

Obama's Economic Agenda

3 July 2009

John Johns

Barack Obama has embarked on a bold and expansive economic agenda that, if successful, will continue the historical movement to more intervention of the government in economic activities. His agenda follows the philosophy of Hamilton, Teddy Roosevelt, FDR, and LBJ. It refutes the philosophy of the 19th century, the Republican presidents of the 1920s, Reagan, and Bush II.

The outcome of Obama's efforts will have far-reaching consequences for our concept of the role of government and, perhaps, our status as a world economic power, essential for our national security.

Introduction

Obama's economic agenda is at the heart of the bitter partisan divide over his domestic policies. The Obama economic agenda is very ambitious and if implemented, has far-reaching consequences regarding government involvement in economic affairs. Projections show a significant increase in an-already massive national debt. The two political parties have sharply different economic philosophies that underlie the bitter debate. The specter of "socialism" is constantly raised. "Communism" is often used interchangeably with "socialism" to describe his agenda.

The debate over government intervention in economic affairs is in reality a subset of a broader debate about the role of government involvement in people's lives. This goes back to the founding of the Republic and the crafting of the Constitution. There was a general consensus by the Founding Fathers that the "least government is the best government." That philosophy is deeply imbedded in the American psyche and has a powerful political appeal. In essence, the Constitution stresses that philosophy. As interpreted by the Supreme Court, government, at any level, can restrict privacy and individual freedom only when it (government) can show a compelling interest of society to do so. This would seem to side with the Republican philosophy regarding economic freedom; thus, "free enterprise" should be protected. The devil is in the details; what constitutes a "compelling societal interest" is open to a wide range of interpretations.

Throughout the history of the nation, competing philosophies about the role of government in economic affairs have competed in the political arena. The competing philosophies play out in elections and the legislative process and ultimately reflect the will of the people. Since the beginning, the trend has steadily moved toward more government involvement in economic affairs. The final arbiter on how far this can go within the bounds of the Constitution is, of course, the Supreme Court. That body decides how far the "will of the people" can go. One

should read the history of Supreme Court decisions to see the logic, or illogic, of this trend (see my summary in the essay, [regulation of economic activities](#) in the Constitution file).

The current struggle between the Republicans and Democrats over the role of government in economic activities goes back to the birth of our republic, when Hamilton and Jefferson squared off in a battle to define the role of the federal government in, among other issues, economic affairs. The conflict was a broader debate over whether we would have a strong or weak central government. While these two were the most visible antagonists, their philosophy is best contained in two documents: The Federalist Papers and the Federalist Farmer. The authors of the former document (Federalists) advocated a strong role for the national government and the authors of the latter (Anti-Federalists) favored a weak national government with more power residing in the States. The Republicans are the Anti-Federalists today.

Ideal Economic Types

Before addressing the current issues in the political debate, it is useful to define terms in order to have a semblance of a dispassionate discussion of this subject. Perhaps this will dampen some of the emotion expressed in the public debate. Not all will accept my definitions, but the reader should know how I define these activities. (In regard to other factors that contaminate rational decision-making, I refer the reader to another essay in this website, [How Do We Know What We Know](#), in the general file)

Economic activities involve goods and services and includes such parameters as what goods and services will be produced, by whom, who will get them, who will pay for them, and other matters such as wages, working conditions, quality control, etc. As commonly used, “laissez-faire” economic policy technically refers to **no government involvement**; the market is free to operate unrestrained by government interference. Few, if any politicians or economists advocate this policy. When government gets involved, it is “socialism.” When government completely controls the economy, it is often referred to as a “command economy.” Pragmatically, this extreme can only exist under a dictatorship; democracies will not empower such control. In this regard, we should not confuse political systems and economic systems, as some are doing today in criticizing the Obama agenda when they equate his program with the old Soviet Union and China. The American brand is democratic socialism, as are most European systems.

Government Involvement can take many forms: Government ownership, e.g., military forces, police forces, government workers, roads, dams, schools, etc.; funding, e.g., Medicare, research and development by private organizations, goods and services by private organizations, etc.; regulations of all sorts; and tax policies. Clearly, the United States has had a large amount of “socialism” from the beginning, that is, it is a mixed economy. It seems to me we should accept the reality of “socialism” free of any bad connotations. So the real debate should be on what specific economic activities the public wants subject to government involvement, and in what form.

