

Obama's "Stimulus" Bill Government Spending

Daniel Henninger, "Exactly How Does Stimulus Work? — Separating economics from theatrics." (*The Wall Street Journal* online, 2/12/09). <http://online.wsj.com/article/SB12344033883227557.html?mod=djemEditorialPage#printMode>

Three major events piled into view Tuesday: The Senate, under intense fire from the new president, passed a \$838.2 billion stimulus bill. Treasury Secretary Tim Geithner unveiled the Obama administration's solutions to the credit crisis. And the Dow Jones Industrial Average fell 831.99 points, 4.6%.

Speaking of the "tired ideas of the past," how long does it take for the ideas of the here-and-now to start running on empty?

We ask because public anxiety haunts the Obama plan to revive the economy. A USA Today/Gallup poll found some two-thirds of respondents thought the stimulus would help the economy, at least a bit. But half said it would have no effect on their situation and might even make it worse.

By contrast to this ambivalence, the confidence of the president and his team verges on intellectual arrogance. His political adviser David Axelrod describes Republican resistance to the bill as "machinations" and claims the people are not "sweating this detail or that detail."

Indeed it might not be worth breaking a sweat if the stimulus bill was going to spend the measly \$168 billion that George Bush's tax rebates threw at the economy last year. Nobody gets upset anymore if Washington wastes a hundred billion dollars. But coming after four months of the TARP's dizzying billions spent in futility, we get a president proposing to spend nearly \$1,000,000,000,000 on what he calls "stimulus." Even a populace numb to its government's compulsive spending woke up to that fantastic sum.

After kicking the tires of this bill, which Congress blipped downward yesterday to \$789.5 billion, a skeptical voter might reasonably ask: "Just how does an economic stimulus work, Mr. President?" In the White House and in Congress, the "stimulus" has become a magical incantation, requiring no explanation beyond that it is "necessary."

The theory beneath the \$800 billion of spending is called the Keynesian multiplier, first posited around 1931. One suspects not a voter in a million knows how

this is supposed to work. Barnstorming in Elkhart, Ind., Tuesday, Mr. Obama took a shot at it, calling the weatherization of homes "an example of where you get a multiplier effect."

The administration's primary technical explanation for how spending these hundreds of billions revives an economy is in a paper prepared during the transition by Mr. Obama's economic advisers Christina Romer and Jared Bernstein. To arrive at the number of new jobs the bill would create, the Romer-Bernstein paper attempted to "stimulate the effects of the prototypical (stimulus) package on GDP." The multiplier, as they explain, is applied to a given amount of federal spending to arrive at the likely effect on GDP. Then using a "rule of thumb" that 1% of GDP equals 1 million jobs, they come up with a total jobs figure of 3,675,000. They said the multipliers "are broadly similar to those implied by the Federal Reserve's FRB/US model" and leading forecasters.

Card-carrying economists are themselves more modest about stimulus theory than the president. Testifying on the bill to Congress a few weeks ago, CBO director Douglas Elmendorf said, "Designing effective stimulus on the scale that the Congress is considering ... is difficult." Mr. Elmendorf also noted that "Even without any stimulus, market forces would eventually bring about a recovery from the recession," albeit with more unemployment and loss of output.

The Romer-Bernstein study for Mr. Obama itself admits "the obvious uncertainty that comes from modeling a hypothetical package rather than the final legislation passed by the Congress." Do Ms. Romer and Mr. Bernstein believe the current bill will produce their January study's job numbers? Is the bill in Congress now a strong-form stimulus or a weak-form stimulus? If the latter, then it's a waste of money. Martin Feldstein, an early supporter of stimulus, now says that the bill's effects are weak and need a redo even if it takes a month or two.

If the Obama team won't consider this, then why shouldn't one conclude that their case for stimulus, as Mr. Obama suggested with his famous "stimulus is spending" remark, is indeed the crude cartoon version of Keynes, who suggested digging and refilling holes?

If this is true, that "this detail or that detail" don't matter, then a number of conclusions follow:

The whole congressional effort is an irrelevant sideshow; only the final spending number matters. The economics don't matter, because the real political purpose of the bill is to neutralize this issue until the economy recovers on its own. Much of its spending is

a massive cash transfer to the party's union constituencies; a percentage of that cash will flow back into the 2010 congressional races. The bill in great part is a Trojan horse of Democratic policies not related to anyone's model of economic stimulus. Finally, if this bill's details are irrelevant to the presumed multiplier effect of an \$800 billion Keynesian stimulus, GOP Sen. Susan Collins's good faith participation in it looks rather foolish.

Democrats Ready to Spend Billions... Yet Ration Health Care

Posted by: Michele Bachmann at 4:49 PM, Wednesday, February 11, 2009

<http://townhall.com/blog/g/26d586d4-6551-46ae-804e-e6a23c2834df>

Believe it or not, Congressional Democrats proposed a radical revision of health care policy as part of their economic "stimulus" bill. "Comparative effectiveness," as it is called, not only lays the groundwork for a **full-fledged government take-over of Americans' health care** system, but **seriously limits the choices for patients and doctors in pursuing treatment.**

What it does is put in place a National Coordinator of Health Information Technology that will **"monitor treatments to make sure your doctor is doing what the federal government deems appropriate and cost effective."** Your medical treatments will be tracked electronically by the government to decide whether you're "too sick" to receive health care treatment. They will decide for you what scope of treatments should be made available to deal with your current ailment.

If this wasn't bad enough, the Democrats would like to sneak this past the American people by tucking it into this massively bloated multi-hundred-billion dollar spending package that they are framing as a measure to create jobs and help our struggling economy.

Like you, I have no idea how this health care proposal even begins to create jobs or help Americans financially. But, it's a far-too-common practice in Washington to sneak things into bills marked **"CRISIS: MUST PASS NOW"** rather than go through public debate and open consideration.

The Democrat-majority is attempting to take advantage of our struggling economic situation to put in place liberal policies that have nothing to do with economic recovery. Don't be fooled.

Betsy McCaughey, a former lieutenant governor of New York and an adjunct senior fellow at the Hudson Institute wrote a great piece that sums up the dangers of these health care provisions. Read it [here on Bloomberg.com](http://www.bloomberg.com).

Note to Congress: Expanding Health Care Entitlements Is Bad Policy

Dennis G. Smith

The Heritage Foundation, Backgrounder #2240, February 12, 2009

<http://www.heritage.org/Research/HealthCare/bg2240.cfm>

Many Americans who have private health insurance will lose their coverage if major health care policy proposals advanced by President Barack Obama and congressional leaders, including Senator Max Baucus (D-MT), chairman of the Senate Finance Committee, become law.

These proposals have common themes. President Obama, in particular, has repeatedly made assurances that those enrolled in private insurance will be able to keep it and has touted the benefits of market-place competition, but he, along with Senator Baucus and others, has coupled these assurances with a counterproductive proposal for a new public health plan to compete directly with private-sector plans in a national health insurance exchange. Based on independent analysis, such a provision would displace the private health coverage of millions of Americans.^[1]

Beyond the proposed public health care plan, however, the President and Senator Baucus would also undertake a major expansion of existing government health care programs and entitlements, including Medicare, Medicaid, and the State Children's Health Insurance Program (SCHIP). Given the inevitable dynamics of such program expansions, assurances to Americans that they would be able to keep their private health coverage are meaningless. Their employers would have powerful incentives to dump them into public coverage.

The insurance system would, in fact, become even more fragmented than it is today. President Obama's promise of access to the "same kind" of private health insurance that is available to Members of Congress would not apply, for example, to an adult or a child living below the poverty level. That option would be very different. President Obama and Senator Baucus both propose expansions of Medicaid, a fundamentally flawed welfare program in which a disproportionate number of enrollees end up in hospital emergency

rooms for routine care, and SCHIP, which in many states is simply Medicaid.

Fresh from his election as chairman of the House Committee on Energy and Commerce, which has jurisdiction over Medicaid, SCHIP, and part of Medicare, Representative Henry Waxman (D-CA) has also been a champion of Medicaid expansion. At the very least, expansion of Medicaid, SCHIP, and Medicare will be the “default” plan for Congress and the Obama Administration.

Expansion of Medicaid under H.R. 1, the American Recovery and Reinvestment Act of 2009 (the “economic stimulus” legislation) and expansion of SCHIP under H.R. 2, the Children’s Health Insurance Program Reauthorization Act of 2009, may well become an excuse not to pursue genuine health care reform. True reform would entail structural changes not only in health insurance markets, but also in existing public programs, as well as expanded personal choice and genuine market competition. Using the tremendous leverage of Medicare and Medicaid and new authorities under H.R. 1 and H.R. 2, the federal bureaucracy will be able to do much of the handiwork without subjecting Members of Congress to controversial votes, leaving ordinary Americans unaware of the dangers to their private health insurance coverage that lurk beneath the surface.

