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PAGE ONE

Obama Plans Spending Boost,
Possible Cut in Business Tax

By **BOB DAVIS** and **AMY CHOZICK**
 June 17, 2008; Page A1

FLINT, Mich. -- Sen. Barack Obama shed new light on his economic plans for the country, saying he would rely on a heavy dose of government spending to spur growth, use the tax code to narrow the widening gap between winners and losers in the U.S. economy, and possibly back a reduction in corporate tax rates.

In an interview with The Wall Street Journal, the Illinois Democrat said that he was trying to put together tax and spending policies that dealt with two challenges. One is the competition from rapidly growing developing countries, like India and China. The other: the U.S. becoming what he called a "winner-take-all" economy, where the gains from economic growth skew heavily toward the wealthy.

Sen. Obama cited new economic forces to explain what appears like a return to an older-style big-government Democratic platform skeptical of market forces. "Globalization and technology and automation all weaken the position of workers," he said, and a strong government hand is needed to assure that wealth is distributed more equitably. He spoke aboard his campaign bus, where a big-screen TV was tuned to the final holes of the U.S. Open golf tournament.

Sen. Obama's nod to lowering corporate taxes comes as Republicans have been attacking him for proposals that would raise the cost of doing business, such as his pledge to raise the tax rate on capital gains, and his vow to increase the top income-tax rates, which are often used by small, unincorporated enterprises.

He didn't say how deeply he would cut the rate, but said it could be trimmed in return for reducing corporate tax breaks, simplifying the tax system. With existing loopholes, he said, "How much you pay in taxes as a corporation a lot of times is going to depend on how good your lobbyist is." With "a level playing field," he said, the rates could be reduced.

He stressed the idea was not a move toward Sen. McCain's broader tax-cutting philosophy. While Sen. McCain has argued that tax cuts -- particularly on

EXCERPTS FROM THE INTERVIEW



Fabrizio Costantini for the Wall Street Journal
 Sen. Barack Obama outlined his economic policies Monday in Flint, Mich.
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business -- spur growth, Sen. Obama rejected that as flawed economics. "I've seen no evidence that...would actually boost the economic growth and productivity," he said.

Douglas Holtz-Eakin, chief economic aide to Republican candidate Sen. John McCain, dismissed the Obama strategy as "classic industrial policy which shows a lack of faith in private markets." He was skeptical of any potential Obama corporate-tax cut, noting a lack of details. "It's like being for kittens, puppies and sunshine," he said.

Clinton Deficit Hawks

The overall Obama economic approach echoes the 1992 presidential platform of Bill Clinton, who also launched his bid for the White House seeking a big expansion in infrastructure spending. But those plans were quickly shelved once he reached the White House. Congress rejected a proposal to steeply increase energy taxes, which could have been used to pay for the spending.

Clinton deficit hawks, especially then-White House economic adviser Robert Rubin, successfully argued that slashing the deficit would have a bigger impact on growth than boosting spending because markets would react favorably to a shrinking deficit. "Rubinomics" became the reigning Clinton economic strategy, and many labor leaders backing Sen. Obama worry that the 46-year-old senator ultimately will turn to Mr. Rubin, as Mr. Clinton did.

Sen. Obama waved off that concern. "I've got Bob Rubin on one hand [as an adviser] and [former Labor Secretary] Bob Reich on the other....I tend to be eclectic." Mr. Reich, has long championed infrastructure spending to boost jobs and the economy, and is a favorite of labor. He frequently and famously feuded with Mr. Rubin early in Mr. Clinton's term over the administration's ideological direction.

The chances of pushing through an infrastructure spending program are greater now than they were in 1992, Sen. Obama said, because of new concern about energy prices. Many alternative-energy projects -- clean-coal technology, wind-power generators and the like -- could be packaged as infrastructure. "The difference I would suggest is that there is a strong recognition in the public mind that we can't continue on our current energy path," he said. That means "there's a bigger opening to bring about change."

Sen. Obama and Sen. McCain disagree sharply on economic issues, with the Arizona Republican promising to cut the corporate tax to 25% from 35%, retain all of President Bush's cuts in personal income taxes, and push for a host of free-trade agreements.

Sen. Obama has proposed a variety of measures that would raise taxes on individuals at the top end and provide tax relief to middle- and lower-income households. Under his plans, those in the middle would see their after-tax income increase by 2.4%, or \$1,042, according to a nonpartisan analysis by the Washington-based Tax Policy Center. Americans with incomes above \$2.8 million would see their after-tax income decrease by 11.5%.

The Democrats' 2008 standard-bearer laid out a series of large-scale spending plans during a speech earlier on Monday in Flint, which has been a symbol of economic decline since the anticorporate movie "Roger and Me" was released in 1989. While Sen. Obama has made the proposals before, he wrapped them together for the first time in what he called a "competitiveness agenda."