Among the major issues raised by the Obama agenda are: health care, energy, affirmative action, what kind of automobiles will be produced and by whom, what financial institutions will survive and in what form, who will own these organizations, who will head them, what the salaries will be, etc. Without doubt the Obama economic agenda represents a quantum move toward more

government involvement in all respects. Left unanswered is how much of this involvement will be temporary and how much permanent. It appears there will be a mixture.

Historical Evolution Toward Socialism

A cursory look at history shows that government has moved toward more intervention during times of crisis, especially wartime, e.g., the Civil War, WWI, WWII, and the Korean War. Rarely has a President been denied extraordinary powers in this regard, though Truman was blocked from taking over the steel industry and from drafting railroad workers during the Korean War.

The most profound shift toward government control of economic activities in peacetime was in the 1930s under FDR. The “Great Depression” threatened the national welfare to the degree that Congress gave FDR extraordinary powers. FDR asked for this power claiming the emergency was equivalent to war. I will return to that era below, where I will compare FDR’s New Deal, along with LBJ’S Great Society, with the Obama agenda (The New Foundation) and contrast it with the Reagan and Bush II—and apparently the Republican—philosophy.

Arguably, the original interpretation of the Constitution gave carte blanche for a laissez-faire economic system. There were minor exceptions, but free enterprise reigned for most of the first 100 years. While there was some movement in the late 19th century to regulate economic activities, e.g., railroads and monopolies, the Jeffersonian philosophy dominated the body politic and “Robber Barons” were without restraint. Even when legislation was passed to reign in abuses, the Supreme Court refused to allow enforcement of the curbs. This is not surprising, given that almost all Justices were recruited from the corporate sector.

A big move toward the Hamiltonian philosophy was made by Teddy Roosevelt in the early 20th century (Remember, he was a Republican, often cited by the Republicans today as one of their icons). He began an aggressive trust-busting effort, regulated food supplies, created national parks, etc., but the country returned to the laissez-faire model until the 1930s. In fact, a landmark case, Lochner v. New York (1905), declared as unconstitutional a New York law that tried to regulate working conditions, citing what was called the “Liberty of Contract” philosophy. In essence, this interpretation of the Constitution declared that contracts made between employees and employers, whatever the working conditions, were immune from government intervention. The Lochner Court cited the “specter of socialism and communism” implied by the New York attempt to regulate industry. The Court carried this philosophy further in 1918 in Hammer v Dagenhart, when it struck down a federal law prohibiting the interstate sale of goods made by children.

FDR initiated a seismic, and enduring, shift toward the Hamiltonian model by implementing the “New Deal.” He was able to accomplish this because of a crisis that frightened the public into accepting a strong government role in managing the economy. He first tackled the financial sector by closing the banks and legislating sweeping controls over this sector of the economy. The Glass-Steagall Act of 1933, FDIC, and SEC summarize the major controls. The second part of the New Deal was a stimulus plan that involved significant government spending in the domestic economy. Investment in the national infrastructure included the building of dams (Grand Coulee, TVA), schools, post offices, roads, etc. Over 4 million men served in the CCC, planting trees and other national forest projects. One can google “New Deal” and examine the

myriad of programs initiated by FDR, e.g., CWA, PWA, WPA, the NIRA, etc. Some (14?) of these programs, such as the NIRA, were declared unconstitutional by the Supreme Court, based on a limited interpretation of the commerce clause of Article Two.

The New Deal legislation also put the national government in the business of furnishing a “safety net” for the people in the form of forced retirement saving (Social Security), minimum wages, and unemployment insurance. The power relations between labor and management were regulated to give labor the right to organize for collective bargaining, etc. Whereas the Supreme Court had invalidated many of these acts prior to 1936, by 1941 (U.S. v Darby) the court overturned earlier decisions, including Lochner, and endorsed most of the New Deal philosophy.

