

# The President Must Address the National Debt

TO ANSWER HIS CALL TO GREATNESS HE MUST WIN OVER THE MIDDLE

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When you are headed for a train wreck, the best way is to find an alternate track. We indeed are heading for a fiscal train wreck. Why did this train wreck occur? Through growing deficits, debts and dependence on other nations to maintain a sustainable balance. There are a lot of tough choices on the table. Currently we have \$11 trillion in national debt and \$56 trillion in liabilities and unfunded promises. We spend 23-24% of our national economy but take in 18-19% in revenues. Our national debt now equals 41% of the national economy. With current momentum, it will rise to 82% before the end of the decade. Each child will owe \$184,000 of that debt, and it continues to expand.

This past spring, we released a comprehensive report on Capitol Hill, appropriately titled, *Saving America's Future*. We were fortunate to have Senator Mark Warner (D-VA), Congressman Frank Wolf (R-VA), and Congressman Jim Cooper (D-TN), the latter two being lead co-sponsors of the Securing America's Future Economy Commission Act (SAFE Act), join us in speaking up about these grand challenges. This report has since made its way into the Administration and many Congressional offices—demonstrating that people are desperately looking for a line of attack to divert the fiscal wreck.

How did this project come about? A year and a half ago in my book, *A Call to Greatness: Challenging the Next President*, I asserted that the next President would take office during bleak times, with a gathering storm hovering over the inauguration. Even then, America had lost much of its strategic and budgetary freedom of action, unity at home, and support abroad. I did not anticipate that the collapse of the sub-prime mortgage market would drag down the entire financial system like falling dominoes, forcing once-great companies like AIG, Lehman Brothers, and Bear Stearns toward bankruptcy and two of the original American auto makers toward bankruptcy protection. It was far worse than my book ever anticipated. The train

heading for the wreck has tripled in speed.

As I note in *A Call To Greatness*, great Presidents have central priority around which all others were disciplined in timing and scope so as to not interfere. This is the first principle of strategy; principle of effort. A prime example of this was the way in which President Eisenhower, a former five star general, organized himself. He used the term for the Cold War, preparing for "the long haul." Though he rose to prominence as a military man, this successful grand strategist believed that the overriding priority was to maintain our fiscal strength as the foundation for "the long haul" during the Cold War. He created the "Solarium Project" to establish competitive teams outside of government which compared strategic alternatives. This in turn allowed Ike to combine security and budgetary strategy; something that must be done again today.

This looming fiscal crisis has the potential to negatively affect not just our economic security but our national security. There are correlations between America's current geopolitical position and that of the declining British empire of the 1950s. Following World War II, the fiscally feeble and imperialistic Great Britain and France ignored Eisenhower's opposition and invaded Egypt to gain control of the Suez Canal. In retaliation, Eisenhower utilized American influence over the weak British economy to force British troops out of Egypt.

*A Call To Greatness* asked the new President to draw from such a group during his transition and first year in office. With the President-elect's distractions, however, we set up a group of Twenty-four leading Americans—including former heads of the Republican and Democratic Committees, Senator Bill Brock and Governor Roy Romer, Attorney General Edwin Meese, Senators Sam Nunn and Chuck Hagel, Ambassador Thomas Pickering, University leaders including Dr. William Brody of Johns Hopkins and Dr. Shirley Ann Jackson of Rensselaer

Polytechnic Institute, and Newt Minow, who originally hired Barack and Michelle Obama at Sidley Austin in Chicago. This is to say that the group is quite bipartisan. This prestigious group is headed by David Walker (then head of the Government Accountability Office), Norman Augustine (former head of Lockheed Martin and chair of the monumental study, *Rising Above the Gathering Storm*), and Leon Panetta. When Panetta moved to CIA, Former Governor Romer took his place.

Our overall assessment of where we stand came to the striking conclusion that the principle challenges were not caused by the rise of China, the suspicious maneuvers of Putin's Russia, or even by Osama Bin Laden and al-Qaeda. In the immortal words of the cartoon character Pogo, "we have met the enemy and he is us!" By and large, we have created our own problems: Our own squandering and failures...take the following examples:

- Health care costs represent 17% of the economy. 30-50% of US healthcare expenditures are wasted, we spend less than 3% on disease prevention, and 85% of our medical bills contain errors.
- In education, we spend more per student than most of the rest of the world. Of the 57 lead nations, we're 29th in our science scores, and 31st in math. We lag in producing scientists, engineers, and innovators. 50-85% of growth in the past century came from our advances in math, science, and engineering. It is no wonder that we approach 6th place in innovation and competitiveness.
- In the energy sector, we produce 10% of the world's petroleum, but consume 24%. We are hostage to OPEC, and our principal banker, China, finances this imbalance.
- We are spending more on National Security than any other country in the world, fighting two wars which could have been prevented. Still, we have not demonstrated an ability to change minds in the Middle East. We need smart power, not dumb power. In 2003 General Petraeus landed in Iraq with the 101st airborne division in Iraq and said that "if we can't change minds we can't win."

We must "think smarter, not richer," and restore the entrepreneurial spirit in education, science, and health that we had during WWII and the early Cold War. We need to encourage great scientists and engineers like Vannevar Bush to reenergize the next generation of great Americans.

Our talented new President recognized what I have just said. If so many of these problems were self-created, they should be self-corrected. He agreed that our uncontrolled fiscal condition was central but argued by taking on these correctives in the areas of health, education, energy and national security would help with the budgetary situation. If his conception was good, the execution has not been good. Why? One major reason is the Congress where the leadership is to the left of his would-be central and bipartisan approach. His greatest success was found in his remarkable Education Reform speech given before the Hispanic Chamber of Commerce. There he went against his

political base and called for genuine reform, for example: merit pay, charter schools, and longer school years. There is a lesson here. He did not have to go through Congress although he has to work with Governors.

