Obama and the Economy

Obama's 'Big Bang' Agenda
Charles Krauthammer
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WASHINGTON -- Forget the pork. Forget the waste. Forget the 8,570 earmarks in a bill supported by a president who poses as the scourge of earmarks. Forget the "$2 trillion dollars in savings" that "we have already identified," $1.6 trillion of which President Obama's budget director later admits is the "savings" of *not* continuing the surge in Iraq *until 2019* -- 11 years after George Bush ended it, and eight years after even Bush would have had us out of Iraq completely.

Forget all of this. This is run-of-the-mill budget trickery. True, Obama's tricks come festooned with strings of zeros tacked onto the end. But that's a matter of scale, not principle.

All presidents do that. But few undertake the kind of brazen deception at the heart of Obama's radically transformative economic plan, a rhetorical sleight of hand so smoothly offered that few noticed.

The logic of Obama's address to Congress went like this:

"Our economy did not fall into decline overnight," he averred. Indeed, it all began before the housing crisis. What did we do wrong? We are paying for past sins in three principal areas: energy, health care, and education -- importing too much oil and not finding new sources of energy (as in the Arctic National Wildlife Refuge and the Outer Continental Shelf?), not reforming health care, and tolerating too many bad schools.

The "day of reckoning" has now arrived. And because "it is only by understanding how we arrived at this moment that we'll be able to lift ourselves out of this predicament," Obama has come to redeem us with his far-seeing program of universal, heavily nationalized health care; a cap-and-trade tax on energy; and a major federalization of education with universal access to college as the goal.

Amazing. As an explanation of our current economic difficulties, this is total fantasy. As a cure for rapidly growing joblessness, a massive destruction of wealth, a deepening worldwide recession, this is perhaps the greatest non sequitur ever foisted upon the American people.

At the very center of our economic near-depression is a credit bubble, a housing collapse and a systemic failure of the entire banking system. One can come up with a host of causes: Fannie Mae and Freddie Mac pushed by Washington (and greed) into improvident loans, corrupted bond-ratings agencies, insufficient regulation of new and exotic debt instruments, the easy money policy of Alan Greenspan's Fed, irresponsible bankers pushing (and then unloading in packaged loan instruments) highly dubious mortgages, greedy house-flippers, deceitful homebuyers.

The list is long. But the list of causes of the collapse of the financial system does not include the absence of universal health care, let alone of computerized medical records. Nor the absence of an industry-killing cap-and-trade carbon levy. Nor the lack of college graduates. Indeed, one could perversely make the case that, if anything, the proliferation of overeducated, Gucci-wearing, smart-ass MBAs inventing ever more sophisticated and opaque mathematical models and debt instruments helped get us into this credit catastrophe in the first place.

And yet with our financial house on fire, Obama makes clear both in his speech and his budget that the essence of his presidency will be the transformation of health care, education and energy. Four months after winning the election, six weeks after his swearing in, Obama has yet to unveil a plan to deal with the banking crisis.

What's going on? "You never want a serious crisis to go to waste," said Chief of Staff Rahm Emanuel. "This crisis provides the opportunity for us to do things that you could not do before."

Things. Now we know what they are. The markets' recent precipitous decline is a reaction not just to the absence of any plausible bank rescue plan, but also to the suspicion that Obama sees the continuing financial crisis as usefully creating the psychological conditions -- the sense of crisis bordering on fear-itself panic -- for enacting his "Big Bang" agenda to federalize and/or socialize health care, education and energy, the commanding heights of post-industrial society.

Clever politics, but intellectually dishonest to the core. Health, education and energy -- worthy and weighty as they may be -- are not the cause of our financial collapse. And they are not the cure. The fraudulent claim that they are both cause and cure is the rhetorical device by which an ambitious president intends to enact the most radical agenda of social transformation seen in our lifetime.

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Obama's Radicalism Is Killing the Dow

A financial crisis is the worst time to change the foundations of American capitalism.

By MICHAEL J. BOSKIN

It's hard not to see the continued sell-off on Wall Street and the growing fear on Main Street as a product, at least in part, of the realization that our new president's policies are designed to radically re-engineer the market-based U.S. economy, not just mitigate the recession and financial crisis.

Martin Kozlowski

The illusion that Barack Obama will lead from the economic center has quickly come to an end. Instead of combining the best policies of past Democratic presidents -- John Kennedy on taxes, Bill Clinton on welfare reform and a balanced budget, for instance -- President Obama is returning to Jimmy Carter's higher taxes and Mr. Clinton's draconian defense drawdown.

Mr. Obama's $3.6 trillion budget blueprint, by his own admission, redefines the role of government in our economy and society. The budget more than doubles the national debt held by the public, adding more to the debt than all previous presidents -- from George Washington to George W. Bush -- combined. It reduces defense spending to a level not sustained since the dangerous days before World War II, while increasing nondefense spending (relative to GDP) to the highest level in U.S. history. And it would raise taxes to historically high levels (again, relative to GDP). And all of this before addressing the impending explosion in Social Security and Medicare costs.

To be fair, specific parts of the president's budget are admirable and deserve support: increased means-testing in agriculture and medical payments; permanent indexing of the alternative minimum tax and other tax reductions; recognizing the need for further financial rescue and likely losses thereon; and bringing spending into the budget that was previously in supplemental appropriations, such as funding for the wars in Iraq and Afghanistan.

The specific problems, however, far outweigh the positives. First are the quite optimistic forecasts, despite the higher taxes and government micromanagement that will harm the economy. The budget projects a much shallower recession and stronger recovery than private forecasters or the nonpartisan Congressional Budget Office are projecting. It implies a vast amount of additional spending and higher taxes, above and beyond even these record levels. For example, it calls for a down payment on universal health care, with the additional "resources" needed "TBD" (to be determined).

Mr. Obama has bravely said he will deal with the projected deficits in Medicare and Social Security. While reform of these programs is vital, the president has shown little interest in reining in the growth of real spending per beneficiary, and he has rejected increasing the retirement age. Instead, he's proposed additional taxes on earnings above the current payroll tax cap of $106,800 -- a bad policy that would raise marginal tax rates still further and barely dent the long-run deficit.

Increasing the top tax rates on earnings to 39.6% and on capital gains and dividends to 20% will reduce incentives for our most productive citizens and small businesses to work, save and invest -- with effective rates higher still because of restrictions on itemized deductions and raising the Social Security cap. As every economics student learns, high marginal rates distort economic decisions, the damage from which rises with the square of the rates (doubling the rates quadruples the harm). The president claims he is only hitting 2% of the population, but many more will at some point be in these brackets.

As for energy policy, the president's cap-and-trade plan for CO2 would ensnare a vast network of covered sources, opening up countless opportunities for political manipulation, bureaucracy, or worse. It would likely exacerbate volatility in energy prices, as permit prices soar in booms and collapse in busts. The European emissions trading system has been a dismal failure. A direct, transparent carbon tax would be far better.

