



Written by [Charles Scaliger](#) on May 11, 2009

Another Record-breaking Deficit Looms

It's official: This year's budget deficit will be one for the record books. The latest figures released by the Obama Administration contemplate a \$1.8 trillion deficit for fiscal 2009 as the United States economy continues to significantly underperform relative to earlier forecasts. This year's record-setting deficit is now reckoned to be four times last year's — the previous record-setter. Next year, the deficit is expected to decline but still to exceed \$1.3 trillion — and that's only if everything goes according to plan.



But of course, economies never go as planned, as the Brezhnevs and Mussolinis of history attest. The American (and world) economy is struggling mightily to correct for decades of fiscal abuse, mostly in the form of massive public and private indebtedness, huge misallocations of investment, and the inflationary policies of central banks like the Federal Reserve. So far, the only solution that the Obama administration (and the Bush administration before it) has been able to contemplate is more inflation, more government spending, and more debt. As a consequence, our government is now borrowing 50 cents for every dollar it spends and creating new money out of thin air to cover a large portion of its obligations.

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Farther into the future, the Obama administration is forecasting budget deficits over the next decade to total more than \$7 trillion dollars, with annual shortfalls never being less than \$500 billion. The latter figure was regarded as a calamitous amount only a few years ago; now is treated like chump change.

To make matters still worse, the administration's figures are based on a scenario in which the U.S. economy declines by 1.2 percent this year and grows by 3.2 percent next year — an exceedingly unlikely outcome, given the huge declines already logged this year. (A survey of economists conducted by Blue Chip Economic Indicators came up with a likely 2.8 percent decline this year and growth of 1.9 percent next year.)

Nevertheless, a consensus seems to be building among economists, including Fed Chairman Ben Bernanke, that the recession is likely to end later this year, and that unemployment will peak early next year. After that, says conventional wisdom, the economy will resume its upward trajectory, allowing the U.S. government to pay for all the debts occurred.

But this assumes that when recessions end, growth and bull markets return. However, this has not always been the case in the past. The Great Depression of the 1930s, contrary to what is commonly assumed, was not a decade-long recession. It was actually a long period of economic stagnation — the "Great Duration," in economist Robert Higgs' terminology — which began with a stock market panic and a long, severe recession that lasted about three and a half years, from 1929 to 1933. The economy eventually came out of recession, but had fallen so far that the paltry growth over the next few years kept unemployment very high and output very low. Recession struck again in 1937 and lasted a little



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over a year. But it is unlikely that many people during that lost decade noticed whether technical indices pointed to economic contraction or mere stagnation; people suffered either way.

Those of us old enough to remember the 1970s recall years of economic malaise, including so-called “stagflation,” that did not finally dissipate until midway through the first term of the Reagan presidency in the early eighties. During that entire decade, a 16-month-long recession occurred from late 1973 to early 1975, exacerbated by such events as the end of the Vietnam War and the oil embargo. A brief, shallow recession in 1980 was followed by another 16-monther from mid-1981 to late 1982, the last major recession until the current unpleasantness. Although the 12-year period from 1970 to 1982 featured only a little over three years’ worth of recession, the entire decade had little to recommend itself. Price inflation as measured by the Consumer Price Index soared in the latter half of the decade, and there was little of the exuberant growth and general optimism characteristic of most of the eighties and nineties. Nor did events on the political stage do much to spur confidence: the United States suffered the only military defeat in its history with an ignominious retreat from Vietnam and saw a sitting president, under threat of impeachment, resign for the first time ever. The Cold War and fears of nuclear annihilation were at a peak, and the social fabric of generations was coming unraveled, thanks to the sexual revolution, the proliferation of drugs, the legalization of abortion nationwide, and other factors.

In our day, as in the seventies, our government is spending enormous sums on overseas conflicts designed to effect political change in an area of the world deemed strategically important to U.S interests. Also reminiscent of the seventies is the ongoing revolt against nature as embodied in the relentless campaign to mainstream sexual deviancy and even give legal countenance to so-called “same-sex marriages.” Like the thirties, our political leaders are showing themselves willing to spend any amount of money enlarging the federal government in a quixotic — and ultimately, politically and economically debilitating — quest to achieve social and economic redemption through central planning and deficit spending.

All of which brings us back to the Obama-era deficits and the likelihood that, regardless of whether the recession technically comes to an end sometime in the next 12 months, the period of economic malaise that started with the end of the stock market bubble in March 2000 may continue for years to come, perhaps even reverting to recession before the correction fully runs its course. If this scenario proves correct, the cumulative \$7 trillion dollar deficit accrued over the next decade may prove wildly below the mark, with consequences — for the value of the U.S. dollar, for stock prices, for private savings, and even for our entire civilization — that may prove catastrophic beyond all but the most pessimistic current imaginings.



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