



U.S. SENATE REPUBLICAN POLICY COMMITTEE

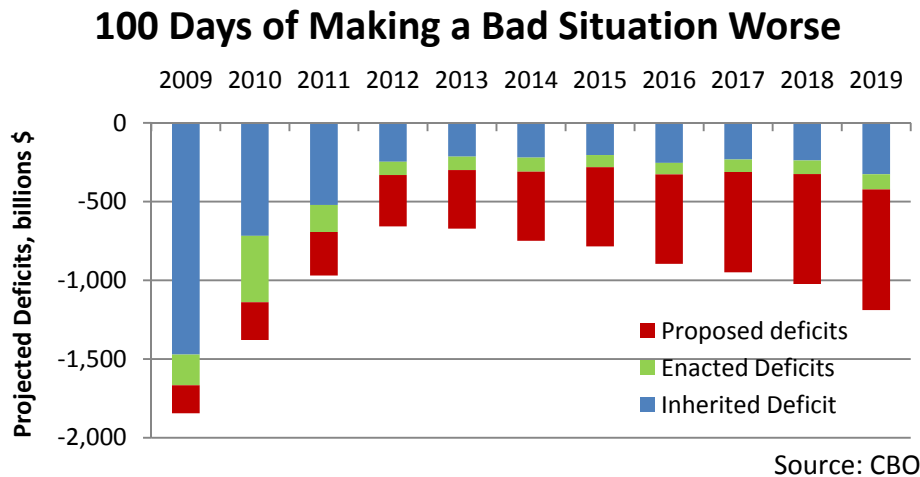
April 29, 2009

100 Days of Bailouts and Making a Bad Situation Worse

With the passing of the “Hallmark Holiday” celebrated by the media of the new president’s first 100 days in office,¹ a review is in order of President Obama’s biggest accomplishment: more debt.

A Fiscal Mess

President Obama inherited a fiscal year (FY) 2009 deficit of \$1.47 trillion and \$67 trillion in unfunded obligations to Medicaid, Medicare, and Social Security.² While delivering the correct rhetoric that “we cannot simply spend as we please and defer the consequences to the next budget, the next administration, or the next generation,”³ President Obama has spent the first 100 days of his presidency making these deficits massively worse.



According to the Congressional Budget Office (CBO), legislation signed by President Obama added \$1.2 trillion in deficits from 2010-2019.⁴ The blue bars in the chart above represent inherited deficits; these are deficits in place before President Obama took office that he had the opportunity to propose fixing in his first 100 days. The green bars are enacted deficits, deficits he is responsible for by signing large new spending bills into law instead of making serious

¹ A senior adviser to President Obama referred to the 100 days marker as a “[Hallmark Holiday](#).”

² See “Minority Views of Ranking Member Senator Judd Gregg,” on the [FY2010 Budget Resolution](#).

³ Remarks by the President and the Vice President at the [Opening of Fiscal Responsibility Summit](#).

⁴ See Table 1-3: CBO’s [Preliminary Analysis of the President’s Budget](#).

efforts at improving the long-run fiscal situation. The red bars are proposed deficits, deficits he has proposed creating in his budget, which was recently ratified by the House and the Senate.