Moreover, the president's energy proposals radically underestimate the time frame for bringing alternatives plausibly to scale. His own Energy Department estimates we will need a lot more oil and gas in the meantime, necessitating $11 trillion in capital investment to avoid permanently higher prices.

The president proposes a large defense drawdown to pay for exploding nondefense outlays -- similar to those of Presidents Carter and Clinton -- which were widely perceived by both Republicans and Democrats as having gone too far, leaving large holes in our military. We paid a high price for those mistakes and should not repeat them.

The president's proposed limitations on the value of itemized deductions for those in the top tax brackets would clobber itemized charitable contributions, half of which are by those at the top. This change effectively increases the cost to the donor by roughly 20% (to just over 72 cents from 60 cents per dollar donated). Estimates of the responsiveness of giving to after-tax prices range from a bit above to a little below proportionate, so reductions in giving will be large and permanent, even after the recession ends and the financial markets rebound.

A similar effect will exacerbate tax flight from states like California and New York, which rely on steeply progressive income taxes collecting a large fraction of revenue from a small fraction of their residents. This attack on decentralization permeates the budget -- e.g., killing the private fee-for-service Medicare option -- and will curtail the experimentation, innovation and competition that provide a road map to greater effectiveness.

The pervasive government subsidies and mandates -- in health, pharmaceuticals, energy and the like -- will do a poor job of picking winners and losers (ask the Japanese or Europeans) and will be difficult to unwind as recipients lobby for continuation and expansion. Expanding the scale and scope of government largess means that more and more of our best entrepreneurs, managers and workers will spend their time and talent chasing handouts subject to bureaucratic diktats, not the marketplace needs and wants of consumers.

Our competitors have lower corporate tax rates and tax only domestic earnings, yet the budget seeks to restrict deferral of taxes on overseas earnings, arguing it drives jobs overseas. But the academic research (most notably by Mihir Desai, C. Fritz Foley and James Hines Jr.) reveals the opposite: American firms' overseas investments strengthen their domestic operations and employee compensation.

New and expanded refundable tax credits would raise the fraction of taxpayers paying no income taxes to almost 50% from 38%. This is potentially the most pernicious feature of the president's budget, because it would cement a permanent voting majority with no stake in controlling the cost of general government.

From the poorly designed stimulus bill and vague new financial rescue plan, to the enormous expansion of government spending, taxes and debt somehow permanently strengthening economic growth, the assumptions underlying the president's economic program seem bereft of rigorous analysis and a careful reading of history.

Unfortunately, our history suggests new government programs, however noble the intent, more often wind up delivering less, more slowly, at far higher cost than projected, with potentially damaging unintended consequences. The most recent case, of course, was the government's meddling in the housing market to bring home ownership to low-income families, which became a prime cause of the current economic and financial disaster.

On the growth effects of a large expansion of government, the European social welfare states present a window on our potential future: standards of living permanently 30% lower than ours. Rounding off perceived rough edges of our economic system may well be called for, but a major, perhaps irreversible, step toward a European-style social welfare state with its concomitant long-run economic stagnation is not.

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Stand Up for Capitalism!
Mona Charen
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I find myself tuning in to CNBC these days. This is unusual for me as business news bores me. I'm one of those whose eyes glaze at the mention of credit/default swaps, futures trading, and derivatives markets. But now, with the Obama/Pelosi/Reid troika attempting to remake our nation, I will submit to chatter about all of those things as long as I am treated to some full-throated defenses of capitalism.

If ever there were a time when our market economy deserves a little coddling and a soft pillow under its head, it is now. Battered by a financial meltdown, a plunging stock market, declining trade, and frightened consumers, now would be the time to cut corporate tax rates (which are among the highest in the world), reverse the "mark to market" rule for valuing assets, temporarily increase unemployment compensation and Medicaid (with sunset provisions), and keep taxes low. When Barack Obama agreed last autumn that it was not a good idea to raise taxes during a recession, it seemed that he was at least enough of a moderate to understand the importance of markets. One can no longer indulge that hope. Like blasts from a machine gun, Obama has announced higher taxes on the owners of small businesses (the most productive individuals), higher taxes on the energy industry (through the cap and trade system), green mandates on the auto industry that will increase the cost of each vehicle, a bailout of mortgagers that will increase the cost of mortgages down the road, increased unionization (which reduces jobs), a repeal of the successful welfare reform of the 1990s, and a rhetorical assault on Wall Street that leaves investors edgy.

The Democrats scoff when you use the "s" word (socialism). It's a bogeyman, they argue. Not so. If by socialism you refer to the sort of government-heavy economies that characterize most of Europe, then we are clearly headed there about as fast as Flight 1549 was headed for the Hudson River.

By the sheer size of the budget they are pushing, Obama/Pelosi/Reid are increasing the share of the American economy that will be controlled by the government. Government spending accounts for more than 50 percent of the economies of France and Sweden and more than 45 percent of the GDPs of Germany and Italy. As recently as 2006, the federal government's share of America's GDP was 21 percent (with another 11 percent for state and local governments). Now it is approaching 40 percent and likely to grow significantly beyond that if Obama and Co. have their way on health care reform, universal pre-K to college education, and other programs.

We are rapidly narrowing the gap with Europe. This represents policy nirvana for the Democrats. They adore the sclerotic, slow-growing, cradle to grave security of the European Union. But do most Americans really want to go there? We will emerge from this downturn. But if the Democrats succeed in using it as an excuse to impose a huge new welfare state, we will not emerge as the same country.

Per capita economic output has been much higher in the United States than in the European Union. Our growth rates have been consistently higher since the Second World War. Until this recession began, America's unemployment rate was half of Europe's, and our unemployed spent less time jobless than did Europe's. European industry has certainly contributed to world prosperity, but cannot match the United States for innovation, dynamism, freedom, or wealth creation. And the Europeans are failing the most basic test of vitality -- they are demographically disappearing. That's one reason why the term "once-great" applies to places like Great Britain and France.

Yes, there's a recession on and it's deep. Capitalism is not perfect (though one harbors the suspicion that if government had not, in effect, subsidized risky mortgage lending, we would not be in this position). But with all its defects, capitalism remains the greatest engine of prosperity the world has ever witnessed. Just in the last 25 years, hundreds of millions of people, principally residing in China and India, who had been close to destitution and starvation are driving cars, sipping lattes, and chatting on cell phones thanks to free market reforms. Countries with few natural resources other than the brains of their people -- like Singapore, Hong Kong, Taiwan, and Japan -- have become economic powerhouses by permitting the free market to work its magic.

Here at home, the U.S. has been able to dramatically improve standards of living not just for the wealthy (they do fine in every country) but for ordinary people. Hard work has been rewarded not punished. And the free market has given us everything from computers and iPods to Prilosec and the Mayo Clinic.

