

## Podcast #38 <sup>1</sup>

### Living in the Future Tense: Speaking the Truth and the National Debt

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Welcome to Forums for a Future.

The subject of the current series of podcasts is “Living in the Future Tense.” The series is based on the proposition that the choices we make today will have irreversible consequences within our own lifetime. Thus, for those of us now living in this the Post-Modern Era, our new reality is that we are living in the future tense: “Today is Tomorrow.”

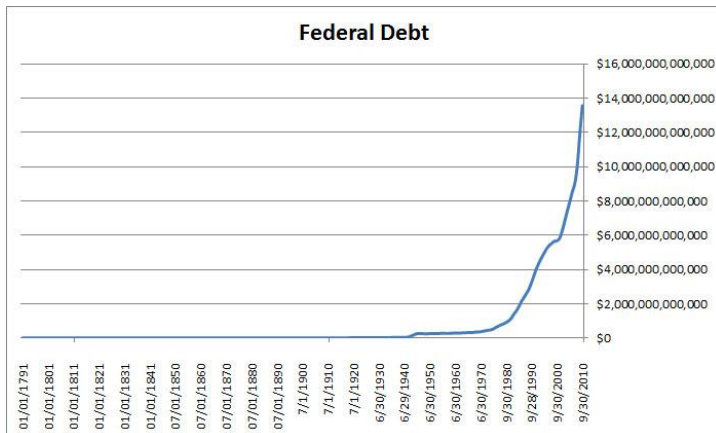
In the previous era – the Modern Era – people lived in the “Present Tense.” They believed they could have whatever they wanted, now. They lived as if there was no tomorrow.

The defining feature of “living our life in the future tense” is that we are currently *taking to the limit* every aspect of our economic, political and social existence.

The clearest example is the rapid, exponential, growth in world population over the past 100 years which has exceeded the capacity of the planet to replace the energy used and to absorb the waste produced. But, there are many other indications that we are living in exponential times for which population growth can serve as a metaphor for the more general concept of “*taking it to the limit, one more time.*”

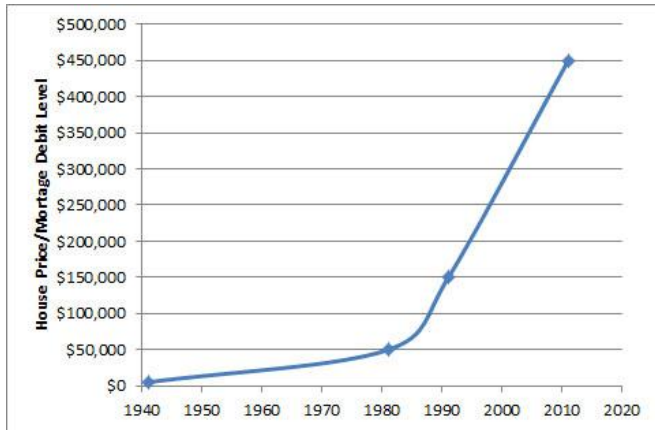
The political, economic and social reality of “meeting the limits” will be the *defining moments* of the Post-Modern Era. The time span is the 50-year interval encompassing the life span of the majority of people who are alive today. We must now start “Living in the Future Tense:” for today is our tomorrow.

Today’s podcast, #38, is on one more issue we are taking to the limit: It is our inability to speak the truth in plain simple English.



As a reference point, consider the one item that is capturing current news and will dominate our internal politics dramatically for next two years leading up to the 2012 presidential election. That is the US national debt of \$14 trillion.

But, what does that numbers mean? How can one put \$14 trillion into any kind of meaningful perspective?

