Economic Viewpoint
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The November 4th elections and the U.S. economy

The 2008 presidential campaign: legacy, issues and consequences for the markets

In just a few weeks, American voters will be heading to the polls to elect a new president. The results of November 4 will no doubt have long-lasting economic and financial impacts, in the same way current market conditions and the economy may hold sway over the election's outcome. After eight years with George W. Bush at the helm–whose economic record will be studied here–it is standard fare to discuss the main economic themes of this election campaign and the main challenges that await the next president of the United States. Lastly, we will discuss the financial consequences of the results of this race to the White House.

- The Bush administration's economic record is below the historical average, especially in terms of jobs and growth.
- Public finances have deteriorated substantially in the past eight years.
- There seems to be a difference in the economy's behaviour depending on whether the president is a Republican or a Democrat.
- The main theme of the economic debate is about extending the Bush tax cuts.
- Other important issues: the war, social programs, energy and the response to the financial crisis.
- Regardless of who wins, the budget deficits will remain high.
- John McCain is a stronger supporter of free trade.
- The differences in the economic platforms presented by McCain and Obama are too slight and have too many imponderables to forecast any real impact on the bond market.
- The performance of some stock market sectors could be influenced by the results of November 4.

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I – THE BUSH ADMINISTRATION'S ECONOMIC RECORD

On January 20, 2001, George W. Bush was sworn in as the 43rd President of the United States of America. According to the National Bureau of Economic Research (NBER), the country slipped into an 8-month recession just a few weeks later, in March. Responsibility for that economic downturn cannot be attributed to the current resident of the Oval Office, however, since the underpinnings of that recession were in place long before George W. Bush was elected president. The techno bubble burst that started during the winter of 2000, the overinvestment linked to that bubble, rising energy prices in the summer of 2000, rising key interest rates and a 10-year economic run that had just run out of steam sparked the recession (the last recession's low point was reached in March 1991).

Soon after the swearing-in ceremony, the Bush administration was faced with a recession. The government's response to this contraction in the economy was delivered through an initial salvo: tax cuts (an election campaign promise) along with retroactive tax rebate cheques that were sent to taxpayers (a compromise granted to Democrats who wished to maximize this short-term economic stimulus).

The economy suffered another setback with the attacks of September 11, 2001. The recession was over by the end of November, however (8-month instead of a 10-month average). The recovery was slow and a steady stream of job losses occurred until 2003. Financial scandals involving Enron, Worldcom, and others, the wars in Afghanistan and Iraq and the many terrorist warnings (the infamous orange alerts) undermined the confidence of consumers and investors alike over an extended period. To provide stronger support for the rebound, Congress and the White House agreed to another tax cut in 2003. Much like the plan hammered out in 2001, these tax cuts were tailored to sunset in 10 years' time.

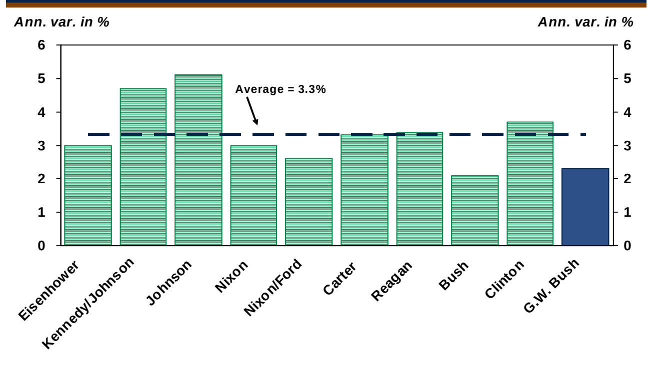
The remainder of the Bush years saw China rise as an economic powerhouse, the U.S. dollar drop, the real estate market's impressive growth (and meltdown), and hurricane-related shocks in 2005. President Bush also had to make several changes to his team of economic experts, with three men holding the position of Secretary of the Treasury during the Bush presidency: Paul O'Neil was appointed in 2001; John Snow was Secretary from 2003 to 2006, followed by Henry Paulson, who is still in office. Bush inherited Alan Greenspan, President of the Federal Reserve (Fed) since the end of Ronald Reagan's presidency. Greenspan's mandate was renewed once and he subsequently stepped down to be replaced by Ben Bernanke, the current Fed president.

Shifts in economic indicators

George Bush's first term began in the first quarter of 2001. What exactly transpired during the 30 quarters between then and the second quarter of 2008? Can any comparison with previous presidencies end up with a thumb's up to the current republican administration?

Real GDP has seen average annual growth of 2.3% since the start of 2001. This advance is somewhat weaker than the 3.3% average recorded since 1953. In fact, this is the weakest performance if we exclude the real GDP performance under George Bush Sr., who was president from 1989 to 1992 (graph 1). It is also 1.4 percentage points below the average annual gain in GDP seen during Bill Clinton's presidency.

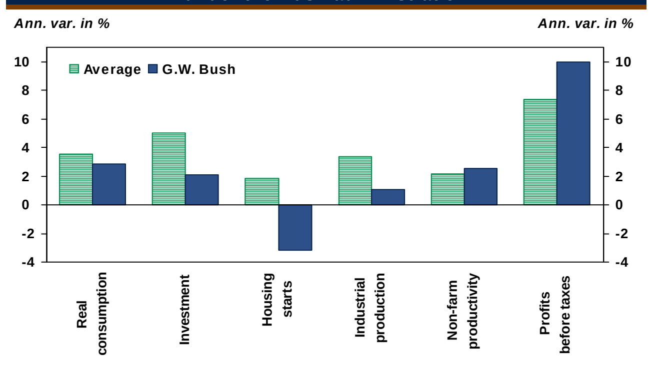
Graph 1 – Average annual real GDP growth under the presidents since 1953



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

George W. Bush's presidency also turned in a below average performance in terms of most of the main economic indicators, in real terms or volumes, namely consumer spending, non-residential business investment, housing starts and industrial production (graph 2).

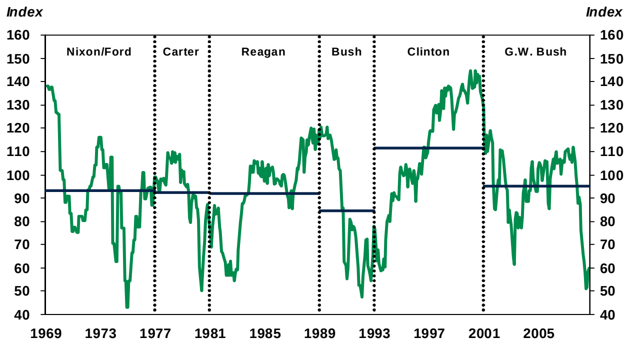
Graph 2 – Growth of several economic indicators is below average under the Bush administration



Sources: Bureau of Economic Analysis, Census Bureau, Federal Reserve Board, Bureau of Labor Statistics and Desjardins, Economic Studies

Not all comparisons are detrimental to President Bush, however. Since 2001, productivity has posted the best annual average growth since Lyndon B. Johnson's last term in office. Consumer confidence levels were also a bit higher, surpassed only by levels seen during the Clinton administration but this indicator is in a recent downward trend (graph 3).

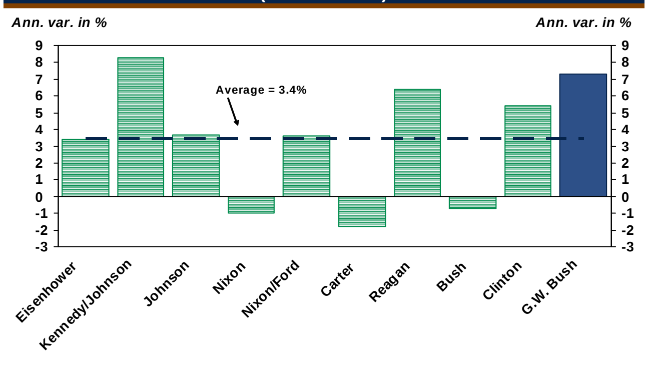
Graph 3 – Consumer confidence was highest under Clinton



Source: Desjardins, Economic Studies

Company profits grew exponentially during the Bush presidency. In current dollars, company profits made the best advances since Reagan and Bush Sr. and saw a net improvement vs. the Clinton years. The comparison is even better if we adjust the numbers for inflation to a real average increase of 7.6%, a peak since the Kennedy-Johnson era (graph 4).

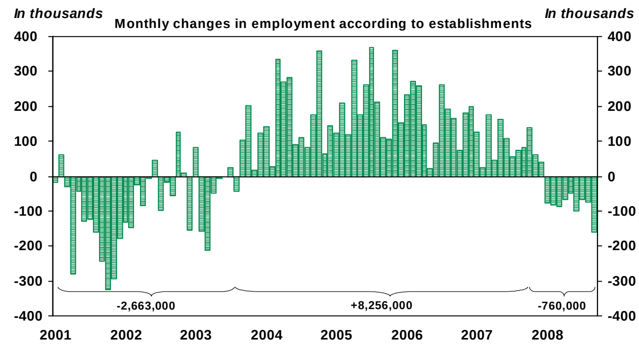
Graph 4 – Average annual real growth of business profits (before taxes)



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

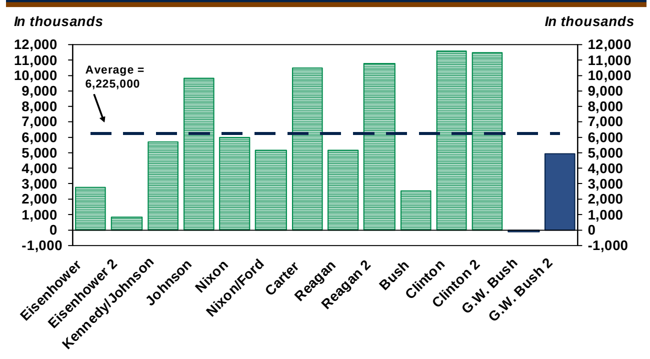
Labour woes were lifted during Bush's second term in office, the first years of his presidency being marred by a tough employment picture. The recession in 2001 was hard on the labour market, with job losses accumulating over a period of almost two years after hitting the official cyclical low in November 2001 (graph 5). Between January 2001 and August 2003, 2,663,000 jobs were lost, a 2.0% decline. Despite this setback, what followed was fairly positive at least until the end of 2007. From January 2001 to September 2008, 4,833,000 jobs were created during the Bush presidency. This result suffers, however, when compared to the gains made under Clinton where stronger economic growth (and no recessions) paved the way for 23,070,000 new jobs (graph 6). The unemployment rate was 4.2% when Bush was sworn in for the first time in January 2001. In September 2008, the unemployment rate was 6.1% (graph 7).

