November's Federal Deficit 11 Percent Ahead of Last Year's

Buried in the latest report from the Department of the Treasury is this nugget: Through the first two months of the fiscal year, which began on October 1, the deficit (the difference between revenues and spending) was 11 percent higher than the same two months last year. And this despite revenues (taxes from individuals and corporations) setting records. The $433 billion the government collected in October and November was $13 billion more than it collected in the same period last year, and $11.3 billion more than it collected the year before.

In those two months, the federal government collected a total of $443.7 billion in revenues but turned around and spent $645 billion, creating a deficit (in just two months, remember) of $201 billion. On an annualized basis — if nothing changes — the deficit for fiscal year 2018 (which ends next September) will be $1.2 trillion. That will push the national debt ever closer to $25 trillion. As that last number increases, so will interest charges, partly because the number is larger than it has ever been and partly because government bond buyers are increasingly likely to demand a "risk premium" to offset the greater chances that the government will default on paying them back.

During the current tax reform negotiations, Treasury Secretary Steven Mnuchin hopes that "through a combination of tax reform and regulatory relief, this country can return to higher levels of GDP growth, helping to erase our fiscal deficit." President Trump's Director of Office of Management and Budget Mick Mulvaney sang the same song: "We need to grow our economy again and get our fiscal house in order. We can do that through smart spending restraint, tax reform and cutting red tape."

All of the attention is focused on stoking the economy so that it can throw off more and more tax revenues to feed the ravenous beast in Washington. Aside from the problem of wanting to grow the economy so it can feed the beast, where is the concern over the simple mathematical fact that no matter how quickly the economy grows, and consequently how much tax revenues grow as a result, it will never catch up to the government's demand for more.

Demographics are working against the notion: as the population ages, so do demands for the government to keep the promises it made years and decades ago. On August 14, 1935, as President Franklin Roosevelt signed Social Security into law, he made these promises:

This law, too, represents a cornerstone in a structure which is being built but is by no means complete. It is a structure intended to lessen the force of possible future depressions. It will act as a protection to future Administrations against the necessity of going deeply into debt to furnish relief to the needy. The law will flatten out the peaks and valleys of deflation and of inflation. It is, in short, a law that will take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness.

One doesn't need to be a student of history to see how those promises have been broken. Since then that "structure" has been enhanced through disability coverage, Medicare and Medicaid, as well as hundreds of other social welfare schemes. Today the national debt of the United States exceeds its total gross annual economic output, with no end in sight.

It's no surprise then that the annual deficit was 3.2 percent of the country's GDP in 2016, while it jumped to 3.5 percent last year.

History also provides clues as to how that "structure" that Roosevelt began will eventually collapse. Will it be like the present situation in Venezuela, with runaway inflation, a military takeover of the entire economic structure, run by a totalitarian communist? Will it be like Greece, with its endless series of defaults followed by endless new borrowing, leading to more defaults, leading to the point where no investor wants to lend money to the government? Will it end in total collapse, as in Zimbabwe, legendary for the destruction of its currency as that government tried to print enough money to feed the voracious monster it had created?

Washington's solution is to ignore these questions but instead work to gin up the economy, so it can generate more revenues to the government. After all, Social Security is deemed by its trustees to be sound right up until 2034. By then the present generation of politicians in Washington will be long gone, leaving that problem to those holding office then.

Ayn Rand was spot on: "We can ignore reality, but we cannot ignore the consequences of ignoring reality."

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