

Obama budget projects record deficits and borrowing

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Under the budget outline issued by the Obama administration Thursday, the US government will run a \$1.75 trillion deficit during the current fiscal year, which ends September 30, nearly four times the largest previous federal deficit. This gargantuan sum includes the \$700 billion allocated for the Wall Street bailout, more than half of it already spent, as well as part of the \$787 billion in spending authorized by the economic stimulus bill passed by Congress and signed into law by Obama last week.

For fiscal year 2009, nearly half over, the federal government will borrow almost half of all the dollars it spends: \$1.75 trillion out of a record expenditure of \$3.94 trillion. The White House projects that spending in fiscal year 2010 will be only slightly lower, \$3.55 trillion, with the deficit falling to a still staggering \$1.17 trillion.

According to the White House estimates, the combined deficit for the four years 2009-2012 comes to \$4.42 trillion. The net debt of the federal government, what it owes to individuals, businesses and foreign countries, will double, rising from \$5.3 trillion to \$11 trillion over the same period.

There is no discussion in the budget outline of where these vast sums will come from. Given the worldwide financial crisis, US borrowing on such a scale means that the American government will be competing with—and effectively denying funds for—the governments of other, weaker capitalist powers, many of which have already had to resort to borrowing from the International Monetary Fund to avoid financial collapse.

The ten-year budget projection, covering the years 2010 to 2019, shows the annual deficit declining to \$533 billion in fiscal 2013—still larger than any previous year before the crash of 2008—and then

beginning to rise again. By 2019, the US national debt is estimated at \$13.8 trillion, a sum equivalent to the entire US Gross Domestic Product last year.

The actual trajectory of the federal budget is even more ominous than these figures suggest, since the White House estimates assume that the US economy will essentially stand still in 2009 and 2010, rather than declining even further, and that economic growth will resume in 2011 and accelerate rapidly. That is a highly optimistic and unlikely projection.

The budget sets aside as much as \$250 billion to cover the cost of further bailouts of US financial institutions, although the White House readily admitted that this was only a "placeholder" and there was no way of predicting today how much more will be expended in the effort to rescue the banks.

The White House has ended the Bush administration practice of excluding the cost of the wars in Iraq and Afghanistan from the regular budget, and financing the wars through so-called emergency spending bills passed separately. Obama hailed this action as truth in budgeting, although he will nonetheless request a supplemental appropriation for the two wars, supposedly the last such effort, totaling \$75 billion for the current year.

The ten-year projection nonetheless shows total Pentagon spending rising steadily, despite the assumed end to combat operations in Iraq, reaching the staggering total of \$872 billion by 2019. Over the entire ten-year period, total US military spending is projected at nearly \$8 trillion, a sum greater than the entire GDP of any other country on the planet.

Much publicity has been given to claims that the Obama budget allows Pentagon spending to rise by only 4 percent in 2010, and thereafter 2 percent annually, compared to a 7 percent rate of increase for

domestic spending. This is largely a statistical fiction, caused by the assumed decline in spending in Iraq. The baseline Pentagon budget, excluding Iraq and Afghanistan, will rise from \$557 billion this year to \$689 billion in 2012, a 24 percent increase during Obama's first term in office.

The bloated military budget is likely to swell to even greater proportions. The budget document explicitly declares that the reduction in spending on Iraq and Afghanistan is merely an assumption for the purpose of making estimates, and does not reflect any actual policy decisions to withdraw or redeploy US troops.

In the course of the Bush administration's "war on terror," total Pentagon outlays rose so sharply that they came to exceed the combined total of all other discretionary government spending (i.e., spending that is not already required by law, such as payments under Social Security, Medicare, Medicaid and other "entitlement" programs.) The Obama administration budget confirms and extends this supremacy of guns over butter: Pentagon spending will exceed all other discretionary spending in each of the next ten years, and the discrepancy will grow wider year by year.

One feature of the new budget outline much celebrated in the media is the set-aside of \$634 billion over ten years to cover the cost of an as-yet-undetermined health care reform program. While the number might appear substantial, it is a small compared to a health care system that now costs the American people \$2.3 trillion a year—generating huge profits for drug, insurance and medical equipment companies, but producing worse health outcomes than in any other advanced industrial country.

The annual average cost of Obama's health care initiative, about \$60 billion a year, is less than 3 percent of annual US spending on medical care. In other words, Obama's policy is a change at the margins, not a significant reform. Put another way, Obama's health care "reform" provides just over \$1,000 a year for each uninsured American—a sum grossly inadequate to pay for healthcare coverage.

The \$634 billion allocated to the administration's most important social policy proposal also compares unfavorably to the amount projected for payment of interest on the federal debt, a colossal \$4.9 trillion over the next ten years. In other words, Obama's budget openly states that interest payments, which go largely

to the wealthy, will cost eight times more than his proposed health care reform.

On taxes, the Obama budget makes a significant concession to the Republican Party and the super-rich by allowing the Bush tax cuts for the wealthy to expire as scheduled at the end of 2010, rather than canceling them immediately, as the Democratic candidate had suggested he would do in the course of the presidential election campaign. This delay is worth hundreds of billions of dollars to the wealthiest one or two percent of Americans.

This concession is offset in part by tax increases on the wealthy to finance the health care program. The Obama budget outline suggests that \$318 billion, about half the cost of the initiative, will be raised by reducing the amount of tax write-offs for wealthy families and individuals who itemize their deductions. One other new tax will be imposed on the wealthy: elimination of the "carried interest" tax loophole that allows hedge fund managers to pay a lower tax rate than their janitors and secretaries.

The White House budget outline assumes that Congress will make permanent both the Bush tax cuts for families making less than \$250,000 a year and the temporary tax cut for working class families enacted as part of the stimulus plan. These modest reductions will be paid for from the estimated \$637 billion in additional revenue when the Bush tax cuts for high-income households expire in 2011.

The total tax increases on the wealthy, however, are less than one quarter of the new spending for interest payments, which go overwhelmingly to these same high-income households who own the vast bulk of Treasury bills and other US government bonds.



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