

Orszag exit reveals deficit policy split

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Peter Orszag, Barack Obama's budget director, resigned this week partly in frustration over his lack of success in persuading the Obama administration to tackle the fiscal deficit more aggressively, according to sources inside and outside the White House.

Mr Orszag, whose publicly stated reasons for leaving were that he was exhausted after years in high pressure jobs and also that he wanted to plan for his wedding in September, is seen as the guardian of fiscal conservatism within the White House.

Other members of Mr Obama's economic team, notably Lawrence Summers, the head of the National Economic Council, have placed more emphasis on the need for continued short-term spending increases to counteract what increasingly looks like an anaemic economic recovery in the US.

Although Mr Orszag agrees with the need to push short-term spending, particularly in the Senate, which again this week failed to pass a measure extending insurance to the unemployed, the budget director has become increasingly frustrated with the administration's caution on longer-term fiscal restraint.

Mr Orszag, whom Mr Obama has dubbed a "propeller-head" because of his brilliant facility with projections and spreadsheets, has tried but failed to convince his colleagues to "step up the action", according to one insider.

In particular, he has collided with the political team, led by Rahm Emanuel, Mr Obama's chief of staff, over Mr Obama's 2008 election pledge not to raise taxes on any households earning less than \$250,000 a year — a category that covers more than 98 per cent of Americans.

Economists say that would put all the fiscal emphasis on draconian — and highly unrealistic — spending cuts, or else pushing the marginal tax rates on the very rich to confiscatory levels. "Peter feels strongly that this is a pledge that has to be broken if the President is to take a lead on America's fiscal crisis," says an administration official not authorised to speak on the matter.

"He felt that rather than resign in protest in January, when next year's budget is being prepared, he would rather go amicably now."

Earlier this week, Mr Obama told the weekly cabinet meeting in the White House that he had tried but failed to persuade Mr Orszag to stay on. On Friday Mr Orszag told the FT: "I want to emphasise that it would be inaccurate to say that I have told the president personally that I'm leaving because of concerns about our fiscal policy."

In a statement, Mr Orszag said: "The reason I am stepping down as OMB director is that after nearly four years in government service — running CBO and then OMB — it is time for me personally to move on.

"We had historical successes in bringing the economy back from the brink of a potential depression, and in beginning the difficult shift toward a better health care system. It is true that the nation still faces important fiscal challenges over the medium and long term, which was the motivation behind the President's creation of the fiscal commission. The President has made it clear to the economic team that he is seriously committed to tackling our fiscal problems, and I look forward to continuing to support him and my colleagues in the ongoing effort to put the nation back on a sustainable fiscal course."

On Saturday, Mr Obama will hold his first meeting with David Cameron, the UK's new prime minister, at the G20 meeting in Toronto. This week the UK announced a strong package of spending cuts and tax increases to tackle its deficit, leaving the US as the only major economy that has yet to unveil such plans.

(financial times)