This seismic shift toward an active role for the national government was staunchly opposed by the Republicans. Roosevelt appealed directly to the people to support him against the “big bankers, Wall Street, and the Supreme Court.” When the results of the 1936 election were in, 19 Republicans were left in the Senate and 89 in the House of Representatives. As Senator Arlen Specter recently reminded his (then) Republican colleagues, it took 20 years to put another Republican in the White House. Most of the New Deal has endured.

Since the New Deal has been cited by different parties as either a success or failure, it is necessary to get facts straight before pronouncing judgment. With regard to unemployment data, one can google the Commerce Department and Labor Department and find the data for the 1929-1940 period. These data will reveal the distortions of both the left and right talk-show ideologues. Unemployment went from 3.2 in 1929 to 25% in 1933. This rate was down to about 14% by 1937. Apparently believing the worst was over, FDR cut spending and raised taxes to begin eliminating the deficit. The rate jumped to about 18% in 1938. Government spending was increased by 10% and by 1940, the unemployment rate was again down to 14.6%. Some of the new spending was for military preparation. When we went to WWII spending, we hired almost 10% of the population of the country (150M) full time. About 11M wore uniforms.

The New Deal spending, coupled with wartime spending, constituted an unprecedented stimulus package. This period represented the apex of government involvement in the economy. In essence, we had a “command economy” during this period. The New Deal focused on domestic activities; the WWII expenditures focus on national defense. Both were targeted toward a threat to our national security. The New Deal spending addressed the economic threat; the latter addressed a military threat. Both involved massive deficit spending, but these deficits were considered necessary for national survival and accepted by most Americans. Even the marginal tax rate of 90% was deemed “fair” by the public.

By the end of WWII, the national debt had risen to 125% of the GNP (now GDP) but it had ensured the recovery from the depression. While the economic controls implemented during the war were eased, some stimulus spending remained, e.g., G.I. Bill benefits. Eisenhower initiated the Interstate Highway Project. Ironically, he had to do this by arguing it was for national security; there was still a residue of the anti-federalist resistance to government involvement other than defense-related matters. Tax-wise, the 90% marginal tax rate was maintained through the Eisenhower presidency, aiding the reduction of the debt. Kennedy reduced the rate to 70%.

Another Democratic President, Lyndon Johnson, took another step toward government spending for domestic services by instituting the “Great Society,” including Medicare and Medicaid. He

did this during a period of wartime spending and managed this through what might be termed economic “smoke and mirrors,” masking the deficit by placing trust-fund surpluses, e.g., social security, under general revenues. This subterfuge continues and has allowed subsequent administrations to delude the public regarding the total national deficit—and accumulated debt.

Nixon continued the trend toward government intervention in the marketplace by creating new agencies such as EPA and OSHA. He also pegged social security benefits to inflation. He even went so far as to implement wage and price controls. Carter moved somewhat in the other direction by deregulating some industries.

Ronald Reagan has been described (even by Obama) as a “transformational president.” I agree with that description. Through what is now often referred to as “Reaganomics” he declared the end of “big government.” Components of this doctrine were lower taxes (especially for the more affluent) and deregulation of business activities. The tax policy was a shift from past policies based on demand-side economics to supply-side economics; the latter assumes entrepreneurs will create jobs if they have surplus funds. The demand-side proponents argue that creating demand by giving tax cuts to the middle and lower classes, or by government spending for goods and services, will do more to stimulate the economy. The proponents of lower taxes for the wealthy claimed that the cuts would “pay for themselves.” The marginal tax rate had been relatively steady since the Kennedy era; it was about 70% when Reagan took office. Reagan reduced it to 50% and then to 28%.

The claim that deep tax cuts would pay for themselves did not prove true; the national debt was tripled under Reagan, from slightly under \$1T when Carter left office, to slightly under \$3T at the end of Reagan’s term. In his book, “The Triumph of Politics,” David Stockman, Reagan’s first Director of the Budget, attributed the increase in the debt to the 40th President’s tax cuts without cuts in spending. Some will claim that the real cause was the spendthrift Democratic Congress. The data show that over the eight years of that administration, the average federal budget was slightly over \$1T. The total difference between the budgets proposed by Reagan and the actual budgets passed by Congress was \$89B—about 1%. The Democratic Congress added more for domestic spending and eliminated some defense spending, but in essence, Reagan “borrowed and spent.”