It didn't seem possible six months ago that capitalism in the United States could be in danger. If Obama/Pelosi/Reid have their way, the U.S., too, will bear the prefix "once-great."

Obama the Revolutionary

by Jed Babbin (more by this author)

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If President Obama achieves his agenda, his successor will not be president of the same nation Obama inherited. Like Madame Defarge in Dickens' "A Tale of Two Cities", Obama is a revolutionary, slowly knitting together his plans to change America into something it has never been, to overthrow our economic system and weaken our defenses.

Monsieur Obama envisions a new America: a European welfare state, its government the overseer of every phase of domestic life, unwilling and unable to defend its allies and interests abroad.

Let's hear no more about "partisan warfare," about how Republicans are the "party of 'no'," or about how it's out of bounds to wish Obama to fail.

As Rush Limbaugh reasoned at the Conservative Political Action Conference last Saturday, there is a key distinction to be made: America must succeed in the war against the terrorist nations and in reviving our economy. If Obama succeeds, America cannot do either.

The Republican Party shouldn't be the "Party of No." It must be the "Party of Hell, No."

In his speech on Friday, Obama said, "Let me say this as plainly as I can: by August 31, 2010, our combat mission in Iraq will end." So Obama has set a date certain for the withdrawal of American combat forces in Iraq regardless of the facts on the ground.

The president's promise to offer an open hand to those nations that unclench their fists is being met by increased militarization and hostility from Syria and Iran. Obama cares less about Iraq than his predecessor, but Obama is repeating and enlarging on Bush's mistakes. There is no "Iraq war" or "Afghanistan war" or a separate peace to be negotiated with the nations that sponsor terrorism. There is only one war and -- as proved by about two thousand years of history -- it must be fought and won as a whole or it will be lost in increments.

Monsieur Obama's budget would take huge strides in revolutionizing our economy. Obama has already spent $1 trillion on an economic stimulus package that the Congressional Budget Office said was worse than nothing, having at the same time promised another $2 trillion on more bank nationalizations and bailouts, more (no one knows how much) to continue the bailout of the United Autoworkers Union and prevent the necessary reform of the auto industry, $75 billion to bail out homeowners from mortgages they couldn't afford when they got them and another $35 billion on the State Children's Health Insurance Program.

Now Obama has proposed a budget that our economy could not afford even if it were in perfect health. As even the *Washington Post* admits, this $3.6 trillion budget marks the biggest ideological shift since the advent of the Reagan administration.

Among the transformative legislation he aims to ram through congress are a nationalized health care system (he proposed $635 billion to start), a "cap and trade" system — really a huge tax — aimed at reducing carbon dioxide emissions, and a new government fund to make college tuition and auto loans. While doing all that, he also wants to raise capital gains taxes on every investor — including the middle class. And he also wants a multi-billion dollar education bill to extend G.I. bill-like benefits to civilians who serve the government for a time.

Obama wants to spend billions to convert our economy to something it is not: a highly-regulated "green" economy supposedly saving billions by converting to the use of "clean energy." Anyone who bought a Toyota Prius knows this is a phony argument: it takes far longer to recoup the higher costs of buying a Prius (compared to a non-"hybrid" small car of equivalent grandeur) than the Prius — or even its batteries — can last.

These are not investments that pay off: they are costs that breed the necessity for more and more spending. They are new entitlement programs that benefit only ideological constituencies. By comparison, Medicaid is a bargain.

As my friend Larry Kudlow wrote the other day, Obama is declaring war on "investors, entrepreneurs, small businesses, large corporations, and private-equity and venture-capital funds." This is how governments turn short-lived recessions into long-term depressions.

Even some liberals are chary at Obama's ambitions. Liberal Rep. Emanuel Cleaver (D-Ks) told the *Kansas City Star,* "We're just not going to be able to go there. We have no money." But realizing that is no barrier to liberals. They will spend money as fast as the government can print it.

The political fight over the Obama budget -- and the changes to our economy and defenses it includes -- is the most important fight we may ever face. And -- make no mistake -- Obama wants the fight.

In his Saturday radio address Obama declared war on his opponents. Describing his budget initiatives, the president said, "I know these steps won't sit well with the special interests and lobbyists who are invested in the old way of doing business, and I know they're gearing up for a fight as we speak. My message to them is this: So am I."

It's time for Republicans to shake off their fear of going directly against Obama. Three House Republicans told me last week that their leader, John Boehner of Ohio, continues to insist that Republicans can't take on the president, only Speaker Pelosi and Senate Majority Leader Reid. That is a major misjudgment that Republicans must disregard.

As former Massachusetts Gov. Mitt Romney told the CPAC audience last week, "We're at one of those rare moments in history, when the biggest tests come all at once. We don't have the luxury of taking them one by one. We have to get a lot of things right, and all at the same time." Just so.

The tsunami of destructive legislation coming out of the White House is moving so fast that many House Republicans feel overwhelmed. As fast as one bill comes up, another is queued up right behind it. This week the House will take up and pass the patently unconstitutional bill to give the District of Columbia a voting representative in the House.

But those House Republicans -- and the Senate conservatives -- have to shake off their fear of opposing Obama. His budget "state of the union" speech lifted the veil. Mr. Boehner and the rest of the Republicans on both sides of Capitol Hill will lose many battles, but they will lose them all -- and destroy what credibility they are regaining -- if some continue to timidly refuse to say that their central opponent isn't Pelosi or Reid: it's Obama.

The latest Rasmussen poll shows Obama's approval ratings have slipped to 58%, down more than ten points from his pre-inaugural high. Even the most faint-hearted Republicans should take courage from that.

Obama Plus Congress Equals Economic Chaos

by Chuck Norris (more by this author)

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Ronald Reagan was right when he said: "Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it."

The next stage of out-of-control government spending started when George W. Bush bailed out Wall Street with $700 billion (new debt No. 1). But Congress didn't learn from that failure, and apparently, neither did Barack Obama. So the newly elected president pushed for the next stimulus bill (debt No. 2), this one for $787 billion.

But that wasn't enough, either, so the recent $410 billion omnibus spending bill (with 9,000 earmarks -- 60 percent originating with Democrats and 40 percent with Republicans) is being railroaded through Congress to keep government moving until September (debt No. 3).

And then Obama informed us last week that another $634 billion is required for a down payment on universal health care. Before there's a plan, there's already a payment (debt No. 4).

If that isn't enough, Obama is asking for a roughly $3.6 trillion budget for 2010 despite the fact that the White House projects a 2009 budget shortfall of $1.5 trillion — triple the $455 billion in 2008. (That's debt No. 5.)

And all of that doesn't include other stimuli on the horizon, as Sen. Daniel Inouye, D-Hawaii, the chairman of the Appropriations Committee, noted when he called the mammoth $787 billion spending bill "stimulus No. 1." (That's debt No. 6, debt No. 7, debt No. 8, etc.)

All of these wild expenditures would be a little more bearable if we saw any signs of economic recovery. But how has all this alleged stimulus stabilized and grown the economy and the market? As our government has bailed out, the Dow Jones industrial average has dropped. It's dropped about 2,000 points since Obama took office, roughly 200 points after every major speech he has made.

So the big question is: How has Obama gotten away with racking up more expenses in his first 30 days in office than all the presidents combined since the founding of our republic did in theirs?

Bernard Goldberg's *A Slobbering Love Affair* is a great book about the media's blind bias and infatuation with Obama, but Obama's hypnotic effects permeate every stratum of society, from political corridors to public schools. Why? Because he's young, hip, cool, liberal and charismatic — and that's what sells today in America. Objectiveness and criticism fly right out the window with the mere mention of his name or any discussion of his excessive spending plans.

On “Good Morning America” last Thursday, two of ABC’s financial experts graded Obama’s excessive borrowing and fiscal performance a B, while guest financial expert Dave Ramsey rated it an F. Despite the two B grades, one of ABC’s financial experts quipped that one of the biggest problems with Obama's bailouts is that there is no real form of government accountability over the money pouring out of Washington. Yet she maintained her B grade for Obama's stewardship plan. Why?

Here's an even better example: As Obama addressed Congress last week, House Speaker Nancy Pelosi led the way in spontaneous emotive applause for her political hero. Pop-up Pelosi was bouncing up and down like Tigger on steroids, forcing Vice President Joe Biden to rise slowly every time she jumped up, and Biden had to try to hide his frustration with her. Pelosi's eyes and facial expressions seemed almost giddy as she gazed at Obama like a teenager infatuated with the popular high-school jock.

As I watched this obsessive congressional circus, I asked myself, "Is this the type of objective bipartisan leadership we want running our government, leading our nation, and spending our money?"

The political and financial math is easy to calculate. It doesn't take a rocket scientist to figure it out -- just an honest assessment of Washington's present landscape. Here's how the equation pans out:

America’s political love affair with President Obama plus the Democratic majority's coercions in Congress equals trillions of dollars in new debt for Americans, or more economic chaos.

If we ever are to restore the fiscal and leadership sanity to our economy and government, we need not to reinvent the Great Depression wheel of Roosevelt's New Deal. We need to look to a time when Congress was more frugal in its spending and stabilized our government and economy. And in the past 100 years, one of the best examples of that occurred when Newt Gingrich led Congress in the 1990s. I'm not justifying every financial move they made back then, but despite losing a balanced budget amendment to the Constitution by only one Senate vote, they still committed to spending caps and balancing the budget, which they did for four consecutive years. That was the first time that had happened since the 1920s.

The Congress of the ’90s steadied and strengthened the economy by following four priorities and principles, which are being turned on their heads at this moment by the present administration. As Newt noted in his excellent book *Real Change*, Congress’ top priorities were to:

- Cut taxes to increase economic growth and therefore increase revenues (unlike Obama’s tax hikes, which will retard economic growth and depress revenues).

- Set priorities and increase spending in key areas while reducing it in nonessential areas (unlike Obama's fiscal priorities of health care, energy and education, which are based not upon what is best for the economy but what is reflective of typical partisan preferences and doing what is politically expedient).
- Eliminate pork-barrel spending (unlike the 9,000 earmarks in the present $410 billion omnibus spending bill, which is nothing short of absolute economic ludicrousness, mismanagement and waste within our present crisis).
- Shift from expensive, wasteful systems to smarter spending; look at not only more inexpensive ways but also more productive ones (unlike Obama's theory to spend our way to prosperity, which is a sure way to sink America).

Our government is hemorrhaging money. The nanny state is becoming the norm. Our Founders are rolling in their graves. And at this very moment, Washington's credit-crazy and debt-accumulating addiction is dissolving our sovereignty like a sugar cube in coffee by handing our financial autonomy over to other nations. In other words, Rome is burning, and Caesar is stoking the fire!

Time is running out, but it's not too late to reverse Washington's fiscal frenzy. Don't just write to your representatives; hound them to live and legislate by the preceding four proven priorities and principles of governmental and monetary prudence.

Obama's Gaffes Start to Pile Up
Donald Lambro
Townhall.com, Thursday, March 05, 2009

WASHINGTON -- President Obama and his White House staff are making mistakes that continue to worsen an already deflating U.S. economy.

As the stock market plunged below the Dow's 7,000 mark -- a loss of 1,500 points since his inauguration -- Obama casually dismissed the sharp drop in equity values, comparing it to the ups and downs of a poll.

The stock market "is sort of like a tracking poll in politics," he told news reporters. "You know, it bobs up and down day to day. And if you spend all your time worrying about that, then you're probably going to get the long-term strategy wrong."

Excuse me? Tracking poll? That's like dismissing a severed hand as a hangnail.

The stock market represents the life savings and investments of millions of workers. More than 50 percent of American households own shares in public companies.

We are talking about people's retirement finances here that they see vanishing before their eyes, and millions of these investors are middle-class Americans struggling to make ends meet.

This is a time that called for a little sympathy about what this recession is doing to investors.

"The stock market is the country right now. This is where people's wealth is, this is their pension plans, their 401(k)s and IRAs," CNBC's investment guru Jim Cramer said last week.

But the president's seemingly callous shoot-from-the-hip response may have been the result of the political pressure he is coming under as the economy significantly worsens on his watch. Add to this the growing chorus of critics who are blaming the stock market's plunge on his policies.

"There is absolutely no doubt in my mind that President Obama's policy agenda is a factor in driving down the Dow," economic policy strategist Cesar Conda wrote last week in his Politico blog.

"The reason is simple: The threat of significantly higher tax rates on economic success, more government regulation and intrusion in the free market, and explosive increases in government spending and debt have all combined to reduce economic returns on equity investment," he said.

Cramer, whose views on stocks are closely followed by millions of CNBC viewers, said he wanted "some sign that Obama realizes the market is totally falling apart. His agenda has a big hand in that happening."

The other White House blunder came last week, too, when Obama's chief of staff, Rahm Emanuel, took a shot at conservative radio-talk-show king Rush Limbaugh, saying he was the leader of the Republican Party. That triggered a GOP counterattack that took the White House to task for engaging in the kind of political blood sport that Obama had campaigned against, promising to change the tone in Washington.

Cable-TV talk shows fueled the controversy and, by midweek, the White House was in full retreat as it realized their attacks had misfired and backfired. Not a pretty picture.

A somewhat embarrassed presidential press secretary, Robert Gibbs, confessed that the low-road episode had been "counterproductive."

But Republicans were gleefully ridiculing the White House's failed attempt to tie the GOP to the hugely popular Limbaugh's nuclear attacks on the president's policies.

