

# How Bush Bankrupted America

BY BRUCE BARTLETT

**G**eorge W. Bush is widely considered one of the most conservative presidents in history. His invasion of Iraq, his huge tax cuts, and his intervention in the Terri Schiavo case are among the issues on which people on the left view him as being to the right of Attila the Hun. But those on the right have a different perspective—mostly discussed among themselves or in forums that fly below the major media's radar. They know that Bush has never really been one of them the way Ronald Reagan was. Bush is more like Richard Nixon—a man who used the right to pursue his agenda but was never really part of it. In short, he is an impostor, a pretend conservative.

I write as a Reaganite, by which I mean someone who believes in the historical conservative philosophy of small government, federalism, free trade, and the Constitution as originally understood by the Founding Fathers. On that basis, Bush clearly is not a

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Reaganite or “small c” conservative. Philosophically, he has more in common with liberals, who see no limits to state power as long as it is used to advance what they think is right. In the same way, Bush has used government to pursue a “conservative” agenda as he sees it. But that is something that runs totally contrary to the restraints and limits to power inherent in the very nature of traditional conservatism. It is inconceivable to traditional conservatives that there could ever be such a thing as “big government conservatism,” a term often used to describe Bush’s philosophy.

Traditional conservatives view the federal government as untrustworthy and undependable. They use it only for those necessary functions such as national defense that by their nature cannot be provided at the state and local level or privately. The idea that government could ever be used actively to promote their goals in some positive sense is a contradiction in terms to them.

George W. Bush, by contrast, often looks first to government to solve societal problems without even considering other options. Said Bush in 2003, “We have a responsibility that when somebody hurts, government has got to move.” A more succinct description of liberalism would be hard to find.

When George W. Bush first came on the radar screen as a potential presidential candidate, all that most conservatives knew about him was that he was the son of a president who had abandoned a successful conservative governing philosophy in favor of what they saw as squishy moderation and was appropriately punished by voters for his sins. Right from the beginning, George W. Bush made it clear that he was not a conservative in the Reagan mold. In a speech in Indianapolis on July 22, 1999, he called the idea that our problems would be better solved if government would just get out of the way a “destructive mindset.” Government is “wasteful and grasping,” Bush said, but “we must correct it, not disdain it.”

Even in front of explicitly conservative audiences, Bush continued his theme that government was not the enemy; it just wasn’t being used for the proper ends. In a speech to

the Manhattan Institute on October 5, 1999, Bush put it this way: “Too often, my party has confused the need for limited government with disdain for government itself.” He went on to complain that the government was too weak to do what was needed. It was “grasping” and “impotent,” he said.

### The Medicare Debacle

**B**ush’s instincts for activist government were evident in his No Child Left Behind bill, his steel tariffs, and his vigorous spending increases. They may have culminated in his administration’s pulling out all the stops to pass the prescription drug entitlement for Medicare recipients.

Just how serious the administration had been about passing that monstrosity became apparent after the bill was safely signed into law, when it became known that the administration had covered up internal estimates of the true cost of the legislation, which was limited to \$400 billion by the congressional budget resolution. Any amount higher than that would have been subject to a point of order that at least would have delayed the legislation and more than likely derailed it altogether.

The Congressional Budget Office, under pressure from the Centers for Medicare and Medicaid Services, published a 10-year cost estimate of \$400 billion, even though CMS chief actuary Richard Foster knew that the cost would be at least \$534 billion. As the *Wall Street Journal* observed, “It is undeniable that the Medicare bill wouldn’t have passed in its current form had \$540 billion been the accepted cost fiction.” The CMS administrator threatened Foster’s job, and the true cost of the program was not revealed until after the bill had passed.

But as is so often the case in Washington,

the truth did eventually come out, disclosed by reporter Amy Goldstein in the *Washington Post* on January 31, 2004—almost six weeks after the drug benefit had been signed into law by President Bush. She reported that the \$534 billion estimate, which eventually appeared in the president’s budget, was widely known among those who negotiated the final provisions of the legislation. The CBO was eventually forced to admit that its original estimate was off and that the 10-year forecast should have been \$557.7 billion.

The clearest indication of precisely how costly the drug bill will actually be came on March 23, 2004, when the Medicare trustees issued their annual report, as required by law. They showed that over the first 75 years of the drug program, now known as Medicare Part D, the cost would be \$10.8 trillion in present value terms, with taxpayers footing the bill for \$8.1 trillion of that.

But even that massive figure is only part of the story. In the 2004 Medicare trustees’ report, the actuaries presented for the first time cost estimates in perpetuity. The actuaries estimated this cost, again in present value terms, at \$21.9 trillion, of which \$16.6 trillion would come out of future income taxes to pay for the drug benefit.

