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## Will Obama Finally Do the Right Thing With Our Money?

*By David Walker*

At last, President Obama is feeling pressure to demonstrate his concern for "fiscal responsibility" with actions rather than words.

The first year of the Obama administration is over and the president's State of the Union address is scheduled for Wednesday, January 27. Now is a good time to ask, how has President Obama done -- from a fiscal perspective -- during his first year in office?

It's fair to say that, unlike President Bush (43), President Obama was dealt a very bad fiscal hand when he entered office. Shortly before his swearing in the non-partisan Congressional Budget Office (CBO) projected that the fiscal 2009 budget deficit would be \$1.2 trillion -- up from \$459 billion in 2008, \$161 billion in 2007, and a \$237 billion surplus in fiscal 2000 when Bush entered office. From a financial statement perspective, the national debt almost doubled and the nation's total liabilities and unfunded social insurance obligations almost tripled during the eight years that President Bush (43) was in office. And unlike his two predecessors, President Bush (43) expanded entitlement programs (i.e., Medicare prescription drug benefit) and did not support enactment of statutory budget controls during his tenure. The controls that were first put in place in 1990 expired in 2002 and Washington has been out of control ever since.

The country was also in a recession and trying to avoid an economic free fall when President Obama took the oath of office. This represented a stark contrast to the state of the economy when President Bush (43) was sworn in.

The newly inaugurated President Obama took immediate steps to address the recession and rising unemployment levels. He worked with the Congress to push through a \$787 billion recovery and reinvestment act. Unfortunately, he let the Congress take the lead in designing the bill and the result was that only about one-third of the bill's cost represented a true "stimulus." By that I mean, initiatives designed to stimulate both the economy and job growth that were timely, targeted and temporary. The rest of the bill represented a long list of wants that were included in the "emergency" bill and weren't paid for. In addition, as was the case with the Troubled Asset Relief Program (TARP), the bill did not include clearly defined objectives and the administration did not establish clearly defined criteria and conditions upfront in order to ensure that the funds would generate appropriate value for money. As a result, while the price tag was large, the impact of the bill has been disappointing.

Again following the Congress's lead, shortly after entering office President Obama signed a fiscal 2009 appropriations bill that provided for a 8.3 percent increase in

discretionary spending, including an over 10 percent increase in funding for the Congress. All this at a time when core inflation was low and going down! In fairness, this bill was initially developed by the Congress during the Bush (43) administration. However, only President Obama had a veto pen when it arrived on his desk. He signed it but promised more fiscal discipline in the future.

Unfortunately, President Obama's 2010 budget submission package did not demonstrate much fiscal discipline. Based on projections by the President Obama's own Office of Management and Budget (OMB), it showed annual deficits in the trillions for several years and huge projected increases in public debt during his presidency. While President George Bush (43) was arguably the most fiscally irresponsible president in the history of the Republic, this first Obama budget submission caused many to worry that President Obama's fiscal record might be even worse. After these early actions, public concern with escalating federal spending, growing deficits and debt began to increase and President Obama decided to hold a Fiscal Responsibility Summit at the White House in February 2009. I was one of about 100 participants who attended. I participated in the general sessions and the Social Security "breakout session." President Obama even called on me by name to solicit my views along with a few others. I stated that he needed to support a special commission or task force to address our large, known and growing structural deficits and begin to put our federal financial house in order.

Unfortunately, the summit turned out to be more show than substance. As a result, nothing much came of it despite the fact that there was a pretty clear consensus that a credible Social Security reform effort could receive bipartisan support. The administration and the Democratic leadership in Congress had evidently already decided to push "health care reform" as their top domestic priority.

There were a number of troubling and unprecedented actions taken during the first year of the administration with serious potential implications over time. For example, the federal government acquired a majority stake in two major auto companies: General Motors Corporation (now effectively Government Motors Corporation) and Chrysler Corporation. This action was clearly inappropriate and it set a very troubling precedent. After all, these major auto companies could have restructured under existing bankruptcy laws and the government could have provided some assistance without taking them over.

Another very troubling action was the federal government's decision to guarantee about \$5 trillion dollars in Fannie Mae and Freddie Mac debt in the face of significant pressure from our nation's two largest foreign creditors (i.e., Japan and China). This puts taxpayers on the hook for any losses that will result over time. It also demonstrates the leverage that our foreign lenders can exert on us.

More recently, contrary to President Obama's promise of more fiscal discipline, the Congress passed, and the president signed, a fiscal 2010 appropriations bill that included an over 12 percent increase in the base level discretionary spending even though core inflation has been virtually nonexistent during the past year. As a result, during the past year, President Obama has signed two annual appropriations bills that increased the base level of discretionary spending by over 20 percent! And this does not

include the spending associated with the special "stimulus" bill and various "bailout" efforts.

