
The Tax Deal Feels Wrong

By Editor Test *Wed, Dec 8, 2010*

Over the weekend, retirees may have lost the first battle of the generational war.

The long-predicted generational war has begun. The retirees lost the first battle over the weekend when it became apparent that President Obama would agree to extend the Bush tax cuts to 2012 and probably beyond.

This opening skirmish pitted two familiar opponents. One side calls for diverting resources from the private sector to the public sector (i.e., through higher taxes). The goal: to lower the deficit and, beyond that, to bolster Social Security and Medicare and ensure that most Boomers won't live in fear of poverty or illness during retirement.

The other position calls for diverting money from the public sector to the private sector by lowering taxes. The theory is that the private sector (and its wealthiest members, especially) can use the money more creatively and efficiently than the federal government can. The country, through its Republican legislators, seems to have endorsed this approach.

That's politically expedient but shortsighted. Tax cuts will simply drive up the deficit and the debt to the point where we have no choice but to take a blunt hatchet to Social Security and Medicare later on, under duress. Will that help us all in the long run? I don't think so.

Big cuts will only require citizens to save more while working in order to offset the new shortfalls in social insurance. Pundits wonder why the Chinese don't consume more. It's because their government has largely rescinded its social safety net since 1997. Do we really want to be more like China and less like France?

We could be headed back to the pre-1937 world of self-insurance. By definition, that means a loss of utility. Families will have to choose between spending money on a child's tuition and a grandparent's rent, food and medical care. There may be no such thing as a free lunch, but there's also no such thing as free starvation. Somehow, someone will pay.

Many sophisticated people will insist that tax cuts can stimulate the economy and thereby lower the deficit and even rescue Social Security indirectly. But David Stockman himself [admitted](#) in 1981 (to the journalist William Greider) that supply-side economics was a convenient lie. It still is.

So the country must choose. It can face the demographically driven economics of an aging society by sharing wealth in a civilized way, with respect for all and special concern for the growing numbers of elderly.

Or it can split into mutually demonizing camps and engage in a zero-sum battle where the strong shift sacrifices onto the old and politically weak. Over the weekend, we took the first step down the second path. Something feels very wrong about this tax deal.

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