



July 8, 2009

### **Letter from Washington**

Since the last letter, President Obama has kept up a frenetic pace both of travel, and dealing with crisis issues that just seem to keep on coming. Between Afghanistan, North Korea, and now Iran, there is some irony in recalling the Hillary Clinton primary campaign advertisement that highlighted Obama's inexperience in international affairs by asking "who do you want in the White House to answer the phone at 3 AM?" The new president is being tested early and often, just at the time that he was probably hoping to stay focused on the semi-permanent crisis in the US economy.

As you read this, the President has just completed his first meeting in Russia, where he was hopefully able to show his mettle, if there is to be any progress on issues important to the US.

At least for now, Obama has retained his Teflon coating, and the most recent NY Times/CBS poll shows him with an overall approval rating of 63%, indicating he has the solid support of his own Democrats plus the majority of independents.

The administration has ambitious plans to force a sweeping revamp of the US financial regulation system, as well as a redrawing the health care system, and bringing the carbon cap and trade bill to a vote this summer.

The real irony and something of a mystery in the polling is that the President's personal popularity remains high, while the public's view of his approach to key issues is falling fairly rapidly. The continuing bailout of the auto industry, closing the Guantanamo facility, and the administration's approach to health care are all unpopular with a majority of the public, with health care likely to become the headliner as the Congress debates competing plans this summer. The two fundamental issues in reforming the health care system are whether the government should develop an insurance program to compete with the private system, and whether the proposal has to be revenue-neutral (i.e., provide financial offsets and new revenue, generally in the form of higher taxes, so that it does not add further to the deficit).

Health care has become an imperative for the administration not so much because of the underlying social issue of access to affordable medical treatment for all citizens, but because of the impending budgetary avalanche of increasing obligations as the US population ages.

As health care absorbs an ever-larger portion of the federal budget, with the two competing Congressional plans scored at 1 and 1.3 trillion dollars respectively, the plans' key sponsors are trying to shave off costs on the margins, with a used car salesman's belief that 999 billion sounds much more affordable than 1 trillion.

No matter what health care plan is eventually chosen, the fallout for defense will be profound. Since the Treasury has already printed several trillion dollars to backstop the economy in various bailouts, there is the realization in Congress that the resulting inflationary pressures will be considerable, and that offsets and new taxes will be required to responsibly develop an alternative system. Since the entire House and a third of the Senate will be up for reelection 2010, the appetite for imposing new taxes is low, and defense will emerge as the primary bill payer, just as it always does.

Simultaneously winding down Iraq while ramping up Afghanistan will require high O&M funding, putting further pressure on the acquisition accounts. The Gates-recommended program of restructuring and cuts has largely been reflected in FY 2010 but has not resulted in any decrease to the DoD top line. FY 2011 then shapes up to be bloody and brutal as all of the competing pressures come to bear.

The committee testimony that has taken place so far for FY-10 has not elicited any dissent from the Chairman or the service chiefs, and they have supported the President's budget request in both public and private, sticking very closely to the script. The Air Force Secretary and Chief of Staff (both having replaced previously Gates-fired officials) allowed as how a total of 187 F-22s seemed like a great number to them, and that they didn't see any issue in waiting for the JSF to come on scene in large numbers mid-next decade. They also didn't see any problem with the administration plan to retire up to 250 F-15s and F-16s to save about US\$3.5B that will be diverted to modernization efforts over the next six years.

The Navy too has had difficulty explaining the fighter gap that will occur prior to the fleet introduction of the F-35. The Navy has asked for fewer F-18s to replace retiring earlier models, and like the Air Force, have not deviated from the script. The Navy's issues are a little more difficult to define since each F-18 has to be inspected as it comes into depot overhaul and decisions made regarding repair or replacement.

The Congress, however, isn't buying off on that line of reasoning, and both the House and Senate inserted language in their Authorization Bills to continue F-22 production, drawing a veto-threat from the administration.

The House further added some \$600M+ to start the development of an alternative General Electric JSF engine to the current Pratt & Whitney design. Members on both sides have expressed concerns with the development of a single propulsion plant for the JSF, especially since the current administration has so much riding on the F-35 program remaining on glide path to a successful introduction.

The Authorization Bill is then shaping up as an early test for the President, and whether he will accede to the wishes of home-state politicians in keeping weapons systems alive, or whether he will play hardball in order to press his plan for defense reform and reorganization. The President needs to keep the Congress on board for health reform, carbon cap and trade, and other key items on the legislative agenda, and vetoing a Defense Authorization Bill during war-time would be a bold step, setting up a confrontation with his own party that he might not win.

While he may be having trouble keeping his own party in line, the President can only be pleased at the way the Republicans have cooperated with him by eliminating two potential rivals for 2012, and watching the key unknown for 2012, Sarah Palin, auto-destruct in public this past week.

- First, Senator John Ensign (R-NV), number three in the Senate leadership, resigned his party position when he confessed to having had a sexual relationship with a member of his staff. Why he felt compelled to make that public confession was not immediately clear until it became known subsequently that the staffer's husband had asked for a payoff in return for silence. Ick.
- Second, Governor Mark Sanford (R-SC) of South Carolina topped that by disappearing for five days. His staff said that he was hiking the Appalachian Trail, but it turned out that he was in Buenos Aires with (you guessed it) another woman. He held an incoherent press conference on his return in which he referred to the other woman as his "soul mate". Double ick.
  - **Author's note:** *For the benefit of non-US readers who are sometimes at a loss when it comes to the moral standards that public officials are held to in the US, perhaps the following may help: Politicians in the US can survive marital indiscretions, even prosper in spite of them (i.e., Bill Clinton). Americans can be quite forgiving when it comes to the sexual behavior of public figures, sometimes bewilderingly so (i.e., Michael Jackson). The public, however, has a low tolerance for blatant hypocrisy (mild hypocrisy is part of the politician's job description), and will exact greater punishment on Republicans, supposedly the party of moral rectitude and family values. This is especially true of Republicans who have wrapped themselves in the family values*

*banner and used their families as photo op props while boinking the staff.*

- Finally, Governor Palin (R-AK) announced that not only would she not run for reelection in 2010, but that she was going to step down and turn the state over to the Lieutenant Governor. Palin, who remains extremely popular with social conservatives, said basically that she had become a lightning rod to the detriment of the state, and that she was going to dedicate herself to conservative causes outside of government. It's not clear whether one of those causes will be running for President in 2012, but it seems she has made what would have been a tough sell all but impossible by quitting in the face of adversity, and giving away any opportunity to bulk up her very thin executive resume. Rather than a canny and skillful maneuver to position herself for the 2012 nomination, she has more likely set herself up for paid speaking engagements, another book deal and perhaps a TV talk show.

All things considered, the President must be very happy with the way the Republicans are accommodating his reelection plans.