



## **The Ugly Truth About The Federal Budget Deficit**

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We are now in the political silly season concerning the closing of the federal budget deficit. Everyone knows that eventually—and probably sooner rather than later—our nation will deal with the deficit. Our recent history speaks strongly to this point.

Whenever the deficit become worrisome and the bond markets freak out or the dollar drops, presidents quickly break their campaign promises on the deficit, and that is a very good thing considering the silly things politicians think they have to say to get elected. The first President Bush promised no new taxes, and promptly increased them. President Clinton promised a middle class tax cut, and then raised those taxes. President Bush promises to cut the deficit in half in five years, but does not offer a credible plan to do so.

Assume for a moment that the economy can grow at an average rate of about 3 percent per year over the next ten years to 2014. And assume that the Bush tax cuts will be made permanent and not allowed to expire and the alternative minimum tax is revised. How can we close the deficit?

Advocates of small government propose to cut out business subsidies of all types, eliminate federal spending on K-12 education, close the EPA and resist further federal environmental regulations, and raise the age for full social security and Medicare benefits to 75. Even with all this, the deficit would still be about \$200 billion by 2014. So some taxes would also have to be increased to close the gap.

Alternatively, the Democratic front runner Howard Dean proposes rescinding the Bush tax cuts. Even if Dean did not increase other spending, such as his trillion dollar health care initiative, the budget would still be short \$250 billion by 2014. Unless growth averaged 4 percent per year for ten years, we can't close the deficit gap without both cutting the growth in federal spending and raising taxes.

It takes both to do the job, and to project 4 percent growth per year for a decade is as scary as it is silly.

In a recent Wall Street Journal article, David Wessel reminds us that about twenty years ago a Republican budget director said, “At some point, it is appropriate to put games aside—at least for a while. At some point, partisan posturing must yield to the responsibility to govern. Sooner or later, the American political system will rise to the responsibility to complete the job of fiscal policy correction.” That budget director was Richard Darman, who in 1990 persuaded President Bush to raise taxes. Darman’s message is as relevant today as it was then, and the sooner we heed it the better off we all will be.

This is Hank Fishkind for 90.7 FM, WMFE News.

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