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## Obama's Spending Plans May Pose Political Risks

Concern Mounts in White House as 2010 Elections Loom

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After enjoying months of towering poll numbers, legislative victories and well-received foreign policy initiatives, the White House has become increasingly concerned that President Obama's spending plans, which would require \$9 trillion in government borrowing over the next decade, could become a political liability that defines the 2010 midterm elections.

The concern was reflected in the aggressive response from administration officials to criticism that money from Obama's stimulus plan is arriving too slowly to help the languishing economy, as well as in the president's public endorsement of "pay as you go" legislation, which would require Congress to make room for new non-discretionary spending with equivalent cuts to other parts of the budget. Yesterday, Obama also outlined billions of dollars in savings that would be used to pay for his health-care reform proposal.

But there is evidence of growing public concern over his fiscal policies. As he traveled Thursday in Green Bay, Wis., Obama was greeted by demonstrators holding signs that said, "No socialism" and "Taxed Enough Yet?"

Republican leaders, who have been searching for a way to dent the president's popularity, are training their attacks on his economic policies as they look ahead to the 2010 midterm congressional elections. Their argument that Obama is spending recklessly, however, is complicated by the fact that the previous GOP administration's tax cuts, borrowing to finance wars in Iraq and Afghanistan, and expansion of entitlement benefits remain the chief drivers behind the rising debt.

"The reckless fiscal policies of the past have left us in a very deep hole," Obama said last week. "And digging our way out of it will take time, patience and some tough choices."

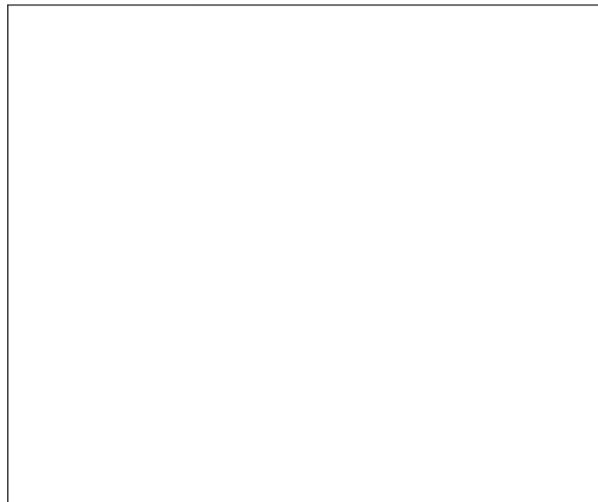
But even some leaders in his own party are calling on the president to soon begin making those difficult choices, despite a fragile economy that remains in recession.

After inheriting a \$1.3 trillion annual budget deficit upon taking office, Obama pushed through \$787 billion in short-term spending and tax cuts designed to make up for retreating private-sector demand and to spark the economy. He also won approval for a 10-year budget that aspires to sharply reduce the deficit in its first years and takes on the rising cost of health care, which his advisers say is the single biggest cause of increasing public expenditures.

But [Sen. Kent Conrad](#) (D-N.D.), chairman of the Senate Budget Committee, said, "The second five years is where we're on a completely unsustainable course."

"People know we have an overall situation here that doesn't add up," he said.

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Results from a Gallup survey released last week show that although more than six in 10 Americans approve of Obama's overall job performance, fewer than half say they approve of how he is handling the deficit and controlling federal spending. The poll also shows a decline from the previous month in the percentage of Americans who approve of Obama's handling of the economy, although a majority still does.

During a town hall forum in New Mexico last month, Obama acknowledged that the "long-term deficit and debt that we have accumulated is unsustainable." The statement followed several fiscal reform initiatives, including changes in defense procurement policy, that advisers say will save tens of billions of dollars a year.

Other measures have held a whiff of desperation. In April, he publicly instructed his Cabinet secretaries to find \$100 million in savings, a fraction of the more than \$3 trillion annual budget.

"Everything that the White House does concerning this deep recession contains an element of gambling because no one has been here before," said Robert B. Reich, labor secretary under President Bill Clinton and a professor of public policy at the University of California at Berkeley. "There's no formula that can be applied, and that's why the president's popularity and credibility are vitally important."

