**The Boys Who Cried Debt: The Case Against Cuts**
Joseph M. Schwartz

Republicans and conservative Democrats are whipping up public hysteria about the debt ceiling and the size of the federal deficit to justify cutting social programs that benefit the middle and working class. These scare tactics are hypocritical because conservatives militantly pushed for these same cuts when the federal budget was in surplus during the Clinton administration. The United States is not broke. The long-term deficit problem has not been caused by wasteful social spending, as the right contends, but by conservatives' thirty-year project of starving federal, state and local governments of revenue via tax cuts for the affluent and for corporations. As conservative activist Grover Nordquist quipped during the Reagan era, the goal of the right is to reduce the size of government and drown it in the bathtub. Of course, the "deficit problem" can readily be fixed without cutting Social Security or Medicare if we enact government policies that force the rich and corporations to pay their fair share in taxes and that curtail wasteful "defense" spending.

The Republican leadership never tells the public that well over half of the deficit spending from 2008-11 has nothing to do with the Obama administration's policies. Rather, it is due to the lost revenue from the Bush tax cuts and excessive military spending, including $170 billion per year in "off-budget" expenditures on the unnecessary wars in Iraq and Afghanistan. Stimulus spending and the bailout of financial institutions make up another 30 percent of the deficit spending of that period, with tax revenue shortfalls due to the recession constituting the remaining 20 percent. Much of these funds will be recovered if and when economic growth resumes. In contrast, drastic cuts to spending on vital social services will only prolong the recession. [1]

If Congress does not raise the debt ceiling in early August, the federal government will immediately be unable to pay 30 percent of its bills, including Social Security and Medicare payments. The United States Treasury has never defaulted on bond payments, and it probably won't this summer. But even a brush with default could send the global economy into a tailspin that might make the Great Recession look trivial. But Republicans and conservative Democrats are willing to play with fire because they want to use the threat of default to justify cutting government spending on basic social services.

Government budgets are a statement of a society's basic priorities and social values. We can readily afford our commitments to social insurance for the elderly and disabled and federal aid to children and the disadvantaged if we institute a fair and equitable tax structure. The Bush and Reagan tax cuts--which distributed 80 percent of their benefits to the top ten percent of income earners--each cost the federal coffers 2.1% of GDP in taxes per year, for a combined total of $600 billion a year in lost revenue. If we returned effective tax rates to the level of 1960, the federal government would take in $400-500 billion more dollars. In 1960, corporate taxes

[1] Center on Budget and Policy Priorities, "Economic Downturn and Bush Policies Continue to Drive Large Projected Deficits," http://www.cbpp.org/cms/?fa=view&id=3490

constituted thirty per cent of federal tax revenues; today, corporate taxes only make up seven per cent of federal revenues. [2]

Thus, returning marginal income and corporate tax rates to those of the Eisenhower era would immediately eliminate most of today's $1.2 billion federal deficit! Even if we can only reverse the Bush tax cuts on the most affluent 2 per cent (which would yield $70 billion a year in extra revenue) and abolish federal tax expenditures on corporations (such as the oil depletion allowance and the corporate exemption from having to pay taxes on foreign earnings) this would bring in $120 billion per year in revenues. Instituting a modest financial transactions tax of 0.25% on stock, bond, and derivatives trading – the level proposed by the European Union- could bring in another $200-300 billion per year. [3]

The same story can be told at the state and local level: if we taxed the top 20 percent of income earners at the same average rate that we tax the bottom quintile of taxpayers, most state budget deficits would disappear. [4] The money is there – if we tax those who have it.

Our budget problems also issue from public policies that increase income inequality, such as the conservative attack on the right to unionize. U.S. productivity has doubled over the past 30 years. However, over 90 percent of the resulting income gains have gone to the top ten percent of households. Couple that with massive tax cuts for the top ten percent of income earners and you obviously get a long-term structural deficit!

**Big Government, American Style**

Contrary to right-wing claims, except for prisons and the military the U.S. is the land of small, not big government. In fiscal year 2011, the U.S. will take in only 15 percent of its Gross Domestic Product (GDP) in federal tax revenue and another nine per cent of GDP in state and local taxes. Recessions lead to lower incomes and therefore lower tax intake. While we will take in 24 percent of our GDP as tax revenue in fiscal year 2011, we will spend 30 per cent of our GDP on public spending (at all levels of government). But this 30 per cent figure is well below the average of 36 per cent of GDP channeled through the United States public sector in the 1960s. And these figures pale in comparison with all other developed nations. Neo-liberal Britain is at the relative low end this fiscal year with 31 percent of tax revenue as a percentage of GDP and 36 per cent of GDP being government spending; Germany occupies a middle slot in 2011 with 36 per cent of GDP as tax revenue and over 40 percent of GDP as public expenditure. The Scandinavian countries and France spend 45 to 50 percent of their GDP on public expenditure. Why do the German, French, and Scandinavian electorates support these policies?

---

[2] Tax Policy Center, "The Bush Tax Cuts: How do they compare with the Reagan cuts?" http://www.taxpolicycenter.org/briefing-book/background/bush-tax-cuts/reagan.cfm

[3] CBPP, "Economic Downturn and Bush Policies Continue to Drive Large Projected Deficits," http://www.cbpp.org/cms/?fa_view&id=3490.

