

Mitch Daniels, Architect of US Debt Crisis

Exclusive: Indiana Gov. Mitch Daniels is the new Republican darling of the Washington establishment, which hails him as a “fiscal conservative” who would be “serious” about addressing the nation’s staggering debt problem. But his many admirers forget to mention what Daniels did in creating the debt crisis as George W. Bush’s budget director, notes Robert Parry.

Robert Parry

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To hear Official Washington tell it, Indiana Gov. Mitch Daniels is the new “serious” Republican presidential contender. He’s praised as a “fiscal conservative” who isn’t obsessed with the Right’s divisive social agenda nor marred by the crazy “birther” conspiracy theories.

Mentioned only in passing is a key fact that in a saner world would disqualify him from holding any government office: Mitch Daniels was President George W. Bush’s original budget director in 2001.

In other words, the “fiscal conservative” Daniels oversaw the federal budget as it was making its precipitous dive from a \$236 billion surplus then on a trajectory to eliminate the entire federal debt in a decade to a \$400 billion deficit by the time he left in June 2003.

Plus, because of proposals developed on Daniels’s watch such as tax cuts favoring the rich and unpaid-for projects, including the invasion of Iraq and a new prescription drug plan the fiscal situation of the federal government continued to sink over the ensuing years, plunging to a trillion-dollar-plus annual deficit by the time Bush left office in 2009.

Though Daniels was surely not at fault for all the elements in this budgetary catastrophe, he was a central player in the early stages of the process. A former political operative for Ronald Reagan and an Eli Lilly pharmaceutical executive, Daniels was the salesman who pitched and defended Bush’s plans.

Certainly, Mitch Daniels was no David Stockman, President Reagan’s first budget director who sounded the alarm two decades earlier when he saw an ocean of red ink looming in the nation’s future.

And it wasn’t as if Daniels and other figures in the Bush administration weren’t warned about the need for continued fiscal discipline.

President Bill Clinton, in his farewell address to the nation on Jan. 18, 2001, noted how his administration had managed to turn what were then record deficits left over by Republicans Ronald Reagan and George H.W. Bush into record surpluses.

"We've been able to pay down \$600 billion of our national debt on track to be debt-free by the end of the decade for the first time since 1835," Clinton said, adding that a debt-free America would enjoy many economic benefits including lower interest rates and the capacity to address "big challenges," such as the retirement costs from the "baby-boomers."

However, with Daniels at the budget helm, the Bush administration quickly veered off-course and onto the rocks of a worsening debt crisis. Much of the expected surplus was squandered with huge tax cuts, leaving the nation vulnerable to unexpected economic and policy shocks like those that followed the 9/11 attacks.

In the 10 years since Clinton left office, the projected \$2 trillion surplus by 2011 gave way to today's \$10 trillion debt, what the Washington Post recently called "a \$12 trillion detour."

The Post's May 1 story by Lori Montgomery began, "The nation's unnerving descent into debt began a decade ago with a choice, not a crisis. Voices of caution were swept aside in the rush to take advantage of the apparent bounty. Political leaders chose to cut taxes, jack up spending and, for the first time in U.S. history, wage two wars solely with borrowed funds."

Iraq Miscalculation

Daniels, who had very little experience in budgeting and was most adept at policy promotion, directly contributed to one of those budget blunders, the gross underestimation of the cost of the Iraq War.

In 2002, Daniels famously low-balled the war's cost at \$50 billion to \$60 billion and joined in the repudiation of Bush's economic adviser Lawrence Lindsey, who had ventured an estimate as high as \$200 billion. Daniels called Lindsey's price tag "very, very high."

But it turned out that even Lindsey's estimate, which led to his firing later that year, was very, very low. As of fiscal 2011, the Congressional Research Service reported that the Iraq War had cost \$806 billion, with estimates putting the eventual total cost of the conflict at over \$1 trillion.

Though Daniels's defenders say it is unfair to blame him for all of Bush's policy decisions, Daniels was "a key figure in the administration, helping design policies and pressing publicly for their enactment," Salon.com's Brendan

Nyhan reported in a Feb. 12, 2002, [article](#).

Besides citing Daniels's political role in pushing through Bush's deficit-oriented policies, Nyhan noted that Daniels's appointment to run the Office of Management and Budget marked an important evolution in the role of budget director from accounting wonk to political marketer.