Reagan removed many regulations and made a significant change in employer-worker relations. When the Air Controllers’ Union went on strike and violated federal law by refusing to report for work, Reagan fired them. Coupled with conservative court decisions, this had a long-term impact on organized labor. The power of labor unions is now at the lowest level since WWII. He also appointed conservative judges and justices to the courts; selections he believed would undo some of the “liberal” judgments of “activist” Warren and Burger courts. Other efforts to roll back the New Deal, e.g., privatize Social Security, were unsuccessful.

Bush I made marginal changes in the Reagan policies. The most notable economic change was his decision to roll back some of the tax cuts for the wealthy, raising the top rate to the lower 30s. While this probably laid the groundwork for the economic recovery under Clinton, it may have cost him a second term, given that he had won the 1998 primary by promising “Read my lips, no new taxes.” One of the lessons learned is that politicians raise taxes at their peril, even if they are needed.

Clinton followed Reagan's slogan by declaring: "the era of big government is over." This was more of a slogan than a reflection of his intent, but was true to some extent. He continued to deregulate the financial sector and eliminated some social services such as Aid For Dependent Children, declaring: "Welfare as we know it is over." This policy threw millions of children into poverty. However, Clinton added to the tax increase by Bush I by raising the marginal rate to 39.6%. No Republican voted for Clinton's budget and predicted it would throw the country into a depression. The records show that the Clinton administration created more jobs than any administration since WWII. He also went beyond balancing the budget and in fact created a large surplus by the end of his administration.

Bush II immediately revived "Reaganomics," including tax cuts in his first budget; the marginal rate was reduced to 35%. Paul O'Neil, Bush's first secretary of the budget, warned that this would create large deficits and stall the economy in the long term. According to O'Neil, VP Cheney commented that "Ronald Reagan showed us that, politically, deficits don't matter." Sadly, Cheney is correct; the popularity of Ronald Reagan and the attractiveness of "borrow and spend" are much more appealing in politics than "tax and spend." It is easier to pass on debt than pay as you go. While the record shows Clinton's tax increases led to a robust economy, arguably they cost the Democrats the House in 1994. Again, the lesson is that tax increases represent the "third rail," whether they are beneficial or not.

In contrast to the Clinton policies of "tax and spend," data show that the Bush II administration policy of "borrow and spend" created the lowest number of jobs of any administration since WWII. The national debt rose from \$5.7T when he took office to over \$11T when he left office, plus a huge 2009 deficit passed to Obama. A big chunk of the 2009 deficit is the financial bailout. While they may differ on details, almost all economists support the bailout of certain financial institutions (it was initiated by Bush because, as he said in early December, "all my advisors told me if I didn't do it we would face a depression greater than the big one of the thirties.") While there are controversial aspects of this bailout, it was largely a bi-partisan effort. It is somewhat disingenuous for critics to now blame Obama for the current deficit.

The Obama Model

Obama is basically following the FDR model of the 1930s, which is to substitute government stimulus spending when there is a lack of demand in the private sector. Obama does not have a "clear and present danger" such as the threat of WWII to rally the people to support deficit spending to stimulate the economy. The willingness to make such sacrifices is difficult to elicit for domestic programs, especially if it can be tarred with the brush of "socialism." This is easy to apply to such services as health care, which opens the agenda to being labeled as "welfare."

Much has been made of the rapid increase in national debt that will result under the Obama agenda. This is a valid concern. There are several things to be said about this. First, why weren't conservatives expressing this concern during the Reagan and Bush II administrations, when a total of about \$8T was added to the debt? Secondly, both parties acknowledge that a stimulus is currently needed; the parties differ on the nature of that stimulus. I will address that below.