Health reform should revitalize, not undermine, private health insurance. Policymakers should expand personal choice and get as many healthy people into private insurance pools as possible. Taking healthy children out of the private pools and putting them into government programs like Medicaid and SCHIP is exactly the opposite of what should be done. SCHIP expansion splits up health insurance coverage for families. Children go into SCHIP (many states run at least part of their SCHIP programs as Medicaid) while their parents remain in private coverage.

Medicare expansion also incurs its own costs. Those who are ages 55 to 64 would be better off in a pool with a younger population in a newly reformed health insurance market, with a robust set of affordable options, than in traditional Medicare, which routinely covers only part of retirees’ health care costs, requires enrollees to buy supplemental private coverage to cover needed benefits and catastrophic care, and is routinely subject to confusing and often inconsistent rules and reimbursement cuts.

The Deepening Entitlement Crisis

Expanding Medicaid and Medicare and incurring new liabilities is, to put it mildly, fiscally unwise. After all,

Congress, in launching a recent series of massive bailouts, an unprecedented splurge in federal spending, has just created a record deficit of \$1.6 trillion.^[2] At the same time, Congress has avoided the tough but vital decisions about how to pay for the massive entitlement obligations that have already been incurred in Medicare and Social Security, let alone how to finance new ones.

Independent analysts, as well as the Government Accountability Office (GAO), the watchdog of Congress, have repeatedly warned Congress and state officials that their budgets and taxpayers are already on a collision course with the rapidly rising costs of entitlement programs. Medicare and Medicaid, cheap at the point of service, are in fact not cheap at all — nor do they provide the affordable coverage politicians have promised and Americans seek. Medicare alone has long-term obligations that amount to \$36 trillion, and rising long-term care costs in Medicaid, particularly costs incurred by the massive baby-boom generation, will add to the enormous pressure on state and federal taxpayers to meet the needs of retirees.

The Office of the Actuary (OACT) at the Centers for Medicare and Medicaid Services (CMS) has estimated that Medicaid will grow about 7.9 percent annually between 2008 and 2017, reaching \$673.7 billion in 2017.^[3] Cumulative spending over the next 10 years will amount to about \$5 trillion.

As Medicaid is close to Medicare in size and grows at approximately the same rate, the long-term cost of Medicaid is roughly equal to that of Medicare. Medicaid’s long-term unfunded liability will be even greater than Medicare’s because Medicaid is funded entirely through general funds on a pay-as-you go basis, with no trust funds or dedicated pay-roll tax available for its use. Given the unsustainable cost of the current programs and the utter failure of Congress to address these issues, it is hard to imagine how Congress would plan to finance additional entitlement costs. The current approach on Capitol Hill is to avoid such accountability.

Medicaid: Limited Access and Choices

Expanding Medicaid is an old idea. There is nothing innovative about it. Medicaid has been expanded incrementally over the past 40 years, both through federal mandates and through state initiatives, and enrollment in the program has climbed to more than 60 million people.

Medicaid is a convenient method for hiding the true cost of ever-expanding government programs because

the federal government pays only 57 per-cent of the cost, with state and local governments responsible for the balance. Proponents of new federal expansion ignore the reality that states already have the authority to expand Medicaid to more individuals below the federal poverty level (\$20,200 for a family of four in 2008) who are parents or caretaker relatives of children eligible for Medicaid. But the states have chosen not to do so.

Under the Obama and Baucus proposals, Congress would undertake such an expansion. While the Obama proposal is silent on the extent of expansion, the Baucus proposal would expand the existing Medicaid population and include childless adults as well. While a few wealthier states might benefit from expansion as new federal dollars replaced state and local dollars that currently fund health care for indigent populations, most states would experience new, unbudgeted costs. The consequence of Medicaid expansion for states is that they would be forced to accept this expansion as a higher priority than education, transportation, or other important issues for which they are responsible.

Under the Baucus plan, more than 7 million Americans would head into Medicaid.^[4] Medicaid recipients would not have the choices and benefits that are available to federal employees. While the Baucus plan promises “access to recommended pre-ventive care, including services like a health risk assessment, physical exam, immunizations, and age and gender-appropriate cancer screenings,”^[5] millions consigned to Medicaid would not have access to such benefits.

With limited access to providers, too many Medicaid patients do not get the care they need. Once enrolled in Medicaid, many find that their access to doctors, particularly specialists, is limited, so they have to get care in the most expensive place on the planet: the hospital emergency room. In 2006, more than one-third of all ambulatory visits for people on Medicaid were to a hospital emergency room or out-patient department, compared to just 14 percent of visits by people with private insurance.^[6] Nearly 36 percent of ambulatory care visits by privately insured people were to medical or surgical specialty offices.^[7] For Americans on Medicaid, the percentage of visits to specialists was just 16 percent.^[8]

Medicaid directors themselves acknowledge the access difficulty, which is due in part to low rates of provider reimbursement through Medicaid. In a survey of the 51 Medicaid directors conducted for the Kaiser Commission on Medicaid and the Uninsured, 17 reported some or significant problems with access to

primary care, and 36 reported some or significant problems with access to specialty care.^[9]

Expansion of public programs will only make the access problem worse. According to the Lewin Group, hospitals and physicians could lose from \$2.8 billion to \$36.4 billion annually through different public payment scenarios created with the enactment of a new public health plan.^[10] This would be even worse under a Medicaid expansion:

Medicaid typically pays less than Medicare or commercial insurance and providers often cite low reimbursement rates as their primary reason for not participating in the program. These issues were exacerbated during the last economic downturn when all states reduced or froze provider rates to help curb Medicaid growth, sometimes for multiple years.^[11]

President Obama and Senator Baucus, as well as liberals in Congress and the state legislatures, routinely press for an expansion of Medicaid, despite the fact that such expansion contradicts other key health care reform goals that they claim they want to achieve. In the description of his plan, Senator Baucus notes that:

[T]he costs of care for the uninsured are largely borne by those with insurance; pro-viders charge higher prices to patients with private coverage to make up for uncompensated care, and these costs are passed on to consumers in the form of increased premiums. Requiring all Americans to have health insurance will help end the shifting of costs from the uninsured to the insured.^[12]

But Medicaid is also a major cause of cost-shifting. It pays lower reimbursement rates to doctors and hospitals and other medical professionals than are paid by Medicare and the private sector. Medicaid pays doctors only 56 percent of private coverage; hospitals, 67 percent.^[13] Medicare pays hospitals 71 percent of private payments and pays doctors 81 percent of private payments.^[14]

Faced with lower reimbursement levels from public plans, providers pass their losses on to those who are covered by private plans — which show up in higher private-sector premiums. “According to a recent report by Milliman, Inc., a prominent actuarial consulting firm,” writes Robert E. Moffit, “this ‘hidden tax’ of lower reimbursement levels of Medicare and Medicaid amounts to \$88.8 billion a year, or an additional annual cost of \$1,788 in insurance for a family of four.”^[15] Thus, expanding Medicaid would not “help end the shifting of costs” as promised. Instead, it would probably make cost-shifting even worse.

Expansion of Medicare and Medicaid ranks last in Americans' preferences for insurance coverage. The Commonwealth Fund 2002 Workplace Health Insurance Survey found that 43 percent of adults favored employer-based coverage, 22 percent favored individually purchased insurance, 15 percent favored a new government program for the uninsured, and only 10 percent favored Medicare or Medicaid. Even among low-income adults, Medicare and Medicaid finished last: 27 percent preferred employer-based coverage, 21 percent favored a new government program, and 19 percent favored Medicare or Medicaid.^[16]

Denying Lower-Income Families a Choice

Under the health insurance program available to President Obama and Members of Congress, a federal employee typically has the choice of a number of plans. Under the Obama and Baucus proposals, which claim to provide that same choice to Americans, such a choice would be denied to millions on the basis of their income. They would instead be required to accept whatever is offered by their state through Medicaid.

Under a reformed health care system, the option of choosing one's health insurance should not be based on one's income. If a person has an annual income of \$10,829 or lower, which makes him eligible for Medicaid, it does not logically follow that he is therefore less capable of making decisions about his health care than someone with a higher income. It would be more equitable for people to have access, through a system of income-based premium support, to the kind of coverage they want rather than what government officials pick for them.

Instead of putting more people into Medicaid, authentic reform should reverse course and aim to expand private health insurance pools, including the healthy current Medicaid recipients, thereby freeing the public dollars that support them.