"Now that the Obama administration has declared their own distractions, diversions and manipulations strategy to be counterproductive, House Republicans would like to see this administration join us in our bipartisan national conversation about job creation, stimulating small business and middle-class tax relief," said Brad Dayspring, spokesman for House Minority Whip Eric Cantor, Virginia Republican.

"They should apologize to the American people for supporting these tactics and get back to work," he said.

Meanwhile, the government was moving at its typical snail's pace to get the administration's stimulus money into the states, in large part due to the dozens of critical deputy-secretary posts that remain empty at Treasury and other key departments that have the job of dishing out the funds.

The economy is tanking, and Wall Street still had little confidence that Obama's spending stimulus would work (since only a portion of its funds will be spent this year). And in Congress, the Democrats were doing what they do best, spending more money, this time a massive omnibus fiscal 2009 bill containing 9,000 earmarked provisions that will needlessly cost taxpayers and the economy billions of hard-earned dollars.

The American people are willing to be patient for now, but we are by nature an impatient people and eventually that patience is going to start running out.

Why Obama Wants America to Fail
Kevin McCullough
Townhall.com, Sunday, March 08, 2009

"Not letting a good crisis go to waste."

This idea popped up multiple times in the past seven days as multiple members of Obama's administration seemed to be in total agreement. Their conclusion: by not quickly solving the crisis of the American economy, we can create drastic social and structural change. Not surprisingly, this is the path even President Obama alluded to in his Saturday address to the nation.

On Saturday the President challenged his country to see its hard times as a chance to "discover great opportunity in the midst of great crisis."

"That is what we can do and must do today. And I am absolutely confident that is what we will do," Obama said in his address.

But is that what "we the people" hired him to do? To use "great opportunities" to change the face and fabric of the nation?

"We the People" were promised swift and effective action towards getting the markets repaired by President Obama, but they have dropped about 1400 points each week since he's taken power. "We the People" were promised greater fiscal responsibility by candidate Obama, yet his own proposals throw us down a black hole of debt, the likes of which we've never seen in a single year of an administration, much less in the first sixty days of one. "We the People" were promised the greatest commitment ever to oversight of the federal use of the money we send the government. What we've been handed is a series of embarrassing nominations of people who are willing to use the force of a gun to make you pay your taxes, but did not think twice about not paying theirs. "We the People" were told that his push for a stimulus would get people working again, yet barely 3% of it goes to actual job creation and projects that can even be initiated in the next 24 months. "We the People" were promised greater employment fulfillment and more vibrant business and economic outlooks when Obama's administration finally put together their plan to save the lending institutions. What we are dealing with is a greater spike in the unemployment numbers in Obama's first sixty days than was experienced under President Bush in his first seven years. "We the People" were promised an earmark free, pork free, bare bones budget, but as of last count Obama's omnibus bill contained 9200 earmarks.

So I don't find it surprising that recently even Obama supporters are now openly questioning his plan to revive the economy.

As of last month, we know that more than 55% of the American people wanted help for the economy to come primarily through the reduction of taxes. The same poll found that only a little over 20% think more government spending was the answer.

Whoopi Goldberg surprised even herself on The View this week, unintentionally criticizing President Obama's plan to tax the American people into better economic conditions. She doesn't believe that she should have to turn around and write a check to Washington DC for nearly 40% of what she earns.

Who could blame her?

Yet it is important to point out that there are now far more economists on record that have advised the President against larger government and pushed him towards tax relief, than those who supported the increased centralized control of a soft socialism that President Obama seems destined to aim for.

And "We the People" should be asking ourselves why?

If it makes no sense to the free market economists that populate the best economics programs across the nation, if it weakens the ability for the average family to make ends meet, and if it does not increase the number of people actually working, why is President Obama so stubbornly continuing to pursue his economically diabolical plan of destruction?

Because it's part of the master plan to "not let a good crisis go to waste."

President Obama knows the history of recessions and how Americans get out of them. He knows, for example, that if he gave back to the American family in just pure cash handouts what he is instead planning on taxing them (with interest) in the days to come, that the number would loom between $25,000-$65,000 per family, for every family in America.

But pretending to be doing something about the problem is only half the strategy for Obama. He truly intends to see socialized health care, and European styled labor agreements become reality in America. He knows the consequences of doing such things, he's seen all the projections and what the outcomes would be, but he's doing it anyway.

But there is one tiny problem standing in his way to getting there--"We The People!"

He knows that in order to be forced down paths that we don't wish to go, the only way he gets us to change our mind is to create abject suffering and misery.

Then in Venezuelan styled cries for help, he can promise to take America to a better place economically, a place of greater care, a place of true serenity. A place like Venezuela.

Rachel Maddow told Jay Leno this week that she found it "creepy" that someone would want the President's policies to fail.

I find it creepy that Rachel Maddow is so ignorant that she refuses to think analytically concerning her President's plans for this nation. After all she is one of us--"We The People."

President Obama and his team do not intend to solve this crisis as quickly as they possibly could--like he promised on the campaign trail. Instead, his intention is to let us bleed until the whimper we are expressing now finally builds into an all out, gut wrenching, cry of anguish. He does not care what must be done to arrive at that reality, only that we arrive there.

Many think the Obama administration is incompetent, and surely they've proved this, from the vetting of their appointments to handling the limited foreign relationships they've entertained thus far.

But on the domestic agenda they are as sly as foxes, and our future is the henhouse.

And in refusing to allow a "good crisis" to go to waste, the strategic move to remake Amerika anew has begun.

Five More States Invoke the 10th

by A.W.R. Hawkins (more by this author)

Human Events online, Posted 03/04/2009 ET, Updated 03/05/2009 ET

Last week, HUMAN EVENTS reported that eleven states, Washington, New Hampshire, Arizona, Montana, Michigan, Missouri, Oklahoma, Minnesota, Georgia, South Carolina, and Texas, had all "all introduced bills and resolutions" declaring their sovereignty over Obama's actions in light of the 10th Amendment.

These actions are in response to the Obama administration's faux-"stimulus" legislation which directly assaults the rights of states to reject the money coming from the federal government. So far, several Republican governors -- among them South Carolina's Mark Sanford and Louisiana's Bobby Jindal -- have said they would refuse all or part of the stimulus money because of the constitutional infringements and because of the additional unfunded liabilities they impose on the states.

This week, HUMAN EVENTS is happy to report that five more states have decided to invoke the 10th as well.

These five -- Tennessee, Kentucky, Kansas, Indiana, and West Virginia -- have all begun their action under the 10th Amendment in a bid to protect themselves from what they view as nothing less than an unconstitutional usurpation of power on the part of the Obama administration.