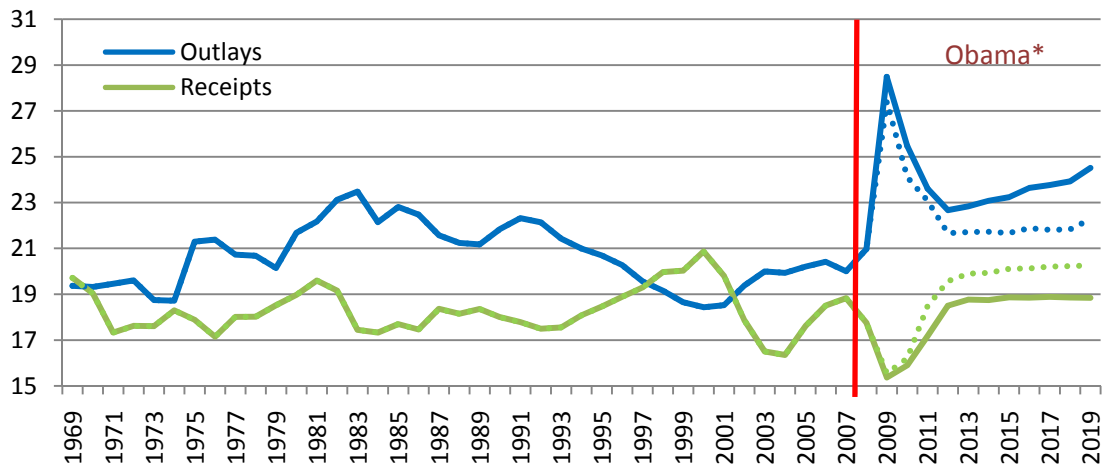
Deficit Busting Legislation and Proposals

Legislation/Proposal	Cost
American Recovery and Reinvestment Act	\$787 billion (ten-year cost)
FY 2010 Omnibus Appropriations Act	\$410 billion
Proposed FY 2010 Obama Budget	\$3.69 trillion

In his first 100 days, President Obama has also proposed raising federal government spending to historic levels of 28.5 percent of GDP, which have not been seen since the end of World War II. The blue line below shows the long-run upward spending trend proposed in the president's budget. The gap between the blue and the green line shows the widening budget deficit.

Gov't Outlays and Receipts, % of GDP

Annual deficits rise from \$459 billion in 2008 to \$1.2 trillion in 2019



Source: CBO

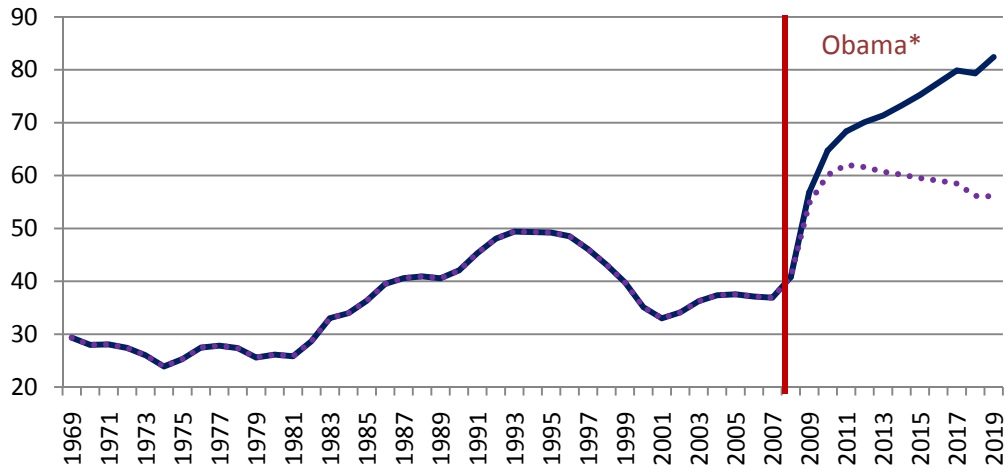
*Solid line is President Obama's budget, dotted line is CBO Baseline

Because the president's budget contains these historic levels of spending, the budget proposes running a deficit in each of the next ten years equal to at least four percent of Gross Domestic Product (GDP) and rising to 5.7 percent of GDP by the end of the budget window. These massive deficits result in historic levels of debt held by the public rising to \$17 trillion, which doubles in five years and nearly triples in ten, creating more debt than every president from George Washington to George W. Bush combined.⁵ The graph on the next page shows this massive expansion to an unprecedented level of debt as a percentage of GDP.

⁵ See table 1-4: CBO's [Preliminary Analysis of the President's Budget](#).

Debt Held by Public as a % of GDP

Debt rises from \$5.8 trillion in 2008 to \$17 trillion in 2019



Source: CBO

*Solid line is President Obama's budget, dotted line is CBO baseline

These historic debt, deficit, and spending levels are not the only thing the administration has accomplished in the first 100 days—it has also massively expanded the bailout policies of the last administration.