[4] United for a Fair Economy, "Flip It to Fix It," http://www.faireconomy.org/flipitreport

Because these countries raise tax revenue in a fairer, more progressive manner than does the U.S.. Additionally, the affluent utilize these societies' high-quality universal public health care and childcare programs and thus willingly pay higher taxes.

And what does our comparatively "small" government spend its revenues on? The conservative propaganda machine claims that federal and state governments waste huge amounts subsidizing poor people. Yet income support and anti-poverty programs such as Head Start, Food Stamps, and Supplemental Security Income constitute only fourteen percent of the federal budget. In reality, the federal government is basically an insurance company for the elderly that happens to have the world's biggest military. State governments do most of the spending on education, transportation, and Medicaid. Medicare, Medicaid and Social Security constitute over 41 per cent of the federal budget; "defense' constitutes another 21 per cent of the budget, with payment of interest on the debt (mostly to wealthy individuals) at 6 per cent. Cash transfers in the U.S. for unemployment insurance, Social Security, day care subsidies and the like amount to only 9 per cent of household disposable income, by far the lowest among the industrialized nations except South Korea. And we also rank next to last among the rich industrial countries in terms of social transfers that benefit the poor. In contrast, we rank first in tax subsidies for the affluent and for corporations. "Discretionary expenditure" constitutes only seventeen per cent of the federal budget. This rather miniscule portion of the budget is what funds education, transportation, and public investment in energy, infrastructure and job training. And this is the part of the federal budget that the Obama administration proposes to freeze! [5]

**Growing Our Way Out**

While the total federal debt of $14.2 trillion comes close to equaling our total GDP, the ratio of debt to GDP will naturally come down if we grow our way out of the recession. The loss in federal tax revenue due to the recession constitutes about 25 percent of the current $1.2 billion fiscal year 2011 deficit. And the one-time stimulus expenditures that saved at least two million jobs, according to the neutral Congressional Budget Office, represent another $250 billion of the current 2011 deficit. The stimulus comes to an end in fiscal year 2012. Whatever the wisdom of the TARP bailout of the banks, the bulk of this $700 trillion dollar program has been paid back to the federal government. It's not only leftists who agree with Keynes that government deficit spending must replace lost private and consumer demand during a recession. So do the bond markets. Despite right-wing ideological claims that public debt is crowding out private capital by raising interest rates, the continued absence of strong private demand for investment capital means that real interest rates are at all time low, with the federal funds rate at only 0.75% and the prime rate at only 3.25%.

Additionally, some deficit spending funds useful investments in education, infrastructure, job training and research and development. Just as corporations use debt to invest in growth (healthy corporations often have a debt to annual income ratio of 4:1), governments also should issue some debt. That's why most advanced democracies run average deficits, over the long run, of three per cent of GDP per year (the average annual rate of growth in the 20$^{th}$ century). If the economy grows faster over time than the rate of deficit spending, the total debt-GDP ratio stays the same or declines. In fact, the average ratio of total debt to GDP during strong growth periods

[5] CBPP, "Where Do Our Federal Tax Dollars Go?" http://www.cbpp.org/cms/index.cfm?fa=view&id=1258.

in OECD countries ranges from 40 to 60 per cent and normally rises to 70-90 per cent during sharp recessions.

The one structural aspect of our deficit that is not healthy – and that conservatives fail to address – is that caused by our massive trade deficit. The United States needs to produce more useful goods for domestic and international consumption if we are to cease transferring our debt to foreign investors. We should also engage in international trade and labor policies that support labor rights for Chinese and other low-wage workers. But we can only reverse this loss of advanced industrial production in the United States if the federal government makes investments -- in infrastructure, research and development, and alternative energy and mass transit – that will spur private investment in new forms of industrial output.

**A "People's Budget"**

The U.S. can readily afford a humane federal budget that funds productive public investments for our future if we restore progressive taxation and enact prudent but major cuts in "defense" spending. "The People's Budget" for fiscal year 2012 put forth by the Congressional Progressive Caucus (CPC) achieves these very goals. The People's Budget ends spending on the wars in Afghanistan and Iraq and cuts wasteful defense spending while preserving all funding for anti-poverty programs and radically expanding public investments in infrastructure, education, job training, and alternative energy by $300 billion a year – while bringing the total budget into balance by 2021. [6]

The CPC budget rejects the various "bipartisan" budget deficit reduction commission plans that call for achieving a balanced budget through major cuts to Medicare, Social Security, and Medicaid. It also preserves the long-term viability of Social Security by simply raising the cap on income subject to the Social Security tax (currently set at $106,000) and providing a path to citizenship for the eight million productive undocumented immigrants who often do not pay into the Social Security system.

The budget also recognizes that Medicare and Medicaid can only be saved if we put a halt to corporate-driven inflation in medical costs. If we instituted a single-payer Medicare-for-all policy that eliminated the role of private health insurers, we could lower the 25% of private health care dollars spent on health insurance company administration and advertising to Medicare's seven percent administrative costs.

Profligate spending on the poor did not cause the budget crisis. Tax giveaways to the rich and corporations, massive military expenditure, and an out of control financial sector drove us into the Great Recession and now prevent us from enacting a budget that serves human needs. The irresponsible policies of corporate America caused the economic crisis. We can only revive the economy if we implement a fair tax system that funds vital social programs and public investment in education, infrastructure and research and development.

---

[6] For more information, see "The People's Budget" http://grijalva.house.gov/uploads/The%20CPC%20FY2012%20Budget.pdf.