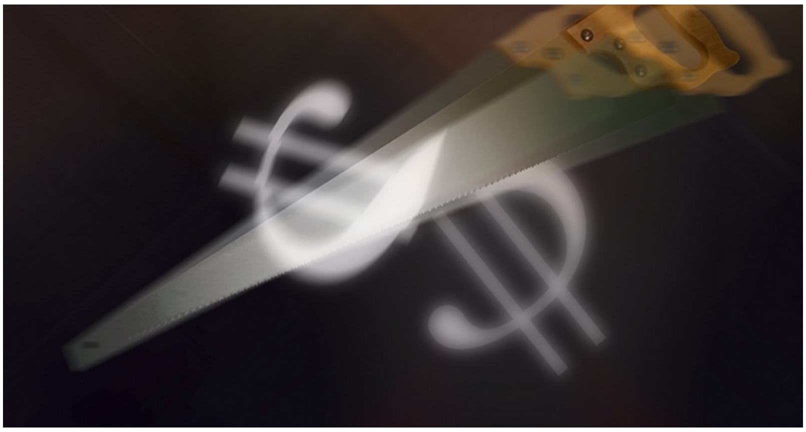
White House Announces This Year's Deficit Lower Than Expected



Last year the federal government's announced deficit was $680 billion, the first time in years that the figure fell below $1 trillion. In March the White House said this year's deficit would drop further, to $649 billion. On July 11, the administration amended that estimate down to $583 billion, while the Congressional Budget Office (CBO) says the real deficit for the fiscal year ending September will drop below $500 billion to $492 billion.

Naturally the White House took all the credit for the announced drop. Said acting White House budget director Brian Deese:

> Under the president's leadership, the deficit has been cut by more than half as a share of the economy, representing the most rapid sustained deficit reduction since World War II, and it continues to fall.
>
> At the same time, our economy is moving forward and businesses are creating jobs. Businesses have added nearly 10 million new jobs over the past 52 months.

The inevitable spin made it sound even better. The deficit, taken as a percentage of the country's total economic output of goods and services — its gross domestic product or GDP — is projected by the White House to fall below three percent in 2015 and even further, to 2.1 percent, by 2024.

The president was ecstatic about all the success he and his administration were having in allegedly reviving the moribund economy. Speaking in Dallas last Wednesday evening, Obama rejoiced:

> There's almost no economic measure by which we are not better off now than we were when I took office. We are indisputably better [off] than when I was elected.

The president failed to mention, however, that the respite will be short-lived, according to the CBO. Its latest estimate over the next decade shows the national debt growing to nearly $25 trillion (from its current $17-plus trillion). This is the result, says the CBO, of the entitlement programs (Social Security, Medicare, and Medicaid) continuing to grow out of control thanks to the increasing costs of healthcare, rising interest rates, and the Baby Boomer generation now receiving those benefits long promised over the past decades. Put another way, says the CBO, despite the reduction in the deficit, the national debt will be twice as large as it was just six years ago.

The president also failed to mention that Congress has violated its constitutional duty to rein in government spending and has, in fact, turned the federal credit card over to the White House — a card without a limit. After the 2012 election, an insignificant bill was presented to rename a traffic control center, but it was hijacked, reintroduced as the Temporary Debt Limit Extension Act, and passed by both the House and the Senate in February. That bill simply erased any practical limit on government spending by extending the debt limit to March 2015, conveniently after the November elections. This provides cover for incumbents from having to deal with questions from constituents about their voting to increase the debt limit because there won't be any such vote.

This passing of congressional responsibility over to the White House, coupled with the perception that deficits are dropping (at least for the moment), virtually guarantees that there will be no congressional action to put the brakes on government spending. Back in February Greg Valliere, chief political strategist for the Potomac Research Group, said: "We predict [that the] good news on red ink will make it virtually certain that no entitlement reform will occur until after the 2016 election." Treasury Secretary Jack Lew also sighed in relief that nothing will be done, now that deficits are said to be dropping: "We have a little time to deal with the long term."

The long term, however, is unnerving. Once the phony bookkeeping tactics are exposed, the real national debt is more than 12 times the country's total annual economic output, according to Boston University Professor Laurence Kotlikoff. In January he was pressed to explain why his numbers were so much different — so much higher — than those used by the CBO and the White House:

> **Host**: You've been writing for some time about America's fiscal problems. A lot of people disagree about how serious these problems are. You argue that they are serious. How bad is it?
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> **Kotlikoff**: I think it's terrible. I think we are probably in the worst fiscal shape [of] any developed country….
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> We've been piling up debts for over 6 decades … and we've been hiding them. We've been keeping them off the books and using economic labels — words — to pretend that they are not real liabilities of the government….
>
> The accounting is much worse, far worse than anything that Bernie Madoff, who ran that big pension Ponzi scheme, engaged in….
>
> It's really horrendous because the true debts of the country total about $205 trillion….
>
> So the country really is bankrupt and nobody sees it because of the bookkeeping.

Aside from the phony accounting that hides the true size of the national debt, there's another aspect to the deficit that both the CBO and the White House are not addressing: the percentage of the current budget that is being borrowed, and where those borrowings are going. Instead of counting the deficit against the country's GDP, by measuring the deficit as part of each year's budget, a vastly different picture emerges. Christopher DeMuth, a distinguished fellow at the conservative think-tank Hudson Institute, explained:

> The deficit is 18 percent of spending this year and is projected at 16 percent over the coming decade, before rising sharply to pay mounting Social Security and Medicare bills and mounting interest on the national debt….
>
> 75 percent of federal program spending is now for Social Security, unemployment compensation, Medicare and Medicaid, food stamps and housing subsidies….
>
> [These] payments to individuals have become not only the dominant but also the *most politically potent* form of spending. [Emphasis added.]

In other words, an increasing share of the federal government's annual budget must be borrowed, and most of that borrowing goes to individuals depending on them. DeMuth calls it "borrow and consume," which is not intended "to protect and enlarge the future, but rather to ease the present."

Just as Social Security has once again become the “third rail of politics” — touch it and you die — it now appears that any conversation about cutting the deficit and putting the government’s budget into balance or even creating a surplus, is becoming that third rail. Politicians nervous about voter backlash have neatly sidestepped the issue in two ways: giving the White House an unlimited credit card, and giving themselves a pass on doing anything about it at least until after the next election.

Since Congress has little interest in reining in government spending, and the White House is relishing its new role as spender-in-chief using the government’s gold card, what happens when the music stops? Put another way, when or how will the binge end? When the United States becomes such a poor credit risk that the bond market refuses to purchase any more government paper, what happens then? The answer: taxes, benefit cuts, and/or inflation.

Taxes, according to Kotlikoff, will have to be raised by 60 percent, permanently, even to come close to meeting those promises as they come due. In the absence of such draconian increases, benefits will have to be cut. But the Boomer generation is an increasingly large share of the voting population, and an increasingly noisy one, especially when benefit cuts are even mentioned. That leaves inflation: reducing the future value of those promises by continuing to dilute the purchasing power of the currency. However, that will be unacceptable to the Federal Reserve System, which maintains its present credibility only by keeping in check the price increases it is fomenting through inflation. Any threat to the banking system will be met with stern measures. Anyone doubting the Fed’s resolve in that matter need only review its own history in responding to the great inflation in the late 1970s.

All of this reveals that the news from the White House and the CBO about the temporary decline in the federal deficit is just cover for the vastly more difficult and substantial fiscal problems waiting just around the corner.

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