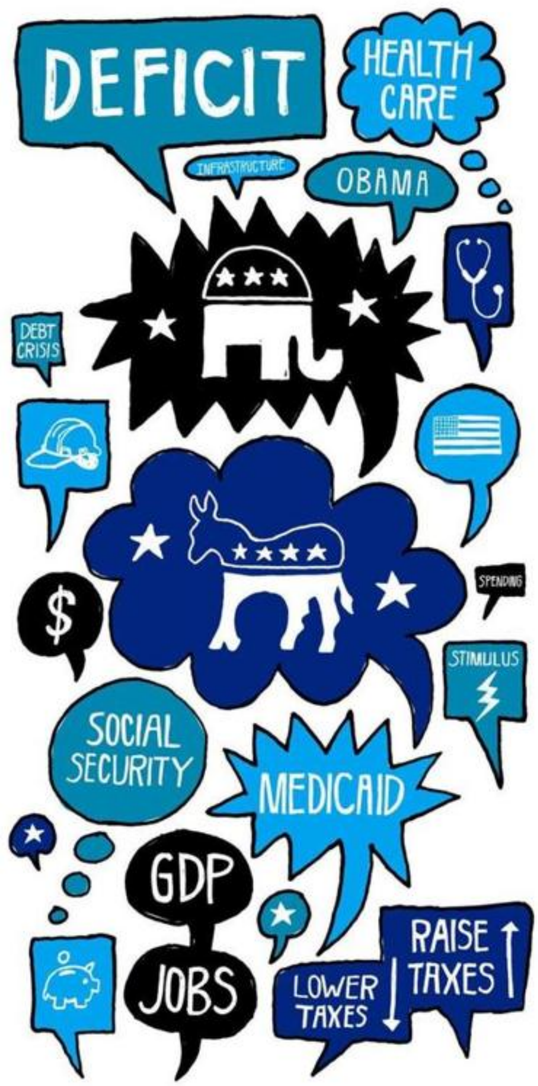
OPINION

2012 will determine the nation's course

By David Osborne | SEPTEMBER 18, 2011

ONCE IN a great while, an election comes along that determines the nation's course for a generation or more.



In 1896, Republican William McKinley's victory secured the political and economic ascendance of big business over rural and agricultural interests. In 1936, Democrat Franklin Delano Roosevelt's resounding victory cemented the rise of an activist federal government determined to fight the depression, defend workers' rights, and help the poor and elderly.

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Today we have reached another crossroads. The 2012 election will determine our response to economic stagnation and the fiscal time bomb that threatens our economic future. Will we slash virtually all federal spending, refusing to spend even to fight recessions, as Republicans advocate? Or will we balance spending cuts with tax increases, stimulate the economy to keep recessions from spiraling into depressions, and invest in education, infrastructure, and the other foundations of a competitive economy, as President Obama urges?

Our federal debt is not an immediate threat; indeed, it's now clear that the 2009 stimulus package was too small. But over the next 25 years, rising public debt is the greatest threat we face.

Since George W. Bush took office in 2001, debt owed to the public — the part that worries investors — has skyrocketed from $3.4 trillion to $10 trillion. If current trends continue, it will more than double over the next decade, then accelerate.

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Why? Because we are experiencing the intersection of two megatrends: the retirement of the baby boom generation and the rising cost of health care.

Under current policies, Medicare, Medicaid, Social Security and interest on the debt will consume all federal revenues within 10 to 12 years. The Bush tax cuts exacerbated the problem, but this demographic tsunami would threaten us even if we let them all expire.

Economists warn that government debt above 65 percent of Gross Domestic Product often means trouble. Ours stands at 69 percent (not counting $2.4 trillion in debt held by state and local governments and $2 trillion they owe in unfunded pension and health care promises to their retirees).

The Government Accountability Office predicts that, if current policies continue, federal debt will surpass 109 percent by 2021, on its way up. Since Bush cut taxes, our deficits have driven the value of the dollar down by 40 percent against other major currencies because they led to large balance-of-trade deficits. When the economy recovers, large deficits will force interest rates up, spur inflation, and steal from productive investments like infrastructure and education as interest payments gobble up more and more tax dollars.

More important, if foreign investors ever lose confidence in our ability to pay off our bonds without undercutting their value through inflation, they will sell en masse. If that day ever comes, the dollar will plummet, taking the US stock market with it. Interest rates will spike and the financial crisis of 2008 will look like a picnic by comparison.

The Republicans put their solution on the table last spring, when the House passed its 2012 budget plan. It would repeal health care reform, eliminating insurance for 32 million people; cut Medicare and Medicaid by more than a third over 10 years; gradually raise Medicare eligibility from age 65 to 67; and cut other non-Defense spending by far more than a third.

President Obama responded with his own long-term plan, which would let the Bush tax cuts expire for families making more than $250,000 and individuals making more than $200,000; slow Medicaid and Medicare growth through unspecified reforms; cut Defense spending by $400 billion over 10 years; let discretionary spending lose ground to inflation; and reduce personal and corporate tax deductions. If by 2015 debt was still rising as a share of GDP, Obama would impose across-the-board cuts on everything but interest payments, Social Security, Medicare, and programs benefiting the poor.

Perhaps it is fitting that Texas Governor Rick Perry is now leading in Republican presidential polls, for the Republican agenda mirrors the low-tax, low-service choices Texans have long made. The result: Texas has the nation's highest percentage of people without health insurance (26 percent), public schools that rank near the bottom in funding and graduation rates, one of the nation's highest poverty rates, and rapid growth of minimum-wage jobs with few benefits.

The Democratic path is best understood by looking at what happened under President Clinton, who dealt with Reagan-era deficits by raising taxes on the affluent and cutting spending, just as Obama proposes. The Republicans predicted doom, and not one Republican voted for Clinton's tax increases.

But over the next eight years, GDP grew by 35.5 percent, double the rate under George W. Bush. The economy created 22 million new jobs, unemployment fell to 3.9 percent, the poverty rate dropped to its lowest level in 20 years, and welfare rolls fell by 59 percent. Household income for the middle 60 percent of the population, stagnant for 20 years, grew by more than two percent a year, while income of the top and bottom 20 percent grew even faster.

Unless divided government survives the 2012 elections, the choices we make will send us irrevocably down one of these roads. Let us hope the American people choose carefully.

David Osborne's most recent book is "The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis."