The Significance of Perpetual Trillion Dollar Deficits

> [These are my introductory comments about a news article from the *Washington Post* which I forwarded to friends on Jan. 7, 2009. –S.H.]

Hi everybody,

The article below talks about how Obama expects not only a federal deficit of $1 trillion or more this fiscal year, but that similar trillion-dollar-range deficits will continue for years into the future. If he and the Congress continue to be willing to generate such deficits, and do so in a way which serves to promote consumer spending (instead of just giving more hundreds of billions to the banks), we can then make a much better guess about how the economic crisis will be developing over the next few years.

In my opinion there have actually been two major scenarios about how things will play out over the next several years:

SCENARIO ONE: The first scenario is one of in-and-out of serious recession, but no outright depression for at least 5 or 8 years yet. This is what is most likely if the government is truly willing to generate the ultra-massive deficits as Obama projects, *and* if the international economic situation and/or falling dollar don't get totally out of hand.

SCENARIO TWO: Deepening recession developing into major depression within the next 2 or 3 years (possibly with a relative easing—but still recession conditions—toward the end of 2009, followed by a major relapse). This is what will happen if the government doesn't continue ultra-massive Keynesian deficits on essentially a permanent basis. It *might* happen even if those massive deficits do continue, depending on what happens to the dollar.

Some weeks ago, either just before or just after the election, Obama made some comments about the need for greater budget discipline and striving toward the direction of a balanced federal budget. That sounded rather like FDR when he came into office, and if Obama were to follow through on that idea it might take outright depression conditions to force him to change his mind (as it did the depression relapse in 1937-38 in the case of FDR).

But this apparent new recognition by Obama that ultra-massive deficits will be necessary for years to come suggests to me that Scenario One above is now the most likely.

In any case, these ultra-massive deficits, which must also continually *increase* over time to keep warding off recession/depression, can almost certainly not continue for as long as a decade. Before that time the dollar will collapse, inflation on a scale never seen before in this country (not even during the double-digit inflation years of the late 1970s-early 1980s) will break out, and deficit spending will become less and less effective. Then we will sink into more or less permanent depression conditions, both in the U.S. and the whole world.

Thus, full scale depression is almost inevitable sometime during this coming decade.

By depression I mean the full working out of *all* the dialectical contradictions inherent in the capitalist economic system. (See my essay on economic crises on http://www.massline.org/PolitEcon for more info.) Bourgeois economists talk about "depression" in the same vague ways they do all social categories. Just as the "middle class" is some vague and arbitrary category for them, so is "depression". All they really mean by the term is something comparable to the 1930s, with unemployment approaching 25%, say. Well, even in that vague sense depression is coming, for sure. Already actual unemployment is well above 12%. (Official statistics claim much less; I'll get into this in more detail in a later letter.)

It is true that even once the depression begins it might be possible to interrupt it for relatively short periods (through exceptionally huge Keynesian deficit blasts, enormous public works programs involving tens of millions of workers, etc.—provided the dollar still has some value!). But it will soon return again with even greater force, and with fewer means to further interrupt it.

Only the truly massive destruction of excess capital can really end the current economic crisis and the coming depression, and there seems to be no real possibility of that happening for at least several decades.

Scott

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Obama Predicts Years of Deficits Over $1 Trillion
President-Elect Says Budget Reform Is 'Absolute Necessity'

By Lori Montgomery
Washington Post Staff Writer
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Slowing tax revenues and a historic bailout of the U.S. financial system will send the budget deficit soaring toward $1 trillion this year, President-elect Barack Obama said yesterday, and the red ink stands to get substantially deeper if Obama wins approval of a massive economic stimulus plan.

Even if the package of spending and tax cuts helps restore the nation's immediate economic health, Obama said, the government is likely to be left with "trillion-dollar deficits for years to come" unless policymakers "make a change in the way that Washington does business."

"We're going to have to stop talking about budget reform. We're going to have to totally embrace it. It's an absolute necessity," the president-elect told reporters a day before the Congressional Budget Office is set to release its outlook for the coming year.

