In return, taxpayers have every right to expect that these institutions are not taking excessive risks. The nature of regulation should depend on the degree and extent of the Fed's exposure. But at the very least, these new regulations should include liquidity and capital requirements.

Second, there needs to be general reform of the requirements to which all regulated financial institutions are subjected. Capital requirements should be strengthened, particularly for complex financial instruments like some of the mortgage securities that led to our current crisis. We must develop and rigorously manage liquidity risk. We must investigate rating agencies and potential conflicts of interest with the people they are rating. And transparency requirements must demand full disclosure by financial institutions to shareholders and counterparties.

As we reform our regulatory system at home, we must work with international arrangements like the Basel Committee on Banking Supervision, the International Accounting Standards Board, and the Financial Stability Forum to address the same problems abroad. The goal must be ensuring that financial institutions around the world are subject to similar rules of the road - both to make the system stable, and to keep our financial institutions competitive.

Third, we need to streamline a framework of overlapping and competing regulatory agencies. Reshuffling bureaucracies should not be an end in itself. But the large, complex institutions that dominate the financial landscape do not fit into categories created decades ago. Different institutions compete in multiple markets - our regulatory system should not pretend otherwise. A streamlined system will provide better oversight, and be less costly for regulated institutions.

Fourth, we need to regulate institutions for what they do, not what they are. Over the last few years, commercial banks and thrift institutions were subject to guidelines on subprime mortgages that did not apply to mortgage brokers and companies. It makes no sense for the Fed to tighten mortgage guidelines for banks when two-thirds of subprime mortgages don't originate from banks. This regulatory framework has failed to protect homeowners, and it is now clear that it made no sense for our financial system. When it comes to protecting the American people, it should make no difference what kind of institution they are dealing with.

Fifth, we must remain vigilant and crack down on trading activity that crosses the line to market manipulation. Reports have circulated in recent days that some traders may have intentionally spread rumors that Bear Stearns was in financial distress while making market bets against the company. The SEC should investigate and punish this kind of market manipulation, and report its conclusions to Congress.

Sixth, we need a process that identifies systemic risks to the financial system. Too often, we deal with threats to the financial system that weren't anticipated by regulators. That's why we should create a financial market oversight commission, which would meet regularly and provide advice to the President, Congress, and regulators on the state of our financial markets and the risks that face them. These expert views could help anticipate risks before they erupt into a crisis.

These six principles should guide the legal reforms needed to establish a 21st century regulatory system. But the change we need goes beyond laws and regulation - we need a shift in the cultures of our financial institutions and our regulatory agencies.

Financial institutions must do a better job at managing risks. There is something wrong when boards of directors or senior managers don't understand the implications of the risks assumed by their own institutions. It's time to realign incentives and compensation packages, so that both high level executives and employees better serve the interests of shareholders. And it's time to confront the risks that come with excessive complexity. Even the best government regulation cannot fully substitute for internal risk management.

For supervisory agencies, oversight must keep pace with innovation. As the subprime crisis unfolded, tough questions about new and complex financial instruments were not asked. As a result, the public interest was not protected. We do American business - and the American people - no favors when we turn a blind eye to excessive leverage and dangerous risks.

Finally, the American people must be able to trust that their government is looking out for all of us - not just those who donate to political campaigns. I fought in the Senate for the most extensive ethics reform since Watergate. I have refused contributions from federal lobbyists and PACs. And I have laid out far-reaching plans that I intend to sign into law as President to bring transparency to government, and to end the revolving door between industries and the federal agencies that oversee them.

Once we deal with the immediate crisis in housing and strengthen the regulatory system governing our financial markets, our final task is to restore a sense of opportunity for all Americans.

The bedrock of our economic success is the American Dream. It's a dream shared in big cities and small towns; across races, regions and religions - that if you work hard, you can support a family; that if you get sick, there will be health care you can afford; that you can retire with the dignity and security and respect that you have earned; that your kids can get a good education, and young people can go to college even if they're not rich. That is our common hope across this country. That is the American Dream.

But today, for far too many Americans, this dream is slipping away. Wall Street has been gripped by increasing gloom over the last nine months. But for many American families, the economy has effectively been in recession for the past seven years. We have just come through the first sustained period of economic growth since World War II that was not accompanied by a growth in incomes for typical families. Americans are working harder for less. Costs are rising, and it's not clear that we'll leave a legacy of opportunity to our children and grandchildren.

That's why, throughout this campaign, I've put forward a series of proposals that will foster economic growth from the bottom up, and not just from the top down. That's why the last time I spoke on the economy here in New York, I talked about the need to put the policies of George W. Bush behind us - policies that have essentially said to the American people: "you are on your own"; because we need to pursue policies that once again recognize that we are in this together.

This starts with providing a stimulus that will reach the most vulnerable Americans, including immediate relief to areas hardest hit by the housing crisis, and a significant extension of unemployment insurance for those who are out of work. If we can extend a hand to banks on Wall Street, we can extend a hand to Americans who are struggling.

Beyond these short term measures, as President I will be committed to putting the American Dream on a firmer footing. To reward work and make retirement secure, we'll provide an income tax cut of up to $1000 for a working family, and eliminate income taxes altogether for any retiree making less than $50,000 per year. To make health care affordable for all Americans, we'll cut costs and provide coverage to all who need it. To put more Americans to work, we'll create millions of new Green Jobs and invest in rebuilding our nation's infrastructure. To extend opportunity, we'll invest in our schools and our teachers, and make college affordable for every American. And to ensure that America stays on the cutting edge, we'll expand broadband access, expand funding for basic scientific research, and pass comprehensive immigration reform so that we continue to attract the best and the brightest to our shores.

I know that making these changes won't be easy. I will not pretend that this will come without cost, though I have presented ways we can achieve these changes in a fiscally responsible way. I know that we'll have to overcome our doubts and divisions and the determined opposition of powerful special interests before we can truly advance opportunity and prosperity for all Americans.

But I would not be running for President if I didn't think that this was a defining moment in our history. If we fail to overcome our divisions and continue to let special interest set the agenda, then America will fall behind. Short-term gains will continue to yield long-term costs. Opportunity will slip away on Main Street and prosperity will suffer here on Wall Street. But if we unite this country around a common purpose, if we act on the responsibilities that we have to each other and to our country, then we can launch a new era of opportunity and prosperity.

I know we can do this because Americans have done this before. Time and again, we've recognized that common stake that we have in each other's success. That's how people as different as Hamilton and Jefferson came together to launch the world's greatest experiment in democracy. That's why our economy hasn't just been the world's greatest wealth creator - it's bound America together, it's created jobs, and it's made the dream of opportunity a reality for generations of Americans.

Now it falls to us. We have as our inheritance the greatest economy the world has ever known. We have the responsibility to continue the work that began on that spring day over two centuries ago right here in Manhattan - to renew our common purpose for a new century, and to write the next chapter in the story of America's success. We can do this. And we can begin this work today.