On February 23, HJR 108 was put forth in the Tennessee legislature, indicating that legislators in that state decided "it [was] time to affirm state sovereignty under the Tenth Amendment to the Constitution of the United States and demand the federal government halt its practice of assuming powers and of imposing mandates upon the states for purposes not enumerated by the Constitution," according to Truman Bean.

The very next day, February 24, Kentucky State Representative John Will Stacy (D), "introduced House Concurrent Resolution 168… serving notice to the federal government to cease mandates beyond its authority."

In declaring their sovereignty these states have joined what has come to be known as "the 10th Amendment movement." It is a grassroots, conservative movement that seeks to defend the separation of powers as originally set forth by our Founders in the Constitution.

Through this movement, conservatives are throwing down the gauntlet against tyranny and the abuse of power. They are invoking the 10th Amendment at the state level against abuses of power by the federal government, and doing so with appeals to the extra-constitutional writings of our Founding fathers.

For example, Indiana's resolution calls attention to the words of Alexander Hamilton, a Federalist and Founder who "expressed his hope that 'the people will always take care to preserve the constitutional equilibrium between the general and the state governments.'" Hamilton "believed that 'this balance between the national and state governments forms a double security to the people. If one [government] encroaches on their rights, they will find a powerful protection in the other. Indeed, they will both be prevented from over-passing their constitutional limits by [the] certain [rivalry] which will ever subsist between them.'"

Kansas' Senate Concurrent Resolution No. 1609 delves even deeper into the mechanics of the matter by reminding the Obama administration, as well as the House and Senate, that "the scope of power defined by the Tenth Amendment means that the federal government was created by the states specifically to be an agent of the state." In other words, the federal government exists by and for the states, not the other way around.

The resolution headed to West Virginia's 79th Legislature couples its action under the 10th Amendment with a reminder directed to Speaker of the House Nancy Pelosi (D-Calif.) and Senate Majority Leader Harry Reid (D-

Nev.): “[The] United States Supreme Court has ruled in New York v. United States, 112 S. Ct. 2408 (1992), that Congress may not simply commandeer the legislative and regulatory processes of the states.” This reminder is followed by a pronouncement that “a number of proposals from previous administrations and some now pending from the present administration and from Congress may further violate the Constitution of the United States.”

In light of these violations of the Constitution, the stated purpose of West Virginia’s resolution is, in part, to “serve as Notice and Demand to the federal government, as our agent, to cease and desist, effective immediately, mandates that are beyond the scope of these constitutionally delegated powers.”

Our rights as citizens are under assault by an administration of leftist ideologues with an insatiable appetite for power. There is little difference between them and the appeasement-drunken, government-expanding leftists in Lyndon Baines Johnson’s administration of whom Ronald Reagan said in 1964, “Inalienable rights are now considered to be a dispensation of government…and freedom is close to slipping from our grip.”

Every state assembly and legislature that has joined “the 10th Amendment movement” understands that Reagan’s words about freedom’s fragility in 1964 are no less true for our day when not only freedom, but also the America ideal, is “close to slipping from our grip.”

We must stand shoulder to shoulder with states like Tennessee, Kentucky, Kansas, Indiana, and West Virginia in demanding that the federal government immediately “cease and desist” its usurpation of our liberties.

The Climate Change Lobby Has Regrets

Cap and trade is going to cost them.

- By KIMBERLEY A. STRASSEL, *Wall Street Journal* online, March 5, 2009.

Jim Rogers is not happy with the Obama administration. Ever since the White House unveiled its costly climate program, the CEO of Duke Energy has been arguing the proposals amount to nothing more than a tax. Indeed.

Mr. Rogers belongs to the U.S. Climate Action Partnership, about 30 companies that decided they were going to dance with the U.S. government to the tune of global warming legislation. The group demanded a "cap-and-trade" system, figuring they'd craft the rules so as to obtain regulatory certainty, with little upfront cost. At the time, Mr. Rogers explained: "If you don't have a seat at the table, you'll wind up on the menu."

Energy company executives testify on Capitol Hill, March 2007.

Duke sat, yet it and its compatriots are still shaping up to be Washington's breakfast, lunch and dinner. The Obama plan will cost plenty, upfront, which will be borne by Mr. Rogers's customers. The Duke CEO tells me that he still sees opportunity to change the proposal: "This is not my first rodeo, in terms of working with the legislative process." There nonetheless may be a lesson here for companies that invite the U.S. government to saddle them with huge, expensive regulations.

"People are learning," says William Kovacs, vice president of environment, technology and regulatory affairs at the U.S. Chamber of Commerce (which has been cautious about embracing a climate plan). "The Obama budget did more to help us consolidate and coalesce the business community than anything we could have done. It's opened eyes to the fact that this is about a social welfare transfer system, not about climate."

Truth is, any cap-and-trade system is a tax, even if Mr. Obama's plan has only started to force business proponents to admit it. The government sets a cap on how much greenhouse gas can be emitted annually. Companies buy and sell permits that allow them to emit. Customers bear the price of those permits.

But the political question was always how that first batch of permits would end up with companies. Corporate support rested on the belief they'd be "allocated," for free. This would allow them to delay the day when they'd have to pass costs on to consumers, and ignore, for now, the "tax" question.

It didn't take long for the pols to figure out they could auction off permits and spend the loot. President Obama's auction bonanza would earn the feds $650 billion in 10 years, according to the administration's budget estimate -- and that's a low, low, low estimate.

Thus Mr. Rogers's lament. No one can now pretend that this isn't going to cost, and Duke is going to be tagged as tax collector via higher electricity bills. If the customer outrage won't be enough, some utilities will also be forced into fights with state regulators, who have to approve the rate-hike requests.

Congress isn't sympathetic. Most Democrats want the money to spend, while many Republicans have written off companies asking for government freebies. "What you saw when [the Climate Action Partnership] was draping itself in the name of saving mankind, what they were really doing was trying to create the largest earmark in modern history," says Tennessee Republican Sen. Bob Corker of the "allocation" system.

Mr. Corker has been having fun exposing the self-dealing in recent climate bills. Companies aside, he blew an early whistle on Congress's ambitions to use an auction system to enrich itself. During last year's debate on Sen. Barbara Boxer's (D., Calif.) climate bill, he offered an amendment to require rebates of all auction funds to American families. It helped kill the bill, as did a growing awareness among Midwest and Southern Democrats that the legislation would disproportionately hammer their industries and constituents.

Mr. Obama is promising to return auction money to Americans, via a tax cut he proposed on the campaign trail. Mr. Corker calls this a "sleight of hand," since people were counting on a tax cut in any event. Nobody told them they'd have to fund it with higher energy costs. It's also a wealth transfer -- electricity users in coal-heavy Ohio, for instance, will be funding tax cuts for green Californians. Not that congressional spenders have any intention of using this money for tax cuts in the first place.