The Crown Has Been Passed to a New “Bailout King”

A *New York Times* profile recently anointed Treasury Secretary Tim Geithner the “Bailout King.”⁶ While vilifying the culture of “greed and irresponsibility,”⁷ President Obama has continued and expanded the bailouts begun in 2008.

100 Days of Bailouts

Bailouts	Details
Autos	Vastly expanded the government’s ownership stake and control of General Motors (GM) and Chrysler
Citigroup	Exchange preferred shares from TARP for common shares to increase the value of the capital injections agreed to in November and January
AIG	Expanded the support offered in 2008 to allow an additional \$30 billion in new credit facilities and expanded use of previous support
Auto parts makers	\$5 billion for auto-parts suppliers
FDIC	Legislative proposal to increase FDIC credit line through Treasury department to \$500 billion
International Monetary Fund	A request to Congress for \$100 billion to the International Monetary Fund
“Legacy Assets” (Financial	\$75 billion to \$100 billion to subsidize \$500 billion to

⁶ <http://www.nytimes.com/2009/04/27/business/27geithner.html?hp>

⁷ <http://www.nytimes.com/2008/10/10/us/politics/10campaign.html>

Stability Plan and Capital Assistance Program)	\$1 trillion for hedge fund and other financial institution purchases of “toxic assets” off the balance sheets of major banks and further TARP funds made available for convertible preferred shares in troubled financial institutions
Homeowners	Allowed homeowners with loan-to-value ratios of less than 80 percent to refinance at a low interest rate; offered a \$75 billion subsidy for loan-modification and workout programs; increased the amount of money the Treasury could put towards GSE debt to \$200 billion
Money Market Funds	Extension through September 18, 2009 of the guarantee offered to money market mutual funds
Small businesses	Allowed purchases of SBA loans securitized in the secondary market to maintain liquidity for SBA borrowers
Credit Unions	Extended NCUA guarantee of all credit union deposits through 2010 and injected \$1 billion to U.S. Central Credit Union
GSEs	Allowed further Fed purchases of GSE issued debt

Before President Obama’s inauguration, the Bush administration, acting on behalf of President Obama, requested the second \$350 billion tranche of the \$700 billion in funds from the Troubled Asset Relief Program (TARP). Due to higher than expected losses from committed TARP funds,⁸ as well as the increased scope of the TARP program to include automakers and the failing insurance company AIG, the Treasury estimates it currently has less than \$109.6 billion left in the TARP fund.⁹

What’s Next?

President Obama has accomplished an incredible expansion of government’s size and reach in the first 100 days of his presidency, from proposing a plan to further the government’s involvement in the health care marketplace to near-takeovers of large industrial automobile firms. Virtually no administration has been this active in micromanaging the economy this quickly.¹⁰ To afford a larger government to handle these broad new responsibilities, the government will have to continue to borrow at unsustainable rates or raise taxes. The first 100 days may have been exciting, but can America afford it?

⁸ On page 9 of CBO’s Preliminary Analysis of the President’s Budget, they explain the increased subsidy cost as follows: “Since CBO’s previous estimate was completed, market yields on securities issued by the firms that have received TARP funds have increased, thereby boosting the estimated subsidy cost of the Treasury’s purchases of preferred stock, asset guarantees, and loans to automakers. Also, the Treasury announced additional deals with Bank of America and American International Group (AIG) as well as participation of up to \$50 billion in the Administration’s foreclosure mitigation plan, all of which involve subsidy rates that are higher than the averages in the previous baseline.”

⁹ See page 14: <http://cop.senate.gov/documents/testimony-042109-geithner.pdf>. Note the Geithner estimate is \$134.6 billion, but this includes \$25 billion he expects the Treasury will be paid back this year. Since that money is not currently available to the Treasury, \$109.6 is the amount currently available for further financial support.

¹⁰ Arguably, wage-price controls of the 1970’s and some industrial policies of the 1930’s were more interventionist.