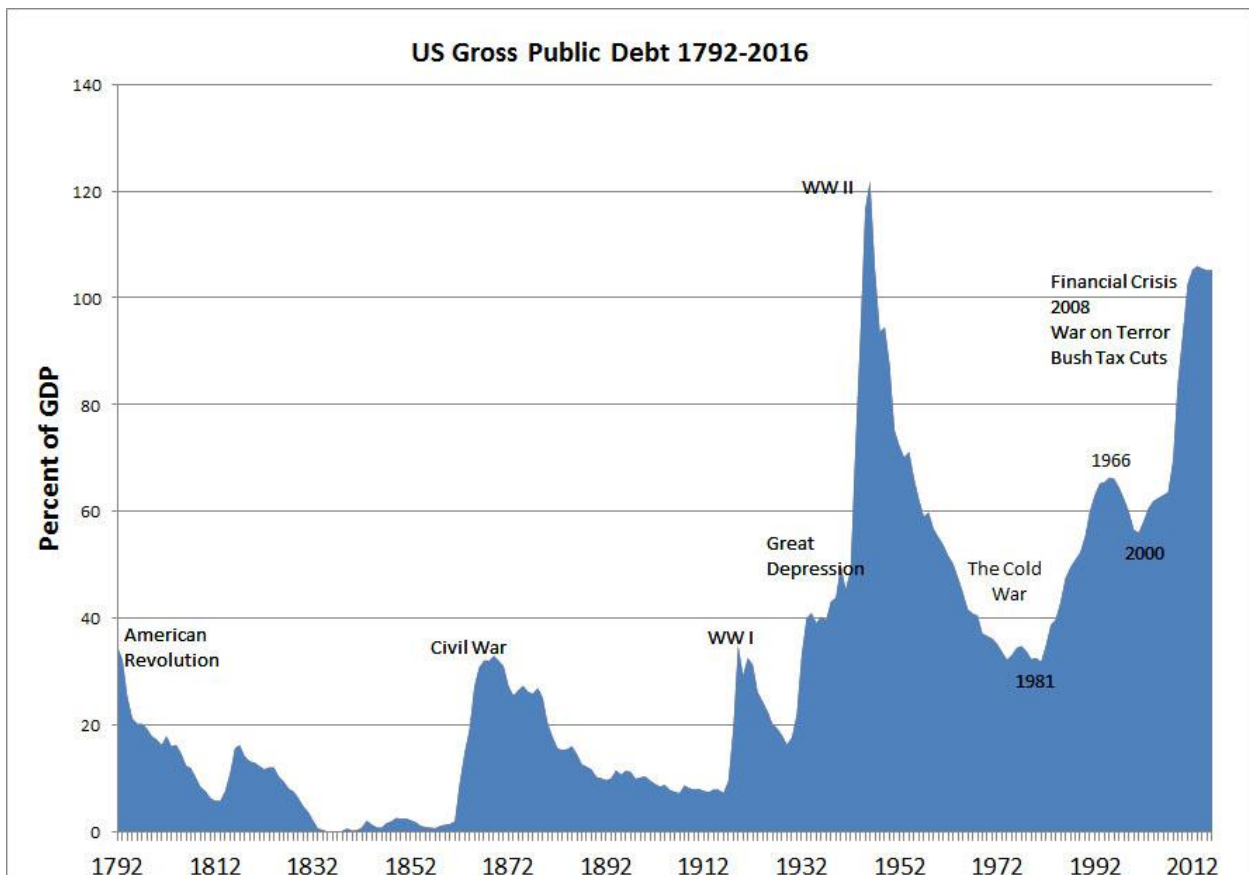


I found it useful to use my own home as an example.

When I was five years old my parents purchased our home for \$5000; 40 years later I purchased a similar house for \$50,000, and 10 years after that I sold it for \$150,000. That house is now worth \$450,000. The issue is not about the size of these mortgages, but rather the capacity to pay for them: Is the new owner in the same position today as were my parents in 1941?

This is also the way to understand the national debt. As a nation, are we any better or worse off now than we were in 1941, and at other times in our history; and, if so, why?

