

## THE TAXONOMIST

**Dubyanomics****Bush's policies make Reaganomics look better than we remembered**

By Robert S. McIntyre

**A**ll across the country, newspapers big and small have reported the shocking news that the \$5.6 trillion in ten-year budget surpluses projected in early 2001 have almost disappeared. Instead, as the Durham, North Carolina *Herald Sun* typically put it, “Last month, government analysts at the Congressional Budget Office projected [only] a \$1 trillion federal budget surplus for the fiscal years 2003 to 2012.” No doubt this is the conventional wisdom, but it’s not true. The budget forecast was never as rosy as the press reported last year, and the current outlook is far grimmer than the papers are telling us now.

By a quirk in the law, the analysts at Congress’s budget office must periodically produce estimates of what the budget will look like over the upcoming decade if spending is cut dramatically (by any sensible measure) and various supposedly temporary but politically invulnerable tax breaks are allowed to expire. This highly implausible scenario is oddly called “the baseline.”

Whatever it’s called, however, it’s not what any knowledgeable person—and certainly not Congress’s highly-trained budget analysts—would consider a projection of what’s actually likely to happen. Last year’s \$5.6 trillion ten-year surplus baseline, for example, was based on, among things, the notion that appropriations for defense and domestic programs would fall by 18 percent as a share of the economy by fiscal 2011—even as Congress and the President were proposing spending increases in excess of economic growth. The baseline also postulated that income taxes, boosted by the stock market bubble, would maintain their unprecedentedly high share of the economy, that farm subsidies would not be renewed (hah!) and that Congress would scrap tens of billions of dollars a year in corporate tax breaks.

Under more reasonable assumptions about spending and taxes, it was obvious last year that outside of the \$2.5 trillion expected to accumulate in the Social Security trust fund, surpluses over the upcoming decade were unlikely to exceed a trillion dollars—and arguably, that they were probably closer to zero. And that was *before* enactment of the Bush tax cuts and the economic downturn.

In these post-tax-cut days, even the revised baseline for fiscal 2002-11 looks horrendous, with \$2.3 billion in Social Security surpluses and \$2 trillion in deficits for the rest of the government. But like all baselines, this remains wholly unrealistic. Fortunately, in its August 2002 budget update, the Congressional Budget Office was kind enough to supplement its fanciful baseline figures with some more useful projections.

What happens if appropriations aren’t slashed (as the baseline assumes), but instead keep up with the economy? That’s another trillion dollars in deficit spending for fiscal 2002-11. What if, as the President strongly favors, Congress extends ostensibly expiring tax breaks, including those recently enacted, beyond their “sunset” dates? That’s \$750 billion more in red ink over the decade.

The bottom line that emerges from CBO’s data is that absent major policy changes, we now face \$3.8 trillion in deficit spending outside of Social Security from now through 2011. That will mean diverting every penny of the \$2.3 trillion in Social Security’s surpluses (formerly known as the “lockbox”) to pay for other programs and borrowing another \$1.5 trillion from the public at large to boot.

What caused this gigantic shift from at least modest projected surpluses to gigantic deficits? That’s not hard to figure. It’s mostly the Bush tax cuts.

To be sure, George W. Bush’s campaign to bankrupt the federal government got a boost over the past year from our national emergency, war and recession—the “trifecta” as Bush jovially puts it. Indeed, our economic woes and the resulting plunge in revenues explain most of this year’s expected deficit. Given the downturn, our current deficit is consistent with standard, good economic procedure to help stimulate a recovery.

But the explanation for our long-term fiscal woes has little to do with our hopefully short-lived economic problems or the war on terrorism. In fact, some \$2.4 trillion of the \$3.8 trillion in total deficits outside of Social Security that we confront over the next decade will stem from the Bush tax cuts enacted in 2001 and 2002—assuming they’re all extended and counting the added interest on the

national debt they'll entail. By fiscal 2011, more than 80 percent of the projected \$495 billion non-Social-Security deficit will be due to Bush's tax cuts.

