The fate of the U.S. is going to be decided over the next year. O.K., I know that's overly dramatic, but here's why I say it. The deficit-reduction commission co-chaired by Erskine Bowles and Alan Simpson has put the long-term fiscal health of the country front and center on the national stage. If we're lucky, we'll have a serious debate about it. We could decide that we are willing to undertake real reforms and fix the problem. Or we could once again kick the can down the road. If we do the latter, things get worse, the political deadlock hardens, and costs rise. Historians may well look back and say this was the point at which the U.S. began its long and seemingly irreversible decline.

The problem we need to fix is simple. Americans have an appetite for government benefits that greatly exceeds their appetite for taxes. For more than a generation, we have squared this dishonest circle by borrowing vast amounts of money. As more people age, this gap between what we want the government to provide and what we are willing to pay for is going to widen to an unsustainable level. Over the next 75 years, benefits under entitlement programs will exceed government revenue by $40 trillion. The federal budget deficit, if unattended, will reach 24% of GDP in 2040 — well beyond Greek and Irish territory. At that point, the measures it would take to close the gap are so punitive — we're talking tax hikes of 70% or spending cuts of 50% — that it is inconceivable that we will make them. If by some chance we were to make them, they would put the economy in a death spiral. (See "Obama's Economic Dilemma: To Spend or Not to Spend.")

Yet while the problem seems insurmountable, it really is not — at least not at this point. The greatest service the co-chairs of the deficit-reduction commission have done in their draft proposal is to make that plain. Whatever you think of the ideas floated by the chairmen — and I actually like most of them — they demonstrate that with a series of phased adjustments, most of which are sensible policy anyway, the U.S. can put its fiscal house in order; pay for a generous set of programs for the elderly, poor and sick; and still maintain a very competitive tax system.
should ask themselves if it is really too much to raise the Social Security retirement age by one year in 2050 — an adjustment that would affect people who are now 28 or younger and hence have quite a bit of time to plan for the change — to keep the system solvent. (See five big questions about retirement.)

The right, for its part, continues to live in an alternative universe where there will be no need for more revenue, just cuts in spending — though of course it makes no serious effort to describe which programs will be cut. In fact, no matter how many programs you cut, you will need more tax revenue. My preference would be for a national sales tax or value-added tax. Either of those would be a highly efficient way to raise revenue because there is almost no possibility of cheating. Moreover, such taxes have the effect of encouraging savings and discouraging consumption. (Comment on this story.)

The proposals by Bowles and Simpson, however, are just that: a series of proposals designed to get a national conversation started. I wish they had been bolder in outlining cuts to Medicare, which is the program that will really cause the deficit to explode over time. But they have included all kinds of topics normally off-limits. While this may not be the time to implement it, why not discuss the tax deduction for interest on mortgages? It costs the government $130 billion a year, encourages people to take on too much debt, inflates the housing market and has no real effect on homeownership. Canada has no such program and has the same rate of homeownership that the U.S. does. Margaret Thatcher began the phased elimination of the British mortgage-interest deduction, and the rate of homeownership actually went up. (See the top 10 across-the-pond duos.)

The crucial arena is not the economic realm but the political one. Will moderates and centrists — who make up the majority in the U.S. — come together and fight for a compromise that embraces ideas from both sides? Or will this conversation turn into the usual demagoguery, with each side tearing apart the things they dislike and ensuring that the deficit commission becomes one more sad story about Washington's inability to grapple with our long-term problems? We've seen the political process break down and avoid dealing with immigration reform, energy policy and Social Security. Will we fail again, this time on the biggest test?

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