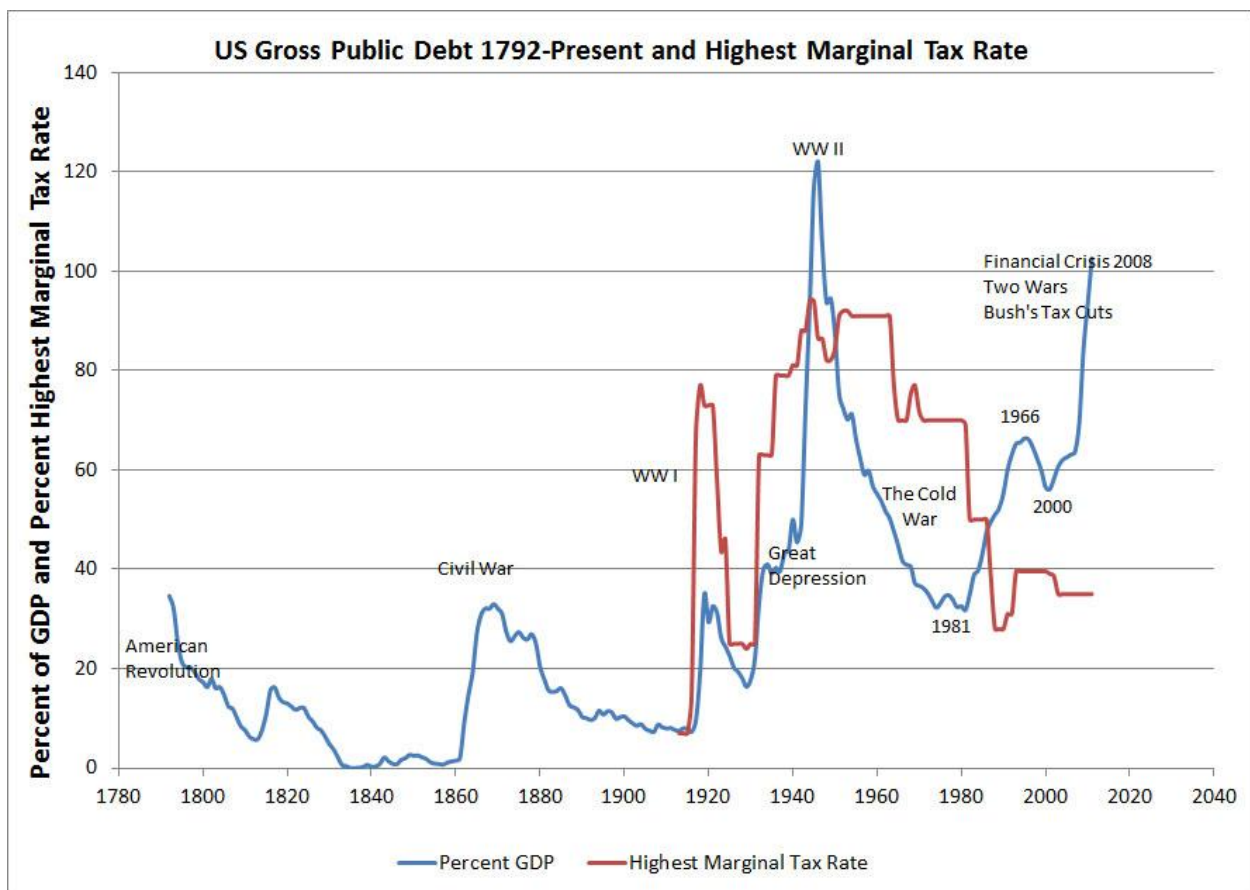
The appropriate information is not the absolute dollar amount of the debt, but the wisdom of incurring it and the capacity to carry it. The appropriate statistic is the ratio of debt to wealth. Over the history of the United States this ratio has varied considerably depending on the external circumstances we faced as a nation.



Before 1981 every peak in the relative level of our national debt ratio was triggered by a major external event: the American Revolution, the Civil War, World War I and the Great Depression followed by World War II. Each time, after the external situation was over, the nation significantly reduced its relative level of debt, not by eliminating it, but decreasing the ratio of debt to wealth so that it became affordable.