Medicare Expansion

Just as Medicaid expansion up the income scale has been routine health policy ever since the Clinton Administration proposed the idea in the late 1990s, Medicare expansion down the age scale has also been fashionable. As part of his health care initiative, Senator Baucus has proposed making coverage "immediately available" to Americans ages 55 to 64 through a "Medicare buy-in."^[17] In the Baucus proposal, "[t]he premium amount would be calculated so that the total costs for the buy-in population would be budget neutral. Thus, this option would not create

new costs for the Medicare program or for taxpayers."^[18]

But singling out this age group in terms of the number of people who are uninsured misses the mark. According to the latest data from the U.S. Census Bureau, 4 million Americans between ages 55 and 64 — 12 percent of the 33.3 million individuals in this age range — are uninsured.^[19] By comparison, 10.3 million people (25.7 percent) of the 40 million ages 24 to 34 are uninsured;^[20] 7.7 million people (18.3 percent) of the 42 million ages 35 to 44 are uninsured;^[21] and 6.8 million people (15.4 percent) of 44 million ages 45 to 54 years are uninsured.^[22] In terms of making the greatest impact on increasing the sheer number of Americans with health insurance, starting with this age group makes little sense unless **the real intent is to expand government, not insurance coverage.**

The Baucus argument for the Medicare "buy-in" is that the individual insurance market for people in the target age group is not affordable. Senator Baucus points out that from 2006 to 2007, the "average annual premium" in the individual market for those ages 60 to 64 was more than \$5,000 for single coverage and \$9,200 for family coverage.^[23]

It cannot be overlooked, however, that a person who buys individual insurance, as opposed to group health insurance through an employer, is deprived of the enormously generous tax subsidy for the purchase of health insurance. This is a crucial point that Senator Baucus himself has acknowledged as a major inequity in the insurance system.

The question of whether a health insurance premium is or is not "affordable" depends, of course, on what is meant by "affordability." It is a slippery concept in much of the conventional health policy discussion. "Affordability" is a result of a number of variables, such as the income of the person, the competitiveness of the health insurance market in his state or locality, the prevailing patterns of medical practice and cost of hospital care in his area, and the level of underwriting for coverage, among other things.

This also means that access for this group or any other group can be resolved by such measures as equally generous individual tax or premium subsidies for health insurance; reform of the health insurance market (including the combination of individual and small-group insurance markets in a single, statewide health insurance market exchange); risk-transfer pools for higher-risk individuals; regulatory reform of the state health insurance market and reduction of benefit

mandates to allow people to buy cheaper coverage; or a restriction on health insurance underwriting.

The fact is that there is a wide variety of available remedies for high-cost individuals (senior citizens or those with chronic illnesses, for instance) that can make health insurance affordable through the private markets without expanding entitlements.

In Medicare, of course, no beneficiaries are excluded from coverage, and premiums are “community rated,” lowering costs for high-risk individuals while driving up the cost for everyone else. But on the narrow issue of cost, the situation is more complex. It is simply not true that Medicare coverage is, on average, cheaper than private coverage. Medicare beneficiaries are heavily subsidized by virtue of their entitlement, but Medicare coverage is not usually affordable for an individual to purchase without such subsidies. If the real issue is ultimately a matter of government subsidies for the purchase of health insurance, those subsidies could be applied to private health insurance as easily as they are to Medicare.

Leaving aside the program’s real and growing cost to taxpayers, the notion that Medicare is “cheaper” deserves closer examination. If private coverage on the individual market costs \$5,000 a year and is not affordable without tax breaks or premium support, then the same applies to the cost of buying into Medicare without public subsidies.

In 2007, the standard monthly premium for Medicare Part A was \$410. The standard monthly premium for Part B, which covers physician services, was \$93.50. However, the Part B premium is mostly subsidized, and the ordinary Medicare beneficiary, at least age 65 or disabled, pays only 25 percent of the Part B cost. If an individual were charged just 80 per-cent of the true

Part B premium, the cost would have been \$161.40 per month. In 2009, the Part B premium jumps dramatically, and to pay 80 percent of the premium would cost \$308.30 per month.

Beyond that, the cost of the prescription drug benefit under Part D should be added, based on the reasonable assumption that a person in the 55-64 age group would need prescription drug coverage. In 2007, the base beneficiary premium was \$27.35 per month. The total annual cost of these premiums would be \$7,185 in 2007, as shown in Table 1, which is substantially higher than the individual coverage that Senator Baucus cited in his report for the same period.

But that is not all. Beyond the Medicare Parts A, B, and D premiums, the vast majority of Medicare beneficiaries find it necessary to secure catastrophic coverage or other private supplemental coverage to cover gaps in Medicare. In addition to the \$7,185 in Medicare premiums in 2007, an individual under the Baucus plan would also have faced \$992 for the inpatient hospital deductible in 2007 and even more costs for deductibles and coinsurance for Part B services, typically 20 percent of the cost of the service. Part D also carries another set of deductibles and coinsurance.

It would not be unreasonable for persons in the 55-64 age group also to secure such private supplemental coverage, knowing that Medicare does not cover some necessary and desirable benefits and, used alone, would incur high routine out-of-pocket costs for the average Medicare beneficiary. Most Medicare beneficiaries receive additional assistance with the cost of their care through their employers, through Medicaid, or, as noted, through supplemental “Medigap” coverage that the government requires them to purchase. Because of its high costs and gaps

Medicare Premiums, 2007

	Monthly	Annual
Part A Hospitalization and nursing homes	\$410.00	\$4,920.00
Part B Physicians and others	\$161.40 (80% of cost)	\$1,936.80
Part D Drugs	\$27.35	\$328.20
Total	\$598.75	\$7,185.00

Source: 2008 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

in coverage, only 17 percent of Medicare beneficiaries depend solely on Medicare coverage.^[24]

Today, Medicare beneficiaries can choose from among 12 different Medigap policies with wide variation in cost based on age, geography, and out-of-pocket costs. In 2007 and 2008, a Medicare beneficiary with a Medigap policy in Northern Virginia typically paid an annual cost ranging from \$3,800 to \$4,450 (including the Medigap premium plus residual out-of-pocket costs).^[25] Allowing a person to “buy into Medicare” and be faced with the typical additional costs associated with the gaps in Medicare coverage and cost-sharing is not likely to be a bargain.

The Fiscal Nightmare

The official projections for current entitlements show that the American people will be confronted with a series of unpleasant options: savage benefit cuts, massive tax increases, or a combination of both. Heritage Foundation analysts, among many others, have amply documented the long-term economic catastrophe that lies ahead without comprehensive entitlement reform.^[26]

By 2052, the combined cost of Social Security, Medicare, and Medicaid will leap from 8.4 percent to 18.4 percent of gross domestic product. Unless these programs are reformed, they will crowd out all other federal spending by 2052.

In buttressing the findings of independent analysts, the GAO recently released two reports, *The Nation's Long-Term Fiscal Outlook: September 2008 Update*, and *State and Local Fiscal Challenges: Rising Health Care Costs Drive Long-Term and Immediate Pressures*. These reports are must reading for Members of the 111th Congress.^[27] Any notion that Medicaid and Medicare can be expanded without aggravating the current fiscal crisis is quickly dispelled by the work of these highly respected GAO analysts.

The GAO candidly tells Congress:

Just ten years from now in this simulation that is based on historical trends and recent policy preferences, 76 percent of every dollar of federal revenue will be spent on retirees and their health care providers, health care providers for the poor, and our bond holders. This leaves little room for other priorities, such as national defense and investment in infrastructure and alternative energy sources, and threatens the government's fiscal ability to respond to emergencies, both natural and manmade.^[28]

The GAO estimates that it would take a 39 per-cent increase in revenue, or a 37 percent decrease in non-interest spending, to close the federal fiscal gap.^[29] Further, the GAO points directly to health care spending as the major cause of the fiscal gap: “Rapidly rising health care costs are not simply a federal budget problem; they are our nation’s number-one long-term fiscal challenge.”^[30]

Health care costs, principally Medicaid costs, even at current levels will force states to raise revenue or reduce spending by 7.6 percent every year in order to close the fiscal gap faced by state and local governments.^[31] It is ironic that just as Senator Baucus and others propose to add millions of additional beneficiaries to the fiscally troubled Medicaid program, Congress is on the threshold of passing a temporary increase in the Medicaid Federal Medical Assistance Percentage (FMAP), the federal Medicaid match, in order to provide urgent economic relief to states.