And now the administration says it will "get tough" in its fiscal 2011 budget proposal. It will be interesting to see how tough they will get. After an over 20 percent increase in the base level of discretionary spending, "tough" should mean cutting and eliminating programs with a resulting reduction in the base level of discretionary spending. I seriously doubt that will be the case.

Looking back, the president's domestic policy agenda during his first year was focused heavily on attempts to achieve health care reform. However, to the concern of many Americans, the related legislation involved a further expansion of the federal government's role as well as hundreds of billions in federal spending and taxation over a ten year period. -- This despite the fact that the federal government already had over \$38 trillion in unfunded promises relating to Medicare alone!

The above actions, combined with the disappointing results from the stimulus program and rising unemployment has resulted in increased public concern, dissatisfaction, and some anger, in connection with the president's domestic agenda. This concern is evidenced in a number of public opinion surveys and in the results of the special Massachusetts Senate election this past week.

As the president prepares to address the nation before a joint session of Congress this week, his prospects for achieving comprehensive health care reform have declined dramatically. At the same time, the public's concern regarding escalating deficits and debt and our increased reliance on foreign lenders has risen even further. As a result, President Obama is feeling pressure to take steps to demonstrate his concern for "fiscal responsibility" in actions rather than words.

Not only that but this past week the administration and the Democratic leadership agreed to pursue a statutory pay-as-you-go (PAYGO) rule and a Fiscal Future Commission. While pursuing a statutory PAYGO rule is clearly appropriate, the one being discussed is filled with loopholes and exceptions. In addition, the related budget proposal does not include discretionary spending caps or reconsideration triggers for mandatory spending programs and tax preferences. These and other budget controls need to be pursued. This includes the need to establish a specific debt/GDP goal along with enforcement mechanisms to help ensure that the goal will be achieved.

The administration is also clearly correct that it will require a special process in order to be able to make the tough choices associated with additional budget controls, reform of current social insurance programs, health care cost reduction, reprioritization of other spending, and tax reform that will generate additional revenues. All of these efforts must be undertaken and acted on if we expect to put our nation on a more prudent and sustainable fiscal path.

In order to make the required "tough choices" a special bipartisan Fiscal Future Commission or Task Force should be created. To be successful, this commission or task force must be very different from the typical ones in at least two key ways. First, it must engage representative groups of the American people beyond Washington's Beltway with the facts, the truth, the tough choices, the prudence of acting sooner versus later

and the potential adverse consequences to our country and our families if we don't. Second, it must be guaranteed a vote on any of its recommendations that receive a predetermined super-majority support from the commission/task force members.

It is clearly preferable for such a special body to be established by law rather than by Executive Order. Having it be established by statute will help to ensure bipartisan buy-in to the process and the members who are appointed. In addition, the only way to ensure that the commission's recommendations will be considered and voted on is if the Congress is required by law to do so. Importantly, in the final analysis the Congress must vote on any related recommendations and the President must decide to sign or veto any related bill in order for the commission of task force's recommendations to become law. Therefore, the process is clearly Constitutional despite assertions by some to the contrary.

The Congress should move expeditiously to create such a bipartisan or nonpartisan commission despite opposition from a range of far right and far left groups. These groups want to protect their narrow interests and, based on statistically valid public opinion surveys, are clearly outside the mainstream of American public opinion. They are essentially arguing for a "do nothing" and "status quo" approach to addressing our nation's serious fiscal and financial challenges. However, the numbers are clear and compelling and our foreign lenders are already expressing concerns and taking action to reduce their risk associated with our federal government not being able to put it's financial house in order. If the Congress is unwilling or unable to act, the President should create such a special commission by Executive Order. Doing nothing is simply not a real option.

Our fiscal time bomb is ticking and time is not working in our favor. Therefore, in 2010 President Obama must continue to focus on what can be done to help ensure a sustainable economic recovery and to address our high level of unemployment. At the same time, he must also put a process in place in early 2010 that will facilitate making the tough choices needed to put our federal finances in order and avoid a "super sub-prime crisis" that would result if our foreign lenders lose confidence in our willingness and ability to act. Any recommendations that are adopted by the Congress and signed by the president should be implemented once the economy recovers and we make meaningful progress on unemployment. President Obama should also discontinue any efforts designed to create new entitlement programs or promises when the federal government has already made tens of trillions in unfunded promises already.

The time for talk is over. The time for action is now.

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