All this foreshadows the political battles to come. With the business community moving more uniformly against the bill, the administration will be looking to cut a deal. One way to buy support is to offer a certain percentage of the permits for free. Next comes the fight over how much money the government gets to keep versus how much goes to states or individuals. Expect a lot of political courting of Midwest and Southern members, on whom the fate of the Obama plan hinges.

Business leaders might do better to use this as an opportunity to kill the beast. They might get some credit for protecting their customers from what they are now, finally, admitting is a giant tax -- in the middle of a recession.

Deficit decline based on rosy scenario

Optimism lost on economists

David M. Dickson
Washington Times online, Friday, February 27, 2009

Humberto Sanchez, from Congress Daily, reads over a copy of President Obama's first budget for fiscal 2010 at the U.S. General Printing Office in Washington on Thursday. (Associated Press)

President Obama's first budget fulfills a campaign promise to reduce the federal deficit to $533 billion in 2013, but it is based on an economic scenario that is far rosier than the forecasts of private economists.

The White House budget blueprint revealed Thursday showed budget deficits averaging $1.3 trillion per year from 2009 through 2011 before falling below $600 billion over the following four years.

The budget includes $250 billion for “potential additional financial stabilization efforts” during the current fiscal year. This would be on top of the $700 billion financial bailout that Congress approved last year. The 2009 budget also reflects the initial outlays and tax cuts of the $787 billion stimulus package that Congress passed and Mr. Obama signed earlier this month.

These factors, combined with a rapidly deteriorating economy, have helped to balloon the 2009 deficit to a staggering $1.75 trillion.

A deficit of that size would represent 12.3 percent of gross domestic product (GDP). That's more than double the previous postwar record of 6 percent of GDP, which occurred in 1983.

"The administration's economic forecast is rosier than I was expecting," said Stan Collender, a budget expert who is a partner at Qorvis Communications, a Washington public relations firm. "They're predicting a robust bounce-back in 2010."

The White House budget expects the economy to decline only 1.2 percent in 2009. That compares with a 1.9 percent drop projected in February by the Blue Chip Consensus, which compiles the forecasts of more than 50 private economists. Over the next four years, the Obama administration expects the economy to expand an average of 4 percent a year, much faster than the 2.7 percent average growth rate in the Blue Chip forecast.

The administration expects the deficit will decline as stimulus programs lapse, the economy undergoes a rapid recovery and the Treasury raises taxes on high-income earners, said Maya MacGuineas, president of the Committee for a Responsible Federal Budget, a bipartisan budget watchdog group.

"The budget is a huge step forward in terms of transparency of the policies being pursued, but it falls far short in terms of paying for those policies and reducing the budget deficit through tough, real choices," Ms. MacGuineas said. "We would have liked to see greater deficit reduction from Social Security and health care."

On the tax front, the president kept quite a few campaign promises.

The budget makes permanent the "Making Work Pay" refundable tax credit of $800 for couples and $400 for individuals.

The budget extends the Bush 2001 and 2003 tax cuts for individuals earning less than $200,000 and married couples earning less than $250,000.

For those earning more than that, the 33 percent tax rate will rise to 36 percent and the 35 percent rate will rise to 39.6 percent. High-income households will also pay higher dividend and capital-gains rates and see limits placed on their itemized deductions and exemptions. These changes will increase revenues by nearly $1 trillion over 10 years, the administration estimates.

Other "revenue changes and loophole closers," mostly directed at overseas profits of corporations and the earnings of hedge-fund managers, will generate an estimated $350 billion in tax revenue over the next decade.

Nobody Knows the Troubles We'll See
Kathleen Parker
Townall.com, Sunday, March 08, 2009

WASHINGTON — Nobody knows.

If the keyboard allowed, I'd type those words in squiggly lines for full effect. Whether talking to a Ouija Board, a Magic Eight Ball, an economist or the president of the United States, the answer is the same. Nobody knows.

And the question is: Will the U.S. economy bounce back after billions and trillions in rescue, recovery and spending?

It's all a gamble. The Republican attempts to "starve the beast" -- slash taxes and force government spending cuts -- didn't work because spending never got cut. So now, apparently, we're going to feed the beast.

As we cross our fingers (and our toes), our minds warp at the concept of trillions. What is a trillion, anyway?

Chris Martenson's online "Crash Course" in economics explains a trillion this way. First, picture a million dollars as a four-inch stack of thousand-dollar bills. A comparable billion-dollar stack is 358 feet tall. A trillion-dollar stack of thousand-dollar bills stands 67.9 miles high.

So, yes, that tightening you feel in your gut is a perfectly rational response. Trillions in government spending, while raising taxes on those who do the most to drive the economy (hiring and investing in risky markets, for instance), is a frightening proposition. Or is it?

That question led me to a sit-down with Matt Miller, one of the saner voices amid the cacophony. Miller, who so strongly resembles Tom Hanks that you want to ask him about "Wilson," isn't a shouter. A former Clinton budget aide and author of the path-breaking "The Tyranny of Dead Ideas," he finds the current hysteria over Obama's proposed budget misplaced.

Upfront, he says that Obama isn't coming completely clean on taxes. Everybody, not just the richest, will have to pay more taxes in Obama's second term (assumptions pending), owing to the strain that retiring baby boomers will put on Social Security and Medicare. Miller figures Obama is hoping that by then, enough people will be pleased with the government his administration has put in place and won't mind paying for it.

In the meantime, Miller says the key to assessing whether the budget is terrifying or reasonable under the circumstances is by examining spending, taxes and deficits as a percentage of GDP.

Emergency spending in 2009 will raise the percentage of GDP from 21 (last year) to 27.7, which Miller concedes is "scary." But the 10-year spending average under Obama's plan (assuming reasonable recovery) will be at about 22 percent of GDP -- the same as under President Reagan.

Tax rates, which will return to Clinton levels (but not until 2011), also shouldn't be alarming, says Miller.

"We know from the Clinton boom of the 1990s that marginal tax rates of 39.6 percent put no brakes on entrepreneurship or growth. And the modest limits Obama is proposing on the value of itemized deductions for mortgage interest and charitable donations puts their value exactly where they were under Ronald Reagan, which no one would say was a 'socialist' interlude for the US economy. So everyone jumping up and down about how supposedly 'radical' Obama's plan is should calm down and look at the facts."

But, I asked, how about this: If deficits are the problem, why not *cut* spending and taxes, rather than increase spending and impose higher taxes on higher earners to drive the economy?

Because businesses and individuals are pulling back and don't have enough discretionary money to stimulate the economy, says Miller. And thanks to the huge deficits bequeathed by the Bush administration, Miller says we have no choice but to run even higher deficits for a few years to get the economy out of the ditch.

Feeding the beast, in other words, is unavoidable. But will it work -- or will we all be speaking French and eating moldy cheese in two years?

To the "nobody knows" chorus, add at least one strong dissenting voice. Miller says that though stimulus efforts may or may not work, Obama is doing the right thing with the budget.