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Spending Program

The heart of Sen. Obama's spending program is his plan to spend \$15 billion a year for 10 years on energy technology. It would be funded by revenue collected from a separate Obama proposal to cap greenhouse emissions through a system of trading pollution permits. Sen. Obama would auction those permits to producers of carbon dioxide, such as electric utilities, and figures the sales would yield about \$100 billion a year. Most of that would go to consumers as rebates on utility bills, he said.

Where They Stand	 Obama	 McCain
Energy program	\$150 billion over 10 years on an energy-technology investment program, including wind, coal and nuclear power, if safe	Says incentives for solar and wind distort the energy market. Strongly supports incentives for nuclear power
Bush tax cuts	Let expire Bush tax cuts for people making \$250,000 or more	Make the cuts permanent for all households
Tax rates	Would possibly cut corporate tax rates, as part of a broad tax-reform plan	Plans to cut corporate tax rates to 25% from 35%
Capital gains, dividends	Increase tax on capital gains and dividends for individuals earning \$250,000 or more. Proposes eliminating capital gains taxes on start-up companies	Keeps tax on capital gains and dividends at the same level
Other tax plans	Up to \$1,000 in tax cuts per middle-class family. Eliminate income taxes for people over 65 earning less than \$50,000	Double the personal exemption for dependents to \$7,000. Offer taxpayers choice of a simpler set of tax rules

He also would fund an "infrastructure reinvestment bank" that would finance \$60 billion in high-speed railways, improved energy grids and other projects over a decade. He would double spending on basic research, subsidize investment in high-speed Internet hook-ups, and offer \$4,000 a year in tuition credits for students who later perform public services.

To "capture some of the nation's economic growth," he said in the interview, "and reinvest it in things we know have to be done like science, technology, research and fixing our energy policy, then that is actually going to spur productivity."

Sen. McCain argues for as little government spending as possible and paints his opponent as a liberal who would tax more, spend more and drive the country into deficit. He backs a cap-and-trade system that would be used to fund energy technology, but Mr. Holtz-Eakin said the scale would be far smaller than the Obama plan. And, Mr. Holtz-Eakin said, a "green technology fund is plain silly. Silicon Valley has piles of money devoted to clean technology."

Energy Market

Sen. Obama made the case in the interview for large-scale government intervention in the energy market, saying that although

venture funds are investing heavily in energy technology, there was a gap in funding that should be filled by Washington. He called it supporting the "middle stage" between innovation and commercialization. "You have this point in time when things haven't quite taken off yet and still entail huge risks," he said.

Under President Clinton, the Commerce Department put together a broader-based commercial technology program aimed to fund projects at a similar stage. But it never grew beyond fairly small-scale projects, because of fights with a Republican Congress over whether the government was wasting money on projects that ought to be funded by the private sector.

Sen. Obama likened his proposal to a venture-capital fund, with the government seeking private investors to contribute. He lauded a Central Intelligence Agency project which helps fund technologies the CIA finds important, but which lack long-term capital.

Sen. Obama regularly compares the energy effort to President Kennedy's project to rocket a man to the moon in the 1960s. But the record of using government funds to produce big breakthroughs in commercial technology is spotty at best. The few projects that have succeeded were often small and aimed at limited research goals.

'Carter's Second Term'

Under President Carter, the U.S. tried and failed to build a synthetic-fuel industry in the 1970s. (Sen. McCain has taken to saying Sen. Obama would represent "Jimmy Carter's second term.") Plans to build commercial nuclear reactors that would produce more nuclear material than they consumed also failed, and a half-century of government investment in commercial hydrogen reactors haven't produced the necessary breakthroughs.



Fabrizio Costantini for the Wall Street Journal
Sen. Obama called for government spending to spur growth, including an energy-technology investment program and infrastructure financing.

More recently the Clinton administration, at the urging of then-Vice President Al Gore, spent heavily on a project with the Big Three auto makers to build a higher-tech family car that produced three times the gas mileage of a conventional car. The car was never built and the Bush administration killed the project. At a rally in Detroit Monday night, Mr. Gore announced his endorsement of Sen. Obama.

Start-Up Companies

Sen. Obama also proposes eliminating capital-gains taxes on start-up companies, though he backs higher capital-gains rates overall. He hasn't defined precisely what he means by a "start-up." Wasn't he concerned that tax lawyers would simply form "start-ups" for existing companies looking for a new tax

break?

"There are always folks who are interested in gaming the system, and obviously one of the things you have to do with tax policy generally is to pin down definitions so they're not twisted beyond recognition," he said. But he argued, "Companies that are starting off...should be allowed to accumulate capital, reinvest profits, if there are any, to the point that they stabilize."

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