It's interesting to compare Bush's reaction to this looming fiscal disaster to how his hero, Ronald Reagan, reacted when his big 1981 tax cuts sent deficits through the roof. Initially, Reagan's tax cut program was considerably bigger than Bush's. The 1981 cuts were expected to reduce revenues by 4 percent of the gross domestic product once they took full effect, while the fully-phased-in Bush plan totals just under 2 percent of the GDP.

Dutch wasn't worried about the officially-projected revenue losses from his tax reductions, since he'd been persuaded that cutting taxes would actually lead to higher revenues and thus allow him to spend more on defense. But when that supply-side pipe dream failed to pan out, Reagan quickly shifted gears, signing tax hikes in 1982, 1983 and 1984 that offset almost half of his 1981 tax reductions (and helped start an economic boom). That still left a huge hole in the budget, but at least Reagan partially learned from his mistakes.

In contrast, for Bush, the worse the budget news gets, the more enamored he becomes of his tax cuts. So he's pushed hard to extend his 2001 tax program past its scheduled sunset date, successfully insisted that Congress pass an array of expensive corporate tax breaks in early 2002, dragged his feet on closing offshore corporate tax shelters, and floated the idea of even more upper-income tax cuts (for the "investor class," as he put it) this August. Meanwhile, his chief economic adviser, Larry Lindsey, recently proposed borrowing an additional trillion dollars to fund the administration's scheme for partial Social Security privatization.

When asked about deficits, the President fatuously blames overspending, even though he has enthusiastically supported the only significant spending increases we've seen, for defense and security, and even though those loom remarkably small in our overall budget problem.

Bush's indifference to the budget disaster he has created seems to reflect his vaguely-held adherence to a revisionist right-wing theory, which holds that all that really matters is the amount the government spends, not whether it happens to be paid for or not—and when it comes to spending, less is always better. As Republican activist Grover Norquist famously put it, "I'd rather have a small government and a big deficit, than a big government and no deficit." Under this theory, the biggest virtue of tax cuts is that they ultimately lead to reduced public programs. "I want to reduce the size of government in half as a percentage of GNP [gross national product]

over the next 25 years," Norquist told the *Washington Post* in March 2001.

Of course, Bush has yet to risk his popularity by proposing any actual cuts in federal programs. Better to leave that to someone else, or perhaps to divine intervention, seems to be his happy-go-lucky philosophy. Not so Bush's new soul-mate, Alan Greenspan, who helped promote Bill Clinton's deficit-reducing tax increase on the rich in 1993, but apparently regrets it.

Greenspan, you may recall, endorsed Bush's tax cut program last year because he claimed to be worried about excessive budget surpluses. Nowadays, Greenspan purports to be concerned about the resulting fiscal calamity—warning the House Budget Committee in September that "returning to a fiscal climate of continuous large deficits would risk returning to an era of high interest rates, low levels of investment and slower growth of productivity." But despite the demolition of his ridiculous rationale for supporting the Bush tax cuts, Greenspan refuses to reverse himself.

Asked at the Budget Committee hearing whether Congress might at least freeze the Bush tax cuts that haven't yet taken effect, Greenspan said, "My own view is I would prefer not." Instead, Greenspan implied, the solution to the Bush deficits must come entirely from program cuts. No matter that it would take an 80 percent reduction in all domestic appropriations (for everything from roads, to food and drug safety, to homeland security) in order to eliminate the projected non-Social Security deficit in fiscal 2011.

Readers of this magazine probably hold little affection for Ronald Reagan—heck, I wouldn't have named an airport after him either. But compared to Bush, Reagan was a model of moderation on fiscal policy. Consider: (1) When Reagan discovered his supply-side economic advisers were a bunch of idiots, he sent them packing. Bush hired them back. (2) When Social Security ran into trouble in the early eighties, Reagan signed a bill to raise the money to keep it solvent. Bush wants to privatize Social Security, and in the meantime is raiding the trust fund to beat the band to pay for his tax cuts. (3) Reagan quickly tired of all the corporate and upper-income tax shelters he mistakenly promoted in his first year, and ultimately joined people like me in successfully pushing for progressive tax reform in 1986. Bush's Treasury Secretary Paul O'Neill threatens that next year Bush may call for corporate tax elimination and even flatter income tax rates.

Nostalgia for Reagan. Who would have thought?

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