



America's new social democracy

Barack Obama will likely preside over a very different US, writes **Geoff Garrett**

HUMBLING as it was for America's cheerleader-in-chief, President George W. Bush socialised Wall Street's losses to the tune of \$US700 billion because, he said, "our entire economy is in danger". When the stock market reacted with a huge sell-off, the administration changed the plan to a profoundly un-American partial nationalisation of big banks.

As the economic crisis turns from a credit freeze on Wall Street into a painful recession on Main Street, Barack Obama and John McCain are throwing money at America's new everyman, "Joe, the plumber", standing for everyone in Middle America worried sick about what the future holds for them. Barring a stunning revelation, massive gaffe or international crisis, Australia and the world seem likely to get what most want: a president Obama. But an Obama victory would have little to do with the perceived failings of Iraq and the war on terrorism, the casus belli of Obama's candidacy and global anti-Bush antipathy. Instead, Obama seems likely to win the presidency because Americans are as mad as hell about the economic mess they blame on Bush.

Try as he might, McCain just cannot put enough distance between himself and the President on the economy. Bush and McCain are seen as lax-on-regulation, tax-cuts-for-the-rich, trickle-down-economics Republicans who have aided and abetted Wall Street's excesses and ignored Main Street's misery. Obama's answer is the standard Democrat economic fare of tax credits and affordable health care for poorer Americans, paid for by higher taxes on the wealthy elite.

What is different is that for the first time since Ronald Reagan won the White House in 1980, the Democrats seem poised to win the presidency on their own big-government terms. Reagan said government was the problem, not the solution, transforming US politics for a generation. Bill Clinton could win back the White House only by "ending welfare as we know it" and turning his Democrats into the party of fiscal prudence and budget surpluses. Now the US seems poised to go back to the future of old-style Democratic rule. Obama, by nature and history a Democrat outsider who promises post-partisanship not more partisanship, is an unlikely leader of this new US social democracy. But if Obama wins the presidency, he will win as a conventional Democrat, with

the probable support of strong Democrat majorities in both houses of Congress. The problem for Obama and the Democrats is that they will inherit a diabolical situation in which the prospect of failure is very real.

The statistics of Wall Street losses and the government bill for mopping them up are staggering. But the rising tide of bad news about the broader economy is at least as important. Up to 20 per cent of American homeowners are "under water", owing more in their mortgages than their homes are worth. Car sales, a bellwether of consumer sentiment, are down about one-quarter on a year ago. America lost more than 750,000 jobs in the first nine months of this year. The president of the San Francisco branch of the US Federal Reserve said this week what everyone else was already thinking: America is already in recession. The majority of people think the country is headed in the wrong direction.

Enter a resurgent American Keynesianism. The US budget deficit for the past year approached half a trillion dollars. America's accumulated public debt is close to \$US10 trillion. With these debt and deficit numbers, the US couldn't join the euro zone because it is too fiscally profligate. And this is before the costs of the Wall Street bailout hit the Government's balance sheet, not to mention the enormous costs of Iraq and Afghanistan, which are not part of the regular budget.

Yet both presidential candidates want to cut taxes and spend more. Before the economic tsunami of the past month, Obama said he would give tax breaks to 95 per cent of Americans, invest \$US15 billion a year in alternative energy and get cheap health insurance to most of the 50 million Americans who don't have it — with a bill of more than \$US100 billion a year. McCain countered with a menu of his own capital gains and business tax cuts costing at least as much. Now McCain and Obama want to add an additional \$US50 billion a year to the deficit, creating jobs, helping mortgage holders and cutting taxes on retirement accounts.

Cries that the US is on the precipice of the disastrous events of the 1930s all over again seem histrionic. But Washington's response to today's economic woes looks increasingly like FDR's New Deal from that period.

Can the US really run annual deficits approaching \$US1 trillion, with accumulated public debt as big as the US economy? It looks as if the country is headed in that direction with a president Obama at the helm.

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