Graph 5 – Many jobs were lost at the beginning of Bush's first term in office



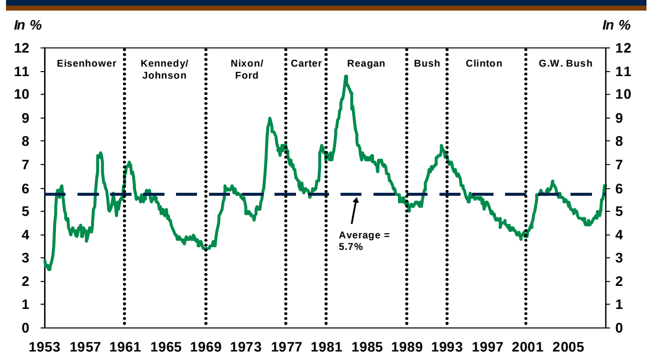
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Graph 6 – Job growth per presidential term



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

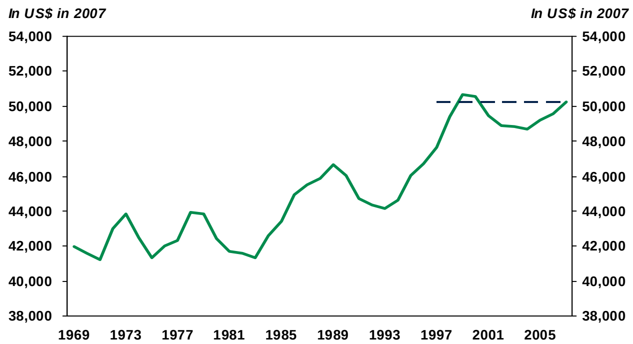
Graph 7 – Unemployment rate grew under the Bush administration



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

In the same vein, households' average hourly wages, adjusted for inflation, have grown by only 1.1% since January 2001 while they gained 6.7% over the eight years of the Clinton administration. Real median income has actually declined in the past eight years, falling from $50,577 in 2000 to $50,223 in 2007 (graph 8). If we remove 2001 and its recession from the equation, gains of $1,355 or 2.7%, were made between 2002 and 2007.

Graph 8 – Real median income has declined since 2000

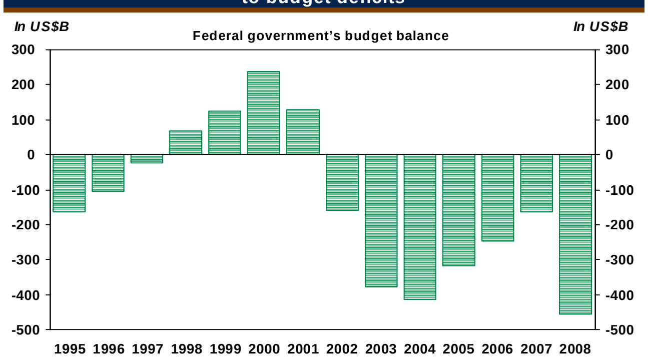


Sources: Census Bureau and Desjardins, Economic Studies

The fiscal situation

The federal government's finances have been severely tested these past few years. Fiscal choices, the economic conditions and the war against terrorism have been a burden on the government's fiscal balance. The 2000 budget year ended with a US$236.2B surplus and a public debt equal to 35.1% of the GDP. Deficits have been accruing since then and the debt grew by US$2,015.2B to reach 38.2% of the GDP. Graph 9 shows the federal government's budget balance since 1995.

Graph 9 – Bush's first term in office led to a return to budget deficits



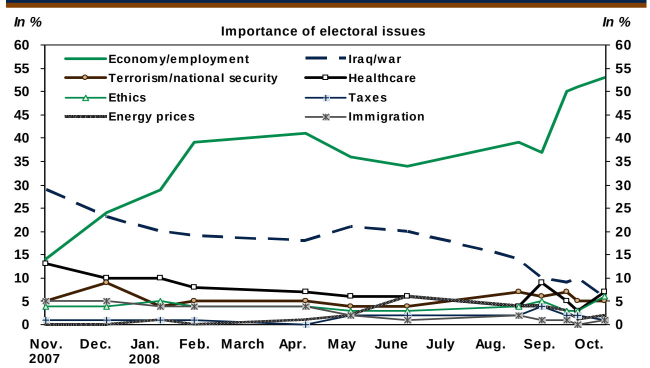
Sources: Office of Management and Budget, Congressional Budget Office and Desjardins, Economic Studies

We can observe that the situation improved during Bush's second term in office. The deficit stood at only US$162B in 2007. However, a new deterioration occurred during fiscal 2008, which ended on September 30. The economic slowdown, the different measures taken to support the real estate market, the higher cost of operations in Iraq due to the recent surge and the tax rebate cheques to stimulate the economy drove the federal deficit to above the US$400B mark.

II – THE ECONOMIC STAKES IN THIS CAMPAIGN

The reasons why voters support a particular candidate or party are many. Elections can never have only one single issue at stake. The personalities of the candidates, their platforms, social, fiscal, international and now environmental issues are all elements that shape pre-election sparring. Graph 10 shows how the major issues during this campaign have shifted. The economy/employment element is seen as the most important by far. However, the war and national security are also on the minds of voters. The turmoil that is overwhelming the U.S. economy and international financial markets has pushed the economic issue to centre stage. The recent shake-up in the markets, the financial sector's restructuring, mounting job losses, home foreclosures and the weak growth of real income are issues that are haunting this election.

Graph 10 – The economy is the major election issue



Sources: Washington Post and Desjardins, Economic Studies

The candidates' responses to these issues vary. Congress and the Bush administration took a first step with the *Emergency Economic Stabilization Act*, which included a US$700B plan to rescue financial markets. When this law was adopted by the Senate (after first being rejected by the House of Representatives), both presidential candidates, Barack Obama and John McCain, supported the resolution. The scope of the bailout plan and the weight that it will have on government debt will greatly limit the next administration's leeway. The contagion in the housing and financial sectors, and the intense tightening of credit, is increasingly being felt in the real economy. We cannot exclude the possibility that President Bush and Congress will adopt measures to provide additional support between the election in November and the transfer of power in January. However, if other short-term economic policies are adopted to stimulate the economy, it probably won't be before the new administration is in office.

While the economic situation has changed over the past few months, the Republican and Democratic platforms are based on a medium- and long-term horizon. Let's have a look at the positions taken by Barack Obama and John McCain on the economic issues in this campaign.

Taxes

The economic issues of this campaign are mostly centred on taxes. Two reasons explain the importance of this: for the past few decades, governments have stopped trying to influence economic activity directly through targeted spending. Cycles are modulated instead via taxes. To prove this, during the economic troubles of 2001 and 2008, Congress and the administration tried to stimulate growth by offering households tax relief via tax rebate cheques. They also tried to accelerate business investment by pumping up the tax deduction on them. Secondly, the next president will have to deal with the expiry of tax rebates granted in 2001 and in 2003. At expiry, the rates will go back to the level seen in 2000; this is slated to start at the end of 2010. Table 1 shows the tax rate in personal income before the tax cuts of 2001 and 2003, the current rates and the expected sunsets. Other measures were also adopted, such as reducing the tax rate on capital gains (from 20 to 15%), the elimination of specific taxes on dividends (the rate fell from 39.6% to the capital gains rate of 15%), and the gradual reduction of estate taxes before they are fully eliminated in 2010. From 2001 to 2010, this is estimated at more than US$2,200B (including the indirect effect of additional debt servicing charges), or 1.7% of the GDP. This amount represents 78% of actual and anticipated deficits for this period. Renewing these fiscal measures until 2018 would cost US$2,827B according to the Congressional Budget Office (CBO). Each candidate would like to renew at least a portion of these tax cuts.

John McCain would like to extend the measures that were adopted under George W. Bush (and yet McCain was one of the only Republican senators who voted against these tax cuts in 2001 and 2003). He would like push through a tax rate of 15% on estates (currently at 45% with a temporary lifting in 2010) and he would increase the exemption from $3.5M in 2009 to $5M. McCain would also like to double the tax deduction for children, which is currently at $3,500. For business taxes, the Republican platform calls for an overall cut in tax rates: the maximum rate would fall from 35 to 25% and the surtax at certain income levels would be eliminated. Other measures tied to investment amortization, health insurance and research would be either increased or implemented.

For Democrats, Barack Obama would keep the tax rates set in 2001 and in 2003 for the four lowest income brackets. Rates of 36 and 39.6% would be put into effect for the two highest tax brackets. The maximum tax rate on capital gains would be set at 20% for taxpayers with incomes greater than $250,000. The maximum tax rate on estates would remain at its current level of 45% with an exemption of $3.5M. Several other measures that could be considered as tax cuts were also proposed. The Democratic platform also includes a new reimbursable tax credits for workers, a new feature when deducting mortgage loan interest, a new savings credit (in addition to a proposal that would see workers automatically enrolled in their employer-sponsored retirement, with the possibility of withdrawals), increased tax credits for post-secondary education expenses, increased earned income tax credits, more deductions for children or dependents (in addition to making these deductions reimbursable), and the exemption of income taxes for seniors (65+) who earn less than $50,000.

