US budget office revises upwards growth of debt

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The US Congressional Budget Office (CBO) this week issued an update to its forecast of the growth of public debt issued in February, which showed that the level of debt, already characterised by the Treasury and others as "unsustainable," is rising faster than it had forecast just four months ago.

According to the latest report, the national debt will rise from its present level, rapidly approaching $35 trillion, to $56 trillion over the next decade.

The CBO also revised upwards the estimate of the budget deficit for 2024 from $1.6 trillion to $1.9 trillion—an increase of more than 20 percent.

As a proportion of GDP, the debt will rise from almost 100 percent in 2024 to 122 percent in a decade's time, meaning that the debt is growing at a much faster rate than real economic output. Interest rate costs to service the debt, now approaching $1 trillion, will rise to $1.7 trillion by 2034.

Commenting on the latest data to the *New York Times*, Michael Peterson of the Peter G. Peterson Foundation, a think tank which has been a long-time advocate of spending cuts, noted one of the immediate causes for the escalation.

"The harmful effects of higher interest rates fuelling higher interest costs on a huge existing debt load are continuing, and leading to additional borrowing. It's the definition of unsustainable," he said.

In response to the initial report in February, CBO director Phillip Swagel told the *Financial Times* that US government debt was on an "unprecedented" trajectory and could lead to the type of crisis which engulfed the UK financial system in September-October 2022, when the short-lived Tory government of Liz Truss proposed major tax cuts for the wealthy and corporations to be financed by debt.

He said the US was "not there yet," but bond markets could "snap back" as they had in Britain. That possibility has only increased in the three months since the interview.

The issue of the growing deficit will be the subject of a series of conflicts in Congress in the lead-up to the presidential election as the Democrats and Republicans seek to blame each other for the worsening situation while agreeing on the essential issue—that the working class should be made to pay.

The central plank of the Republican platform is that the tax cuts under the Trump administration in 2017, which massively benefited corporations and the wealthy, should be extended beyond their scheduled expiry date of 2025.

Their key argument—based on the so-called Laffer curve, reputedly first elaborated on the back of a restaurant napkin by Arthur Laffer in 1974 with then White House chief of staff Donald Rumsfeld and his deputy Dick Cheney—is that tax cuts would generate economic growth and so pay for themselves as government revenue increased.

That theory was discredited during the Reagan administration, when tax cuts produced increased deficits, and in the recent period.

In 2018 the CBO estimated that the tax cuts would generate enough revenue via economic growth to cover just 20 percent of the costs. But last month CBO director Swagel said economic studies had shown their effect was even less.

Biden has already said he will extend some of the tax cuts, while Trump has said he will fully extend them with the cost to government revenue estimated to be $5 trillion over the next ten years.

While there may be differences over tax cuts, largely at the margin, there is basic agreement on the need to attack retirement benefits and health care.

The position of the entire political establishment was set out by the *Times*, which functions very much as a mouthpiece for the Democrats, in its article on the CBO's revised estimate.

It said the mounting costs of Social Security and Medicare "continue to weigh heavily on the nation's finances, along with rising interest rates, which have made it more costly for the federal government to borrow huge sums of money."

And further on, just to make sure the point was not lost, it said the "fights over tax and spending will be taking place at a time when the country's fiscal backdrop is increasingly grim. An aging population continues to weigh on America's old-age and retirement programs, which are facing long-term shortfalls that could result in reduced retirement and medical benefits."

Significantly, reflecting bipartisan agreement, there was not a word in the article about one of the main reasons for the escalation of the deficit—the raising of US military spending to record highs.

Such is the toxic state of what passes for official politics, the issue of the deficit will no doubt be clouded by claims that immigrants, including those who are undocumented and dubbed "illegal," are somehow dragging down the US government finances.

The CBO assessment gave the lie to that poisonous assertion, pointing out that new immigrants are expected to pay almost $1 trillion in taxes more than they consume in federal government benefits.

The issue of the US deficit is by no means a domestic concern. It has major international ramifications because as it pursues its drive for global hegemony through war, the US dollar, the basis of the global financial system, is the national currency of what is essentially a bankrupt imperialist state.

Faced with what amounts to an existential crisis, the US state will seek to resolve it by a war on two fronts: against the working class at home and through the intensification of an already well-advanced global war – in the Middle East, against Russia and against what it considers to be its chief rival, China.

On the financial front, the rapid escalation of US debt has already led to alarm bells being sounded.

In its *Fiscal Monitor Report* issued in April, the International Monetary Fund said the massive US deficits had stoked inflation and posed "significant risks" for the global economy.

In his presentation of the IMF's *World Economic Outlook* report, its chief economist Pierre-Olivier Gourinchas said that, as well as short-term risks for the disinflation process, the deficit raised "longer-term fiscal and financial stability risks for the global economy" and that "something will have to give."

Back in February when the CBO issued its assessment of the budgetary position of the US, FT writer Chris Giles noted that across Europe and in the US, governments were running their budgets in a "fantasy world," as if in a fairy tale where something magical turns up and everyone lives happily ever after.

He pointed out that prospective US borrowing was about "50 percent higher than that proposed by former British chancellor Kwasi Kwarteng in his 2022 'mini' budget which blew up the UK bond market."

The CBO figures were worrying enough if taken at face value, but they could not because it had been "persistently too optimistic in recent years," basing its projections on existing US policy, including the implausible assumption that the Trump tax cuts would expire at the end of 2025.

"But perhaps the biggest fantasy of all," he concluded, "is the expectation that anything will happen to resolve unsustainable budgets without a crisis. We are much more likely to continue muddling along, pretending things are just about OK until something cracks. The trouble is that the fiscal system will break and there will be no happy ending."