Third, it is unfortunate that the necessity for deficit spending to stimulate the economy has to come at a time when we are saddled with a large debt; that was a hand dealt to Obama. It is not unlike the hand FDR was dealt, except FDR did not inherit a huge debt. While the New Deal

domestic program and huge war costs left a large debt, in terms of percentage of GDP (GNP in the 30s) the current debt may be lesser. However, Obama will face a different American psyche when he faces the task of reducing that debt. By the end of 1945, our debt was 125% of our GNP. It took us to the end of the 1970s to reduce the debt/GDP ratio to a reasonable figure, but much of this reduction was due to the fact that we continued to tax people at all income levels. As difficult as it will be, there will be no way to dodge the hard fact that taxes will have to be raised to pay off our debt. The increases will have to be on the whole spectrum, not just those earning over \$250K. Who will run on that platform.

The marginal rate remained high until Reagan introduced us to “supply-side economics,” which in essence gave tax cuts to the wealthy and borrowed and spent. As noted above, the national debt tripled under Reagan. When Bush II revived this economic policy, he doubled the debt. In a way, that philosophy is “painless patriotism,” or “borrow and spend.” Politically, it is more convenient that requiring voters to pay as you go, or “tax and spend.”

Obama is trying to do what got us out of the great depression: massive government spending. The difference is that this stimulus is for domestic investment instead of the mixture of domestic and military spending used by FDR. Obama argues that this is appropriate for the nature of the threat; the immediate threat to our national security is economic, not military. This comports with the 2008 NIE report that said economic conditions, not terrorism, is the greatest threat to our national security. While there are similarities with the FDR New Deal approach, there are some differences. While we were basically a goods-producing economy in the thirties, we are now basically a “service economy.” Therefore, the stimulus includes a great deal of emphasis on health care, education, and the like. Also, Obama is attempting to change our use of energy to free us from our dependence on oil as well as lessen environmental pollution. There is a trade-off.

As part of the energy policy, Obama wants to build an electrical grid comparable to the interstate highway system that Eisenhower initiated. This seems to be an apt analogy in terms of national security. The Obama stimulus plan also involves building roads and schools as well as funding teachers, firefighters, and other services. He has an aspect of the education package that is analogous to the WWII GI Bill; he proposes to offer college support in exchange for public service, both military and civilian service. He argues that the guarantee of free education through high school is inappropriate for the 21st century. Rather than free college, however, he asks for payback through services to the nation. Why, he asks, should we limit this to military service when there is such a need for public service? If one looks at the benefits the GI Bill brought the nation, this is a no-brainer. The argument that such a program de-emphasizes the value of military service puzzles me.

Republicans object to federal intervention in most of the activities included in the Obama stimulus plan. They prefer tax cuts to allow people to choose what goods and services they want, rather than the government making the choices. One might ask, if the people are left to their judgment to decide what will be produced, will they opt for the development of the infrastructure, expanded educational opportunities, etc? Or will they purchase consumer goods that contribute nothing to energy independence, infrastructure, health and education? Whatever the virtues of capitalism, it does not excel in strategic planning for the long-term benefit of the nation. The notion that taxpayers, rather than “bureaucrats in Washington” are better equipped

to decide what is best for the country in these matters strikes me absurd. But I must admit that it has a powerful emotional appeal to voters.

It is not only the emphasis on tax cuts that Republicans favor; they favor cuts for higher-income people, arguing that such tax cuts will allow small business entrepreneurs to create jobs. Some economists challenge this assumption, asking who will invest when there is no demand for the goods and services. Businesses that already exist are closing because there is no demand for their goods and services. Better to give tax cuts to middle and lower income workers to create demand. Most of the debate on the validity of these competing economic philosophies, it seems to me, is based on ideological faith. I would encourage all to open their minds to look at data rather than accept the dogma presented by both sides.

The Threat of Socialism

There seems to be a tendency among the American body politic to confuse the term “socialism” with a political system comparable to the old Soviet system. This ignores the distinction between political and economic systems. Most countries that have a heavy dosage of government involvement in economic affairs are in fact democracies. The people decide what degree of involvement they want the government to have. European countries have chosen more involvement. They have higher taxes, but offer more services paid for by the government, e.g., universal health care. Over the years, the U.S. national government has increased the services it has provided. Almost all this trend has been implemented by Democratic administrations, particularly by FDR and LBJ. Obama is attempting to take the trend to a new level.