Adding more people to Medicaid when states cannot even afford their current programs makes no sense — **unless the real object is to crash the program in order to force the states to support a single-payer system, under which the federal government would take over the entire health care system.** Congress’s own analysts have demonstrated that the current path for Medicare and Medicaid is “unsustainable.”

Conclusion

Based on the promises and proposals advanced by President Obama and Senator Baucus, the individual pieces of the dominant congressional agenda for health care reform do not fit neatly together. Expansion of government programs undermines existing private health insurance coverage for millions of Americans — a development directly contrary to President Obama’s campaign promises — and aborts any salutary effort to mainstream millions of Americans who are trapped in poorly performing public plans into the private health insurance system in which most of their fellow citizens participate.

The Obama and Baucus proposals also directly undermine the historic accomplishments of the 1990s welfare reform, which was designed to get Americans off of dependence on government programs. Indeed, expanding the private health insurance pool and spreading risk over a larger population would help to stabilize health insurance premiums and slow the growth in health care costs.

Expansion of government programs will divert more resources into federal and state bureaucracies and force states to divert more funds away from other public priorities into Medicaid and SCHIP. Likewise, the Medicare “buy-in” as a “cheaper” alternative is an illusion. **Totaling up the real costs of Medicare Parts A, B, and D, as well as supplemental coverage, it would be even more expensive than current private insurance.**

Entitlement reform, lowering the cost of both public and private health insurance, and expanding private insurance coverage should be accomplished simultaneously, allowing for a smooth interaction among the various parts. Expanding government entitlement programs will thwart the ability to harness market forces to control costs — while depriving more and more Americans of the opportunity to secure the private coverage of their choice.

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[1]On the provision of a public health plan, see Robert E. Moffit, "How a Public Health Plan Will Erode Private Care," Heritage Foundation *Backgrounder* No. 2224, December 22, 2008, at <http://www.heritage.org/research/healthcare/bg2224.cfm>.

[2]See Brian M. Riedl, "CBO Budget Baseline Shows Historic Surge in Spending and Debt," Heritage Foundation *WebMemo* No. 2193, January 7, 2009, at <http://www.heritage.org/research/budget/wm2193.cfm>.

[3]U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, Office of the Actuary, *2008 Actuarial Report on the Financial Outlook for Medicaid*, October 17, 2008, p. 25.

[4]Max Baucus, Chairman, Senate Finance Committee, "Call to Action: Health Reform 2009," November 12, 2008, p. 23, at <http://finance.senate.gov/healthreform2009/finalwhitepaper.pdf> (February 6, 2009).

[5]*Ibid.*, p. v.

[6]Susan Schappert and Elizabeth Rechtsteiner, U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, "National Health Statistics Reports: Ambulatory Medical Care Utilization Estimates for 2006," No. 8, August 6, 2008, p. 11, Table 1.

[7]*Ibid.*

[8]*Ibid.*

[9]Kaiser Commission on Medicaid and the Uninsured, *Headed for a Crunch: An Update on Medicaid Spending, Coverage and Policy Heading into an*

Economic Downturn--Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2008 and 2009, Henry J. Kaiser Family Foundation, September 2008, p. 55, Figure 29, at <http://www.kff.org/medicaid/upload/7815.pdf> (February 6, 2009).

[10]Moffit, "How a Public Health Plan Will Erode Private Care," p. 3.

[11]Kaiser Commission on Medicaid and the Uninsured, *Headed for a Crunch*, p. 30.

[12]Baucus, "Call to Action," p. iii.

[13]Moffit, "How a Public Health Plan Will Erode Private Care," p. 8.

[14]*Ibid.*

[15]*Ibid.*

[16]Jennifer N. Edwards, Michelle M. Doty, and Cathy Schoen, "The Erosion of Employer-Based Health Coverage and the Threat to Workers' Health Care," Commonwealth Fund, August 2002, p. 5.

[17]Baucus, "Call to Action," p. 21.

[18]*Ibid.*, p. 22.

[19]U.S. Census Bureau, "Income, Poverty, and Health Insurance Coverage in the United States: 2007," August 2008, p. 69, Table C-3.

[20]*Ibid.*, p. 67.

[21]*Ibid.*, p. 68.

[22]*Ibid.*, p. 69.

[23]Baucus, "Call to Action," p. 21.

[24]America's Health Insurance Plans, "Low-Income and Rural Beneficiaries with MediGap Coverage: 2004," February 2007, p. 2.

[25]See U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, "Find and Compare Medicare Health Plans" at <http://www.medicare.gov/MPPF/Include/DataSection/Questions/SearchOptions.asp> (February 6, 2009).

[26]See, for example, Heritage entitlement spending charts, "Entitlement Spending Will More than Double by 2050," "Entitlements Alone Will Eclipse Historical Tax Levels by 2052," and "Mandatory Spending Consumes Growing Share of Total Spending," at <http://www.heritage.org>.

[27]U.S. Government Accountability Office, *The Nation's Long-Term Fiscal Outlook: September 2008 Update*, GAO-09-94R, at <http://www.gao.gov/new.items/d0994r.pdf> (February 6, 2009), and *State and Local Fiscal Challenges: Rising Health Care Costs Drive Long-Term and Immediate Pressures*, GAO-09-21-OT, November 19, 2008, at <http://www.gao.gov/new.items/d09210t.pdf> (February 9, 2008).

[28] U.S. Government Accountability Office, *The Nation's Long-Term Fiscal Outlook: September 2008 Update*, p. 2.

[29] *Ibid.*, p. 10.

[30] *Ibid.*, p. 8.

[31] *Ibid.*, p. 5.

An Insufficiency of Fear

George Will

February 12, 2009

http://townhall.com/columnists/GeorgeWill/2009/02/12/an_insufficiency_of_fear

Washington — The president, convinced that the only things America has to fear is an insufficiency of fear, has warned that “disaster” and “catastrophe” are the certain alternatives to swift passage of the stimulus legislation. One marvels at his certitude more than one envies his custody of this adventure.

Certitude of one flavor or another is never entirely out of fashion in Washington. Thirty years ago, some conservatives were certain that their tax cuts would be so stimulative that they would be completely self-financing. Today, some liberals are certain that the spending they favor — on green jobs, infrastructure and everything else — will completely pay for itself. For liberals, “stimulus spending” is a classification that no longer classifies: *All* spending is, they are certain, *necessarily* stimulative.

At Yale’s 1962 commencement, President John Kennedy expressed Washington’s recurring confidence in the ability to supplant politics with expertise. As is traditional, Kennedy deplored “traditional labels” and insisted that “differences today” involve not clashes of principles but only “matters of degree.” Kennedy argued that “the practical management of a modern economy” is “basically an administrative or executive problem.” Congress need not intrude. Because policy issues are “sophisticated and technical questions,” demanding “technical answers, not political answers,” laypersons could hardly participate in the debate.

In December 1965, John Maynard Keynes, although 19 years dead, was, as today, enjoying one of his recurring resurrections as vindicator of government management of the economy by manipulating “aggregate demand.” Keynes’ visage was on *Time* magazine’s cover and the accompanying story said that happy days were here again and here to stay.

President Lyndon Johnson was embarked on building the Great Society, assisted by policymakers who, wrote *Time*, “have used Keynesian principles” to smooth the moderate business cycles and achieve price stability: “Washington’s economic managers scaled these heights by their adherence to Keynes’ central theme” that a modern economy can operate at “top efficiency” only with government “intervention and influence.” So, “economists have descended in force from their ivory towers and now sit confidently at the elbow of almost every important leader in government and business, where they are increasingly called upon to forecast, plan and decide.” Ten years later, the “misery index” — the unemployment rate plus the inflation rate — was 19.9, heading for 22 percent in 1980.

Today, again, we are told that “politics” has no place in the debate about the tripartite stimulus legislation, which is partly a stimulus, partly liberalism’s agenda of social engineering, and partly the beginning of “remaking” the economy. Gary Wolfram of Hillsdale College notes that the size of the stimulus — the House-Senate compromise bill is \$789 billion — is just slightly less than the amount of all U.S. currency in circulation, and is larger than the entire federal budget was until 1983. Yet it is said that in the debate about this encompassing legislation — which concerns what government can and should do, and ultimately what kind of regime America shall have — people should “transcend” (so says Larry Summers, the president’s economic advisor) politics. What, then, would be left for political argument to be about?

It is said that the negligible Republican support for the stimulus legislation means that bipartisanship is dead. But what can “bipartisanship” mean concerning legislation that concerns almost everything?

John McCain probably was eager to return to the Senate as an avatar of bipartisanship, a role he has enjoyed. It is, therefore, a measure of the recklessness of House Democrats that they caused the stimulus debate to revolve around a bill that McCain dismisses as “generational theft.”