"It is another sign of the importance P.R. tactics play in American politics," Nyhan wrote. "The OMB director, once a budget expert, is now an operative chosen for his political skills, particularly his ability to sell the administration's economic proposals in the media.

"In August [2001], Daniels admitted as much, telling the Wall Street Journal that '[t]o the extent I bring anything to this job, maybe it's an ability to think about how a product, whether it's Prozac or a president's proposal, is marketed.' Predictably, he has displayed a disturbing tendency to make dishonest claims for political advantage on federal budget issues."

For instance, Nyhan noted that Daniels first promoted the Bush tax cuts as a way to "share some of this large overcharge [the surplus] with the American people," but later he repackaged it as an economic stimulus. He also blamed the sudden \$1.345 trillion drop in the projected surplus on various economic and technical factors, but the Congressional Budget Office cited the tax cut's \$1.7 trillion price tag.

In his hard sell for Bush's policies, Daniels also was not above hitting his opponents below the political belt. In December 2001, he denounced Democratic "tax and spend extremists" as "people for whom taxes can't be high enough and we can never spend too much government money."

Cooking the Books

Daniels also was ready to stoop to accounting trickery to make Bush's budgets seem less irresponsible.

"In the federal budget process, [Daniels's] OMB has employed a number of accounting devices and misleading assumptions to conceal the true costs of tax cuts, restore budgets to balance artificially and otherwise tried to achieve political ends by tricky budgetary means," Nyhan wrote.

"In the Bush budget plan, for example, the administration projects a return to surpluses in 2004 or 2005, but this ignores the cost of extending a provision protecting millions of middle income taxpayers from a tax increase under the individual alternative minimum tax.

“It is a matter of serious public concern that the federal budget director has become just another spinner dragging down public debate. Though he is a political appointee heading an executive agency, Daniels is also a public official with a larger responsibility to promote honesty in federal budget debates.

“But after more than a year at his position, he still frequently makes deceptive claims often without challenge. Daniels may not recognize the difference from his previous job [as a pharmaceutical executive], but we must. It is unacceptable to market our nation’s economic policies like Prozac. “

Yet, Daniels continues to lead a charmed life as far as Official Washington is concerned. From Fox News to MSNBC, he is praised as a “fiscal conservative” who would uplift the debate over the nation’s debt crisis. He is widely praised for his work as Indiana’s governor and although his title as Bush’s budget director is mentioned in passing his work on some of the most reckless budgets in U.S. history escapes scrutiny.

Much more attention has been spent on his supposedly uncharacteristic deviation as Indiana’s governor into enacting some of the nation’s harshest anti-abortion rules and other right-wing social legislation. There’s also been some coverage of his off-again-on-again marriage and whether his wife wants him to seek the White House.

But Daniels stands today as the latest Republican hailed for his wisdom and courage regarding budget issues.

He follows Rep. Paul Ryan, R-Wisconsin, the House Budget Committee chairman whose inside-the-beltway reputation as a “serious” thinker only collapsed when the voters got a look at his plan for “saving” Medicare by killing the current government-run system and replacing it with a private-sector voucher approach while demanding still more tax cuts for the rich.

The fact that the Republicans, including Daniels and Ryan, were major supporting players in George W. Bush’s diversion of the United States from its course a decade ago toward a debt-free government indeed one with a sizeable surplus, to one burdened with the largest debt in the history of the world is never mentioned.

Like Ryan, Daniels remains “a fiscal conservative,” at least in the boilerplate judgment of Washington’s conventional wisdom.

[For more on these topics, see Robert Parry’s *Secrecy & Privilege* and *Neck Deep*, now available in a two-book set for the discount price of only \$19. For details, [click here.](#)]

Robert Parry broke many of the Iran-Contra stories in the 1980s for the Associated Press and Newsweek. His latest book, Neck Deep: The Disastrous Presidency of George W. Bush, was written with two of his sons, Sam and Nat, and can be ordered at neckdeepbook.com. His two previous books, Secrecy & Privilege: The Rise of the Bush Dynasty from Watergate to Iraq and Lost History: Contras, Cocaine, the Press & 'Project Truth' are also available there.