Most Americans seem to be unaware of what goods and services are already directly provided by governments at some level. Postal services, public schools, public roads (county, state, federal), social security, Medicare and Medicaid, military and police forces, etc. In addition the various executive agencies of the federal government regulate safety, foods, the financial system, etc. all these reflect the degree of “socialism” in the United States; the debate is how much we expand, or reduce, these goods and services.

As argued above, it is not whether we have “socialism,” it is what elements of the marketplace are to be affected and how much. The current political stalemate reflects a basic difference in the philosophies of government between Democrats and Republicans; it boils down to the role of government in economic activities, what amounts to socialism in the proper usage of the term. It goes back to the divide at the birth of the nation, manifested between the Federalists and the Anti-Federalists. Hamilton and Jefferson were the notable protagonists.

My sense is that the American politic favors the Jeffersonian philosophy in theory, that is, they want small government. This has political appeal as a slogan. This appeal stems in large part to our individualistic ethos, rugged individualism and emphasis on individual responsibility. This is reinforced by our general disdain for paying taxes. We are the only industrialized nation on earth that does not provide some level of universal health care to all its citizens. Survey after survey shows that the vast majority of the public believes the system is broken, and yet many will proclaim that we have the best system in the world and rant against “socialized medicine.” Ironically, many of these who are most fearful have been under “socialized” medicine their entire lives, e.g., retired military. Likewise, the over-65 Medicare demographic group falls into this category.

Political campaigns by lobby groups ran “Harry and Louis” ads depicting the horrors of “big government” and “socialized medicine” to kill the Clinton effort in 1993. It worked. The current efforts do not seem to have the same effect. Anecdotal examples of how Canadians wish they had the U.S. system of health care ignore the evidence that in surveys, Canadians have a more positive view of their system than do Americans of our system.

Most responsible economists agree that in a recession something must be done to stimulate demand. While there are true believers who argue that the marketplace should be left alone to correct itself, they are on the fringe and belong to the 1920s. The issues are: what kind of stimulus, by whom, how much, and how long?

It appears there was a consensus that the government had to provide the major part of the stimulus, but the debate in Congress was a deeply partisan affair. The Republicans wanted a small package, warning against the looming deficit. They also wanted the bulk of the stimulus to be in the form of tax cuts, to let the people decide what goods and services to demand. This philosophy is based on the notion that people are better qualified to choose what goods and services are needed than some “bureaucrat in Washington.” If people want to buy more TVs, hummers, or other energy-wasting items, that should be their choice. As Vice President Cheney said about energy policy, we don’t need to change people’s lifestyle.

Obama and congressional Democrats believe otherwise. They believe we need to rebuild our infrastructure—our roads and bridges, our schools, our rapid-transit systems; renewable energy, etc. They also believe we need to increase our services through improved and expanded health care, energy policy, and educational opportunities. Clearly, this is a move toward greater government involvement in economic affairs. Is this more “socialism? Of course!

The compromise bill that passed was a compromise that gave the Republicans more tax cuts than the Democrats wanted, but less than the Republicans wanted. Government spending for infrastructure and services were more that Republicans wanted, but less than Democrats wanted. Some of the stimulus package is for immediate effect; other parts are down payment on what Obama expects to be permanent changes in government-provided services, e.g., health care.

The majority of Democrats seem to believe the stimulus package was essential to a revival of the economy. The data show that the FDR New Deal stimulus was effective in starting the recovery in the 30s and the massive spending for WWII completed the recovery. In the absence of war, do decisions by “government bureaucrats” to rebuild infrastructure, add a national electric grid to that infrastructure, and expand health care serve our national interest more than letting the taxpayers decide what to buy? This is a legitimate issue on which people of good will can, and do disagree.

As to the amount of the stimulus, based on discussions with economists I respect, my judgment is that the stimulus is roughly half the amount it should have been.

What Will be the Outcome?

Who will win the political face off between Democrats and Republicans? I have no idea. In times of serious threats to our well-being, the philosophy of small government is often overridden by the desire to have the government take action. When a similar standoff occurred in the 1930s, FDR won. The Republicans are repeating the strategy used in that standoff. This is a big gamble;

the Republicans lost big in 1936 and the changes made by FDR have largely stood firm against efforts to roll back the New Deal. If the economy has a turn upward by the 2010 elections, the Republicans may suffer as they did in 1936; if the economy shows no improvement, the Democrats may suffer. The public was frightened in the 1930s; I don't believe they are in that condition today.

