Growing criticism of Bush budget deficit

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The Bush administration's budget, which was sent to the Congress on February 3, has drawn increasingly critical comment from economists and commentators in the US and internationally. They fear that escalating deficits resulting from the massive tax-cut handouts to the wealthiest sections of the population will cause major problems for the US and global economy.

So far, largely as a result of the tax cuts, the deficit for this year will be $304 billion, rising to $307 billion next year, with deficits stretching out at least over the next five years. But the final total could be much higher as these estimates do not take into account the cost of any war against Iraq.

The Economic Policy Institute published a statement signed by almost 400 economists, including 10 Nobel laureates, critical of the tax cuts. It warned that Bush program would do nothing to revive growth in the US economy, which now has two million fewer private sector jobs than at the start of the current recession in March 2001.

"Regardless of how one views the specifics of the Bush plan," the statement said, "there is wide agreement that its purpose is a permanent change in the tax structure and not the creation of jobs and growth in the near term."

The economists warned that passing the tax cuts would add to the "nation's projected chronic deficits", thereby reducing "the capacity of the government to finance Social Security and Medicare benefits as well as investments in schools, health, infrastructure, and basic research. Moreover, the proposed tax cuts will generate further inequalities in after-tax income."

While the economists' statement was couched in fairly mild language, an editorial in last Tuesday's edition of the *Financial Times* was positively scathing.

"President George W. Bush's compendious US federal budget for 2004 went on sale in government bookstores yesterday," the editorial began. "Too bad they do not have a fiction department to put it in."

According to the *Financial Times*, the budget was "disingenuous in its explanations of how the US went from record surplus to record deficit ... dishonest in claims about how the administration's tax plans will affect the economy and irresponsible in shuffling off to Congress the job of finding new spending restraints."

The official explanation offered by the Bush administration is that the deficits have been caused by recession and war. But this explanation did not cut much ice.

As the editorial pointed out, the recession that began two years ago was supposed to have been over by now. "Remember the $1,350 billion tax cut Mr Bush pushed through Congress in 2001? That was going to bring about recovery, according to the administration. As it turns out, that tax cut did very little for the economy's short-term benefit. What it did manage to do—which, curiously, Mr Bush does not mention—is significantly undermine the long-term fiscal outlook. And the fruits of that policy are clearly on display in this latest budget."

According to the *Financial Times*, the administration's estimate of a cumulative deficit for $1,048 billion for the five-year period 2004-2008 was only achieved through a "sleight of hand" carried out by offsetting surpluses set aside for Social Security payments against the "massive future liabilities of the federal government." If these surpluses are stripped out, the cumulative deficit in the next five years rises to $2,140 billion.

Another comment published in the *Financial Times*, authored by William Gale and Peter Orszag, senior fellows at the Brookings Institution, pointed to the White House's "striking" ideological commitment to tax cuts which were leading to "unending deficits."

"With this year's budget," they noted, "it has now proposed or enacted cuts that, if left in place, would amount to more than double the Social Security deficit over the next 75 years. Meanwhile, the budget refers to the Social Security deficit as 'the real fiscal danger'."

New York Times economics commentator Paul Krugman said the fiscal deterioration had reached "catastrophic proportions", pointing out that in its first budget the Bush administration projected a surplus for 2004 of $262 billion. Now it projects a deficit of $307 billion—a deterioration of $570 billion matched by comparable deterioration in each succeeding year.

Krugman claimed that while financial reporters were starting to realise Bush was out of control—*CBS Market Watch* said he had "lost his marbles"—the "sheer banana-republic irresponsibility of his plans hasn't been widely appreciated."

The major concern in economic and financial circles within the US and internationally is that together with the ever-widening balance of payments deficit, the growing budget deficit could lead to a financial crisis.

The latest estimate is that the current account deficit for 2002 will reach close to $500 billion, or 4.7 percent of gross domestic product. This means that the US net foreign debt for the year 2002 will reach a record high of $2.8 trillion, equivalent to 27 percent of US GDP. The financing of this debt requires a flow of foreign capital into the US of around $2 billion a day.

So far, investment funds have continued to move into the US even in the face of its worsening financial position. But the situation is by no means stable. The collapse of a major financial institution—along the lines of the $3 billion demise of the hedge fund Long Term Capital Management in 1998—or the bankruptcy of a pension fund, unable to meet its obligations because of the sharp decline in share markets over the past three years, would see it change very quickly.

If, under such conditions, financial markets considered that growing external debts and a worsening fiscal position made the US too risky a proposition there would be a rapid outflow of capital, sparking a major financial crisis.

Consideration of the inherent risks posed by the worsening US financial position points to one of the key factors behind the resort to militarism. The drive to establish an American empire, starting with the war against Iraq and the seizure of its oil resources, represents an attempt to resolve economic problems by other, that is, military, means.

Within the US, the upper-income layers—those who profited during the share market boom and who will now take the lion's share of the tax cuts—form the social basis for the war policies of the administration.

Any rationalistic argument that its worsening economic position might somehow force the US to scale back its military activities would be a complete misreading of the situation. On the contrary, the worse the financial position becomes, the more US ruling circles will see military means as the only way to resolve deepening economic problems and shore up their position against their global rivals in Europe and Asia.