

Can He Do It?

We are embarking on a significant period of American history. The election of Barack Obama has accomplished three major things:

- America has its first African-American president;
- The psychological depression that increasingly gripped the country during the Bush administration is over;
- A new feeling on confidence and the dawn of a new era is palpable.

Now comes the hard part. Obama comes into office facing worldwide recession and a badly broken financial system. It is as daunting a task that has faced any president since John Kennedy faced an increasingly militant and bellicose Soviet Union. And while Americans seem to expect great things from an Obama administration, the question still looms: Will he succeed in solving these crises?

Before I give my opinions here, let's be clear on the facts of the case. First of all, we are not facing a rerun of the Great Depression. Rather, we are in the midst of a pretty average recession. During this one, we should reach an unemployment rate of about 8.5 percent, and GDP will probably contract by 3-4 percent. These numbers track the average recession undergone by the United States economy since World War II. This one feels worse because the last two recessions we had, in 1990 and 2000, were short and mild. If you look back at 1982, however, you can see a much worse recession. So, in a sense, this recession is *terra incognita* for most of us, and the unknown is always more scary than the known. Like all recessions, this one will run its course and shouldn't last more than a year.

Second, the bigger problem is the financial sector; it's broken. It is clear that the cowboys of finance have been playing fast and loose with other people's money, creating and trading extremely risky financial instruments that evaded the regulatory net. Using a booming housing sector as collateral, they shattered fortunes large and small, and more importantly destroyed the confidence of the American people. Yet, here too there is a precedent. In the late Eighties, the collapse of the thrift sector followed pretty much the same pattern, although at about one-tenth the scale. We lived through that one.

No, he can't

The biggest roadblock to the success of the Obama administration in solving these problems lies in the fact that the president is not Commander-in-Chief of the economy. Daily marketplace decisions made by thousands of individuals and companies, none of which is under the control of the president, shape the course of events and create booms and busts. Even in the area of economic policy, the president must rely on the Congress to implement his ideas. I think we all realize how shortsighted and irresponsible the Congress has been: just look at the pork

that was added to the bailout bill. Moreover, everyone now believes that Federal handouts are a right. In the case of the auto makers, to cite one example, this belief has seemingly relieved them of any responsibility to run their businesses in a rational manner. Finally, we already have such a large budget deficit, it will be difficult to fund the programs needed to cure the recession. For all these reasons, one can conclude that this administration will fail in its attempt to right the economy and rebuild the financial system.

Yes, He Can

But, this is no ordinary president. He has shown over the past two years his skill as a businessman. During that time, he has been CEO of a multi-million dollar company that achieved its strategic goals and gained the majority of market share. He has also assembled a strong and intelligent economic team and has shown the ability to channel talent to achieve his goals. Above all this is the simultaneous short and long term focus of his policy ideas. If the Obama administration had been in office last winter, the stimulus package that provided small checks to taxpayers would have been cast as a grants program to state and local governments to rebuild infrastructure. It would have had a far more powerful and direct impact on job creation and would have been an investment in the future. This type of thinking in a politician is impressive.

I think you will see from the Obama administration an aggressive, well-thought out, long term policy that will do everything possible to revive the economy and heal the financial sector. For real estate, this will be a good thing, since jobs lead to commercial occupancy and home sales and an efficient financial system reduces financing costs.

So, can he do it? Yes, he can.