Fiscal measures and income redistribution

The big difference in the plans put forth by Obama and McCain is income redistribution. While McCain wants to bring back the basic elements of Bush's tax cuts, Obama is trying to restructure these measures to help the less fortunate. It must be said that the tax laws adopted under George Bush are widely acknowledged to have benefited taxpayers from higher income brackets. While 72.8% of taxpayers saw their taxes drop (including a projection until 2010), the rebates in dollars and the change in the tax rate is even greater for

Table 1
Marginal tax rate on personal income 2000-2011

	Rate (in %)					Brackets (in $)
Income bracket	2000	2001	2002	2003-2010	2011	2008
First	15.0	10.0	10.0	10.0	15.0	0 to 8,025
Second	15.0	15.0	15.0	15.0	15.0	8,025 to 32,550
Third	28.0	27.5	27.0	25.0	28.0	32,550 to 78,850
Fourth	31.0	30.5	30.0	28.0	31.0	78,850 to 164,550
Fifth	36.0	35.5	35.0	33.0	36.0	164,550 to 357,700
Sixth	39.6	39.1	38.6	35.0	39.6	357,700 and higher

Source: Internal Revenue Service

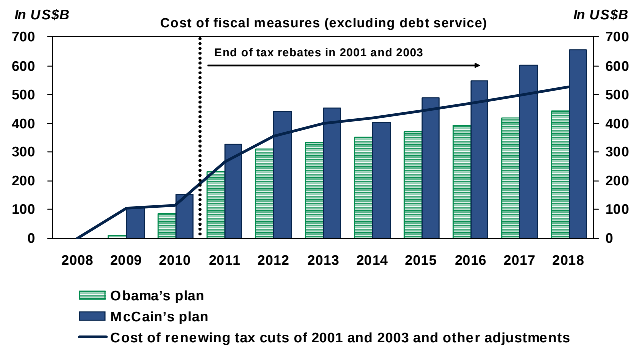
higher incomes (table 2). In fact, those with average incomes did not fully benefit from tax cuts proportionally, while the 1% of taxpayers with higher incomes received 30% of all tax cuts. Any renewal of these measures as they currently stand would continue to favour the same income earners, and any return to square one as provided for in the current law would be especially painful for these same households.

Table 3 shows the effect of McCain's and Obama's platforms on the effective tax rate per income class. Some of the measures proposed such as increased tax credits for children would be a big help to struggling households. However, Barack Obama's platform, which proposes to restore the tax rates for higher income households back to their levels in 2000, is tantamount to a net increase in the tax rate for these households while McCain's platform proposes few changes to income distribution.

Cost of fiscal measures

While McCain wants to restore the overall fiscal measures adopted between 2000 and now and even increase some of these, the total cost of these measures is higher than his Democratic opponent's. Obama intends to pay for a portion of these new proposals by increasing taxes for the wealthiest households. Between 2009 and 2018, Obama's taxation plan would cost, according to the Tax Policy Center, approximately US$2,948B vs. a situation where the tax cuts for 2001 and 2003 would end as currently expected. The Republican platform would add up to US$4,171B. The new measures are obviously

Graph 11 – McCain's proposed fiscal measures are more expensive



Sources: Congressional Budget Office, Tax Policy Center and Desjardins, Economic Studies

Table 2
Effect of tax cuts adopted by George W. Bush (until 2010)

Income quintile	Percentage who received tax cuts (in %)	Changes in tax rates (in %)	Average tax changes (in $)	Tax cut share (in %)
First	15.8	-0.3	-26	30.0
Second	69.0	-1.8	-387	4.1
Third	83.9	-1.8	-699	7.5
Fourth	96.3	-2.0	-1,392	14.9
Fifth	99.2	-3.1	-6,826	73.1
1% for the wealthiest	98.7	-4.3	-56,051	30.0
Total	72.8	-2.6	-1,869	100.0

Source: Tax Policy Center

Table 3
Effective income tax rates and the candidates' proposals

Income quintile	Current law (with return to 2000 levels)	With extension of 2001 and 2003 tax cuts	McCain's proposals	Obama's proposals
First	5.9	2.1	1.7	0.4
Second	18.1	16.2	15.3	16.7
Third	21.1	18.8	18.3	19.4
Fourth	25.1	20.6	20.2	21.4
Fifth	32.7	29.6	29.6	31.7
1% for the wealthiest	39.8	32.8	32.7	39.4
Total	26.8	23.5	23.2	24.8

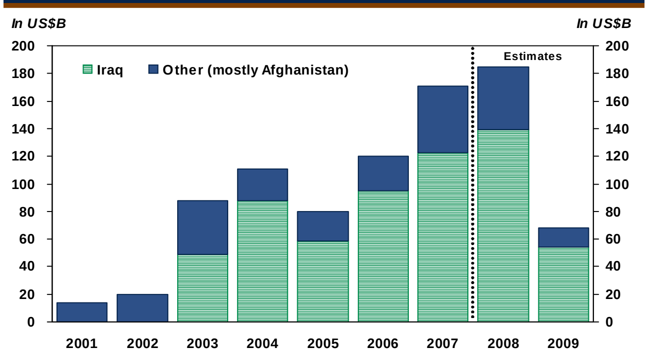
Source: Tax Policy Center

not the most expensive, but extending the tax cuts currently in place would be. Note that the CBO estimates the cost of this renewal to be $4,375 including debt service, or $2,827B for the tax cuts of 2001 and 2003 in addition to the extension of other fiscal measures, plus the adjustments to the Alternative Minimum Tax (AMT). The fiscal measures proposed by the Democrats would reduce the deficit relative to a tax cut extension policy, while the shortfall would widen under John McCain's plan (graph 11).

The war in Iraq

The war against terrorism launched by the Bush administration in the days following the attacks of September 11, 2001, has been the major political thrust in the past few years. The efforts of the U.S. military, especially the war in Iraq declared in March 2003, are now part of the political and economic landscape. Since 2001, the war against terrorism–operations in Afghanistan and Iraq–have cost US$604B (US$790B if we include 2008 forecasts) (graph 12). Since the start of military operations, the average monthly budget cost of the war in Iraq is US$8.4B.

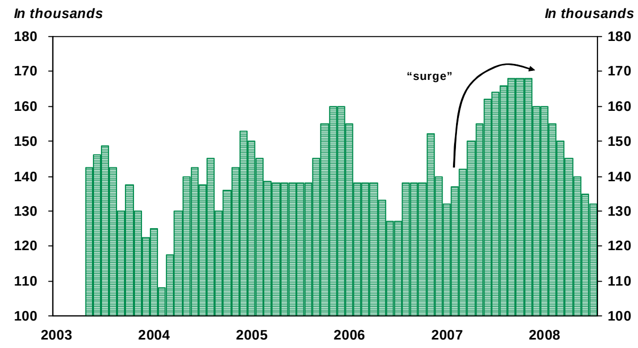
Graph 12 – Budget costs of the war on terrorism



Sources: Congressional Budget Office and Desjardins, Economic Studies

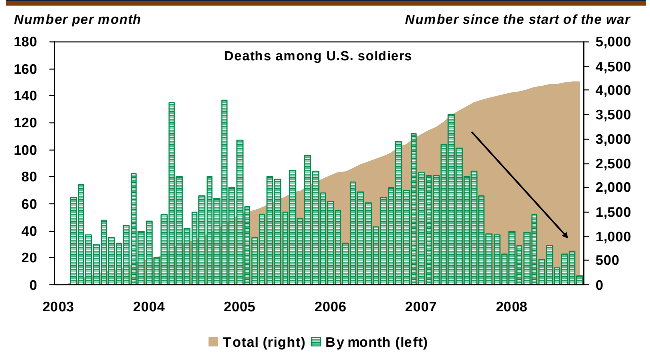
The U.S. currently has 130,000 soldiers in Iraq. This presence was increased considerably in 2007 under an adopted "surge" strategy. The U.S. government's costs have risen concurrently. During the 2007 and 2008 budget years, the average monthly cost of military operations in Iraq was US$10.6B, almost double the average cost of US$5.8B recorded between 2004 and 2006. According to the Pentagon however, this operation was a success. In September 2008, the *Report to Congress: Measuring Stability and Security in Iraq* stated that the general situation in Iraq had largely improved and that the military surge had been an important factor behind this improvement. Graph 13 shows the number of U.S. soldiers in Iraq. Since reaching a peak at the end of 2007, this number has continued to decline. The number of casualties among U.S. soldiers is also down (graph 14) as is the frequency of security incidents (enemy attacks, bombs,

Graph 13 – The number of U.S. soldiers in Iraq is now falling



Sources: GlobalSecurity.org and Desjardins, Economic Studies

Graph 14 – U.S. Military reporting fewer casualties



Sources: icasualties.org and Desjardins, Economic Studies

etc.), civilian deaths, and casualties among members of the coalition and Iraqi forces. According to the above-mentioned report, the situation remains fragile.

Republicans agree that war should continue to be waged until victory is assured, meaning that the government of Iraq should be able to "govern the country and protect its people." McCain is especially opposed to any early withdrawal and does not want to impose any set timetable. However, in a speech delivered last May, McCain said he hoped to withdraw troops sometime in January 2013. He had also mentioned however that he was comfortable with the idea of a U.S. military presence in Iraq for the next 100 years. McCain supported the recent military surge.

For Democrats, an Obama presidency would lead to quick withdrawal from Iraq at a pace of two squads per month (a squad is equal to about 1,500 to 4,000 soldiers). The withdrawal would be complete in 16 months–by the summer of 2010. Democrats would instead commit more resources to Afghanistan in order to fight Al Qaeda, Osama Bin Laden and the Taliban more effectively. Residual forces would remain in Iraq to protect diplomatic personnel and

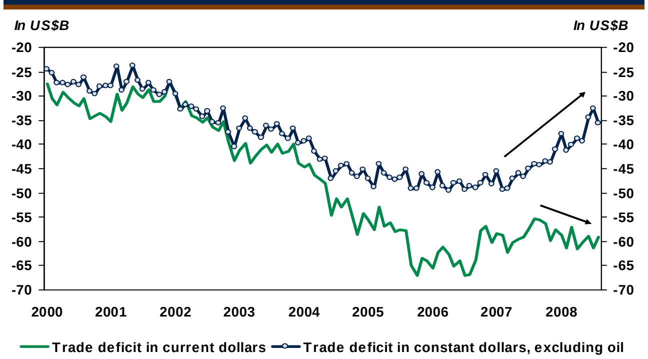
U.S. civilians and orchestrate attacks against Al Qaeda. Barack Obama and Joe Biden opposed the military surge policy.