The federal government, with its separation of powers and myriad blocking mechanisms, was not made for speed but for safety. This is particularly pertinent today because if \$789 billion is spent ineffectively or destructively, government does not get to say “oops” and take a mulligan. Senate Republicans have slowed and altered the course of the “disaster! Catastrophe!” stampede. Still, as Anthony Trollope wrote in one of his parliamentary novels, “The best carriage horses

are those which can most steadily hold back against the coach as it trundles down the hill.”

Not yet a third of the way through the president’s “first 100 days,” he and we should remember that it was not FDR’s initial burst of activity in 1933 that put the phrase “100 days” into the Western lexicon. It was Napoleon’s frenetic trajectory in 1815 that began with his escape from Elba and ended near the Belgian village of Waterloo.

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The Real Stimulus Burden: We’ll be paying for this in many ways, for many years.

The Wall Street Journal online, 12 February 2009.

In 2003, amid debate about the Bush tax cuts and a budget deficit of merely \$400 billion, Maine Senator Olympia Snowe demanded that any tax cuts be capped at \$350 billion. “At a time of growing federal deficits,” the Republican declared to much media praise, “it is especially important that this plan be right-sized without putting our future at risk.”

Flash forward to Tuesday: Ms. Snowe provided one of three crucial GOP votes that helped Democrats pass \$838 billion in new spending and “tax cuts” — often for people who pay no taxes. The deficit for 2009 even before this stimulus? \$1.2 trillion.

If nothing else good comes from this exercise, at least Senators Snowe, Susan Collins and Arlen Specter should be laughed out of town if they ever fret about a budget deficit again.

As of late yesterday, the details of the final House-Senate stimulus bill weren’t available. But this much we do know: The bill will mark the largest single-year increase in domestic federal spending since World War II; it will send the budget deficit to heights not seen in 60 years; and it will establish a new and much higher spending baseline for years to come. Combine this new spending, and the borrowing it will require, with the trillions of dollars still needed for the banking system, and we are about to test the outer limits of our national balance sheet.

The three Republican amigos are praising themselves for cutting spending in the House bill by some \$100 billion, but this is tinkering around the Beltway edges. The total price tag is still just under \$800 billion, and the Senate version even increased spending from the House bill for more than 120 programs — such as \$750 million for farm subsidies. Late yesterday we

were hearing that in order to add back more House spending, the conferees were cutting the size of the tax cuts that Barack Obama campaigned on.

The original economic theory behind this bill was to spend the money quickly to create jobs fast. But even the most talented spenders on Capitol Hill couldn’t find enough projects to fund in such a rush. So they spread out the largesse over several years — long after everyone hopes the recession is over. Some of these “timely” stimulus payments won’t hit the economy until after the 2016 Olympics.

Even under CBO’s conservative estimate, the Senate bill increases outlays by \$546 billion over 10 years. But to get this low a figure, CBO assumes that the half-trillion in spending will be a one-time wonder. We are thus expected to believe that Democrats will let these additions to their favorite programs vanish after two or three years. To believe this, you have to ignore the last half-century of budget politics. Spending never declines; at best it merely fails to grow as fast as the economy.

Far more plausibly, Democrats will take the stimulus increases and make them part of a new, higher baseline for future spending growth. Anyone who proposes to cut from that amount will be denounced as “heartless” and Draconian.

The Republican staff of the House Budget Committee has calculated what happens to future spending if Congress continues to fund 19 of the most politically untouchable programs at their new stimulus levels. The list of 19 includes Pell Grants, Head Start money for poor kids, nutrition programs for seniors, Medicaid, special education, food stamps and cancer research at the National Institutes of Health, among others. Across a 10-year period through 2019, these 19 programs alone would increase federal outlays and tax entitlements by \$1.59 trillion.

The nearby chart [missing] shows how the bill will increase the 2009 budget deficit, which is already the largest in modern history. Perhaps you will recall the deficit wails from the Reagan years, but the peak deficit was only 6% of GDP in 1983. In the Clinton years we were told taxes had to rise to reduce a deficit of merely 3.9% GDP. CBO estimates the 2009 deficit will reach 8.3% of the economy, not including the stimulus or bank bailout cash. Toss in those, and analysts at the Strategas Group estimate the deficit could hit nearly \$2 trillion, or 13.5% of the U. S. economy.

We aren’t deficit scolds, but these levels are uncharted territory, especially if any economic recovery is weak

because the spending doesn't stimulate. The new spending means new federal debt in the trillions of dollars over the next few years, which will test the limits of America's credit-worthiness. To the extent that taxes rise to pay for it all, the U. S. will become less desirable as a destination for the world's capital. Perhaps the Federal Reserve will try to inflate away this growing debt, but the world's bond vigilantes will get a vote on that.

We recognize this bill is going to pass as early as today. But Americans need to understand the vast expansion of government they are getting — and who voted to pass it.

Obama's Legislative Victory Comes at High Cost

Karl Rove

The Wall Street Journal online February 12, 2009

<http://online.wsj.com/article/SB123440382396475547.html>

Congressional Republicans lack President Barack Obama's bully pulpit and do not have the majorities that House Speaker Nancy Pelosi and Senate Democratic leader Harry Reid enjoy. But they are playing their hand extraordinarily well.

Over the past month, House Republicans have used the stimulus bill to redefine their party, present ideas on how to revive the economy, and force congressional Democrats and the president to take ownership of the spending program soon to be signed into law.

The first smart move House Republicans made was to raise objections to specific parts of the House stimulus bill. Pointing out that there is money in the bill for **condoms, livestock insurance, refurbishing the National Mall, and other outlandish things revealed that it is a massive spending spree, not an economic stimulus.**

House Republicans had the wisdom to continue to talk to the Obama White House. This made them look gracious, even as the president edged toward a "my way or the highway" attitude.

They also wisely put ideas on the table, such as cutting the bottom two income tax rates and small-business taxes while extending unemployment insurance and other safety-net provisions. With these proposals, Republicans generated news and made it possible for their members to be for something that made sense to their voters. It also helped that the same methodology that the White House used to claim

that the Democratic stimulus bill would create four million new jobs showed that the Republican approach would create six million new jobs, at half the cost.

The payoff is that support for the stimulus bill is falling. CBS News polling reveals a 12-point drop in support of the bill over the past month. Pew Research and Rasmussen have turned in similar numbers. The more Americans learn about the bill, the less they like it.

What is becoming clear is that the House GOP is becoming energized by empowering its "Young Guns." Leader John Boehner has been good. But he wouldn't be as effective if he didn't have the help of Reps. Eric Cantor, the No. 2 House Republican, and Mike Pence, the House GOP conference chairman. Reps. Paul Ryan and Dave Camp, the top Republicans on the Budget and the Ways and Means committees, are impressive and add depth to the leadership team.

Over in the Senate, Republicans have likewise followed a "better ideas" strategy. Mitch McConnell pushed to make aid to states loans, not grants, and to cut income taxes for the middle class. Other Republican senators came in with ideas to fix housing, put money in the hands of taxpayers, and cut fat from the stimulus.

They also asked the Congressional Budget Office if the Democratic Senate bill was actually stimulative. The nonpartisan CBO found it would have a "negligible" impact on jobs by 2011 and hurt economic growth and prosperity over the next decade.

Mr. Obama will get his bill. But it won't be one focused on job creation and stimulus. The bill he signs will create a raft of new programs and be the biggest peacetime spending increase in American history, which will give us larger deficits and create pressure to raise taxes. It will also hinder the president's other goals, such as expanding government health care.

But if Republicans predict economic doom, they will overplay their hand. The Democratic stimulus will slow recovery, but not stop it. Recessions don't last forever and, if history is a guide, sometime late this year or early next the economy will rebound on its own. When that happens, Democrats will argue that their untargeted, permanent spending actually revived the economy.

Americans are skeptical of the notion that increasing the size and cost of government will lead to an increase in jobs and economic growth. A recent CBS News poll, for example, shows that 62% of Americans think "reducing taxes" will "do more to get the U.S. out of the current recession" — nearly three times the 22% who prefer "increasing government spending." A

recent NBC News/Wall Street Journal poll found that 60% of Americans are worried that government will “spend too much” to boost the economy. Only 33% worry it will spend “too little.”

The debate here is about means, not ends. Americans and both parties want a revived economy. Republicans want focused proposals that create jobs and growth, while the White House seems ready to accept what House and Senate appropriators have drawn up.

Mr. Obama, for all his talents, has already re-energized the GOP and sparked a spending debate that will last for years. The president won this legislative battle, but at a high price — fiscally and politically.

