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Obama Lays Plans to Tackle Deficit

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This has been the year of coping with the economic mess. Next year will be the year of coping with the deficit mess that follows the economic mess.

The Obama White House has come to that conclusion, and is already starting to plan how to go about tackling the job. The effort is likely to start early next year and will include plenty of direct presidential engagement, with equal parts psychology and substance.

The timing is tricky. The deficit is hardly an easy subject to handle in an election year, when few politicians like to talk about either of the two basic elements of deficit deduction: spending cuts or tax increases. And next year is an election year.

Beyond that, the administration sees real economic risk in turning too hard or too quickly toward a focus on deficit cutting. From the most Keynesian thinker to the biggest deficit hawk on President Barack Obama's team, nobody wants the administration to take its foot off the accelerator pedal of economic-stimulus spending just yet. All are deeply worried about cutting off the oxygen too fast and snuffing out a weak economic recovery and a sickly job market.

Yet administration officials also know they have little choice but to start showing early next year that they take the deficit seriously, for both political and economic reasons. The deficit has become a political problem in its own right, a symbol used by Republicans to portray a Democratic Congress and administration as overseers of a government growing out of control. Already, the deficit stands squarely in the way of administration officials who would like to seek more stimulus spending in the short run to create jobs.

The deficit also has become perhaps the darkest cloud hanging over financial markets just as they're starting to recover. On Monday, Federal Reserve Board Chairman Ben Bernanke said during a speech in California that the U.S. government needs "to develop a fiscal exit strategy which will involve a trajectory towards sustainability." Translation: If Washington doesn't show it has a plan for whittling down big deficits, international confidence in both the economy and the dollar is bound to erode.

Thus, the challenge for the Obama administration is to start talking about the deficit in a way that convinces both voters and the markets that it is serious about turning it around, without choking off whatever good some continued fiscal stimulus from Washington can do toward putting a healthier glow on an economy still in the intensive-care unit.

So don't look for much action this year. But early in 2010 will come two signature events that will give the administration a chance to start building deficit-cutting credentials. The first is the president's State of the Union address in January. Mr. Obama's first address to Congress after being inaugurated was devoted in large measure to pushing government spending to help the country climb out of a very big economic hole. January's speech is likely to focus much more on how to build a ladder for the government itself to climb, slowly, out of a big deficit hole.

The second event is the introduction of the president's budget in February. Budget director Peter Orszag promises that will be an occasion for the administration to start putting real deficit-cutting plans on the table.

Part of what Mr. Obama will try to do is convince Americans that they were headed for a big deficit problem even before both the economic crisis and his administration arrived -- along with the added strain of stimulus spending, financial-sector bailouts and a recession-induced shrinkage of tax revenue.

And that's certainly true; Medicare, Medicaid and Social Security spending are the big drivers of the deficit, and wars in Afghanistan and Iraq are playing a part as well.

But by next year, causes of the deficit will be secondary to the conversation about how to cure it. The pressing need will be to demonstrate to financial markets that, even if deficits remain large for years, there is a vehicle in place that can be counted on to bring them down over time.

And most people in both parties, whether or not they will admit it publicly, know what the best vehicle would be. It would be something like the bipartisan commission that Sen. Kent Conrad, a North Dakota Democrat, and Sen. Judd Gregg, a New Hampshire Republican, proposed creating two years ago to address what the senators euphemistically called "the nation's long-term fiscal imbalances."

Their proposal would create a 16-member task force -- eight Democrats and eight Republicans -- to come up with a deficit-cutting plan. Fourteen of the commission's members would come from Congress, two from the administration. Their job would be to do what Congress, at least in its current configuration, will find to be somewhere between difficult and impossible: devise a long-term plan of specific spending cuts and tax increases to get the deficit arrow turning downward, and get it passed.

The Obama administration is intrigued by the Conrad-Gregg proposal. But there's one big problem: Mr. Gregg is retiring from Congress next year. Some other champion of the idea may have to emerge if 2010 is going to be the year of not just arguing about the deficit, but doing something about it.

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