Once upon a time in the not-too-distant past, Republicans were deeply skeptical about so-called entitlement programs like Medicare. These are programs for which no annual appropriation is necessary. Spending is automatic for everyone and everything that meets specified criteria. In the case of Medicare, the principal criterion is simply being at least 65 years old. Historically, Republicans have felt that such programs—virtually free of budgetary control—were the epitome of bad policy.

Fast forward 22 years and we see a very different philosophy within the Republican Party. Instead of fighting entitlements, the party now embraces them.

### The Rest of the Story

**N**o sensible person argued that Medicare’s policy of paying virtually unlimited sums for hospital care while paying nothing for prescription drugs made

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any sense. And no one denied that some seniors needed help paying for prescription drugs. But many already had perfectly good prescription drug coverage from their employers. Yet they, too, ended up being covered by the Medicare drug benefit.

I puzzled for a long time about why Republicans would write a bill that provided benefits even for those who had no need for them. They were making it more expensive without improving health care in any way at all.

The answer became clear when the *New York Times* reported that the drug program would reimburse corporations for the drug benefits they were already providing to their retirees. The federal government would send huge checks to some of the largest corporations in the United States for the costs that they were already contractually obligated to pay. The final legislation provides a 28 percent tax-free subsidy that is expected to average \$660 per retiree per year.

The numbers are huge. After passage of the legislation, the *Wall Street Journal* reported that General Motors anticipated receiving \$4 billion to cover its prescription drug costs. Other recipients included Verizon (\$1.3 billion), BellSouth (\$572 million), Delphi (\$500 million), U.S. Steel (\$450 million), American Airlines (\$415 million), John Deere (\$400 million), United Airlines (\$280 million), and Alcoa (\$190 million).

Other companies planned to drop their drug coverage and let the federal program take over. Either way, the effect is to substantially raise corporate profits. *Business Week* estimated the aggregate profit increase at \$8 billion per year—\$6.5 billion for the subsidy itself and another \$1.5 billion because the subsidy is tax-free.

Oddly, that aspect of the drug bill has been almost entirely ignored even on the political left. Instead, the left has concentrated its criticism on the pharmaceutical companies: The added drug demand will fatten their profits, they say, and the federal government will have no power to control them because the drug bill prohibits using the government's buying power to negotiate lower prices.

That may be true in the short run. But in the longer run, it is inevitable that price controls will be imposed on drugs. Realistically, it will be the only way that exploding costs can be controlled quickly. Indeed, some new cancer drugs now cost \$100,000 for a single course of treatment. There is no way that taxpayers will be able to afford that expense. That is why virtually every other industrialized country substantially controls the prices of most prescription drugs. It is also the reason why Canada sells the same drugs available here for lower prices.

The problem is that price controls eventually dry up the supply of new drugs—just as rent controls in New York City led to a decline in new apartment building. Unfortunately, it takes a long time for this effect to become apparent because there is a large existing stock of drugs and housing. It will be very hard to know in the future what drugs might have been discovered if price controls had not been imposed. Someday people are going to die because price controls prevented the development of new drugs that would have saved them.

For these reasons, I believe that the Medicare drug bill may well be the worst piece of legislation ever enacted. That it was enacted by a president and Congress controlled by my party is a source of great distress to me. It will cost vast sums the nation cannot afford, even if its initial budgetary projections prove to be accurate, which is highly doubtful. It will inevitably lead to higher taxes and price controls that will reduce the supply of new lifesaving drugs. And all of this will be done without even gaining any long-term political benefit; after supporting the drug bill, the AARP immediately launched an intensive attack on Bush's Social Security reform.

### More Profligate Than Clinton

In light of Bush's big-spending ways, Bill Clinton now looks almost like another Calvin Coolidge. Compared with Ronald Reagan, Clinton was awful. Compared with George W. Bush, he looks a lot better.

Election of a Republican Congress in November 1994 put an end to any expansive spending plans Clinton may still have had. The resulting gridlock meant that government spending effectively was on autopilot for the next six years—Congress wouldn't fund Clinton's plans and he vetoed those of the Republicans in Congress. All of Clinton's 38 vetoes came after Republicans took control of Congress and half of those were either authorizations for spending or appropriations bills.

This era of benign neglect meant that as defense spending fell, following the end of the Cold War and the first Iraq war, the money didn't automatically flow into increased social spending, as had been the case following the Vietnam War. Defense spending fell by 1.4 percent of GDP between 1993 and 2000, and domestic discretionary spending fell from 3.8 percent to 3.3 percent. Even spending on entitlements fell for temporary demographic reasons, from 10.2 percent of GDP to 9.8 percent. In all, lower spending and higher revenues constituted a fiscal turnaround of 6.3 percent of GDP, which explains how a deficit of 3.9 percent of GDP in 1993 became a budget surplus of 2.4 percent by 2000.