Obama in Prime Time: 7 Questions Left on Cutting Room Floor

Larry Elder

Thursday, February 12, 2009

http://townhall.com/columnists/LarryElder/2009/02/12/obama_in_prime_time_7_questions_left_on_cutting_room_floor

President Barack Obama this week conducted his first prime-time press conference. After blaming the “failed theories of the last eight years” for today’s economic crisis, he pushed for massive, unprecedented government spending.

Lefty radio talk show host Ed Schultz — who once called Republican presidential candidate John McCain a “warmonger” — sat in the front row, appropriately next to “reporter” Helen Thomas. Thomas used to attack then-President Bush with her statements masquerading as questions. In her question to Obama, she referred to our Islamofascist enemies as “so-called terrorists” — which failed to elicit even a raised eyebrow from the President.

What, no Rush Limbaugh?

Obama even took a question from a “reporter” for the hyper-liberal Web site The Huffington Post. And, unlike Bush, the Obama administration preselected the reporters to be called upon *and* notified them in advance. Why did the others even bother showing up? If Bush pulled something like this, they’d call it “the discredited doctrine of preemption.”

We offer seven questions left on the cutting room floor:

1) Mr. President, tonight you criticized those who argue that FDR’s policies failed. I’d like to read a passage from the diary of Henry Morgenthau, FDR’s

Treasury Secretary: “We have tried spending money. We are spending more than we have ever spent before and **it does not work**. I want to see this country prosperous. I want to see people get a job. I want to see people get enough to eat. **We have never made good on our promises**. I say after eight years of this Administration we have just as much unemployment as when we started and an enormous debt to boot!” Please comment.

2) Mr. President, this is a two-part question. In your opening statement, you called today’s economic situation “the most profound economic emergency since the Great Depression” and later “the worst economic crisis since the Great Depression.” But in the 1981–82 recession, unemployment reached 10.8 percent in 1982 versus 7.6 today. Reagan inherited an annual inflation rate of 13.5 percent, while you, sir, came in with a 0.1 percent inflation rate. Prime interest rates reached 21.5 percent at the end of 1980, compared with 3.25 percent at the end of 2008. Reagan did not ask for a “rescue” or “bailout” package. He cut taxes and slowed the rate of domestic spending. Unemployment, inflation and interest rates went down. The Treasury collect more revenue than ever. First, how then — at least so far — is this the greatest economic crisis since the Great Depression? And second, given Reagan’s success, why not cut taxes, reduce domestic spending, and leave taxpayers and consumers with more money to save, spend and invest?

3) Mr. President, you say your administration will not torture. You’ve directed our military to apply the Army Field Manual, which relies on 19 psychological methods of interrogation and excludes waterboarding. Yet you are setting up an interagency panel to decide whether to use interrogation methods not included in the Army Field Manual. Aren’t you having it both way — saying you won’t torture or use enhanced interrogation techniques, while retaining the option to do so?

4) As a candidate, you called raising taxes a matter of “neighborliness.” Your Vice President called paying taxes a matter of “patriotism.” Yet your secretary of Treasury, Timothy Geithner, who oversees the IRS, failed to pay some taxes. The International Monetary Fund, where he worked, informed him in writing of his obligation to pay payroll taxes and increased his compensation to offset the payment. He accepted the compensation but failed to pay taxes. Can the head of the department than runs the IRS credibly expect others to pay their taxes, when he failed to pay his own?

5) In one of your first acts as President, you signed an executive order that many call the toughest-ever ethical guidelines. It bans former lobbyists joining your administration from being involved with any matters or agencies that might be related to their former lobbying efforts. It also prohibits anyone from working in an agency he or she lobbied during the past two years. Given that, please comment on why you have granted a dozen personnel waivers to your own ethical guidelines.

6) The respected nonpartisan Congressional Budget Office studies the effects of the various proposed stimulus plans. The *Washington Times* said, "CBO, the official scorekeepers for legislation, said the House and Senate bills will help in the short term but result in so much government debt that within a few years they would crowd out private investment, actually leading to a lower Gross Domestic Product over the next 10 years than if the government had done nothing." Your comment?

7) Tonight you blamed the economic crisis on the "failed theories of the last eight years," yet tonight you also criticized homeowners who put little or nothing down and purchase homes without the ability to pay their mortgages if "something goes wrong." Sir, which is it?

No charge to use these.

Obama Misread His Mandate: *Reagan didn't assume his landslide was a license for whatever he wanted.*

Steven F. Hayward

The Wall Street Journal online, 12 February 2009

<http://online.wsj.com/article/SB123440526764875671.html>

President Barack Obama's honeymoon period seems to have ended quickly. That's because Mr. Obama doesn't grasp the essentials of presidential leadership. Rather than making a compelling case for his economic policies, he has resorted to curt rebuffs, such as telling House Republican whip Eric Cantor, "I won." House Speaker Nancy Pelosi said the same thing the same day: "We won the election; we wrote the [stimulus] bill." This is the trope of a party that has lost its ability to make an argument.

Mr. Obama and his team would be well advised to put aside the imperious FDR model and study Ronald Reagan's first 200 days in office. The contrast is instructive.

Upon entering office in 1981, Reagan's team produced a 50-page, detailed blueprint for their first six months in office. The passage of their economic policy was the central objective. This report, called the Initial Actions Project (IAP), has received little attention from historians or journalists (with the notable exception of Lou Cannon). It would be highly useful for Mr. Obama to review it.

One of the main themes that emerges from the IAP report is that Reagan and his team didn't assume that a landslide victory meant they had a mandate to do whatever they wanted. To the contrary, the report's authors, Richard Wirthlin and David Gergen, wrote: "The election was not a bestowal of political power, but a stewardship opportunity for us to reconsider and restructure the political agenda for the next two decades. The public has sanctioned the search for a new public philosophy to govern America."

Establishing a new governing philosophy, in other words, would require sustained public argument — something for which Reagan had an abiding instinct. Even in private sessions with Democrats, Reagan relished vigorous arguments about the welfare state. This was much to the annoyance of then House Speaker Tip O'Neill, who just wanted to cut deals.

Reagan never attempted to stifle debate by saying "I won." The IAP noted that President Jimmy Carter "failed to realize that leadership means more than 'laying in all out'; it also means keeping at it." Like Mr. Carter, Mr. Obama seems peeved that Washington won't roll over for him.

The IAP report understood that the American people "are yet to be convinced that Mr. Reagan's policies will work." Relying on his skills as "the great communicator," the IAP recommended that the president focus on "the outlining of broad strategic policy outlines, and not on narrow programs" and that his explanations be "simple, straightforward and understandable."

Translation for Mr. Obama: Don't go on TV to talk about the stimulative effect of "weatherization." Even Jon Stewart thought that was lame.

Throughout the tax cut battle of 1981 — which was no sure thing right through the final vote in July — Reagan understood the need for constant argument about the substance of the matter to convince the American public and bring together enough Democrats to pass his agenda.

To be sure, Reagan's team knew that the honeymoon period would provide maximum leverage, and that they had to move quickly before "organized interest

groups regain their strength and aggressiveness.” But by handing over the drafting of the stimulus package to Capitol Hill, Mr. Obama started out by empowering interest groups to unleash their pent-up aggression

This is a lesson in the character of the two parties. The Democratic Party has been, at least since the Nixon years, a predominantly congressional party, finely honing the means of running the iron triangle of interest groups, bureaucracy and spending. This is why Presidents Carter and Clinton came to grief with their own party in Congress, and why the more executive-minded Republican Party generally presents better examples of presidential leadership.

The IAP also warned what would happen if the economy remained weak under Reagan: “Should the economy remain in its current disarray, the administration could quickly lose control of the current economic policy agenda. By summer, ignited by a weak economy, the Congress could press for a host of measures to stimulate the economy generally and to shore up particularly weak sectors such as autos, housing, thrift institutions, and small businesses. Under such circumstances, the administration could easily find itself on the defensive, constantly opposing ill-conceived though well meaning bail out schemes. We would essentially be reduced to reacting to events rather than shaping the economic agenda.”

With Congress already unleashed in exactly this fashion, the months ahead will be grim for Mr. Obama unless he steps up his game.

Mr. Hayward is a resident scholar at the American Enterprise Institute, and the author of “The Age of Reagan: The Conservative Counter-Revolution, 1980–1989,” forthcoming from Crown Forum.

Going Postal, Obama Galvanizes Republicans and Raises the Blinds

Ross Mackenzie

Thursday, February 12, 2009,

http://townhall.com/columnists/RossMackenzie/2009/02/12going_postal_obama_galvanizes_republicans_and_raises_the_blinds

The past week has confirmed — among many things — this: that as John McCain warned repeatedly, Barack Obama consists of leftist essence pure.