And no, we won't be socialists when it's all over. There will still be room for a "cowboy economy," he says.

I can't say that I suddenly have a yippie-kay-yo in my heart, but Miller's less-scary scenarios, based on facts rather than rhetoric, help tamp down the impulse to build a bigger bunker. If Miller wants to be heard in Rantville, however, he may have to learn to shout.

In Defense of Obamanomics

History shows that the president's tax plans are consistent with strong economic grow

By LAURA D'ANDREA TYSON, *The Wall Street Journal* online, March 9, 2009.

If leadership is defined as recognizing a crisis, addressing its challenges, and setting new directions while remaining true to one's values, then Barack Obama is already demonstrating his strengths as a leader. He has inherited an economic crisis worse than any the nation has experienced since the Great Depression. Within fewer than 50 days in office he has signed a historic stimulus package to bolster demand and create 3.5 million jobs. Governors, business leaders and economists from both the left and the right have applauded the stimulus. Friday's distressing employment numbers indicate that much more may be needed.

President Obama has also proposed a 10-year budget that is faithful to the progressive vision he articulated during his campaign. His budget includes significant investments in health care, energy, the environment and education, and a tax cut for the middle class. It also calls for higher taxes on the top 3% of income earners to finance his priorities and reduce the deficit. Not surprisingly, a budget plan this ambitious is triggering strong and well-organized opposition on numerous fronts.

The opposition begins, predictably, with taxes, so it is important to understand the major tax changes President Obama is proposing and their underlying rationale. President Bush's tax cuts are scheduled to expire at the end of 2010. At that time, assuming the economy has entered a recovery, President Obama's budget will restore the top two marginal income tax rates to their 1990s levels of 36% and 39.6% for individuals earning more than $200,000 and couples earning more than $250,000. These changes will affect only the top 3% of taxpayers, the group that has enjoyed the largest gains in income and wealth over the last decade. In addition, for these taxpayers the tax rate on capital gains will increase to 20%, the lowest rate in the 1990s and the rate President Bush proposed in 2001, and the tax rate on dividends will increase to 20%, a rate lower than the rate of the 1990s and nearly 40% lower than that proposed by President Bush in 2001.

Critics charge that President Obama's tax rates for high-income earners will strangle small business and stifle economic growth. Such claims are misguided or disingenuous. A full 97% of small businesses will see their rates unchanged or enjoy additional tax benefits under the Obama plan. And the strong expansion of the 1990s proves that the tax rates on income, capital gains and dividends in the Obama budget will support rapid economic growth and substantial income gains at the top. Moreover, the higher tax revenues resulting from these rates will reduce the deficit by about $750 billion, bringing it down to an average of 3.9% of GDP over the next 10 years and to 3.1% of GDP by the end of the decade. This compares to an average deficit of 3.6% of GDP between 1982 and 1997, when the Dow Jones Industrial Average increased by 835%.

In addition, the president proposes to limit the deductions for dependents, charitable contributions and other expenses to 28%, the top rate for such deductions under Ronald Reagan. Some critics claim this is class warfare. But why should a family in a higher tax bracket get a bigger break on expenses than a middle-class family? And restoring this limit to its Reagan level will raise enough revenue to cover about half of the $634 billion reserve President Obama needs to finance health-care reform with the other half coming from savings in health spending. These savings include competitive bidding in order to reduce Medicare payments to private insurance plans, increasing the Medicaid rebate for brand-name drugs, and strengthening Medicare pay-for-performance incentives for hospitals.

Those who stand to lose from these changes are already protesting. But like the 28% limit on deductions, these savings are fair and reasonable ways to finance the twin goals of achieving universal health-care coverage and moderating the growth of health-care spending. The rising cost of health care per patient not just for Medicare and Medicaid but throughout the health-care system is the principal driver of the government's long-term deficit and debt problems. For more than 40 years, this cost has grown much faster than the overall economy and if the current rate continues, by 2050 Medicare and Medicaid will account for about 20% of GDP, and the national debt will soar to 300% of GDP. These are unsustainable outcomes. Health-care costs must be contained through significant investments in health information technologies, disease management techniques, and wellness and prevention programs. And these investments must begin now. The stimulus package contains over $20 billion for such investments and they are major priorities in the budget.

Reducing the nation's dependence on foreign oil and cutting carbon emissions are also priorities, supported by overwhelming scientific evidence on the risks and costs of climate change. Economists agree that establishing a price for carbon emissions either through a carbon tax or a cap-and-trade system is essential to achieving these goals. The Obama administration has opted for the latter. The system will impose a limit on the amount of carbon that businesses are allowed to emit each year. Firms will be required to purchase permits from the federal government through an auction and will then be free to buy and sell them.

Critics of a cap-and-trade system are correct when they claim it will raise the prices of goods and services whose production and use emit carbon. That's exactly the point: Higher prices are necessary to encourage energy efficiency and the development of renewable energy, to discourage carbon emissions, and to reduce the societal costs of global warming. The Obama auction plan will also generate substantial government revenues, about 80% of which will be used for financing a refundable tax credit of up to $400 for individuals and up to $800 for families. The result will be tax cuts for 95% of working Americans. The remaining 20% of the auction revenue will be used to finance investments in energy efficiency, clean energy and smart-grid technologies.

Even the investments in education contained in the Obama budget will galvanize critics. Some will oppose the expansion of the federal government's funding for early childhood education despite evidence that it is among the best investments the government can make not only for children but for the economy as a whole.

Others will oppose expanding the tax credit for college tuition to $2,500 a year and making it permanent and partially refundable; increasing the Pell Grant to $5,500 a year; and eliminating subsidies to banks participating in the student-loan program, cutting $50 billion from the 10-year deficit. But, again, the returns to higher education are substantial for both the individual and the overall economy. Too many American students are forced to forego these returns because they cannot afford a college education, with deleterious effects on the nation's competitiveness.

The president's budget is progressive and ambitious. It will not, however, explode the size of government as some critics warn. If the economy recovers as projected, over the next decade taxes as a share of GDP at around 19% will be lower than they were during the second half of the 1990s, government spending as a share of GDP at around 22.5% will be about where it was under Reagan, and nondefense discretionary spending at around 3.6% of GDP will fall to its lowest level since that data was first collected in 1962.

The real risk lies in the possibility that the economy's recovery starts later and is much weaker than the economic assumptions in the budget. In this case, by no means remote, President Obama will have to adjust his plans while remaining true to his values. In a very few days in office, he has already demonstrated that he has the leadership skills to rise to the challenge.

Ms. Tyson is a professor of business and public policy at the Haas School of Business, University of California, Berkeley. She served as chair of the Council of Economic Advisers and as the National Economic Adviser under President Clinton. She is a member of President Obama's Economic Recovery Advisory Board.