International trade

With the implementation of multilateral agreements and free-trade accords, the protectionist views held by the United States have diminished significantly. That said, the Bush administration's and Congress's record on free trade is still tainted. Here in Canada, we still remember the trade battle over softwood lumber. In March 2002, the U.S. government imposed a controversial measure to limit steel imports especially from Europe, which was decried by the WTO and soon withdrawn by the United States. Different settlements have been reached over the past few years to try to limit the number of imports from China. The protectionist fervour of the Bush administration calmed down during Bush's second term.

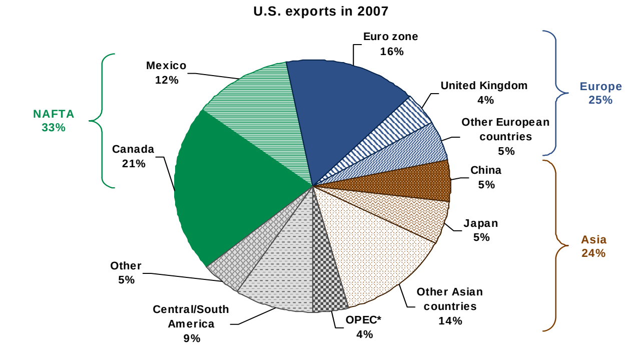
It must be noted that the U.S. economy's growth is increasingly dependent on foreign trade. In the second quarter of 2008, net exports, adjusted for inflation, contributed the most to real GDP growth since 1980. Without this contribution, the economy would have declined last spring! Obviously, this gain was boosted by the drop in value of the U.S. dollar. As long as the dollar allowed U.S. producers to remain competitive on the international stage, the protectionist fervour calmed down. The current administration continued to compel the Chinese authorities to exercise flexibility in their trade practices, especially in terms of their currency's value. Other protectionist pressures were being felt, particularly with regard to the outsourcing of service-related jobs. If we exclude price increases for oil imports, the U.S. trade balance actually improved these past few years (graph 15). The partners who signed the North American Free-trade Agreement (NAFTA) with the United States are the biggest buyers of U.S. exports. However, imports from China are more important (graphs 16 and 17)

Graph 15 – Trade balance shows net improvements in real terms



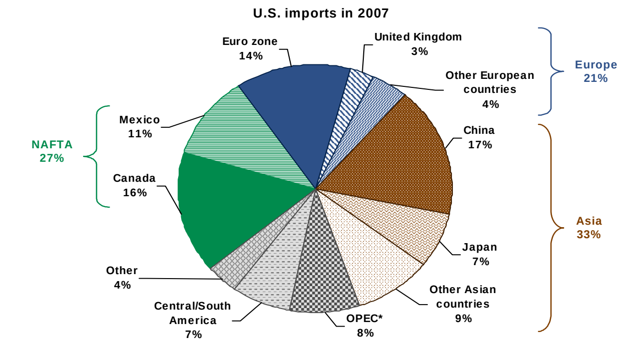
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 16 – Large portion of U.S. exports go to NAFTA partners



* Organization of Petroleum Exporting Countries.
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 17 – Imports stem mostly from Asia, especially China



* Organization of Petroleum Exporting Countries.
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

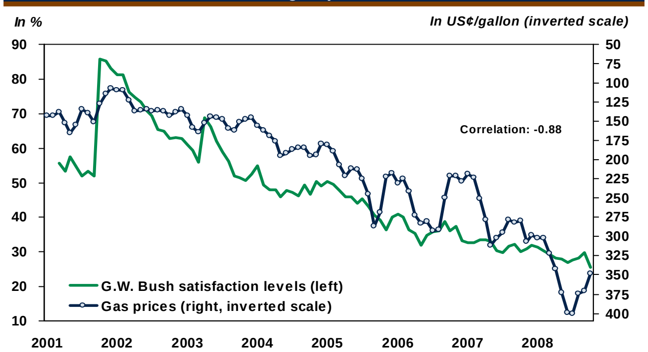
John McCain is resolutely in favour of free trade. He has a spotless record on free trade and he supported NAFTA in 1993. He refers to himself as the "the biggest supporter of free trade you will ever see." And he would like to see the United States take part in multilateral, regional and bilateral efforts to slash trade barriers. McCain obviously supports all current and proposed free-trade agreements (agreements with Colombia and South Korea are awaiting approval from Congress).

Barak Obama's position on free trade is not quite as clear. He has voted in favour of free trade only four times in the 11 votes that have taken place on this subject. The Democratic platform clearly mentions that "Obama and Biden believe that NAFTA and its potential were oversold to the American people" and he hopes to "fix" the accord. The changes requested involve mostly labour and environmental standards. In several interviews, the Democratic candidate however moderated his concerns about the accord, saying that he "does not plan on re-opening any unilateral talks on NAFTA."

Energy and the environment

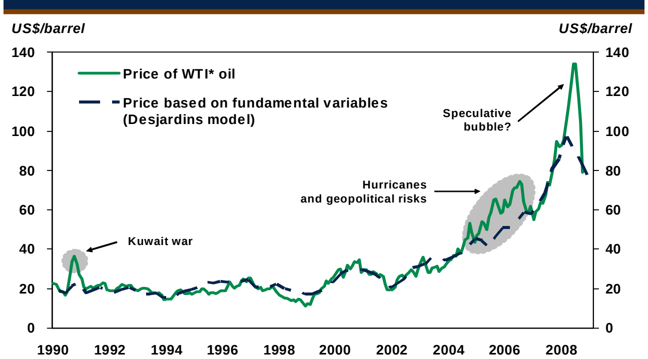
Since January 2001, energy prices have soared by 94.2% according to the consumer price index. This increase in energy prices, a commodity whose consumption cannot be quickly curtailed in the short term, is weighing heavily on household finances–acting much like an income tax. Rising energy prices are one of the main causes of the slowdown in household spending. In fact, higher gas prices were a major factor in the low satisfaction levels among voters with the Bush administration (graph 18). Especially since it is widely believed that rising costs for energy and other raw materials did not stem from changes in U.S. demand, but from growing needs in developing nations, particularly in China and India. Since speculation on oil prices has dwindled and oil prices have retreated to a level that is closer to what the fundamentals show (graph 19), there is much less pressure to adopt policies for an energy crisis. Over the summer, this subject had become more important in the minds of voters, but the current economic turmoil has become topic number one. We can assume that the temporary lifting of the gas tax as proposed by McCain and the Republicans, and Hillary Clinton for the Democrats, is no longer really necessary since oil prices have fallen by 50% since mid-July.

Graph 18 – Satisfaction with President Bush seems tied to gas prices



Sources: Energy Information Administration, Washington Post and Desjardins, Economic Studies

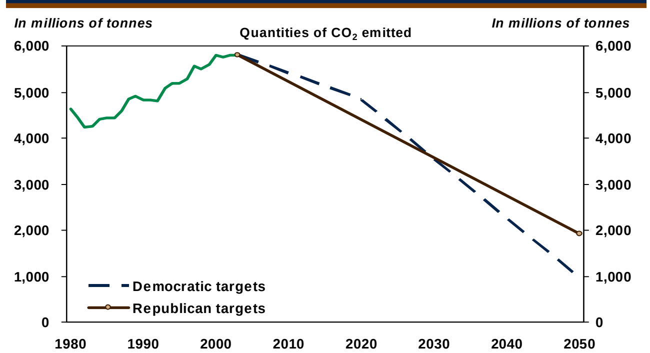
Graph 19 – Oil prices inched closer to equilibrium value



* West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

Other than the lifting of the gas tax, the main policy proffered by John McCain to deal with the oil crisis is his support for lifting the embargo on off-shore drilling. This embargo was implemented by the Congress in 1981 and again in 1990 by President Bush Sr. and was recently lifted by George W. Bush. The vice-presidential candidate, Governor of Alaska Sarah Palin, also repeatedly expressed her support to opening the Arctic Wildlife National Refuge to oil exploration. McCain also strongly supports increasing the capacity to produce nuclear energy (via a project to build 45 new nuclear power plants by 2030). The Republicans are not looking to subsidize alternative energy sources (wind energy, hydro- and solar electricity), opting instead for market solutions. Several measures aimed at limiting dependency on oil have also been proposed. With regard to greenhouse gases, McCain is aiming for 60% below 1990 levels by 2050 (graph 20).

Graph 20 – Ambitious targets for greenhouse gas emissions



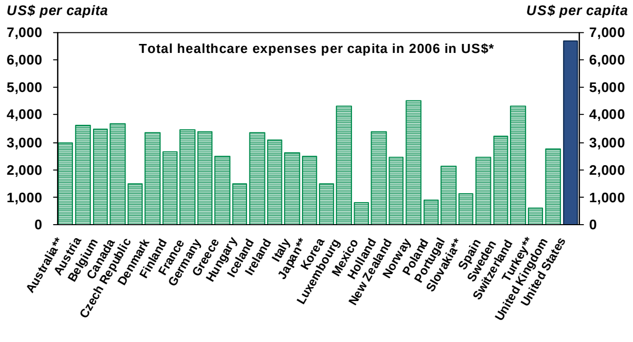
Sources: United Nations, candidates' Internet sites and Desjardins, Economic Studies

For Democrats, Obama is against lifting the embargo on off-shore drilling (he was also opposed to any temporary lifting of the gas tax). A Democratic administration would invest US$150B over 10 years in developing clean energy sources. Another US$10B would be earmarked to an investment fund aimed at broadening and marketing the use of clean technologies. Obama would also like to impose an additional tax on oil companies and redistribute the sums collected as tax rebates for households. In terms of greenhouse gas emissions, Obama would like the United States to reach the target of 80% below 1990 levels by 2050.