We are not talking Republican/Democratic partisan politics here so much as conservative/liberal ideology, though ideology greatly informs partisanship. Both

parties used to be big-tent operations, with liberals and conservatives in both. Now liberal Republicans and conservative Democrats are endangered species — just about extinct.

Democrats shun the terms “leftist” and “liberal,” coveting “moderate” and “centrist” as ever so much more seductive and marketable. (Obama has been heard from time to time to reference himself as a “progressive.”) Liberals usually deploy “conservative” in a pejorative sense — connoting a set of rigid values or Neanderthal beliefs with which they deeply disagree.

And so:

The past week saw various Obama selectees for high administration posts stumble or fall primarily because they hadn’t paid their taxes. The week also offered the possibility of the administration’s “stimulus” package failing to win congressional approval. The president declared he “screwed up” regarding the nominees. Members of his vetting team said they were well aware of the tax problems yet deemed the flawed selectees dwellers of thin-aired Olympian realms far above the law.

The stimulus? No more Mr. Nice-Guy from Barack Obama. He shelved the “bipartisanship” theme on which he campaigned, and set to ripping not the Democrats who hold lopsided margins in both houses — but the Republicans. Never mind that the Democrats could pass practically any stimulus package their hearts desired without a single Republican vote (as the House Democrats did), the threats to passage were almost entirely the Republican’s fault.

Republican complaints about the stimulus package were (and are) essentially that it provides too few tax cuts and too much social spending — and what little genuine stimulus it contains will take years to generate any beneficial effect. It is difficult to see how anyone could construe this as somehow ideologically obstreperous.

Yet in a series of remarks, Obama said look, he reached out to the Republicans in both houses, engaged them, had conversations with them, listened to them. Still, they had “come to the table with the same tired arguments and worn ideas that help to create this crisis.”

He said, “Those ideas have been tested, and they have failed. They’ve taken us from surpluses to an annual deficit of over a trillion dollars, and they’ve brought our economy to a halt. And that’s precisely what the election we just had was all about.”

He said the Republicans found the bill to be “full of pet projects. When was the last time that we saw a bill of this magnitude move out with no earmarks in it? Not one.” He said he then got from Republicans “the argument ‘Well, this is not a stimulus bill, this is a spending bill.’ What do you think a stimulus is? (Spending) is the whole point.” Don’t suggest to me that, contrary to the views of “even conservative economists,” it’s “wasteful spending to stimulate.”

Blasting the “ideological rigidity and gridlock” of Republicans who prefer to “do nothing,” he said: “Doesn’t it make sense if we’re going to spend this money to solve some of the big problems that have been around for decades?” And: “Y’know, look, (this plan) is not perfect,” but it’s “more than a prescription for short-term spending — it’s a strategy for America’s long-term growth and opportunity in areas such as renewable energy, **health care**, and education.”

In Obama’s remarks you’ll search in vain for any use of “leftist” or “liberal,” and almost in vain for any mention of Democratic objections such as those of Clinton-era economist Alice Rivlin (the current plan needs more focus on short-term job creation) or Sen. Kent Conrad (many of the stimulus package’s provisions fail to meet Obama’s own stipulations for inclusion — that they be temporary, timely and targeted).

Nor will you see the merest suggestion that Democratic luminaries Chris Dodd and Barney Frank directed Fannie Mae and Freddie Mac to lend vast sums to people who couldn’t pay for houses they didn’t need — Fannie and Freddie thereby becoming principal causes of the mortgage liquidity crisis.

As *Washington Post* columnist David Broder has noted: “Nothing was more central to (Obama’s) victory last fall than his claim that he could break the partisan gridlock in Washington. He wants to be like Ronald Reagan, steering his first economic measures through a Democratic House in 1981, not Bill Clinton, passing his first budget in 1993 without a single Republican vote.”

As Obama now has demonstrated, this no longer is a bipartisan hour. Democrats and liberals won the election. Republicans and conservatives are the problem. There’s a conservative ganglion that must be excised so progressive things can happen. The leftist Obama thus has shown himself to be neither the uniter nor the post-partisan healer of his campaign rhetoric, but an ideologized divider.

Yet by going postal, he may have galvanized conservative Republicans and recalled for them the

adamant, and effective, liberal Democratic resistance to practically every Bush II initiative. In taking off the rhetorical gloves and delivering some roundhouse blows below the belt, the leftist Obama may have done conservatives a favor — and, for a nation slow to awaken, raised the blinds.

Gregg Withdraws as Commerce Nominee

Chris Cillizza, Anne E. Kornblut and Michael D. Shear

http://voices.washingtonpost.com/thefix/2009/02/gregg_withdraws_as_commerce_no.html?hpid=topnews

New Hampshire Republican Sen. **Judd Gregg** has withdrawn his name from consideration as **President Obama**’s commerce secretary, a major blow to an administration seeking to put a series of Cabinet problems behind it.

“It became clear to me to me that it would be very difficult day in and day out to serve in this Cabinet,” Gregg said in a press conference late Thursday. He added that in the days since he was nominated he realized that to be “part of a team but not 100 percent with the team” was an untenable position.

In his written statement, Gregg cited recent developments regarding the **economic stimulus package** and the decision to have the next census director report directly to senior White House officials as evidence that he and President Obama were too different ideologically for the pairing to work. “This was simply a bridge too far for me,” Gregg said of his decision.

Gregg said he would “probably not” run for re-election in 2010.

Gregg met with Obama on Wednesday morning at the White House and told him that he was heading in this direction, a senior administration official said. White House officials said they had grown increasingly aware of the senator’s discomfort with his decision, and insisted they were not surprised by the announcement this afternoon, which came as a shock to much of the rest of the political establishment.

Gregg abstained from the Senate vote on the stimulus package, which passed the chamber 61 to 37. He had not previously offered any public comment on the White House’s plan to have the Census director report to White House officials. Many Republicans, however, had [voiced serious concerns about the potential politicization of the department](#) given that move.

Senate Minority Leader **Mitch McConnell** (Ky.) praised Gregg's decision as "principled" and added: "It's great to have him back."

The news broke as Obama was on the floor of a Caterpillar Inc. plant in East Peoria talking up his stimulus plan. White House aides traveling with him did not respond reporter's inquiries, until Press Secretary Robert Gibbs issued a statement about an hour later.

"Senator Gregg reached out to the President and offered his name for secretary of commerce," the statement read. "He was very clear throughout the interviewing process that despite past disagreements about policies, he would support, embrace, and move forward with the president's agenda. Once it became clear after his nomination that Senator Gregg was not going to be supporting some of President Obama's key economic priorities, it became necessary for Senator Gregg and the Obama administration to part ways. We regret that he has had a change of heart."

Gibbs, in a phone call from the trip with Obama to Illinois late Thursday, said Gregg's exit had not dealt a blow to the president's effort to build a bipartisan coalition.

"I'm standing in East Peoria with Ray LaHood," Gibbs said, referring to the Republican Secretary of Transportation. "This president remains committed to working with members on both sides of the aisle to get things done that are important for the American people," Gibbs said.

Just days ago, Gregg stood side-by-side with the president to accept the nomination as commerce secretary and declared that partisanship should not get in the way of repairing the country's problems.

"This is not a time for partisanship. This is not a time when we should stand in our ideological corners and shout at each other," Gregg said on Feb. 3. "This is a time to govern and govern well. And therefore, when the President asked me to join his administration and participate in trying to address the issues of this time, I believed it was my obligation to say yes, and I look forward to it with enthusiasm."

At that event, Obama noted that "Clearly, Judd and I don't agree on every issue — most notably who should have won the election. But we agree on the urgent need to get American businesses and families back on their feet."

But even as Gregg and Obama were shaking hands, Republican lawmakers on Capitol Hill were blasting the stimulus package then making its way through the

House of Representatives. In a statement, Republican Sen. **Chuck Grassley** said that day that "let no one be mistaken that this bill is the result of bipartisan negotiations. While Republicans were courteously consulted at the member and staff level, we were never at the negotiating table."

Gregg is the second of Obama's nominees as commerce secretary to withdraw. New Mexico Gov. **Bill Richardson** (N.M.) stepped aside earlier this year after allegations of a pay to play scandal involving him came to light.

The decision has any number of wide-reaching political consequences.

First, it creates another opening in Obama's Cabinet, which saw former South Dakota senator **Tom Daschle** (S.D.) step aside last week after questions were raised about his failure to pay taxes on a car and driver service. Obama has weathered several Cabinet controversies in recent weeks including the [resignation of chief performance office Nancy Killeffer](#) and [revelations about liens on the business of husband](#) of now Labor Secretary **Hilda Solis**.

