U.S. Fiscal 2003 Deficit Could Top $500 Billion

by Richard Freeman

During the third week of May, the U.S. Treasury Department, in its parsed, dry language, dropped a bombshell: It reported that through the end of the first seven months of Fiscal Year 2003 (i.e., October 2002-April 2003), the Federal government registered an *official* budget deficit of $201.61 billion. Further, the Treasury projected that, were trends to continue, the U.S. government would run an *official* budget deficit of an unprecedented $304.16 billion for the full Fiscal Year 2003.

As dismal as this is, *EIR* has determined that the *actual* U.S. FY 2003 budget deficit will be much larger than the official one, which employs all sorts of statistical fakery to mask the true nature of the problem.

The key to understanding why the U.S. budget deficit is out of control, is to look at its real cause: the worsening collapse of the U.S. physical economy. This has collapsed tax revenues, especially of individual income taxes and corporate income taxes. Together, these two taxes form the bulk of U.S. government revenue.

It must be stressed that both the Democrats and the Republicans have tried to run away from the depression as the real cause of the budget deficit. The Democrats have blamed the deficit on Bush Administration tax cuts. While the 2001 Bush package of tax cuts, officially known as the Economic Growth and Tax Relief Reconciliation Act of 2001, and the current 2003 Bush tax package (whose effect has not yet been realized) are disastrous, 70-75% of U.S. government loss of revenue since 2001 has been caused by the depression.

Economic Collapse Wipes Out Tax Revenue

Table 1 shows the amount of individual income taxes taken in for the first seven months of fiscal years 2001, 2002, and 2003, and the amount of individual income taxes taken in for the entirety of fiscal years 2001 and 2002. The table estimates the amount of taxes to be taken in for the entire FY 2003, based on a continuation of the trends of the first seven months of that fiscal year. Were they to continue, individual income taxes would fall from $994.3 billion in FY 2001 to $790.0 billion in FY 2003, a staggering decline of 20.5%.

TABLE 1
Individual Income Taxes
($ billions)

Fiscal Year	First Seven Months	Entire Fiscal Year
2001	$657.3	$994.3
2002	$536.5	$858.3
2003	$493.8	$790.0[e]

e = estimated
Sources: U.S. Department of Treasury; *EIR*.

There are two overriding reasons for the collapse in individual income taxes: 1) The physical economic collapse has triggered a torrent of layoffs and wage cuts in the manufacturing sector and elsewhere. This has lowered the level of household income, and thus of taxable household income, for millions for households. 2) Since 2002, the New Economy/information technology bubble fell apart, which popped the stock market, and caused a sharp drop in taxes on capital gains realized from the stock market.

As **Table 2** shows, assuming the decline in corporate income taxes for FY 2003 to date, were to continue, they would fall from $151.1 billion in FY 2001 to $105.5 billion in FY 2003, a decline of 30.2%.

While there has been an increase in government spending in some areas, the principal cause of the burgeoning Federal deficit is not the spending side, but the tax revenue collapse, triggered by the collapse of the economy. If current trends

TABLE 2
Corporation Income Taxes
($ billions)

Fiscal Year	First Seven Months	Entire Fiscal Year
2001	$105.2	$151.1
2002	$88.2	$148.4
2003	$62.8	$105.5[e]

e = estimated
Sources: U.S. Department of Treasury; *EIR.*

were to continue, between FY 2001 and FY 2003, the combined drop in individual and corporation income taxes would total $249.6 billion, the largest two-year drop in the absolute amount of tax revenue in American history.

While the U.S. government has projected that the official FY 2003 budget deficit will hit $304.2 billion, itself a record, the real situation is worse.

The *official* budget deficit that the Treasury reports on, which is called the "unified budget," is a sham agglomeration, which illegally mixes the actual budget—called the General Revenue Budget—with the off-budget *surplus* of the Social Security Trust Fund. But the Social Security Trust Fund is a special fund, with its own dedicated tax revenue stream, and should not be mixed in. If one refuses to count the surplus of the Social Security Trust Fund, the Federal government's actual General Revenue Budget deficit is projected to reach $467.6 billion during Fiscal Year 2003. But that depends on current trends continuing; were tax revenues to plunge at a faster rate, which they have from quarter to quarter in the recent term, then the deficit could surge above $500 billion. Such a deficit, the result of a collapsing economy, is unsustainable.

Bush's Tax Cut Is Dangerous Policy

Making the crisis worse, is Bush's tax cut policy. On May 23, Vice President Dick Cheney cast the tie-breaking vote that passed the Bush Administration tax-cut package. The Senate version had been worked out by a House-Senate Conference Committee. Drafted by devotees of the Mont Pelerin Society, and giving President Bush everything he asked for and then some, the package, according to its supporters, will cost $350 billion over ten years. That figure is a monstrous deception. In fact, the package will cost between $670 billion and $1.06 trillion. The Straussians in the Administration, lied.

The Conference Committee's final package reflects the dominance of the House's version, which was put together by such Mont Pelerin Society adherents as Rep. Tom DeLay (R-Tex.). The tax cuts will exacerbate the revenue loss and thus increase the size of the deficit—the overriding cause of which is the economic depression. This manufactures the conditions for the same Mont Pelerin fascists to use as the pretext for reducing the budget deficit, to carry out ferocious austerity.

Deceitful Gimmicks

In tax writing, one usually looks at the cost over ten years, in this case, through Fiscal 2013. But, to reduce the apparent cost of a tax cut, one can say that it *expires* or *phases out* earlier than 2013—say, in 2008. In the Conference Committee version, of its eight major measures, most cuts are pencilled in as expiring in 2004 and 2005, even though the Republicans have vowed to come back and extend the cuts until 2013. Speaker of the House Dennis Hastert (R-Ill.) admitted this on May 22, stating, "The $350 [billion] number takes us through the next two years, basically. *But it could also end up being a trillion-dollar bill,* because this stuff is extendable" (emphasis added).

The package's centerpiece is the cut in taxes on stock dividends and capital gains. It reduces the top tax rate on capital gains from the prevailing rate of 20%, to 15%. Recall that the top rate on capital gains used to be more than 40%, before measures such as the Kemp-Roth Tax Act of 1981 reduced it. Most capital gains are realized by those households in the upper 20% income class.

The other major cut is in taxes on stock dividends. Under existing law, a household's dividend earnings are taxed at the same rate as that household's tax bracket. Those households in the top income bracket would pay a 38.5% income tax rate, and dividends would also be taxed at 38.5%. Under the new law, dividends will be taxed at 15%—a 60% reduction in the tax rate. The upper 10% income bracket owns more than 70% of the stocks, and thus collects more than 70% of the dividends.

The purpose of the capital gains and stock dividends tax cuts is to encourage and increase speculative investment in, principally, the stock market, and secondarily, real estate, art, and similar items.

If the tax cut on capital gains and stock dividends is extended out until Fiscal 2013, according to the Center on Budget and Policy Priorities, the cost of these two tax cuts alone will be $325 billion. Thus, these tax cuts, by themselves, almost equal the $350 billion that tax-cut supporters say the whole package will cost in total.

According to the Tax Policy Center, which is jointly run by the Brookings Institution and the Urban Policy Institute, 53% of households will enjoy a tax cut of $100 or less in 2003. The middle fifth of households in the income spectrum will get a cut of $217; households whose annual income is $1 million or more get a tax cut of $93,500!

The package also includes a tax break for businesses to make new investments and buy new equipment. But this provision is principally to encourage companies to buy IT products, such as computers and computer software, which the Commerce Department erroneously counts as "capital goods." For the most part, this is a mistaken move to revive the dying "New Economy."