Social programs: health and Social Security

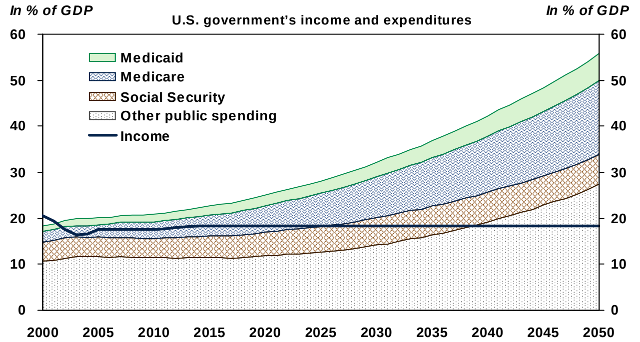
In 2007, 45.7 million Americans did not have health insurance, or 15.3% of the population. With the layoffs that continued to mount in 2008, we can assume that this number is already higher since 87.8% of those who benefit from private health insurance have employer-related plans. And yet the healthcare sector is expensive for Americans. On a per capita basis, healthcare-related spending reached US$6,714 in 2006, the highest figure by far among all OECD countries (graph 21).

Graph 21 – Healthcare spending is higher in the U.S.



* Based on purchasing power parity; **2005 data.
Sources: Organisation for Economic Co-operation and Development and Desjardins, Economic Studies

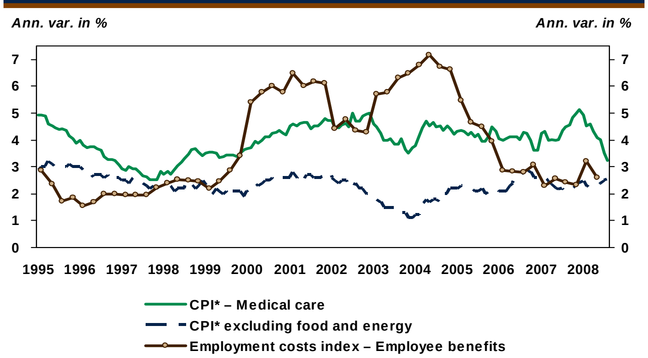
Graph 23 – Funding for social programs could be a problem



Sources: Congressional Budget Office and Desjardins, Economic Studies

Government spending was also quite high even though only 27.8% of Americans benefit from government-sponsored health insurance. Medicare (medical assistance for the elderly and the disabled) and Medicaid (medical assistance for low-income earners) cost US$627B in 2007. Health-related costs are also rising: the consumer price index tied to healthcare has shown an annual average increase of 4.3% since 2000 (graph 22). This increase is an important burden on households, businesses and the government.

Graph 22 – Healthcare costs have soared since 2000



* Consumer price index.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

The aging of the population is yet another major factor that should increasingly weigh down public health insurance programs. This phenomenon also poses a problem for another federal program: Social Security. Since this program is funded through a dedicated tax, this old-age pension program currently shows a surplus. According to the CBO, the surplus situation should continue until 2018. However, deficits could continue to mount until all dedicated funds are exhausted by 2049. These social programs are facing major challenges and short-term demands–like broadening healthcare coverage–have to be balanced with long-term financing needs (graph 23).

John McCain opposes any federally-imposed obligation to offer full healthcare coverage to all Americans. Instead, he has proposed a reimbursable tax credit–$2,500 per individual, $5,000 per family, to be sent to insurers' directly–to provide greater access to all types of health insurance plans. He has also discussed deregulating the health insurance industry, notably by opening trade between states nationwide. On Social Security, McCain wants to try a bipartisan approach with the Congress. He is opposed to increasing Social Security taxes, but is open to a possible cut in benefits. McCain favours setting up private plans where households can inject and invest a portion of their Social Security taxes themselves.

In his platform, Barack Obama has strongly emphasized the need to increase healthcare coverage. He would like to set up an insurance program for individuals who do not have access to employer-sponsored private or government programs. This insurance would be much the same as the system in place for federal employees. With the exception of children, coverage would not be mandatory. Households could opt for a private program, a choice that would be easier to make by establishing a nationwide health insurance market. On Social Security, Obama is also in favour of a bipartisan agreement. He is open to increasing the portion of income that is subject to Social Security taxes.

Housing and the financial crisis

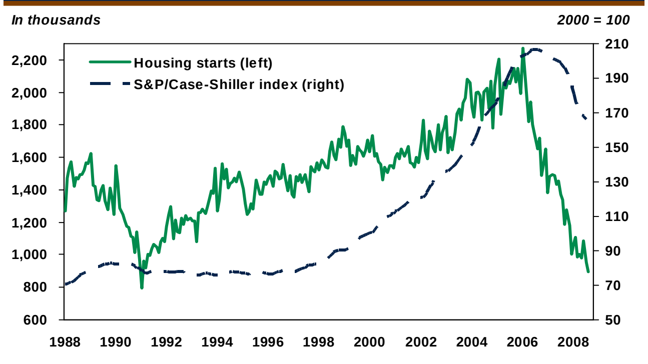
Increasing the rate of home ownership in the U.S. has been the objective of every American president. This goal was an important element in the Bush platform during the 2004 presidential campaign:

> "Another priority for a new term is to build an ownership society, because ownership brings security, and dignity, and independence. Thanks to our policies, homeownership in America is at an all-time high. Tonight we set a new goal: seven million more affordable homes

> in the next 10 years so more American families will be able to open the door and say: Welcome to my home."
>
> George W. Bush, September 2, 2004, during the Republican Convention

The rate of home ownership has in fact increased in the U.S. since 2000, rising from 67.5% at the end of 2000 to 69.2% by the end of 2004. However, the current crisis in the real estate market has seen this level fall to 68.0% in the summer of 2008. Home foreclosures continue to climb (1 household in 416 in August 2008) and the tightening of credit conditions will limit access to home ownership or reduce the number of owner-occupants. In addition, declining home prices–prices have fallen by 19.5% since reaching their peak in 2006 (graph 24)–are having many homeowners paying down a mortgage loan that exceeds the value of their homes (almost 1 in 6 according to the *Wall Street Journal*).

Graph 24 – Housing starts and home prices tumble

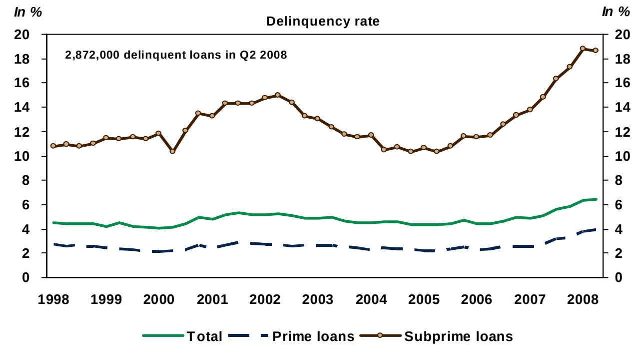


Sources: Standard & Poor's, Census Bureau and Desjardins, Economic Studies

The situation in the real estate market remains extremely difficult. After posting an increase of 48.4% between December 2000 and January 2006 (the peak), housing starts have since plummeted by 60.6% and have yet to hit bottom. The explosion of this bubble has exposed the fragile nature of the mortgage market and the financial sector. The jump in the delinquency rate on mortgage loans (graph 25) set a crisis in motion that has now spread beyond the U.S. borders. Central banks and governments are now coming to the rescue of the economic system. In the United States, the rescue is the Paulson Plan: a US$700B bailout adopted by Congress and signed by the President on October 3, 2008. Both presidential candidates voted in favour of this plan during the Senate vote.

Among the other solutions put forth by the candidates, John McCain would like to extend mortgage insurance from the Federal Housing Administration (FHA) to cover mortgages that are in trouble. During the second presidential

Graph 25 – Mortgage loan delinquency remains very high, especially for subprime loans



Sources: Mortgage Bankers Association and Desjardins, Economic Studies

debate, McCain proposed to use US$300B of the US$700B Paulson Plan to buy back these mortgages directly and to refinance them, at fixed rates and guaranteed by the FHA, based on the new home prices. He also proposed increasing regulations and launching a federal inquiry into the actions of mortgage lenders.

Barack Obama also wants to extend federal insurance to cover mortgages that are in trouble. He has also proposed to offer help to communities that are grappling with high foreclosure rates or abandoned homes. Moreover, Obama wants to allow the bankruptcy courts to modify mortgage loan conditions and increase regulations as well as the powers of the Fed. In a recent speech, Obama discussed new proposals, such as a temporary tax credit for companies that create new jobs, a measure that would allow households to withdraw funds from their retirement plans without any tax penalties, a moratorium on home foreclosures and credit facilities extended by the Treasury and the Fed for towns and states.

III – THE COST OF MAIN PROPOSALS AND FISCAL BALANCE

Table 4, created by a non-partisan organization, The Committee for a Responsible Federal Budget, examines the measures proposed by both candidates. The estimated costs are presented for the 2013 budget year (when most measures promised should be in place). The cost of recent measures proposed by Obama and McCain to deal with the current economic and financial crisis were not accounted for because they will be phased out in 2013.