Reich noted, "Very soon we'll be in the gravitational pull of the midterm elections, and it seems clear that Republicans want to challenge Obama on the economy and will run on tax cuts, deficit reduction, and a much more scaled-down and privatized health-care plan."

"If they can get their act together and come up with something that is halfway respectable, and if the public begins to lose patience by Election Day, Democrats could have some real problems," he said. "And those problems, of course, could possibly extend through 2012."

Those concerns about spending and deficits are not confined by U.S. borders. Treasury Secretary Timothy F. Geithner traveled to China this month to assure leaders there that "we will cut our deficit and we will eliminate our extraordinary government support that we have put in place to overcome the crisis." Traveling in Germany this month, Obama responded to Chancellor Angela Merkel's concerns that U.S. spending could lead to global inflation and undermine the stability of U.S. debt.

Analysts say Obama's spending plans reflect not only the depth of the economic crisis but also a fiscal philosophy that differs from that of the last Democratic administration.

Clinton, a former governor, took office during a far milder recession and was unable to pass a much smaller stimulus package than Obama's. Clinton ended his tenure with budget surpluses after reducing federal spending as a share of the gross domestic product -- fiscal discipline that did not survive the Bush administration.

"President Clinton believed in the public sector, but he thought that his responsibility to the long-term fiscal condition of the country ruled out a significant expansion of the government in the economy as a whole," said William A. Galston, a former Clinton policy adviser who is a senior fellow at the Brookings Institution. "What is unmistakably clear is that the trajectory of the Obama administration -- whether it's four years or eight years in office -- will be the reverse."

The administration is responding to public concerns over the nation's fiscal health and the political threat it may pose. Rahm Emanuel, Obama's chief of staff, said that a quick economic recovery would have the single biggest effect on the grim budget forecasts and that the administration's top priority will be "getting America's fiscal house in order" once Congress finishes work on health-care and energy reform legislation.

"There's two parts to fiscal reform: cutting and cost controls," Emanuel said. "At the end of the day, you're going to have to look at tax reform as part of the long-term fiscal health of the country. But if you change Medicare, Medicaid and other big drivers of costs, you're going to get enormous savings."

The cost of extending health insurance to the 47 million uncovered Americans is estimated to be as high as \$1.2 trillion over the next decade, and administration officials say they are not sure how much the overhaul will save the federal budget over the long term.

In Obama's radio address yesterday, he outlined \$313 billion in savings and spending cuts over the next 10 years to help pay for the initiative, including adjusting Medicare payments to reflect efficiencies in the health-care system, reducing hospital subsidies for treating uninsured patients as coverage expands to more people, and lowering drug reimbursements for those eligible for both Medicare and Medicaid. In total, Obama said, the administration has identified \$948 billion of the projected costs, although those estimates will probably be challenged by congressional auditors.

Peter Orszag, director of the Office of Management and Budget, told reporters last week: "We've never changed our health-care system towards a best-practices one. So quantifying exactly what their impact is is very difficult. But what I want to be very clear about is -- at worst, this will be deficit-neutral."

Some Democratic champions of health-care reform, including Galston, say slowing the growth of medical costs could cut entitlement spending, reduce the need for borrowing and lead to significant long-term savings.

"The problem is that very few health-care experts believe that the measures proposed so far have any reasonable chance of achieving those savings," Galston said.

Obama and his advisers hope that by the 2010 elections, the stimulus spending, the bank rescues and other measures will have pushed the economy into recovery.

But some economists warn that any short-term economic improvement will probably resemble the "jobless recovery" of the early 1990s, given the loss of jobs in the manufacturing, construction, retail and other sectors. Democrats were trounced in midterm elections two years after Clinton took office, partly because the economic recovery then underway had not significantly reduced unemployment.

Chris Edwards, director of tax policy studies at the conservative Cato Institute, said the large federal deficits of the 1980s and early 1990s rallied public support for legislation that constrained government spending -- a sentiment Obama appealed to last week in urging Congress to enact the "pay as you go" rules into law. Ross Perot, for example, built a potent third-party campaign in 1992 on the issue of deficit reduction.

"There's a potential there that the seemingly out-of-control fiscal situation in Washington could galvanize the public," Edwards said. "The question is whether the Republicans will be smart enough to take advantage of this."

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