



August 28, 2013

Letter from Washington

Traditionally when a US President faces difficult politics at home, he looks for a foreign issue as a diversion. Unfortunately for Barack Obama, the issues facing the US overseas offer no relief from domestic politics and are in many ways more intractably difficult.

The President has painted himself into a corner regarding Syria and at this point appears bound to carry out some military retaliation for the use of chemicals, which long ago breached his "red line". Syria is totally unlike previous provocations and a few Predator strikes launched into the desert are not going to allow the President to declare victory and go home.

The President constructed the box he now finds himself in with two years of bold statements and no follow through, so that now, the faithfulness and credibility of the United States of America is at stake over an incident that seems suspect at best. At this writing it is not clear whether the Assad government actually perpetrated the attack, and questionable what chemical agent was used since the apparent symptoms of the victims don't fit anything known to be in the Syrian inventory.

Since virtually all of the players in the conflict (except Assad himself) benefit in some Byzantine way from the US being drawn into another Middle East conflict, there is more than adequate reason to proceed slowly. The President has fallen into his own trap, however, and will be forced into some military response based on press reports and media hysteria.

The Syrian conflict has more strange characters than the Star Wars bar scene, and more major forces in collision via proxy than any event in recent memory. If ever there was a time for careful diplomacy it is now, but the President has finally realized in the last several months that no one fears him. The leaders of Iran, Russia, China, Saudi Arabia, Egypt and now Syria, have all taken his measure and concluded that he is indecisively weak. As a result, he has been forced into a military response in Syria, and it will have to be a major and lasting effort or he will have proven his detractors correct again.

While some factors have been beyond the President's control, many have been the result of miscalculation. US influence has declined as the administration failed to recognize the importance of the Arab spring

uprisings, attempted a reset policy with Russia that has had no positive results, and reeled from one crisis to another in a passive/reactive process that does not appear to have any strategic foundation.

Just like no international leader fears the power of the President, the domestic political leadership in both parties does not either. The one thing that the President has going for him heading into the fall is that his domestic opponents are divided and prone to overreach.

There are three separate but interrelated issues that the US political system will have to come to grips with in order to continue to function after October 1 when Fiscal Year 2013 ends.

- The FY 2014 appropriations have to be enacted in order to fund the agencies of government.
- Some solution or "grand bargain" needs to be struck that replaces the sequestration cuts.
- The debt limit ceiling needs to be raised so that the United States can continue to borrow the money it needs to operate.

The President and the leaders of the parties have shown that they can't deal with any of these issues individually, and now they will have to resolve all three simultaneously.

A significant faction within the Senate Republicans wants to use the 2014 appropriations negotiation to force a defunding of Obamacare. The strategy would be to refuse to agree to a Continuing Resolution unless funding for the Affordable Health Care Act were removed, leading if necessary to a government shutdown. In order for this strategy to work, several dozen members of the President's own party would have to defect to the Republicans on this issue, and then the President would have to agree and sign the bill. Neither of those things is going to happen, so those Republicans are pursuing a self-serving strategy of positioning themselves for the 2016 presidential elections, while potentially inflicting a fatal wound on the party.

For his part, Mr. Obama would love to see the Republicans carry through and shut down the government. The last time that happened the Republicans bore the blame and suffered major losses at the next election. At this point the Republicans appear to have a lock on retaining their 16-seat majority in the House, and a credible way to pick up the six seats they need to take control of the Senate. Both would be severely jeopardized by a government shut down.

The second major issue of the sequester cuts is equally difficult. The Republicans would like to retain the \$90B in reductions but largely exempt defense and homeland security. The Democrats will not permit the cuts to fall only on the social programs, and propose tax increases instead. The Republicans will not accept any new taxes, especially after the Bush-era tax

cuts were made permanent in the 2011 debt ceiling negotiations. The Republicans are seriously conflicted on the sequester as demonstrated most recently by the House leadership's inability to pass a transportation spending bill that severely limited home district road and bridge funds.

The final issue, the debt ceiling increase, has the potential to do the most harm. While most Republicans agree that they can't shut down the government and they can't default on the debt, there is no agreement on how to exert the most leverage with these issues without causing a self-inflicted wound.

The Senate Republicans opposed to Obamacare see the debt ceiling as the last option in the effort to remove funds from the program. While the amount of needed monthly borrowing has decreased from over \$100B to around \$70B because of the improving economy, the date at which the US Treasury goes broke will come sooner than predicted in mid-October.

The President has said that he won't again negotiate over the debt ceiling, but the near simultaneous occurrence of the end of the fiscal year and the debt-ceiling limit will likely force him to yield on that point as well. The debt ceiling is a separate issue, but is inextricably connected to the other two so that dealing with it in isolation will be very difficult.

One possible scenario would involve a Continuing Resolution that replaces the sequester cuts with savings from entitlement programs and additional revenue from specific user fees rather than taxes. That would involve major concessions from both sides while allowing each to claim that they maintained their bedrock principles.

Another scenario, and probably more likely is that there will be a Continuing Resolution that locks in the sequester cuts for some short period to allow the principals the necessary time to come to some larger agreement. The Congress has been in recess since early August, and there have only been one or two desultory meetings between the White House Chief of Staff and the Republican leadership. These discussions have reportedly not brought the sides any closer.

Another year of across-the-board cuts will have obviously negative effects on defense. This year the worst of the problems were averted through reprogramming and the use of unobligated prior-year funds. That source of funds is now gone and will not be available for mitigation in 2014.

In addition, all of the services have deferred requirements from 2013 into 2014 on the assumption that the funding situation will be better. These unfunded requirements have created a bow-wave of urgent obligations that will take first priority when FY-14 funding does become available.

To an extent, the DoD is a victim of its own success and dealt with sequestration so successfully that most members of Congress and the public have concluded that it's not all that bad, and the administration was overhyping the potential effects. DoD had predicted 22 days of furlough (unpaid leave) for each employee, but was able to reduce that to 11 and eventually to six.

Elsewhere, the FAA has continued to operate the air traffic system, and the federal response to western wildfires has been adequate. Sequestration has not been the disaster it was predicted to be, but untold damage has been done through the disruption to the planning and programming systems of the agencies that will take years to fix.

The Republicans have the greatest challenge in maintaining party discipline and accepting whatever deal does eventually come along. The House Republicans have always been a fractious bunch, and have demonstrated several times their willingness to undercut Speaker Boehner by voting against him and causing him personally great political embarrassment.

The same cast of characters that negotiated the 2011 debt ceiling/sequestration deal is still in place, each bearing political scars and hard feelings from the last encounter. It is very difficult at this point to visualize a pathway that leads to an agreement on all three issues by October 1.