

## Change Comes to Washington DC

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## Change Has Been Coming for Several Years Leading Up To The Election Of 2008:

- ✦ Wars
  - War in Iraq Drags on – Increasing Violence - Troop Surge of 2007
  - War in Afghanistan – Not improving
- ✦ Lobbying Scandals
  - Loss in confidence in elected officials
- ✦ Hurricane Katrina
  - Perception of Government not serving the citizens well

## ✦ Out of Control Federal Spending

- Large amount of earmarks

## ✦ Changing Demographics

- Countrywide engagement of younger voters and minorities

## ✦ 2006 Congressional Elections

- Democrats take control of both Houses of Congress

## ✦ Energy Crisis

- Oil at \$140 a Barrel
- \$4 plus for a gallon of gasoline

## ✦ Inflation

- Energy
- Food

## ✦ Recession Beginning in late 2007

## ✦ Financial Crisis

- Weekend of September 15<sup>th</sup> – Bankruptcy of Lehman Brothers
- Bank of America takes over Merrill Lynch
- Seizing up of Credit Markets
- Troubled Asset Relief Program (TARP)
- Nationalization of US Banks

## ✦ Americans are much Poorer

- Losses in Financial Markets
- Losses in Home Values
- Much less secure about jobs and future economic situation

## ✦ Americans are scared and looking to government for help

## Historic Election of 2008

### ✦ Democratic President Combined with much larger Democratic Majorities in both House and Senate

- Senate: 58, probably 59, Democrats  
41 Republicans
- House: 258 Democrats  
177 Republicans

## What Does All This Change Mean?

- ✦ Era of Larger Federal Government has Returned
  - Reagan – Government is the Problem
  - Clinton – Era of Big Government is Over
  - Obama – Not whether Government is too big or too Small, but whether “it” works to help families find jobs, care they can afford and a retirement that is dignified
- ✦ More Regulation Has Returned
  - Obama – This Crisis has reminded us that without a watchful eye the market can spin out of control

- ✦ Free Markets/Capitalism in Disfavor?
  - TARP, More Bailouts, \$1 Trillion stimulus
- ✦ Huge Deficit Spending
  - Unmanageable National Debt?

## Quick Look At Some Of The New Players

- ✦ Rahm Emanuel,
- ✦ White House Czars
  - Centralization in White House – Cabinet Members to be less Important

### Economic Team

- Paul Volcker, former Chairman of Federal Reserve, Chairman of newly established Economic Recovery Board
- Larry Summers, Director, National Economic Council
- Tim Geithner, Treasury Secretary
- Peter Orzag, Director of Office of Management and Budget
- Christine Romer, Chairman, Council of Economic Advisory
- USTR, Dallas Mayor Ron Kirk
- ✦ Green Team – Energy, Environment and Climate Change
  - Dream Team or a bad dream for business and Agriculture
  - Czar Carol Browner
  - Department of Energy – Steven Chu
  - EPA – Lisa Jackson
  - White House Council on Environmental Quality – Nancy Sutley
  - Interior – Ken Salazar
  - Agriculture – Tom Vilsack

### Congressional Agriculture Committees

- House – Colin Peterson
  - Frank Lucas replaces Bob Goodlatte
  - 28 Democrats
  - 17 Republicans
- Senate – Tom Harkin
  - Saxby Chamblis
  - Salazar leaves to become Interior Secretary
  - Coleman, likely has been defeated by Al Franken

### House Energy and Commerce Committee

- Waxman ousts Dingell for Chairmanship

## US Financial/ Budget Situation

	2001	2008	2009
GDP	\$10 Trillion	\$14.3 Trillion	\$14.2 Trillion
Outlays (Including Off Budget)	\$1.8 Billion	\$3.0 Trillion	\$3.5 Trillion
Deficit +/-	+\$128 Billion	-\$455 Billion	-\$1.2 Trillion*
National Debt	\$5.7 Trillion	\$10 Trillion	Approaching \$12 Trillion

\*Before Stimulus Legislation, 2009

•Source: Congressional Budget Office, US Treasury, Office of Management and Budget

## Agenda of Change

### ✦ Stimulus

- \$850 Billion – Possibly \$1 Trillion
  - Tax Incentives
  - Government Spending
- Numbers are Almost Beyond Comprehension
  - \$3,300 every American Citizen
  - \$200,000 for every job saved or created

### ✦ Continuing Resolution

### ✦ Climate Change

- Congress
  - Set Limits on Greenhouse Gas Emissions
  - Allow for trading of Credits – So called Cap and Trade
- EPA
  - Will likely move forward with rulemaking if Congress can't reach agreement

### ✦ Energy Legislation

### ✦ Health Care Reform

### ✦ Financial Market Reform

- One Regulator
- OTC derivatives to clear through regulated clearing house?

### ✦ Food Safety Reform

- FDA/USDA

### ✦ Federal Reserve (Monetary Stimulus)

- Money Supply dramatically increased through the banking system. \$2 trillion(?) increase in Federal Reserve assets since September due to the bailouts of Fannie Mae, Freddie Mac, AIG, CITIGroup, Bank of America, etc.
- Federal Reserve Interest Rate near zero

### ✦ Massive and Continuing US Government Deficit Spending (Fiscal Stimulus).

## Possible Outcomes

### ✦ Deflation Monster is Defeated, Economy Recovers

- Economy Grows?
- Federal Revenues Grow?
- Federal Reserve begins to tighten the money supply?
- Congress eliminates deficit spending?
  - Ag Programs – and other federal programs – reduced?
- All without cutting short the economic recovery?

### ✦ Or Inflation Monster Re-Appears

- Federal Reserve and US Congress can't thread the needle of tightening the money supply and reducing government spending
- US Government Debt soars to unsustainable levels
- Higher interest rates demanded from rest of World for rolling over US Debt
- Weak US Dollar
- US Government Default – No – But pressure to inflate the money supply to roll over the US Debt
- Stagflation, A sustained period of stagnant economic Growth with rising inflation

## Summary And Conclusions

### ✦ We Live In Interesting Times – Entering A Period of:

- Bigger, more intrusive Government
- More Government regulation of markets and probably other aspects of U.S. life
- Less reliance on free and open Markets to allocate resources
- Increased Government spending and massive Government Debt
- Economic Outlook Extremely Uncertain
  - Fiscal Stimulus and Monetary Stimulus may result in smooth economic recovery
  - \*Or, economic recovery could be slow with inflationary pressures building due to growing US government debt