

THE TAXONOMIST

Bush's \$10 Trillion Borrowing Binge

By Robert S. McIntyre

This August while everyone in Washington, D.C. was away, the Congressional Budget Office quietly published its latest update on our nation's fiscal situation. It's one of CBO's more enlightening—and frightening—efforts. If you read the report carefully, you'll discover that however badly you might have thought President Bush was managing the government, things are actually much worse.

CBO's report gets off to a slow start—as usual, leading off with its silly, albeit much-cited, “baseline” budget projections. Assume, says CBO, that government spending plummets as a share of the economy, that tax cuts ostensibly “sunsetting” really go away, that the alternative minimum tax engulfs 30 million families and that the earth is flat. Then the budget picture, while very ugly in the short run, will slowly improve down the road. Indeed, under this relatively rosy scenario, a decade from now the annual deficit in the regular budget could be a mere \$105 billion.

The enlightening part comes later in the report, when CBO shows us what happens if one scraps all those patently false assumptions. The effects of facing reality are striking. For example, CBO's more plausible figures indicate that under current policies, the annual deficit outside of Social Security is likely to hit a staggering \$1.1 *trillion* by 2013—ten times the ridiculous “baseline” estimate.

To be sure, CBO doesn't present its more realistic projections in a particularly user-friendly form. Some of the important information is hidden in footnotes, and nowhere is everything added up. But with a little arithmetic, here's what CBO's nonpartisan experts seem to think is a reasonable assessment of where George W. Bush's policies are taking our nation.

- Under Dubyanomics, a third of the federal government outside of Social Security will be paid for with borrowed money—this year and for the foreseeable future. No president, not even Ronald Reagan, has ever made such a mess of the budget over such a sustained period of time.

- Compared to when Bush took office, the national debt, including amounts owed to Social Security, is expected to more than triple by fiscal 2013, to \$14 trillion. Bush's campaign promise that he would continue Clinton's policy of paying down the debt turns out to have been a \$10 trillion fib.

- As a share of the economy, the government's debt is expected to rise from 45 percent in 2001 to 79 percent by 2013—a 77 percent jump. Such a debt level in relation to the economy hasn't been seen since the World War II era.

- In the upcoming fiscal year, the \$661 billion regular budget deficit will be almost six percent of the economy. Annual deficits are expected to exceed six percent of the economy from fiscal 2009 on. That's a level seen only once since World War II, in fiscal 1983 under Reagan. So much for the Bush administration's frequent claim that its deficits are “moderate by any historical measure” as a share of the economy. You may recall that in the last few years of the Clinton administration, there were no deficits outside of Social Security, but instead surpluses.

- The Federal Reserve's aggressively low interest rates have kept federal interest outlays in check for now, but after fiscal 2005 interest payments are expected to rise rapidly. By 2009 and thereafter, the government is likely to be spending more on interest on the debt than on all domestic discretionary programs—from education, to environmental protection, to law enforcement, to science, to transportation, to veterans.

Although the President constantly blames his fiscal profligacy on necessary increases in defense and security spending, that's hardly the case. In the President's first term, 40 percent of his \$2.2 trillion in deficit spending is directly attributable to his tax cuts, with the lousy economy responsible for most of the rest. Over the next four years, half of the \$3.1 trillion in projected deficit spending reflects Bush's tax cuts. Thereafter, tax reductions explain three-fifths of the huge deficits we'll face if Bush's policies are left in place.

So if you want to find the war that's to blame for most of our looming long-term budget crisis, it's not in Afghanistan or Iraq. Instead, it's right here: the class warfare our President has been waging to lower taxes on the rich.

MCI Good News Update

In my last column, I complained about an egregious \$10 billion tax loophole that MCI/Worldcom was trying to create for itself as part of its emergence from bankruptcy. I noted that the IRS probably had the power to stop the loophole by regulation, but that the Bush administration hadn't yet acted. At the end of August, however, the IRS issued a new regulation that appears to solve the problem. So, some rare kudos to Bush on tax policy. It obviously helped that MCI's competitors, AT&T and Verizon, were pushing hard for this sensible change. Perhaps the Bushies simply counted the number of corporations on each side in making its decision to do the right thing.

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