Wall Street plunge swells US government deficit

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The Bush administration announced July 12 that the federal government would run a deficit of $165 billion during the current fiscal year, a turnaround of nearly $300 billion from the $127 billion surplus in the fiscal year which ended last September 30. Budget director Mitchell E. Daniels Jr. blamed the reversal largely on the dramatic decline of revenue from taxes on capital gains, a result of the plunge in stock prices.

Daniels said there was no precedent in nearly half a century for the sudden drop in federal tax revenues, which fell $124.4 billion below projections. The six percent drop was largest in percentage terms since 1955. This is before the full impact is felt from last year's huge tax cut for the wealthy, which is being phased in over 10 years and has had only a marginal effect on current federal revenues.

The revenue fall surprised the career economics and statisticians at the Office of Management and Budget (OMB), who estimated, based on previous historical patterns, that every one point of growth in gross domestic product would yield an additional $28 billion in taxes. Given an average GDP growth rate for the current fiscal year of over 3 percent, that would come to an increase in tax receipts of more than $80 billion, rather than a decline of over $120 billion—a fact that suggests the GDP growth figures are as suspect as the tax and budget estimates.

Last year the Bush administration pushed through a $1.35 trillion tax cut that assumed huge increases in revenues from a booming stock market. Even now, with the fiscal debacle already apparent, congressional Republicans are pushing for the adoption of new accounting rules—known as "dynamic scoring"—which would incorporate the fictions of supply-side economics into budget estimates, allowing them to declare that a $1 billion tax cut for big business is not really a $1 billion tax cut because it will supposedly produce economic growth and generate additional tax revenues.

The White House and Congress are engaged in accounting practices that bear a striking resemblance to those carried out by WorldCom, Enron, Xerox and a host of other corporations, and for the same social purpose: to provide the pretext for further handouts to the wealthy, whether in the form of stock options or tax cuts. This is no coincidence, since the federal government and the giant corporations are both controlled by representatives of the same privileged elite that has plundered the wealth produced by working people.

Of the $124 billion decline in revenues expected by the OMB, $121 billion comes from individual income tax receipts, and more than two-thirds, some $80 billion, is accounted for by income not subject to withholding, i.e., that stemming from capital gains, interest payments and dividends, rather than wages and salaries.

This means that the federal budget shortfall is almost entirely due to the failure of the wealthy to pay taxes, due to large paper losses in the stock market. Working people continue to have taxes deducted from their pay at the same rate as last year, despite the Bush tax cut and the recession that has cut nearly two million jobs.

Thus the figures provided by the White House itself reflect the increasing economic polarization of American society between a fabulously wealthy elite and the working people who constitute the vast majority of the population, and the role of the Bush administration as the representative of the super-rich.

The figures also reveal the class reason for the Bush administration's fixation with cutting income taxes, while maintaining the existing rates of payroll taxes such as Social Security and Medicare. According to one analysis, the top 1 percent of taxpayers pays over one-third of income taxes; the top 5 percent pays over 50 percent; and the top 50 percent pays 96 percent. As a result, any tax cut limited to income taxes, no matter how it is structured, is guaranteed to favor upper-income groups over the lower-paid.

The sharp decline in tax revenues is leading to a new federal budget squeeze. Last month Congress raised the federal debt ceiling by $450 billion, to $6.4 trillion, just in time to avoid a June 28 federal default on debt. It was the first increase in the debt limit since 1997, the first of four years of federal budget surplus.

The Bush administration responded to the latest reports of widening deficits by demanding that all federal discretionary spending outside of homeland security be held to a 2 percent average rise—an actual decline in real terms, after inflation.

Far more severe is the squeeze on the budgets of state governments, most of which are constitutionally barred from running annual deficits. State governments have suffered $45 billion in revenue losses since the current calendar year began, according to figures from the National Conference of State Legislatures.

The states have already imposed emergency budget cuts totaling $27 billion, with more to come. This includes cuts in elementary and secondary education in 17 states, cuts in higher education in 29 states, proposed layoffs in 10 states, and proposed cuts in Medicaid in 22 states.

The states have also begun to feel the effects of the recession on the demand for services, with Nevada's welfare caseload up 44 percent last year, Indiana's up 21 percent, and Arizona's up 20 percent. Spending on Medicaid, which provides health care for low-income families, was up 11 percent in 2001 and is projected to rise another 13 percent in 2002.

Hardest hit is the state of California, which faces a prospective budget deficit of $23.6 billion, of which $19 billion stems from the decline in tax revenue from capital gains and stock option earnings due to the collapse of the stock market bubble, which has had its most devastating effect in Silicon Valley. Democratic Governor Gray Davis has outlined budget cuts in virtually every area of state services, including juvenile programs, arts education, university research and maintenance, trade and commerce development, and optional medical services such as physical therapy and dentistry.