In 1981 we actually had less relative debt than we did in 1941 before the start of World War II. But, after 200 years this historical cycle was abruptly interrupted. Except for a brief period from 1996 to 2000, the relative debt level has increased unbroken since 1981.

Starting in 1981 it was relative reductions in government revenue to pay the mortgage that caused the debt ratio to increase, not an expensive catastrophic external event as before.



During and after World War II everyone pitched in to help support the war effort: First, through savings bonds, rationing, recycling and a frugal lifestyle; and later, through endorsing a progressive income tax in which the highest marginal rate remained around 80-90%. The revenue built our national infrastructure, generated jobs, created Medicare and a widely shared level of middle class prosperity, and inspired a belief in "The Great Society." Our debt to wealth ratio returned to roughly what it was at the time of the American Revolution, even in the face of the "Cold War!"

But, instead of continuing the steady march toward eliminating the national debt, in 1981 under the influence of Ronald Reagan's presidency, we started a new uncharted economic policy based on the *theory* that the size and scope of that level of government involvement in our economy was bad for the nation and for the American people.

The highest marginal tax rate was dramatically lowered under the assumption that providing additional income for the wealthiest, and the deregulation of business activity by the government, would stimulate even greater economic growth. The theory was that the benefits would trickle down to the workers below and that there would be no need to cut government social programs because the additional wealth would provide the revenue to replace that lost through the reduction in taxes.

We now know that the theory was wrong. The relative reduction in revenue resulted in a rapidly increasing national debt ratio. The money never trickled down, even though productivity went up due to new technologies and globalization. The economic gains were not shared, the wealthy got wealthier. In the period after World War II the average CEO made up to 50 times more money than his average employee; from 1981 to the end of the century it increased from 500 to 900 times larger.

The end of the Cold War reduced the need for defense spending, and a modest increase in the marginal tax rate added additional revenue. This provided a brief period of national prosperity and a decline in the relative national debt from 1996 to the year 2000 when all of this changed again. We returned to the economic policies of 1981 of additional tax cuts for the wealthy and further deregulation of corporate economic activities by the government, with the same results as before — a huge increase in the national debt to wealth ratio.

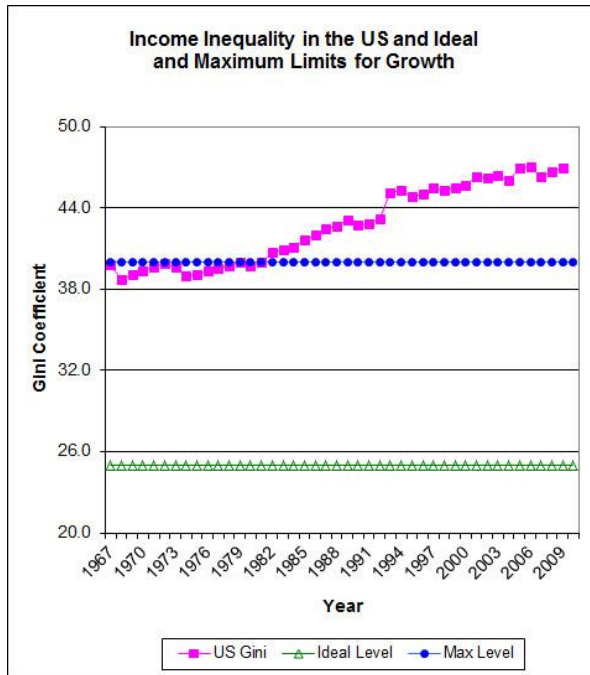
First, these economic policies have resulted in deferred costs that will increase our future debt if economic globalization is not brought under stronger regulation to reduce environmental damage, to limit excessive profits and to increase job and financial security. Secondly, they allowed financial institutions to take irresponsible risks with the wealth of the nation, requiring the 2008 financial bailout to become a public expense.

