US returns to triple-digit budget deficits

By Patrick Martin
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The Bush administration announced October 24 that the federal budget deficit for the fiscal year ending September 30 was $159 billion. If excess receipts for Social Security, supposedly earmarked for paying future benefits, were excluded, the latest federal deficit would top $300 billion.

The deficit is a huge shift from the $127 billion surplus in the previous fiscal year, which began while Clinton was still in the White House and ended just before the US launched military action against Afghanistan, on October 7, 2001. The $286 billion year-on-year decline in the net budget balance was the largest ever recorded.

The widening deficit is largely the product of the biggest one-year drop in tax receipts since World War II, a decline of 6.6 percent, or $131 billion. The fall in tax collections was only partly the result of the Bush administration's record tax cut for the wealthy, since the bulk of the $1.35 trillion cut takes place in the latter part of the decade. A bigger factor was the collapse of the stock market bubble, which sharply reduced federal receipts from the capital gains tax and other taxes on wealth.

The Bush administration's budget director, Mitch Daniels, said that previous projections of huge federal budget surpluses for the next decade had been invalid because they were based on the one-time windfall from the market bubble. "It's now clear that the unexpected surge in revenues toward the end of the last decade was temporary, and that revenues are returning to historic levels for reasons unrelated to legislated changes," he said.

While this is a transparent attempt to obscure the contribution of the Bush administration tax cut to the rising deficit, Daniels' admission actually puts the tax cut in an even worse light. The main argument advanced by the Bush administration to justify the cuts was that budget surpluses would continue indefinitely, and basic social programs such as Social Security could be maintained intact at the same time that income tax rates were sharply reduced.

The argument for tailoring the tax cuts to overwhelmingly benefit the rich was unabashedly anti-democratic: namely, that the government should return the bulk of "excess" revenues to those in the highest income brackets, whose total tax payments were the greatest.

Now Daniels concedes that the massive budget surpluses were illusory.

Both the Congressional Budget Office and the Bush administration's Office of Management and Budget predict triple-digit deficits will continue in the current fiscal year, with the CBO forecasting a $145 billion deficit and the OMB $109 billion. Both figures could prove wildly optimistic in the event of a further collapse in financial markets or a long and costly war in the Persian Gulf.

Three factors account for the skyrocketing deficits: the economic slump, especially in financial markets; the Bush tax cut; and the huge rise in military spending that began with the war in Afghanistan and continues in the buildup to war with Iraq.

The Bush administration has sought to divert attention from this basic reality by claiming that excess congressional spending on domestic programs is the main contributor, although the differences between various House and Senate versions of the FY 2003 budget and the amounts requested by the White House are relatively small—only $9 billion, by one estimate.

The consequences of the looming budget crisis go virtually unmentioned in the 2002 congressional campaigns of both Democratic and Republican politicians. But as soon as the November 5 election is past—perhaps as soon as November 22, when a lame-duck session of Congress is expected to open—the Bush administration will begin seeking cuts of tens of

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billions of dollars in domestic social spending to reduce the deficit.

House Republican and Senate Democratic leaders must call the lame-duck session because only 2 of 13 appropriations bills have passed by both houses of Congress—those funding the Pentagon and military construction projects. The rest of the federal government is functioning without budgetary authority since October 1, sustained only by a continuing resolution that allows spending within rigid limits until late November. The budget deadlock is the worst since 1995-96, when large portions of the federal government were shut down in a conflict between the Republican-controlled Congress and the Clinton White House.

Two leading congressional Democrats, Senate Budget Committee Chairman Kent Conrad of North Dakota and his House counterpart, John Spratt of South Carolina, urged the White House to convene an emergency budget summit after the elections.

The budget deficit will only worsen as the full impact of the 2001 tax cut begins to be felt. But neither of the two parties has suggested that any portion of the tax cut be reversed. Congressional Republicans and the Bush administration are considering the introduction of additional tax cuts for the wealthy if they regain control of the Senate on November 5. The Republican-controlled House has approved $448 billion in additional tax cuts so far this year, but all have been stymied in the Senate. Treasury Secretary Paul O'Neill is lobbying for elimination of the corporate income tax cut as the main priority for 2003.

House Democratic Leader Richard Gephardt proposed a five-part economic stimulus plan October 15 which proposed no changes in the previously adopted tax cuts targeted to the wealthy, calling instead for $75 billion in new tax cuts, divided between low-income workers and businesses that invest in new plants or equipment. His plan also calls for $75 billion in health care subsidies for hospitals, state governments and the unemployed, $25 billion in federal aid to states for anti-terrorist measures, and $25 billion for new school construction.

The total of $200 billion is pathetically inadequate from a fiscal standpoint—less than 2 percent of the $11 trillion US economy—and less than half would actually be aimed at unmet social needs.

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