For these reasons, growing numbers of conservatives now view Clinton as having governed as one of them—at least on economic policy. *Los Angeles Times* columnist Max Boot has called him the most conservative Democrat in the White House since Grover Cleveland—which is saying a lot, since Cleveland was more conservative on economics than most Republican presidents. “Clinton had better economic policies than most American presidents, fiscal policy included,” says free-market economist Tyler Cowen of George Mason University.

Much of this reassessment of the Clinton record has come about because of the

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extremely poor budgetary performance of his successor. George W. Bush has turned out to be one of the most free-spending presidents on record, even after discounting the effects of the Iraq War and post-9/11 homeland security requirements. Apparently, there is no pork-barrel program so egregiously unjustified that he won't sign it into law. Amazingly, he is the first president since John Quincy Adams to serve a full term without vetoing anything.

Congress quickly figured out that Bush could easily be rolled on spending. Although he often threatened to veto legislation, he always backed down, usually without receiving anything more than cosmetic concessions in return. Michael Franc of the Heritage Foundation called the veto “an empty threat” in the Bush administration. Congress larded on ever more pork, confident that any veto threat was unlikely to be carried out. In my opinion, just one veto by Bush early in his administration probably would have saved many billions of dollars of wasteful spending, because future veto threats would have been credible.

According to Citizens Against Government Waste, there has been more pork-barrel spending during the Bush years than at any time in American history. Both the amount of money and the number of pork-barrel projects have risen every year, from \$18.5 billion and 6,333 projects in 2001 to \$27.3 billion and an amazing 13,999 projects in 2005.

Further hindering White House efforts to restrain spending has been Bush's own proclivity for “big projects.” In the words of journalist Fred Barnes, whose reporting often reflects the Bush White House viewpoint: “For Bush, achieving these is more important than balancing the budget. By definition, that makes him a big government conservative willing to embrace deficit spending for the sake of large, critical government programs.”

### A Nixonian Legacy?

**B**ush has also recently been compared with Richard Nixon, whose reputation as an archconservative has been challenged over the last 20 years. Increasing

numbers of historians now view Nixon as basically a liberal, at least on domestic policy. They have learned to look past his rhetoric and methods to the substance of his policies and discovered that there is almost nothing conservative about them.

I believe that in time George W. Bush may come to be viewed the same way. He infuriates liberals the same way Nixon did, and he has also pursued what could be described as a Nixonian agenda using Nixonian methods. The danger, of course, is that Bush could end up having the same negative effects as Nixon on the economy, his own reputation, and the Republican Party. Whether Bush's legacy suffers the same fate as Nixon's will depend on whether future generations see him as responsible for the explosion of spending and tax increases that is inevitably coming.

George W. Bush's budgetary actions, especially strong-arming the Medicare drug benefit into law, are going to force a massive fiscal retrenchment starting very soon—the first baby boomer starts drawing Social Security benefits in 2008. I believe that the most likely scenario when the bills start coming due is a huge tax increase, probably involving establishment of a value-added tax. But whatever is done will certainly be unpopular, and the Republican Party will, rightly, be blamed. President Bush didn't destroy the budget all by himself. He had a lot of help in Congress.

The rumblings of a conservative revolt are starting to be heard. A common cocktail party joke among conservatives is that the latest budgetary outrage in Congress never would have occurred if only the Republicans were in control. Some conservatives continue to blame Bush's “compassionate conservatism” for getting Republicans on the

wrong track.

From the point of view of political conservatives, gridlock is clearly preferable to unified government. Divided government from 1994 to 2000 was a key reason for the slow growth of spending and emergence of budget surpluses. According to economist Bill Niskanen of the Cato Institute, this is not an isolated example. The growth of federal spending is almost always slower during periods of divided government than during periods of unified government. Every entitlement program in American history was enacted by unified governments. Divided government, therefore, might have saved us from the monstrosity of the Medicare drug program.

### A Wakeup Call

**T**he grotesque highway bill, enacted in August 2005, was a wakeup call to many conservatives who believed that Republicans were still fiscal conservatives. The spending proposals in the wake of Hurricane Katrina were the final nail in the coffin. Republicans aren't opposed to spending—only spending on things Democrats want to spend money on. Republican pork, it seems, is okay.

If Republicans have any hope of holding the White House in 2008, it is essential, in my mind, that they repudiate the big government policies of George W. Bush and stop aping the Democrats by throwing money away on wasteful subsidies, pork-barrel projects, and tax giveaways. Voters don't automatically reward the party that spends the most to buy their votes. On the contrary, research shows that they are more likely to reward presidential candidates who demonstrate fiscal restraint.

The Republican Party needs to start a dialogue that will get it back on track as the party of small government before it loses what is left of its principles, reputation, and heritage. If the American people conclude that it stands for nothing except payoffs for those on its team, it will have lost something precious that, like one's virtue or good name, is awfully hard to get back.