Another area offers quite a different story.

He took on health care but citing the figures I have given you. He felt he had learned the lesson of the Clinton Health Care Initiative which was conceived in secret and sprung on Congress. He did quite the opposite and left it to the Congress to design the plan. To his credit, he said it should be deficit neutral and cost savings. Now he is caught in the dilemma of his demanding a bill if not before the August recess, soon thereafter, the Democratic leadership doing the same, the Blue Dogs, many so-called New Democrats and Republicans increasing untied in a coalition arguing that the present plans are not either deficit neutral or cost savings.

It might well be in this dilemma do the sort of thing that David Broder of the Washington Post proposed, "[President Obama] could encourage his congressional allies to push ahead quickly with plans that pretty clearly are badly flawed and overly expensive. Or he could ask them to reconsider and step up to the structural changes that could deliver the kind of reform voters want -- and might actually be able to afford." We restudied FDR's first 100 days in office. He had underlying themes in his fireside chats but underneath had flexibility to change course according to circumstance. I believe that the test of the call to greatness of this President will reside in this crisis to hold to "deficit neutral and cost savings" in the health care area as well as in his other areas of concern. This would follow the strategic mantra of Eisenhower when he had his teams on developing alternate strategies for winning the Cold War, but each had to be disciplined by reinforcing a strong economic base as the ultimate source of our power.

As to the central strategic direction of avoiding our fiscal train wreck, President Obama has said the right things. He has hosted a Fiscal Summit; he has emphasized his fiscal principles in his budget bill, made some cuts in expenditures, and eliminated some subsidies. But these were band aids. Currently he does not have a realistic and enforceable plan for eliminating the deficits.

Another attempt came On June 9th, with the PAYGO legislation. But even Democrats warned of the loopholes and that we will likely see a \$1.2 Trillion budget deficit in 2012. Whereas Peter Orzag says that the President is committed to a deficit equal to no more than 3% of the GDP within 5-10 years, but the non-partisan Congressional Budget Office projects a deficit of at least 4% which some still believe to be optimistic.

Now the President is in a real crisis of credibility. We must make it clear that he needed to engage in Keynesian deficit spending and thus adhering to the lessons learned during the Great Depression in this regard. What he has not done is create the absolute assurances that, after recovery, he will shift to a new tax system which favors sav-

ings, investment, and budgetary controls. Only this necessary pivot can return the nation to fiscal equilibrium.

What is his way out? First, as we have already noted, he must maintain his credibility by demanding that the health bill be deficit neutral and provide cost savings and postpone other aspects of the bill. Second, decisively move to set up what we call a “fiscal future commission”.

Modeled after the Military Bases Realignment and Closure (BRAC) Commissions, the Fiscal Future Commission would have high-level bipartisan members making the tough political decisions, then requiring an up and down vote in Congress on its findings. This genuine reform measure would take tough decisions out of the broken political process and allow real reform.

- On Capitol Hill, there are already three variations of this proposal. Democratic Blue Dog leader Jim Cooper, and Republican Frank Wolf introduced one version in the House. A similar bill in the Senate was introduced by Senators Joe Lieberman (I-CT) and George Voinovich (R-OH). I might note that Paul Volcker would be a splendid co-chair of this commission.
- As outlined in *Saving America's Future*, “the Joint Executive and Legislative appointed Commission should develop statutory budget controls, and comprehensive tax and Social Security reform legislation, as well as re-orient government spending programs and tax preferences for the future.” This action would prevent the spiraling costs of entitlement programs and tax preferences from rapidly expanding our national debt and forcing the government to institute major tax burdens on young workers.

This reform proposal offers politicians protection from special interest groups. When the President's budget bill went to the Congress, the President courageously cut agricultural entitlements. Senator Kent Conrad from South Dakota, with a large farm population, had to vote against it. Although he supports fiscal responsibility, he could not vote for cutting subsidies. He needed political protection, which the current system does not give him!

I argued in the *Washington Post* that the “genius of the

Fiscal Future Commission is that it would allow flexibility in its timing. It would provide time for the economy to recover as it did its work over the next two years. Then, at the end of this period, there would be an up or down vote in Congress on whether to implement its findings... The announcement of the commission would send a message to the holders of our debt, China, Japan, and the Gulf States—as well as international markets—that our Nation will put its fiscal house in order through extraordinary and effective measures.”

President Obama came close to endorsing the Fiscal Future Commission immediately after the election in speaking to the editorial board of the *Washington Post*. One reason he did not was a reluctance to bypass Congressional leadership in his efforts on reform in education, health, and energy. However, Obama took a step forward in an interview with Fred Hiatt last Wednesday where he stated, “The best way to deal with the deficit, he said, may be through a commission for which ‘everything is going to have to be on the table.’ The commission would report back after the 2010 election, with the prospect of “locking in a pledge for action.”

In addition, House Majority leader Steny Hoyer broke ranks with Speaker Nancy Pelosi and Democrats to endorse the commission idea in a recent speech hosted by the Bipartisan Policy Center. The principal reason for doing so was to not let down his grandchildren, who, he said, would pay the price of our fiscal irresponsibility with higher taxes and inflation.

In conclusion, to avoid the train wreck should seize the pragmatic middle and not the left-wing. He should announce a fiscal future commission to begin reporting out in two years timed with the recovery. This would be an act of historical Presidential courage which both and McCain and Obama called for in the general election debate. They both said the old system in Washington is broken and we need genuine reform. If President Obama seizes this mantle, he will have answered the title I put in my book, a call to greatness. ♦