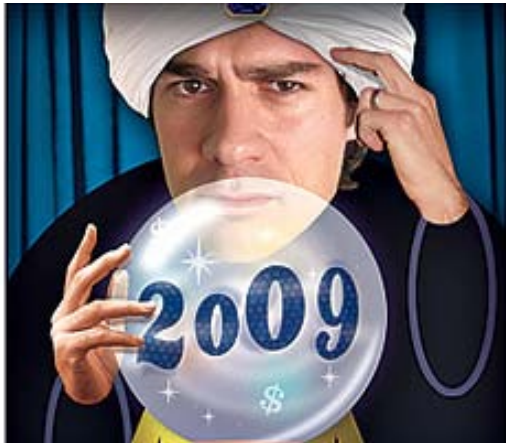

The Case for Bigger Government



President-elect Obama has said that he will run a deficit of \$1 trillion to make a meaningful difference in this ugly recession.

Jim Mone / AP

Thirty years ago, Americans were told that government was part of the problem, not the solution. We bet on the magic of the marketplace, but the magic proved illusory. Every major part of the economy — health care, energy, transportation, food and finance — is deeply troubled. Now we are ready to invite government back in to help solve our problems, if the price is right and the strategies are convincing. By spending more through government and treating government as a partner rather than an enemy of the private sector, we can potentially save vast sums in the long run through a more efficient health-care system, safer climate, more competitive economy and more secure country.

[President-elect Barack Obama's](#) challenge will be twofold: to capture the potential benefits of a new age of government activism, while still protecting the country's long-term fiscal health. On Jan. 6, Obama warned that the cost of a major stimulus package

and the continued effort to bail out the financial system could result in years of «trillion-dollar deficits.» Deficit spending is needed to help revive the economy from recession, but trillion-dollar deficits for years to come would sink us in debt and risk a collapse of the currency. We need a sensible strategy that deals with the present crisis while preparing for the future. We need more government, and to pay for it we'll need to raise taxes relative to GDP over time.

Even as our [economy](#) worsened, many Americans consoled themselves with the belief that at least we were better off than people in other rich nations. No more. When you compare the U.S. with Canada, Western Europe and Japan, the news is sobering. Our child-poverty and infant-mortality rates are the highest, our life expectancy is the lowest, our budget deficit as a share of gross domestic product (GDP) is the highest, and our 15-year-olds rank among the lowest on tests of math and science.

A big difference between the U.S. and the rest of the rich world is that for the past 30 years or so, Americans consistently rejected «government solutions» to the problems of health, poverty, education and the environment. We've kept our taxes as a share of national income lower than Europe's by focusing on the private sector. But we're getting much less for our money. Markets are great at providing consumer goods and services. We don't want the government running our restaurants, movie houses, bookstores and manufacturers. Markets are not so good, though, at some very important things. A pressing example: our mostly private health system, at \$8,000 per American, is twice the cost of Europe's mostly public system, yet with worse outcomes. And nearly 50 million Americans lack health insurance.

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President-elect Obama inherits the worst economic crisis since the Great Depression: the financial sector is in ruins; the budget is hemorrhaging red ink; debt-ridden households have clamped down on spending, thereby pulling the rug out from under the economy; unemployment is soaring; the country is in two wars; and the unmet social and environmental needs are vast. These conditions demand a fundamental realignment in strategy that ultimately comes back to taxation: Will we pay for the government we need? Obama's big domestic program, the American Recovery and Reinvestment Plan, proposes doubling renewable-energy production and making public buildings more efficient. It calls for better schools and classrooms and the rebuilding of our crumbling roadways and bridges. The President-elect wants our fill-out-the-forms health-care system to be computerized, which will save both lives and money. ([See the global financial crisis in photos.](#))

He'll certainly have to add to that list. Don't forget bailing out the financial system, helping deficit-ridden state and local governments, revamping the auto industry and funding more global-development assistance to defeat terrorism and overcome instability. Add it up and it will require perhaps 5% of national income on top of our current spending, or approximately 25% of our total GDP.