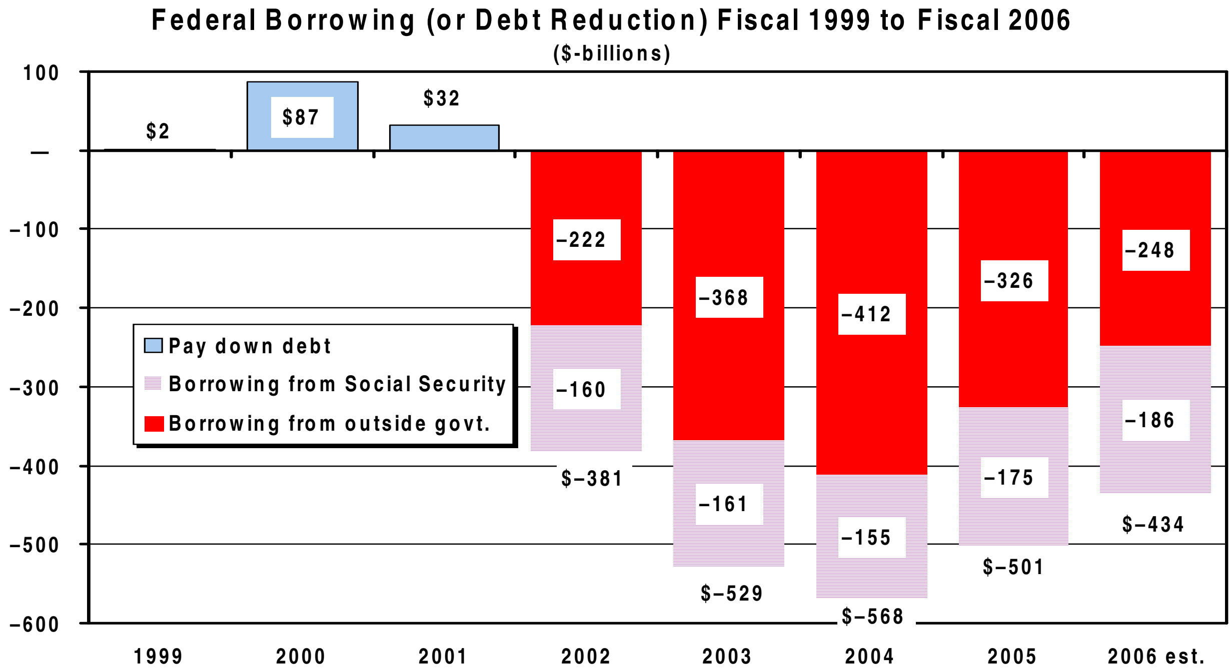
How Big is the Deficit — Really?

On October 11, the Bush administration announced that the fiscal 2006 budget deficit is $248 billion. In reality the budget deficit is much larger. Including the $186 billion borrowed from the Social Security Trust Fund, it is $434 billion for fiscal 2006. That brings total federal borrowing over the past five years to $2,413 billion.

That $2.4 *trillion* in borrowing means that from fiscal 2002 through fiscal 2006, a quarter of non-Social Security federal spending will be financed with borrowed money.

In contrast, in fiscal 1999 through 2001, the federal government did not borrow a penny from the Social Security Trust Fund. Indeed, the government saved all of Social Security's $434 billion in surpluses, and actually ran surpluses in its regular budget, too, thus paying down the national debt by $120 billion.



Note: Effects of the 2001 Bush tax cuts in fiscal 2001 are counted in fiscal 2002.

The Bush administration prefers not to count the $825 billion it has raided from the Social Security Trust Fund over the past five years as part of its borrowing. Instead, it contends that "only" the $1,624 billion it has borrowed from other sources should count. In general, the media has mistakenly accepted the administration's lower, albeit still gigantic, deficit figure.

There is a limited utility to this lower, so-called "unified" deficit figure — specifically, it's the right way to measure the national savings rate in a given year in the national income accounts. But it is not proper to ignore the amounts borrowed from Social Security for budgetary purposes.

Imagine for example, that in a year, you take home $50,000 in earnings, plus another $7,000 that your employer puts in your retirement account. That retirement account money, of course, is what you'll need to live on when you stop working. But what if you spend $67,000 in that year, financed in part by raiding the whole $7,000 from your retirement fund. You, and everyone else, knows that you've spent $17,000 more than your disposable income for that year. But the Bush administration would say you only spent $10,000 over your disposable income, since after all, the $7,000 you took from your retirement fund was money you "borrowed from yourself." This ignores, of course, the fact that if you keep doing this you won't have anything left to retire on.

Until 1983, the Social Security Trust Fund was insignificant. Instead, Social Security was run on a pay-as-you-go system, with virtually all the money raised in payroll taxes used to pay current benefits. In 1983, however, the system was changed so that payroll taxes would substantially exceed benefit payments for a very long time. The theory was that if the rest of the government behaved itself by balancing its revenues and outlays, then the surpluses in Social Security could be used to pay down the national debt. Then, when the baby boomer generation retired, the government would be able to fulfill its obligations to retirees more easily, because it would not be paying large amounts in interest on the debt.

Unfortunately, this promise was immediately broken. President Reagan and the first President Bush both spent every penny of the growing Social Security surpluses on tax cuts and other government programs.

Only at the end of the 1990s, under President Clinton, did our government finally begin to save the Social Security surpluses as it had promised.

Sadly, however, the second President Bush has reverted to the borrow-and-spend policies of his father and President Reagan.

This is not only reckless budget policy, it's extremely unfair tax policy. As a retirement plan, the Social Security payroll tax, despite the fact that it only applies to the first $90,000 in earnings, is easily defended, since benefits are calculated only on covered earnings (and the calculation heavily favors lower earners). But how can anyone justify using a tax that mostly exempts the richest Americans to pay for, say, defense spending to protect our lives and property? After all, the rich have the most property to defend.

In fact, the late Senator Daniel Patrick Moynihan (D-NY), one of the architects of the 1983 decision to build up the Social Security Trust Fund, became so frustrated with what he saw as the immoral failure of President Reagan and the first President Bush (and the Congress) to live up to the promise to save Social Security's surpluses for the future, that by the early 1990s he was calling for abandoning that system, cutting payroll taxes (and raising progressive income taxes to make up the shortfall), and returning Social Security to pay-as-you go.

The bottom line is that spending, rather than saving, the Social Security surplus should be seen for what it is: borrowing from the future. The real budget deficits under President Bush so far have totaled $2.4 trillion, not a mere $1.6 trillion. ■