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Letter from Washington

President Obama campaigned quite successfully on a platform of unspecified change, and the promise of something new and different was enough to convince a majority of voters that he was worth the risk. Now that those unspecified changes are becoming defined --- particularly in the health care reform debate --- they don't look as appealing to most Americans as when they were nebulous.

The President had hoped to push both Houses of Congress to pass complementary versions of his signature health care reform effort prior to the August recess. That would have given the White House the ability to broker a compromise bill that could have been passed shortly after the House and Senate returned in September.

House Democrats closed ranks under great pressure from the Speaker and the White House and passed a bill before leaving town. Many of the House members felt particularly vulnerable to potentially having to explain their support for a more ambitious bill than would eventually be passed after the Senate's moderating influence. This was especially true after the House Democrats were strong-armed into passing a carbon "cap and trade" bill last month, which will also likely provide election-year campaign ammunition for their Republican opponents in 2010.

The Senate, however, could not develop the consensus necessary to pass a bill, and chose to continue the effort into September. The Democrats do have a filibuster-proof majority in the Senate now, but have (wisely) chosen not to force a bill through on a straight party line vote. Health care represents one seventh of the US economy, and despite the temptation, the Senate Democratic leadership chose to disregard the Obama deadline in the interest of attracting some minimal bi-partisan support.

During the recess the members of Congress are in their districts and states holding a series of local meetings supposedly to take the pulse of their constituents. What they are finding is that their constituents are quite angry about a list of things, and the health care debate is the convenient vehicle for channeling that anger.

The Democrat leadership made a fundamental error that they belatedly recognized two weeks ago. They initially focused on the supposed 47 million Americans that do not have adequate health care. In reality they do receive some level of care but do not have health *insurance*. Their interface with the medical system is largely through hospital emergency rooms and urgent care clinics, the cost of which is amortized over the rising amount paid in premiums by the people who do have health insurance.

Those people with insurance, presumably the other 260-some million Americans, are not necessarily unhappy with their personal medical access and care, and know just enough about the House bill and the various Senate efforts to realize that they will largely be the losers in this process. They will be losers in the sense that if the US government takes over the management of the health care industry, that they will continue to subsidize the uninsured in the form of higher taxes or reduced quality and access for themselves, or more likely both.

The Democrat leadership realized this basic problem two weeks ago and changed the focus from "health care reform" to "health insurance reform", and cast the insurance companies as the villains in the piece. The problem they have now is that in this internet age there are a great many people out there who are more knowledgeable about what is contained in the House bill than most members of the House. When those members meet with their constituents and attempt to provide just the official talking points, the results have been quite ugly.

The real mistake the Democrat leadership is making however, is to attempt to explain away the genuine anger and hostility they are seeing in the field as the work of Republican saboteurs or racist skinheads. There is a genuine anger in the country and health insurance is only a part of it. The people are angry that their elected representatives have forced through a trillion dollar stimulus package of dubious value, a continuing bailout of the financial industry with no tangible benefit to the taxpayer and an actual increase in the number of mortgage foreclosures, an ongoing takeover of two thirds of the domestic auto industry, and a carbon "cap and trade" bill that will result in higher energy costs. All of these measures have been forced through the Congress as emergency actions without adequate examination or debate. The structural deficit has soared with each, and the bill attached to health care reform is probably as high as all of the previous things combined.

This feeling of anger is not helped by many members of the Congress who have come across as patronizing in their constituent meetings, i.e. "this whole issue is so complex you can't possibly understand it, so just take my word for it". Unfortunately many people do understand the issues as well or better than their Congressman, and trust is a thing of the past.

There is a time-tested truth in American politics that if you have to keep explaining what you really meant, you have lost the argument already.

President Obama is in that position now, and has allowed others to frame the health care reform issue to the point that he has lost control of the debate, and quite likely will not be able to see his key campaign promise realized.

While the health care debate is playing out and grabbing all of the headlines, there is a significant DoD budget issue also at work. This past week OSD announced that the services would need to come up with US\$60B in program savings to allow for the investment in Secretary Gates' counter-insurgency priorities. The \$60B is in addition to the sweeping cuts already enacted earlier this year (FCS, F-22, etc).

Since the "easy" savings have all already been taken, this new round of cost cutting will probably be quite painful. Gates' initial success with the F-22 aside, the difficulty of getting the Congress to go along with cutting major weapons systems is well known (the Congress still has the option of resurrecting the F-22 in an export model in conference, which is not out of the realm of possibility). The administration has backed off the veto threat for the second F-35 engine development program, which is probably indicative of the political cost involved in the earlier F-22 vote.

It has been pointed out in the press that the quid for killing a program often requires additional money to be spent on other systems, so the overall savings may not be that great anyway. Ironically, while acquiescing to the administration's stance on the F-22 for cost savings, the House and Senate added a combined US\$15B in earmarks to the defense appropriation that the DoD had not requested.

Where the savings will probably come in the future defense budgets is in curtailing maintenance, short-funding the infrastructure and possibly moving more of the operations funding for Afghanistan and Iraq back into supplementals. Existing major acquisition programs will likely be cut back, with the F-35 being the only really untouchable aircraft program, at least until everyone forgets that the F-22 decision rationale depended entirely on executing the F-35 plan in its entirety.

The Center for Strategic and Budgetary Analysis, a well-regarded Washington think tank (and source of several key Obama administration appointees), published an interesting report this past week. The point of the report is that DoD spending over the past 10 years has tended to shift more and more funding into the development phase of complex systems, leaving insufficient funding for procurement of the systems in the required numbers --- FCS being a prime example. The ratio of procurement funding to R&D dollars is falling, with long term negative effects.

Finally, this week's humorous moment came when Secretary of State Hillary Clinton had a public meltdown in Africa when asked what Bill Clinton thought about an issue. Perhaps the President needs to send Bill Clinton on a rescue mission to Africa as well.