As mentioned earlier, the federal government's financial situation was mishandled under the Bush Administration. The deficit for the 2008 budget year is US$455B, the highest it has ever been in current dollars. In addition, the many measures put forth to counter the financial crisis could further deteriorate public finances, and, even if these measures do not have any net impact on commitment accounting (when

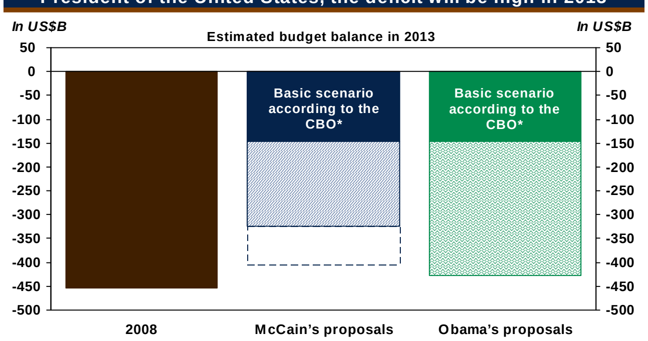
Table 4
List and cost of main measures proposed by the candidates (2013)

John McCain		Barack Obama	
Measures	**Budgetary effects (US$B)**	**Measures**	**Budgetary effects (US$B)**
Renewal of tax cuts	-294	Renewal of tax cuts	-294
Estate taxes	10	Increasing taxes on highest incomes	48
Adjustments and overhaul of the Alternative Minimum Tax	-107	Increasing taxes on capital and dividends	28
Doubling the exemption for dependents	-30 to -15	Estate taxes	44
Reducing business taxes	-68 to -55	Adjustments to the Alternative Minimum Tax	-106
Accelerating expense amortization	+25 to -15	New tax credit for workers	-72
Research credits	-13	Increasing the earned income credit	-5
Eliminating fiscal loopholes, including oil companies	35	Eliminating taxes for some seniors	-7
Fiscal overhaul	0	New reimbursable credit on mortgage loan interest	-13
		New education credit	-13
		Increasing credits for children and dependents	-3
		Tax measures on savings	-21
		Elimination of tax loopholes	75
		Cuts to some business taxes	-13
		Making tax credits for research permanent	-10
		Taxes on some interest income sources	2
Total taxation	**-414 to -482**	**Total taxation**	**-360**
Creating a reimbursable healthcare tax credit	-288	Extending health insurance coverage and reducing healthcare costs	-65
Eliminating the tax exemption for employer-sponsored health insurance plans	201	Adjustments to Medicare	-43
Extending personal savings accounts tied to healthcare	-9	Reducing Medicare costs	43
Setting up a guaranteed access program	-8		
Setting higher Medicare premiums for wealthier individuals	2		
Reducing healthcare costs	85		
Total healthcare	**-17**	**Total healthcare**	**-65**
Setting up a cap and trade system for carbon emission rights	5	Setting up a cap and trade system for carbon emission rights	100
Investment in ecological technologies	-5	Investment in ecological technologies	-85
		Tax rebates and support during transition	-15
Total energy and environment	**0**	**Total energy and environment**	**0**
Aid to older workers	-4	Education spending	-18
Elimination of some earmarks targeted by Congress	35	Investment in infrastructures	-6
Freeze on discretionary domestic spending	21	Research spending	-15
Fully funding the *No Child Left Behind* program	0 to -13	Additional support for higher education	-9
Military spending	-15	Elimination of the *Federal Education Loan Program*	4
Gradually reducing military presence in Iraq	103	Doubling foreign aid	-25
Unspecified budget cuts	114	Military spending	-20
		Reducing military presence in Iraq	156
		Unspecified budget cuts	77
Total other	**+241 to +254**	**Total other**	**144**
TOTAL McCAIN	**-177 to -258**	**TOTAL OBAMA**	**-281**

Source: Committee for a Responsible Federal Budget governments buy assets), the public debt inevitably deepens in the short term. Even measures enacted by the Fed could have an impact since they are designed to limit the surplus transferred by the Fed each year to the government (US$32B in 2007) in addition to its need for treasury bills and federal bonds. Therefore, the federal government has very little leeway. If the presidential candidates are concerned about maintaining a measure of financial balance, they may have to review their proposals. Barack Obama already touched on this possibility during the presidential debates, but was somewhat vague on the subject.

Each candidate hopes to balance the budget. The measures put forth for 2013 in table 4 do not leave much room for this in the short term (graph 26). Even cost cutting measures and initiatives to trim the government machine, while fairly vague, cannot completely counter the amounts required to support the new measures or to redirect the Bush administration's tax cuts, either totally or partially. McCain has clearly emphasized his proposal to freeze all discretionary spending but unfortunately this would lead to savings of only US$21B. The estimated cost of all measures proposed by the Republican candidate for 2013—from US$177B to US$258B—in addition to the projected deficit of US$147B for that year, casts serious doubt on McCain's promise to achieve a balanced budget for that budget year. For Democrats, the total cost of measures proposed by Obama (US$281B in 2013) will make it even more difficult to achieve a zero deficit in the medium term. However, the less dogmatic approach of Democrats towards taxation—remaining open to possible tax increases if the fiscal situation so requires—is a step in the right direction towards improving the fiscal situation. Furthermore, Obama has on several occasions stated that he is in favour of bringing back PAYGO (pay-as-you-go) that requires Congress to adopt fiscally-neutral laws. In other words, each new expense or tax cut must be coupled with a measure that increases income or cuts spending in another program. This rule, which helped restore fiscal discipline

Graph 26 – Regardless of who becomes President of the United States, the deficit will be high in 2013



* Congressional Budget Office.
Sources: Congressional Budget Office, Committee for a Responsible Federal Budget and Desjardins, Economic Studies

during the 1990s, became outdated in 2002 and attempts to breathe new life into it failed.

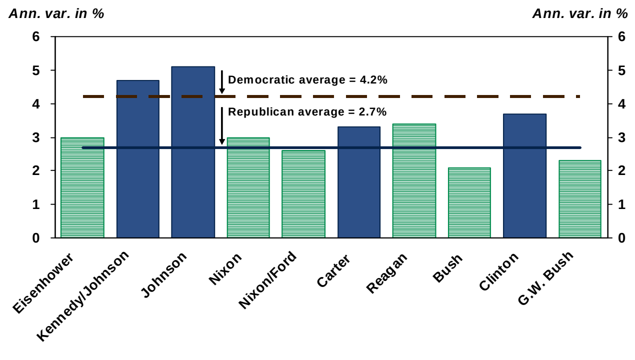
Lastly, the next administration, regardless of which party wins, will probably have to hammer out a new short-term economic stimulus package jointly with Congress at the start of 2009. In addition, the needs of the Federal Deposit Insurance Corporation (FDIC), the government agency that insures bank deposits, are sure to grow now that 14 financial institutions have already been put under FDIC trusteeship this year alone, and this number is expected to increase. These factors, in addition to slowing revenues due to the recession, suggest that the budget deficit–and mostly the public debt–will experience significant deterioration in the coming years.

IV – IS THERE A DIFFERENCE BETWEEN REPUBLICANS AND DEMOCRATS?

Since 1953, Republicans have occupied the White House through nine four-year presidential terms vs. five four-year terms for Democrats. Does the economy behave any differently if the President hails from one party over another? Several economic indicators appear to show tangible differences. However, overriding circumstances also play a major role. The last two Republican presidents, Bush Sr. and Bush Jr., had to deal with recessions while the Chief Executive between the two Republicans, President Clinton, presided over the U.S. during a period of strong economic growth and desinflation which saw interest rates decline. It is also difficult to say whether the measures adopted by the administrations actually lead to changes in the economic environment or do they just hope to ride the economic wave? Can we blame President Bush Sr. for the Savings and Loan (S&L) debacle or President Bush Jr. for the impact left by the bursting of the Internet bubble? Incidents like wars can also make it difficult to make comparisons. Furthermore, political platforms are often murky. Nixon instituted many measures that could be qualified as leftist while Clinton adopted a centre-right fiscal policy. Lastly, the president is not the only one who spearheads economic policies; Congress and the Fed has its say on policy issues. When making comparisons, we have to careful not to look for cause and effect relationships.

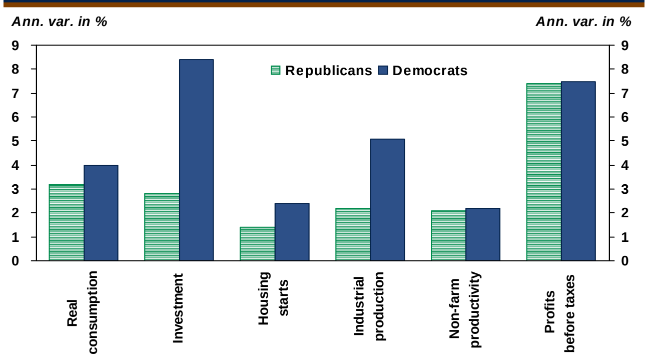
Graph 1 on page 2 shows that under George W. Bush, the real GDP's performance was less than stellar. Graph 27, highlighting the same data, shows that economic growth is largely superior when the Democrats are in power. The Republicans have a score of 2.7% while Democrats' scored 4.2%. Graph 28 shows that this observation is valid for several elements included in the GDP. However, we note that this finding applies less to worker productivity and company profits. It bears mentioning that both of these indicators performed well with George W. Bush in the White House.

Graph 27 – Real GDP growth based on the parties



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

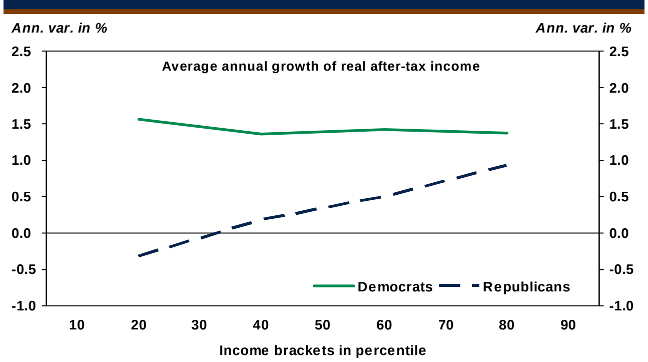
Graph 28 – Several economic indicators show stronger growth under Democrats



Sources: Bureau of Economic Analysis, Census Bureau, Federal Reserve Board, Bureau of Labor Statistics and Desjardins, Economic Studies

Another element that distinguishes a Democratic president from a Republican is an important theme in this current election campaign: income redistribution. Graph 29, drawn from the book written by Larry M. Bartels entitled *Unequal Democracy*, shows that the income of lower income earners grows (or declines) at a slower rate when the Republicans are in power while wealthier incomes grow at a much faster pace. When the Democrats are in power, the real growth of

Graph 29 – Income disparity widens under a Republican president



Source: Larry M. Bartels, *Unequal Democracy*, 2008

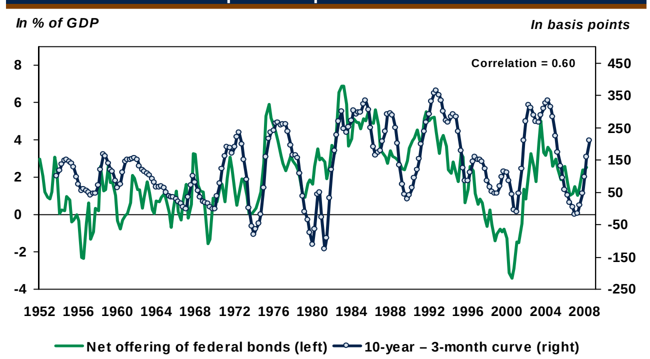
disposable income stays the same, depending on the income bracket. The impact of a Republican president is broadened economic disparity while Democratic presidents do not reverse the situation – leading to wider gaps between social groups. Based on the fiscal policies proposed by each of the candidates, this divide between Republicans and Democrats is expected to remain.