My own prediction is that in the long run, "Reaganomics," deregulation and supply-side economics, is passé. The international community has already announced that verdict. What compromises with a more socialistic model will be made is open to conjecture. We belong to a global economy, which limits our freedom of action in this matter. It is folly to assume that we can continue to dictate the form of the international economic system as we have since WWII. The trick will be to balance the proven advantages of capitalism with the necessity of government intervention.

It is safe to say there will be more regulation of economic activities, especially the financial sector. The measures FDR took in the 1930s probably averted a meltdown in this crisis in spite of some of the relaxations (Glass-Steagall). We have now effectively nationalized some of the banks and the automobile industry. Is this temporary, or permanent? Will the Obama concept that it is in the national interest to dictate what kind of automobiles will be made in this country be a permanent shift? Some argue that a better way to ensure fuel-efficiency is to put a \$2 or \$3 a gallon tax on gas. This ignores the problems Carter had when he tried this route in the 1970s

Congressional Republicans have yet to propose a coherent alternative to the Obama economic agenda; they proposed a plan to tax up to \$100,000 at 10% and above that at 25%. It appears they are following the Reagan/Bush philosophy that tax cuts are the magic elixir. I don't believe the historical data support that ideology.

In regard to the tax policies now endorsed by the two parties, it seems to me that the public has a choice of "tax and spend" or "borrow and spend." Clinton has been the only President to craft a policy that came close to balancing the budget. Promises to cut spending are just that for most presidents—promises. This debate about tax policies also has a moral ingredient associated with what constitutes distributive justice. Democrats generally see tax cuts for the middle and lower classes as more fair than cuts for the wealthy, Republicans argue otherwise. Which is a better way to stimulate? In my classes on ethics, the answer follows political affiliation. Most people follow the positions advocated by their political leaders, including talk-show hosts. Some are ditto heads who base opinions on uncritical acceptance of those media stars.

Obama inherited an \$11.2T national debt. Over 75% of that was accumulated under Republican administrations, principally by Reagan and Bush II, using the supply-side ideology. The hard facts are that such cuts do not support the claim that they pay for themselves. Bush I was on target when he described that philosophy as "voodoo economics." He moved away from it in his first budget by raising the marginal tax rate. That set the stage for Clinton's policy, but it cost Bush I a second term. People love cutting taxes; they don't vote for people who ask them to pay the debt left from these cuts. Personally, I prefer "tax and spend" to "borrow and spend."

Paying for goods and services is a fact of life, as many are now finding out as they lose their homes, file for bankruptcy, and forego some necessities. As a nation, we are borrowing more to create a demand for more goods and services. Where else will the demand come from? Who will

pay for this added debt? Obviously, we taxpayers, the same people who will pay the \$11.2T debt Obama inherited. We will pay the debt the same way we paid the debt accumulated in WWII. As a percentage of our GDP, it was gradually reduced—until Reaganomics substituted borrow and spend for tax and spend. When we were faced with the necessity to increase government spending as we are now doing, we are saddled with a huge debt created by borrowing and spending. We had a free period of living beyond our means and it is now time to pay the piper.

Assuming Obama achieves passage of his agenda (I doubt that he will; he cannot count on Democrats in congress to support him and Republicans are united against his agenda), the real trouble will be getting the people to pay off the debt. Free rides are fun and politicians get elected by promising such rides.

Reducing our debt to a manageable amount will take a mixture of increased taxes and reduced benefits. Both bitter pills will need to wait until the recovery is well underway; taking the medicine too soon could nip the recovery in the bud. Delaying will accumulate more debt and run the risk of hyper-inflation. It will take a careful balancing act. Whether enough politicians of either party will have the moral courage to bite the bullet is open to question. The fate of our nation rests on the outcome. If we continue down the path of the past 30 years, we may end up on the list of countries in Paul Kennedy's book, The Rise and Fall of the Great Powers. On the other hand, if we slide into a deep depression because we do not take aggressive action to prevent it, we will end up on the same list.