Obama faces the twin challenges of managing the deficit, the annual gap between tax revenues and spending, and the swelling national debt, the amount of money that the government has borrowed to finance years of deficits. His task is made all the more difficult because new spending is widely viewed as the best way to pull the nation out of the recession. While Obama has declined to say how he intends to deal with such challenges, an economic adviser said yesterday that the president-elect plans to unveil "major initiatives" designed to eventually bring the deficit under control as part of his first budget proposal, which he will submit to Congress next month.

Obama also has scheduled a news conference for today to make a "personnel announcement" related to budget reform, aides said.

In the meantime, Obama said he will incorporate a trio of provisions in the nearly $800 billion stimulus package under review by Congress -- dubbed the American Recovery and Reinvestment Act -- to ensure that the money is not wasted. The provisions include establishing a special panel to monitor use of the money; a Web site that will allow taxpayers to monitor use of the money; and a ban on lawmakers' pet projects, known as earmarks.

"We're going to be investing an extraordinary amount of money to jump-start our economy, save or create 3 million new jobs, mostly in the private sector, and lay a solid foundation for future growth. But we're not going to be able to expect the American people to support this critical effort unless we take extraordinary steps to ensure that the investments are made wisely and managed well," Obama said after an hour-long meeting with his economic team.

Today's CBO report will provide the first official estimate of how Washington's various economic salvage operations have affected the nation's finances. One of the primary participants in yesterday's meeting was Peter Orszag, who stepped down as CBO director in November to serve as Obama's budget chief. Orszag should be intimately familiar with the forthcoming CBO report; Obama said Orszag advised him of the grim deficit forecast.

In announcing the news a day early, Obama cast himself as the unfortunate heir to President Bush's fiscal "irresponsibility," saying Bush's policies have doubled the national debt over the past eight years and delivered "the worst economic crisis that we've seen since the Great Depression." Though Obama plans to keep some of Bush's most expensive policies -- including many of the tax cuts enacted during Bush's first term in office -- Obama has vowed to scour the budget for wasteful spending.

"We are going to bring a long-overdue sense of responsibility and accountability to Washington," Obama said. "We are going to stop talking about government reform, and we're actually going to start executing."

Bush's tax cuts helped eliminate the surpluses of the Clinton years and helped drive the annual budget deficit to a record $413 billion in 2004. The deficit later plummeted to $162 billion in 2007 but soared to $455 billion in the fiscal year that ended in September, largely because of a small stimulus package enacted last February, slowing tax revenues and rising expenses in Iraq and Afghanistan.

Initial projections suggested that the deficit for the fiscal year that began Oct. 1 would be about $550 billion. But since then, the budget outlook has only gotten bleaker.

As the economy has weakened, tax collections have slowed, and spending on food stamps and unemployment benefits have increased. Meanwhile, Congress approved a $700 billion bailout to stabilize fragile financial markets by purchasing the stock and assets of banks, insurance companies and other institutions. Though much of that money is invested in assets that eventually will be sold, returning at least some of the money to the government, the bailout is likely to add another $200 billion to the deficit this year, according to a letter CBO analysts sent last month to House Majority Leader Steny H. Hoyer (D-Md.).

Those developments alone are pushing this year's deficit toward $1 trillion, said an Obama economic adviser. If approved, Obama's stimulus package would clearly add hundreds of billions of dollars to the deficit in 2009, the adviser said.

Even if only half the stimulus money is spent this year, the deficit could easily top $1.4 trillion, or nearly 10 percent of the economy -- a budget hole not seen since the end of World War II. Many Wall Street analysts expect the deficit to go higher, however; a recent Treasury survey found that major bond dealers expect the nation to borrow as much as $2 trillion by the end of September.

The mounting debt has raised an alarm on Capitol Hill, where some Republicans and moderate Democrats are pressing Obama to tackle the looming challenge of skyrocketing Medicare and Social Security spending, and to adopt tough new budget rules to prevent future deficits from ballooning.

Congressional aides said one possibility would be a return to the stringent budget rules of the late-1980s, when overspending automatically triggered across-the-board cuts to federal programs, a process known as "sequestering."

Hoyer, a champion of fiscally conservative Democrats in the House, acknowledged that sequestering is an option. But it's "not something lawmakers are eager to approve," he said, because it would take control over federal spending out of the hands of Congress.