VII – REPERCUSSIONS ON FINANCIAL MARKETS

The bond market

The additional debt added to the deficits due to the costs of implementing the campaign promises made by Barack Obama and John McCain would be unfavourable to the federal bond market, in theory. An influx of additional bonds would lead to lower prices and demand for a better yield from these bonds. At the same time, any sustained increase in the government's financial needs would normaly accentuate the slope of the performance curve (graph 30).

Graph 30 – Any deterioration in the tax situation should accentuate the slope of the performance curve



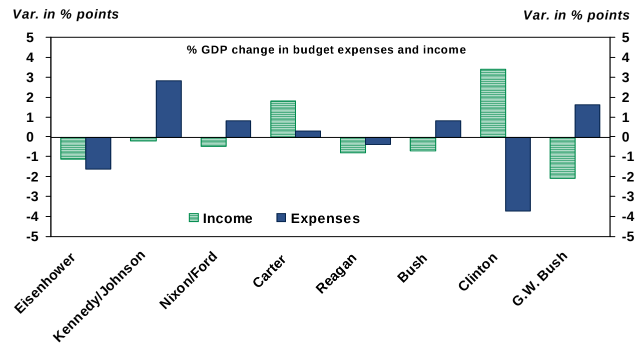
Sources: Federal Reserve Board and Desjardins, Economic Studies

However, compared to the current situation where the deficit cracked the US$450B threshold in 2008, and especially compared to the deterioration forecast for 2009 due to this financial crisis, the marginal effect of the both plans proposed by the candidates in this campaign should be fairly limited. It's the enormous amounts the federal government has already committed to—the US$700B Paulson Plan—that could be cause for concern. This asset buyback program should not have any net impact on the deficit and will not increase public spending, which could accelerate inflation. Moreover, the current and expected demand for a safe-haven the U.S. the bond market represents, the desinflation caused by the economic slowdown and the decline in raw materials prices more than offset the risks of an excessive supply of Treasury securities.

Since the most expensive elements of both candidates' platforms are based on a policy that is already in effect, the tax rebates of 2001 and 2003, the government's financial situation should not be overly effected compared to current circumstances. Moreover, as shown previously, since there would be not much difference in the fiscal balance under an Obama or McCain administration, any divergence would stem from elements that either candidate has yet to fully disclose, like budget cuts. As such, it is difficult to forecast what any real consequences would be for holders of U.S. federal bonds based on who wins this election. That said, Barack Obama's proposals to help local and state administrations finance themselves during this credit crunch could help those who have invested in U.S. federal bonds.

Democrats have the reputation of being big spenders with little concern for the health of public finances, a reputation often advanced by their rightist adversaries. While it is true that Obama has made many promises, his approach to the extension of tax cuts is relatively cautious. When it comes to managing public finances, the last Democratic administrations come out ahead vs. Republicans. Graph 31 shows the movements since 1953 of budget spending and revenues relative to the GDP while graph 32 shows the federal government's public debt during the same period. The last two U.S. presidents who saw their budgetary revenues grow as a percentage of the GDP were Jimmy Carter and Bill Clinton. The president who cut spending the most, by far, as a percentage of GDP was Bill Clinton who presided over the country during a period of economic prosperity. We also noted that Democrats had made more sustained efforts to rebalance public finances. Most striking was the deterioration of the fiscal position under Ronald Reagan, George Bush Sr. and George W. Bush, and how it improved during the Clinton administration. This makes it harder to fathom that a Democratic administration could cause more harm to public finances and the bond market than a Republican administration. However, it is true to say that total return of bond market indexes performed better under the Republicans (table 5).

Graph 31 – Democrats spend less



Sources: U.S. Treasury and Desjardins, Economic Studies

Table 5
U.S. presidents and bond market performance

	Party	Term of office	Average annual total return of 10-year Treasury bonds	
			in current $	in constant $
T. Roosevelt	Republican	1901-1909	3.0	0.7
T. Taft	Republican	1909-1913	3.2	0.4
T. Wilson	Democrat	1913-1921	2.4	-9.9
W. Harding/C. Coolidge	Republican	1921-1925	8.3	11.0
C. Coolidge	Republican	1925-1929	5.0	5.3
H. Hoover	Republican	1929-1933	3.9	9.7
F. Roosevelt	Democrat	1933-1945	4.1	1.1
H. Truman	Democrat	1945-1953	1.7	-4.5
D. Eisenhower	Republican	1953-1961	2.2	0.8
J. Kennedy/L. Johnson	Democrat	1961-1965	3.5	2.3
L. Johnson	Democrat	1965-1969	1.3	-2.1
R. Nixon	Republican	1969-1973	7.0	2.1
R. Nixon/G.Ford	Republican	1973-1977	7.7	-1.6
J. Carter	Democrat	1977-1981	-0.5	-12.6
R. Reagan	Republican	1981-1989	24.2	19.2
G. Bush	Republican	1989-1993	15.9	11.5
B. Clinton	Democrat	1993-2001	10.5	7.6
G.W. Bush	Republican	2001-2008 (until September)	7.1	5.1
Average since 1901			**6.1**	**2.6**
Republican average			**8.0**	**5.8**
Democratic average			**3.3**	**-2.6**

Sources: Global Financial Data, Bureau of Labor Statistics and Desjardins, Economic Studies

Who will be the next Secretary of the Treasury?

For the first five years of George Bush's presidency, the position of Secretary of the Treasury appeared to hold little value. Both Paul O'Neil and Tony Snow had little influence on the Bush administration's economic policy.

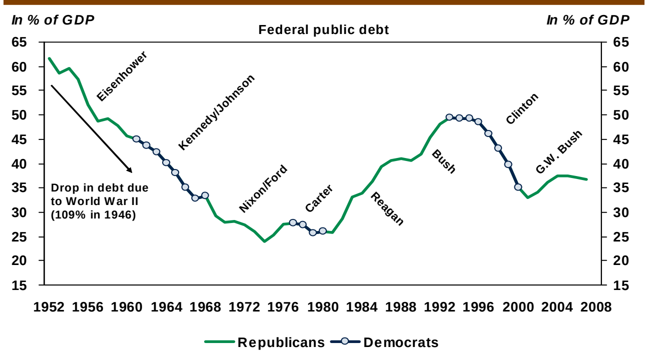
The arrival of Goldman Sachs' former president and CEO Henry Paulson quickly changed things, however. As it had under the Clinton administration, the position of Treasury Secretary started to gain influence. This influence has gained traction during this financial crisis since the Secretary, along with the Fed president, is on the front lines in this battle. The US$700B rescue plan and the government takeover of Freddie Mac and Fannie Mae have considerably broadened the powers of this position.

Even if Mr. Paulson was offered the option of staying on, he has already stated that he intends to resign when the Bush administration passes the torch in January 2009. In the current environment, the selection of the new Secretary of the Treasury will be a crucial decision that will provide a clear signal of what a McCain or an Obama administration will look like.

During the second presidential debate, the moderator brought up the question of Henry Paulson's eventual replacement. Both candidates mentioned that Warren Buffet, a Democrat, would be a good candidate for the job. However, it would be very surprising to see someone like Mr. Buffet accept the position. McCain mentioned the former president of eBay, Meg Whitman, as a possible candidate. In mentioning Ms. Whitman, McCain appears to be signalling that he would like the secretary to be closer to the real economy than to Wall Street. Several other names of noted Republicans were mentioned, such as Michael Bloomberg, the mayor of New York City or Gary S. Becker, the noted economist. Sheila Bair, the current president of the Federal Deposit Insurance Corporation, was also mentioned by both the Republican and Democratic parties.

Obama quickly diverted the question during the debate, preferring not to mention any potential candidates. In Democratic circles, the name Timothy Geithner, the current president of the New York Fed is often heard. Mr. Timothy Geithner is also on the front lines of this financial crisis. Some Democrats would like to see either of the gentlemen that held the position under Bill Clinton: Robert Rubin or Lawrence Summers.

Graph 32 – Public debt tend to improve under Democrats



Sources: U.S. Treasury and Desjardins, Economic Studies

The currency market

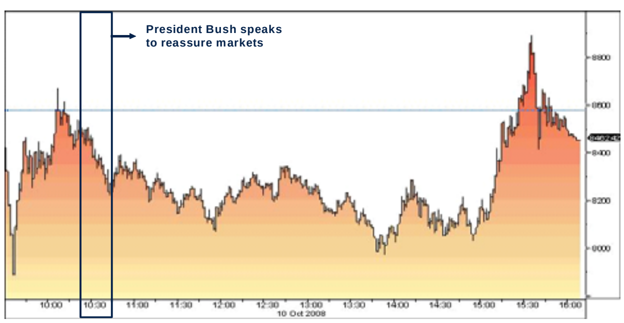
The U.S. dollar should not be affected too much by the election's results. If the repercussions for the bond market are relatively slim, the currency market should be affected in much the same way. In this case as well, the safe-haven effect will be favourable to the U.S. dollar in the short term for the duration of this crisis, even though it originated in the United States. There is however a risk with the willingness of foreigners to continue to finance the current account deficit by investing in the U.S. directly or indirectly. The willingness to do so has declined since 2000, and the impact was not higher interest rates, but a drop in the value of U.S. dollar vs. other currencies. This depreciation of almost 30% since 2002, coupled with somewhat weak domestic demand is reducing the trade deficit gradually. Lastly, the current crisis and its effect on consumption, investment and household balance sheets should lead to a trend to increase personal savings, which could in turn prove favourable to the government in terms of financing needs. As a result, the dollar's value remains increasingly subject to economic and financial fluctuations, to the economic performance of the U.S. against that of other countries worldwide and to major shifts in portfolios made as a result of the November 4 vote.

