

Republicans vs. Obama on the Debt

They made War (cold and hot) while Obama saved the Economy

By Nick Gier

See www.NickGier.com/DebtGOPObamaTables.pdf for reference

GOP Senate leader Mitch McConnell and others are lambasting Obama for raising the national debt by 41 percent. Why don't they tell us that their hero Ronald Reagan's record was far worse: a 189 percent increase over 8 years. Romney has described Obama's debt as a "prairie fire," but it is clear that he is targeting the wrong president.

Annual deficits climbed under Reagan and the two Bushes, but they have fallen under Obama. In April 2010 the annual deficit was 11.1 percent, it dropped to 9 percent in August 2011, and it is at 7.6 percent and still falling.

Romney says that the President is taking us down the path of the Europeans, but the Eurozone deficit has now dropped to 3.5 percent. The three countries with the highest deficits are Ireland (13.1 percent), Greece (7.9 percent), and Britain (7.7 percent). Ireland crashed under a center-right government, but both the left and right have been responsible in Greece and Britain.

When Reagan took office in 1981, Uncle Sam was in the red \$930 billion, and the GOP candidate blamed Jimmy Carter for a "debt out of control." But as the Gipper left office the debt was a whopping \$2.7 trillion. George Bush 41 added another \$1.5 trillion for an increase of 278 percent over 12 years. Bush 43 put us down another \$5.04 trillion for another 89 percent increase.

Interest on that debt ranged from 12.57 percent in 1981 to 6.77 percent at the end of Bush I's term, and then down to 2.42 percent when Bush II went back to Texas. Because of low rates we paid \$187 billion in interest on the debt, but in Reagan's last year the interest payment was \$214 billion. According to calculations done at Zfact.com, the grand total of debt plus interest under Reagan and the two Bushes is \$12.049 trillion.

Reagan's tax cuts were so severe and increases in defense spending so great that he was forced to raise taxes in every year of his two terms except one. The libertarian Ludwig von Mises institute has described the Tax Equity and Fiscal Responsibility Act of 1982 "the largest tax increase in American history." The fiscal impact of that bill fell largely on the middle class.

Federal spending grew 8.7 percent during Reagan's first term, 7.3 percent for Bush 41, 3.2 percent in Clinton's first term, and then down to 1.4 percent under Obama.

Under Reagan the federal workforce went up from 2.8 million to 3 million over 8 years. At the end of Clinton's two terms the number of federal workers had decreased to 2.6 million, and in 2011 under Obama the number had dropped 1.2 percent. Bush I left office with federal spending at 21.4 percent of the Gross Domestic Product, and by the end of Clinton's tenure it had fallen to 18.5 percent. It is now down to 15 percent under the Obama administration, which is simply not enough to balance the budget.

Many Republicans blame House Speaker Tip O'Neill and other Democratic leaders for forcing Reagan and the Bushes to make compromises. The people at Zfacts.com has done an analysis of all budgets passed under Reagan/Bushes, and the result was that when Democrats controlled Congress, they reduced GOP budgets by \$17 billion. Think of that when someone talks about those "tax and spend" Democrats!

Reagan cut many social programs, but he added about \$1 trillion dollars to the defense budget—a 43 percent increase. Republicans love to talk about wasteful government spending, but even after the \$800 toilet seats and the \$17,000 drip pans for Apache helicopters, they still want to give more money to the Pentagon. Obama is of course right to insist that, during these dire economic times, every line of the federal budget has to be on the table. The Pentagon is a bloated bureaucracy, and I agree with Ron Paul that there should be deep cuts in its budget.

After the successful negotiations with the Soviets during the Nixon and Carter years, the Reagan administration chose fear and deliberate misinformation to prolong the Cold War. George F. Kennan, author of the "containment" policy to stop Communism, argues that "the general effect of Cold War extremism was to delay rather than hasten the great change that overtook the Soviet Union at the end of the 1980s."

Reagan repeatedly exaggerated the Soviet threat with statements such as "the Soviets have 945 warheads aimed at targets in Europe, and we have no deterrent whatsoever." The Great Communicator neglected to tell the American people that the number of US-NATO warheads facing the Soviets was 6,190.

Bush II cut taxes, waged two unfunded wars, passed an unfunded senior drug program, and had the worst job record since Herbert Hoover. Why should we believe the Republicans when they keep saying that cutting taxes even more will produce new jobs? Under Republican Governor Scott Walker Wisconsin lost 33,900 jobs in 2011, which was the worst in the nation. Adam Hersh, an economist at the Center for American Progress, has done a state-by-state analysis which demonstrates that those states that cut funding the most had the greatest job losses.

In stark contrast Obama has created the most manufacturing jobs since 2005 and at a rate faster than any time since 1997. For 26 straight months there have been job

gains in the private sector. According to the Bureau of Labor Statistics over 4 million new jobs have come on line since Obama took office.

Much of this success was due to the stimulus bill, the effects of which unfortunately have worn off. The stimulus grew the economy by an estimated 3.2 percent; it is now at a weak 1.6 percent. Only a small minority of economists and economic consulting firms contend that the stimulus did not work. IHS Global Insight, Macroeconomic Advisers, and Moody's Economy.com, and the non-partisan Congressional Budget Office concluded that at least 2 million and at most 4.8 million jobs were created by the Recovery Act of 2009.

The Bush II-Obama commitment to save the auto industry has been a great success, saving at least 1.4 million jobs. Chrysler has paid back all but \$1.2 billion of its \$12.5 billion loan, has posted a record profit, and has experienced the most growth in its history. General Motors has also made a lot of money and once again it is the largest car company in the world. GM's union workers took home \$7,000 profit-sharing checks last year. GM has paid back \$22 billion of the \$50 billion it received, and another \$13.5 billion would be earned if Uncle Sam sold his stocks today. We all should be advising him to wait because car sales are the most promising development in the U.S. economy.

The worst net loss of jobs has happened in the public sector at the state and local level, an area where the Obama has little impact. Since he took office 70 percent of the 611,000 state and local government job losses (including 196,000 teachers) were in 12 states controlled by the GOP. The worst hit states averaged a 2.5 percent reduction, but my own state of Idaho suffered a 3.75 percent loss. This is what GOP austerity looks like. It hasn't worked in Europe and it won't work here.

Tested economic theory tells us that a government should run deficits only during war or economic crises (as FDR and Obama did) not during good times as Reagan and the Bushes did. Economists—even those who advised George, Jr—also recommend short term infusion of government money when the private sector cannot grow the economy. A recent survey by the Chamber of Commerce indicated that businesses said that weak demand was the main problem. Significantly, only 20 percent said that it was because of government regulation.

If one compares the Ryan and Obama budgets there are some stark differences. By allowing the Bush tax cuts to expire and increasing taxes on the rich, Obama preserves Medicare and brings down the annual deficit to 3.2 percent by 2021. After I take out a \$10,000 loan from Mitt Romney (he appeared to have it right in his pocket in that Iowa debate), I would be willing to bet the entire amount that a President Romney could not reduce the debt that much.

Making even deeper tax cuts, privatizing Medicare, increasing defense spending, and cutting the social safety net to shreds, the Ryan budget (Romney said that “it was marvelous”) would still have a 1.8 percent annual deficit. Even with Romney as president with a GOP Congress, only the most die-hard Tea Partiers would support such draconian measures and the American people would not let it happen. The national debt would then spiral out of control and unemployment would not come down.

Using figures from the Congressional Budget Office, the Center for Budget and Policy Priorities has calculated the long-term effects of various elements of the national debt, assuming that the Bush tax cuts are still in place. By 2019 those cuts will amount to \$600 billion of the debt burden as opposed to \$75 billion for TARP, the auto bailout, and the stimulus. We will still be paying \$320 billion for the Great Recession (primarily caused by the financial sector) and \$150 billion for the wars in Iraq and Afghanistan.

Obama chose to run a short-term deficit to save the economy, while the Republicans, during good economic times, borrowed money to wage three wars (one cold and two hot). The American people have a clear choice for their president.

The national polls are still very close, but the projected electoral college numbers look very good for Obama. Counting strong/weak Obama and Romney states Electoral-vote.com has Obama leading 285 to 167. According to the same measures at this site, the Senate will be at least 50-50 with Joe Biden breaking all ties. Obama must win or this country is going to drown in a sea of debt, and the Republicans have proved that they cannot create jobs.

Nick Gier taught philosophy at the University of Idaho for 31 years. The references and tables for this column have been gathered at www.NickGier.com/debt.pdf. Read Gier’s columns on the middle way between unfettered capitalism and communism at www.home.roadrunner.com/~nickgier/ThirdWay.htm. As an aid to his continuing education in economics he has faithfully read the free market *The Economist* every week since 2003.