These two financial burdens are the direct result of de-regulations, and they are adding trillions of dollars to the national debt ratio. The proposed budget reductions in spending for general health and welfare would simply shift responsibility for this part of the national debt from the corporations and politicians responsible for it, on to the America public.

But, the difficulty did not stop here. It was compounded by the wars in Iraq and Afghanistan. We were not asked by government, as we were in World War II, to pay more taxes, ration gasoline and to reduce our excesses. If we had been asked to make such sacrifices we would've stood up as a nation and said "no way." Instead, we were told to go shopping!

Only now can we see the true price of these wars. They alone are another \$3 trillion contribution to the national debt. Given that that debt is now our reality, our choice today is different than it was before the start of the wars in Afghanistan and Iraq.

We can either break a 70 year old tradition by the government to our citizens to protect their retirement, health and general welfare; or, we can choose to protect these essential elements of the American dream by assuming responsibility for this debt by increasing government revenue to make it affordable. It is not an expense for our children and grandchildren to bear because we were misled.



As a result of the economic policies introduced in 1981, we have ended up with a greater consolidation of wealth and power by the wealthy. The magnitude of this transfer of wealth from the poorest to the richest is measured by a statistic known as the Gini coefficient.

For an economy to be healthy the Gini coefficient needs to be between .25 and .40. When the disparity of income between the rich and the poor is below .25, the incentive for hard work and extra initiative is a reduced. However, when the coefficient is larger than .40 the large discrepancy of wealth and income results in corruption and economic inefficiencies. The wealthy can then use their economic position to buy and control the political process. Paid lobbyist and campaign contributions distort the

function of government from serving the interests of the general welfare to providing the means for vested interest to achieve an even greater accumulation of personal wealth.

Since 1981 there has been a steady increase in wealth and income disparity. We are becoming a nation of many people living near the poverty line while those at the top are getting richer. This growing inequality is a direct result of deregulation, tax cuts for the wealth and the systematic reduction of the maximum marginal tax rate. This has had an impact on the American way of life through a significant reduction in the size and political influence of the middle class – the average American.

Yet, the current solutions being proposed in Washington to deal with the expanding national debt are to cut the entitlement programs, such as Medicare and Social Security, and to defer other essential social programs such as universal health care, because we cannot afford them, while treating as untouchable the tax cuts, the deferred war expenses and the deregulations which are actually responsible for the national debt.

It was the pre-1981 economic policies that provided both the vision and means for a truly Great Society. The reversal of that philosophy to experiment with a new untested economic theory has been a failure.

However, to actually propose an even more severe form of that theory as the way to address the current national debt is more than irrational, it is an invitation to end the American Way of Life for the majority of US citizens. It is like bleeding the dying to restore health. We abandoned it in medicine and we need to abandon it in economics.

Our nation is our home.

We need be able to afford to live in our country no less than in our own houses. We must pay for our national mortgage and we must not allow the already wealthy to foreclose on 70 years of human social progress – from when my parents were able to afford to buy their first house in 1941 – of our Government providing a safe and secure future for its own citizens.

We need to increase the highest marginal tax rate, end the tax cuts for the wealthy, restore government regulation of corporate and global economic practices which allowed the rich to get richer and made the poor poorer, put an end to two needless wars and to start paying for them now.

Our choices are that simple.

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<sup>1</sup> This essay is based on an audio and video podcast by Professor Renner entitled “**Forums for a Future**”. Text, audio and video copies of the material may be accessed from his website at [www.kerenner.com](http://www.kerenner.com). The direct link for subscribing to the video series from iTunes is:

<http://phobos.apple.com/WebObjects/MZStore.woa/wa/viewPodcast?id=289289719>

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[https://my.usf.edu/webapps/lobj-podcast-bb\\_bb60/feed/IDH3400.004S10/podcast.xml](https://my.usf.edu/webapps/lobj-podcast-bb_bb60/feed/IDH3400.004S10/podcast.xml)