Second, it slows the momentum that the Obama administration was hoping to build for its economic stimulus plan, which is expected to clear Congress tomorrow. Obama and his team had worked diligently to put the "vetting problems" stories regarding his Cabinet picks to bed but now will watch them dredged back up for the next 24 hours — at a minimum — and perhaps far longer.

One problem the Gregg withdrawal doesn't solve for Senate Republicans is on the purely political front — assuming that he does not plan to seek re-election in 2010. That means the seat will, as expected, be open next November. Rep. **Paul Hodes** (D) is already in the race and will remain so, according to party officials. The most commonly mentioned GOP names are former Sen. **John Sununu** and former Gov. **Steve Merrill**.

This is a cataclysmic shock on what had been the quietest day so far in Washington since Obama took office, and highlights the perils of Obama's efforts to put Republicans — including a relatively conservative one like Gregg — into high positions in his administration.

Same Old New Deal?

George Will

Townhall online, November 30, 2008.

Washington — Early in what became the Great Depression, John Maynard Keynes was asked if anything similar had ever happened. “Yes,” he replied, “it was called the Dark Ages and it lasted 400 years.” It did take 25 years, until November 1954, for the Dow to return to the peak it reached in September 1929. So caution is sensible concerning calls for a new New Deal.

The assumption is that the New Deal vanquished the Depression. Intelligent, informed people differ about why the Depression lasted so long. But people whose recipe for recovery today is another New Deal should remember that America’s biggest industrial collapse occurred in 1937, eight years after the 1929 stock market crash and nearly five years into the New Deal. In 1939, after a decade of frantic federal spending — President Hoover increased it more than 50 percent between 1929 and the inauguration of Franklin Roosevelt — unemployment was 17.2 percent.

“I say after eight years of this administration we have just as much unemployment as when we started,” lamented Henry Morgenthau, FDR’s Treasury secretary. Unemployment declined when America began selling materials to nations engaged in a war America would soon join.

In “The Forgotten Man: A New History of the Great Depression,” Amity Shlaes of the Council on Foreign Relations and Bloomberg News argues that government policies, beyond the Federal Reserve’s tight money, deepened and prolonged the Depression. The policies included encouraging strong unions and wages higher than lagging productivity justified, on the theory that workers’ spending would be stimulative. Instead, corporate profits — prerequisites for job-creating investments — were excessively drained into labor expenses that left many workers priced out of the market.

In a 2004 paper, Harold L. Cole of UCLA and Lee E. Ohanian of UCLA and the Federal Reserve Bank of Minneapolis argued that the Depression would have ended in 1936, rather than in 1943, were it not for policies that magnified the power of labor and encouraged the cartelization of industries. These policies expressed the New Deal premise that the Depression was caused by excessive competition that first reduced prices and wages, and then employment and consumer demand. In a forthcoming paper, Ohanian argues that “much of the depth of the

Depression” is explained by Hoover’s policy — a precursor of the New Deal mentality — of pressuring businesses to keep nominal wages fixed.

Furthermore, Hoover’s 1932 increase in the top income tax rate, from 25 percent to 63 percent, was unhelpful. And FDR’s hyperkinetic New Deal created uncertainties that paralyzed private-sector decision-making. Which sounds familiar.

Bear Stearns? Broker a merger. Lehman Brothers? Death sentence. The \$700 billion for cleaning up toxic assets? Maybe not. Writes Russell Roberts of George Mason University:

“By acting without rhyme or reason, politicians have destroyed the rules of the game. There is no reason to invest, no reason to take risk, no reason to be prudent, no reason to look for buyers if your firm is failing. Everything is up in the air and as a result, the only prudent policy is to wait and see what the government will do next. The frenetic efforts of FDR had the same impact: Net investment was negative through much of the 1930s.”

Barack Obama says the next stimulus should deliver a “jolt.” His adviser Austan Goolsbee says it must be big enough to “startle the thing into submission.” Their theory is that the crisis is largely psychological, requiring shock treatment. But shocks from government have been plentiful.

Unfortunately, one thing government can do quickly and efficiently — distribute checks — could fail to stimulate because Americans might do with the money what they have been rightly criticized for not doing nearly enough: save it. Because individual consumption is 70 percent of economic activity, St. Augustine’s prayer (“Give me chastity and continence, but not yet”) is echoed today: Makes Americans thrifty, but not now.

Obama’s “rescue plan for the middle class” includes a tax credit for businesses “for each new employee they hire” in America over the next two years. The assumption is that businesses will create jobs that would not have been created without the subsidy. If so, the subsidy will suffuse the economy with inefficiencies — labor costs not justified by value added. Here we go again? A new New Deal would vindicate pessimists who say that history is not one damn thing after another, it is the same damn thing over and over.

About That New New Deal

Mona Charen

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"This is the best deal since 1932." So said House Financial Services Committee Chairman Barney Frank (D-Mass.) regarding the increased public appetite for government intervention in the economy. Incoming White House Chief of Staff Rahm Emmanuel echoed the sentiment when he told the *Wall Street Journal*, "You never want a serious crisis to go to waste."

Oh, boy. While Barack Obama's appointments so far have been fairly moderate, other Democrats are whistling "Happy Days Are Here Again" and dusting off their wish lists for federal spending. "The House and Senate Appropriations committees hope to use December to negotiate a \$410 billion omnibus measure that can be swiftly approved when the new Congress convenes," reports the Politico. Wasn't it just two months ago that Speaker of the House Nancy Pelosi — supposedly outraged that the Congress was being asked (by Bush and Paulson) to pony up \$700 billion to prevent a total freeze of credit markets around the globe — intoned "SEVEN HUNDRED BILLION DOLLARS." She repeated it for emphasis: "Madame Speaker, when was the last time anyone ever asked you for SEVEN HUNDRED BILLION DOLLARS? It's a staggering figure."

But that was then. Now the cover of *TIME* magazine features Obama as FDR and the term "new New Deal" is on everyone's lips. Columnist Paul Krugman is fine with that, expect he objects that Roosevelt didn't do enough!

The conventional wisdom has had a rough time of it lately among scholars. You know the fairy tale. You were probably taught it in school. During the 1920s, America practiced laissez-faire economics. The 1920s were seen, as historian Amity Shlaes put it, as a period of "false growth and low morals." Greedy businessmen got out of control and created a market crash in 1929. President Hoover, obedient to Republican ideas concerning noninterference in the market, did nothing. The economy spiraled into a depression. Roosevelt was elected in 1932, banished fear, inaugurated the New Deal, and put America back to work.

A series of recent books has demolished the myth. Some of Roosevelt's reforms were salutary (the Securities and Exchange Commission, reform of the Federal Reserve) but the New Deal's chief object was never achieved — it did not solve the nation's unemployment problem. The CATO Institute's Jim

Powell points out in "FDR's Folly," "From 1934 to 1940, the median annual unemployment rate was 17.2. At no point during the 1930s did unemployment go below 14 percent.... Living standards remained depressed until after the war." Stanford University history professor David Kennedy has acknowledged, "Whatever it was, the New Deal was not a recovery program, or at any rate not an effective one."

Amity Shlaes' "The Forgotten Man" reminds us that FDR was a class warrior with a vengeance, always at pains to pin the nation's ills on "economic royalists" who had, he claimed, depressed wages, fixed prices, and conspired to keep all of the nation's wealth in their own greedy hands. FDR's war on businessmen (which featured not just rhetorical but actual criminal prosecutions) spread fear and timidity throughout the entrepreneurial sector. Shlaes writes, "The *New Yorker* magazine's cartoons of the plump, terrified Wall Streeter were accurate; business was terrified of the president. But the cartoons did not depict the consequences of that intimidation: that businesses decided to wait Roosevelt out, hold on to their cash, and invest in future years."

It is only recently that the New Deal myth has really taken hold. At the time there was less pretense. In "New Deal or Raw Deal?" Burton Folsom of Hillsdale College quotes Treasury Secretary Henry Morgenthau. Testifying before House Ways and Means Committee in May of 1939, the FDR ally and acolyte did not sugarcoat it:

"We are spending more money than we have ever spent before and it does not work. I want to see this country prosperous. I want to see people get a job. I want to see people get enough to eat. We have never made good on our promises I say after eight years of this Administration we have just as much unemployment as when we started and an enormous debt to boot."

On balance, the New Deal damaged the nation profoundly by extending and deepening the Great Depression. No other downturn in American history lasted so long or afflicted so many.

So no repeats, thank you very much.

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