The stock market

The current circumstances and turmoil in the markets due to the financial crisis leave little room for any repercussions after the vote on November 4. Volatility traditionally rises during election periods but the scope of recent daily and intra-daily movements in the stock markets are dampening any possible fears due to political uncertainty. The market may in fact find some semblance of assurance regardless of who wins the race to the White House. It bears noting that President Bush seems to have lost the attention —or the confidence, at least—of investors. An example can be drawn from the market session of October 10, 2008 (graph 33). After tumbling soon after opening, the Dow Jones rallied, posting net gains. The index fell again shortly before 10:30 a.m., just when President Bush began his address on the economic situation that was meant to re-assure the markets.

Graph 33 – Is Bush contributing to market depression?

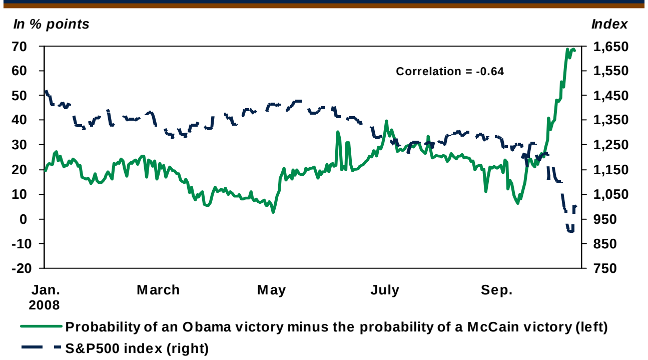
Movements in the Dow Jones on October 10



Sources: Bloomberg, whitehouse.gov and Desjardins, Economic Studies

In 2004, the stock markets seemed heavily in favour of re-electing George W. Bush. The S&P500 index often shifted in the same direction of the value a Bush victory would have on electronic markets like the Iowa Electronic Market. A correlation has been noted this time around, but this time it's negative, between stock market shifts and the possibility that Barak Obama will win the election over John McCain (graph 34). The breadth of the financial crisis, its international reach and the scope of stock market movements do not suggest that the results of November 4 will have any marked impact on shifts in financial variables. On the contrary, it appears that the cause and effect relationship in this situation will be the opposite of what it was in 2004. This financial crisis is giving Barak Obama additional votes, which is what the polls seem to be suggesting. The current turmoil in the stock markets is a consequence of the financial crisis. Obama's rise in the electronic markets, and possibly in voter intentions, is also a repercussion of the credit crisis.

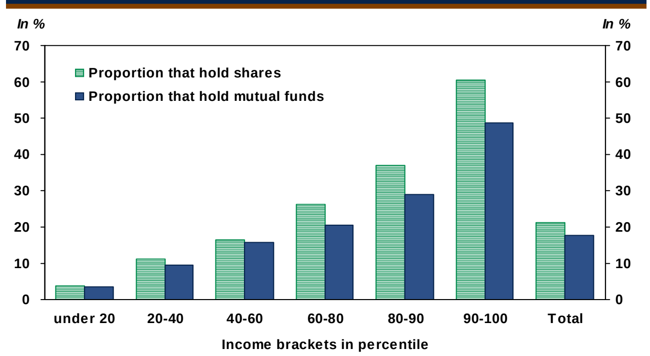
Graph 34 – Financial crisis and falling stock market seem to favour Democrats



Sources: Bloomberg, Iowa Electronic Markets and Desjardins, Economic Studies

While Democratic administrations have traditionally been beneficial to stock markets over Republican administrations (table 6), it's easy to believe that several investors would prefer to see John McCain win the White House. According to data gathered by the Fed in graph 35, only the wealthiest households hold direct investments in the stock markets. These same households would probably see their taxes rise if Barack Obama were to win the race. In addition, Obama would probably increase the tax rate on capital gains and dividends, the maximum rate would rise from 15 to 20%, whereas McCain would maintain the current rates.

Graph 35 – Only the wealthiest households have direct investments in stock markets



Sources: Federal Reserve Board and Desjardins, Economic Studies

John McCain's campaign promise to reduce taxes on business earnings would also give markets a boost. However, the elimination of subsidies and support measures for business would limit the effect of this tax on business profits.

As for the sectors that stand to gain depending on who wins the next election, a few points should be considered:

- The energy sector, and especially oil companies, could gain favour with a Republican at the helm. Obama, like McCain, would like to eliminate tax loopholes for energy companies and both want to impose a surtax. However, the Democratic platform,

Table 6
U.S. presidents and stock market performance

	Party	Term of office	Average annual change of the S&P500			
			Without dividends		With dividends	
			in current $	in constant $	in current $	in constant $
T. Roosevelt	Republican	1901-1909	3.9	1.6	10.3	8.0
T. Taft	Republican	1909-1913	1.0	-1.8	6.3	3.5
T. Wilson	Democrat	1913-1921	-3.4	-15.7	2.1	-10.2
W. Harding/C. Coolidge	Republican	1921-1925	13.0	15.7	22.9	25.6
C. Coolidge	Republican	1925-1929	33.8	34.1	45.7	46.0
H. Hoover	Republican	1929-1933	-17.9	-12.1	-16.3	-10.5
F. Roosevelt	Democrat	1933-1945	7.7	4.7	21.7	18.7
H. Truman	Democrat	1945-1953	12.5	6.3	26.9	20.7
D. Eisenhower	Republican	1953-1961	14.8	13.4	25.4	24.0
J. Kennedy/L. Johnson	Democrat	1961-1965	11.5	10.3	16.3	15.1
L. Johnson	Democrat	1965-1969	5.6	2.2	9.7	6.3
R. Nixon	Republican	1969-1973	3.4	-1.5	7.4	2.5
R. Nixon/G.Ford	Republican	1973-1977	-2.2	-11.5	1.7	-7.6
J. Carter	Democrat	1977-1981	6.6	-5.5	13.9	1.8
R. Reagan	Republican	1981-1989	13.1	8.1	23.6	18.6
G. Bush	Republican	1989-1993	14.2	9.8	19.8	15.4
B. Clinton	Democrat	1993-2001	25.4	22.5	32.0	29.1
G.W. Bush	Republican	2001-2008 (until Oct.14)	-3.1	-5.1	-1.7	-3.7
Average since 1901			**7.8**	**4.2**	**14.9**	**11.3**
Republican average			**6.7**	**4.6**	**13.2**	**11.1**
Democratic average			**9.4**	**3.5**	**17.5**	**11.6**

Sources: Global Financial Data, Bureau of Labor Statistics and Desjardins, Economic Studies

with its more restrictive measures on carbon emissions, could favour businesses tied to the natural gas sector. The energy sector has never performed as well under the Democrats historically, and the ban on off-shore drilling or on opening the Arctic National Wildlife Refuge in Alaska limits the potential for any gains for companies in this field than under a McCain presidency. Conversely, alternative energy businesses and companies that conduct research into alternative energy should find favour with the Democratic platform.

- The different measures proposed for healthcare will also have repercussions on healthcare-related companies. A government-sponsored healthcare insurance plan would generally be detrimental to health insurance companies and private hospitals. Increased pressure to cut the cost of medications could be detrimental to the pharmaceutical sector.
- The financial sector is already grappling with this financial crisis; the urgency of the situation and the solutions proposed by the Bush Administration have had more repercussions than any of the proposals made by the presidential candidates. Both candidates hope to increase the regulations governing the financial sector to prevent another similar crisis. McCain's proposal to apply US$300B of the US$700B-Paulson Plan (which targets supporting financial markets), to buyback and directly refinance mortgages, could limit the plan's effectiveness. The higher tax rate for dividends and capital gains proposed by the Democrats could also harm the financial industry.
- Sectors that are tied to consumer spending could be impacted differently, depending on the election's results. The Democratic platform, which aims to cut taxes for lower-income earners and boost taxes for individuals earning $250,000 or more a year, should limit the consumption of luxury goods and support sales of basic goods.
- The plan that favours an accelerated withdrawal of troops from Iraq should limit some companies involved in military equipment. However, any major reduction in military spending in areas other than Iraq would be surprising. Both presidential candidates are in favour of modernizing the U.S. Army.

VIII – CONCLUSION

Whoever gets elected, the political face of the United States will change the day after the November 4 presidential elections. This is good news given the rather weak performance of the Bush administration. The current leaders made fiscal and political choices that weakened the U.S. economy. The response to the current financial crisis was better, however, than the half-measures and dithering that lasted almost a year. The solutions recently proposed are more in line with expectations and needs, and credit for these measures belongs to Henry Paulson, Ben Bernanke and a few leaders in Congress.

It is clear that Barack Obama and John McCain have vastly different personalities and ways of playing politics, but both men have adopted an approach that could only be qualified as populist. Nor are their electoral platforms in total opposition to each other. Both candidates wish to renew a large portion of the tax cuts of 2002 and 2003; both want taxes to drive the economy; both want to facilitate access to healthcare; and both are more concerned about environmental issues than the current administration is. As such, we do not anticipate any major variances in the movements of macroeconomic indicators, regardless of who wins. The more consensus-driven approach of Obama's policies and his willingness to delve into the problem of income distribution are in stark contrast to President Bush's policies. That said, Obama's more ambiguous approach to free trade and commercial trade do not play in his favour.

The cost of the response to the current crisis and the economic and financial troubles that will continue through to 2009 will largely limit any leeway the next president will have. In the short term, some promises may very well be put off or simply forgotten. Furthermore, the president is not the only one who runs the country and exerts influence over the economy and financial markets. The global environment, wider economic cycles, trends on consumption, savings and investment, changes in prices for commodities like oil, the growth of company profits, the policies of the Fed and the independent decisions of Congress are all elements that limit the scope of actions that can be made by the President of the United States.

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