

# The Real Causes of Deficits and the US Debt. Next Phases in Trump Fiscal Strategy

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*With the Senate and House all but assured to pass the US\$4.5 trillion in tax cuts for businesses, investors, and the wealthiest 1 percent households by the end of this week, phases two and three of the Trump-Republican fiscal strategy have begun quickly to take shape.*

Phase two is to maneuver the inept Democrats in Congress into passing a temporary budget deficit-debt extension in order to allow the tax cuts to be implemented quickly. That's already a 'done deal'.

Phase three is the drumbeat growing to attack social security, Medicare, food stamps, Medicaid, and other 'safety net' laws, in order to pay for the deficit created by cutting taxes on the rich. To justify the attack, a whole new set of lies are resurrected and being peddled by the media and pro-business pundits and politicians.

## Deficits & Debt: Resurrecting Old Lies and Misrepresentations

Nonsense like social security and Medicare will be insolvent by 2030. When in fact social security retirement fund has created a multi-trillion dollar surplus since 1986, which the U.S. government has annually 'borrowed', exchanging the real money in the fund created by the payroll tax and its indexed threshold, for Treasury bonds deposited in the fund. The government then uses the social security surplus to pay for decades of tax cuts for the rich and corporations and to fund endless war in the middle east.

As for Medicare, the real culprit undermining the Medicare part A and B funds has been the decades-long escalating of prices charged by insurance companies, for-profit hospital chains (financed by Wall St.), medical devices companies, and doctor partnerships investing in real estate and other speculative markets and raising their prices to pay for it.

As for Part D, prescription drugs for Medicare, the big Pharma price gouging is even more rampant, driving up the cost of the Part D fund. By the way, the prescription drug provision, Part D, passed in 2005, was intentionally never funded by Congress and George Bush. It became law without any dedicated tax, payroll or other, to fund it. Its US\$50 billion plus a year costs were thus designed from the outset to be paid by means of the deficit and not funded with any tax.

Social Security Disability, SSI, has risen in costs, as a million more have joined its numbers since the 2008 crisis. That rise coincides with Congress and Obama cutting unemployment insurance benefits. A million workers today, who would otherwise be unemployed (and raising the unemployment rate by a million) went on SSI instead of risking cuts in unemployment benefits. So Congress's reducing the cost of unemployment benefits in effect raised the cost of SSI. And now conservatives like Congressman Paul Ryan, the would be social security 'hatchet man' for the rich, want to slash SSI as well as social security retirement, Medicare benefits for grandma and grandpa, Medicaid for single moms and the disabled (the largest group by far on Medicaid), as well as for food stamps.

Food stamp costs have also risen sharply since 2008. But that's because real wages have stagnated or fallen for tens of millions of workers, making them eligible under Congress's own rules for food stamp distribution. Now Ryan and his friends want to literally take food out of the mouths of the poorest by changing eligibility rules.

They want to cut and end benefits and take an already shredded social safety net completely apart—while giving US\$4.5 trillion to their rich friends (who are their election campaign contributors). The rich and their businesses are getting \$4.5 trillion in tax cuts in Trump's tax proposal—not the \$1.4 trillion referenced in the corporate press. The \$1.4 trillion is after they raise \$3 trillion in tax hikes on the middle class.

Whatever financing issues exist for Social Security retirement, Medicare, Medicaid, disability insurance, food stamps, etc., they can be simply and easily adjusted, and without cutting any benefits and making average households pay for the tax cuts for the rich in Trump's tax cut bill.

Social security retirement, still in surplus, can be kept in surplus by simply one measure: raise the 'cap' on social security to cover all earned wage income. Today the 'cap', at roughly US\$118,000 a year, exempts almost 20 percent of the highest paid wage earners. Once their annual salary exceeds that amount, they no longer pay any payroll tax. They get a nice tax cut of 6.2 percent for the rest of the year. (Businesses also get to keep 6.2% more). Furthermore, if capital income earners (interest, rent, dividends, etc.) were to pay the same 6.2% it would permit social security retirement benefits to be paid at two thirds one's prior earned wages, and starting with age 62. The retirement age could thus be lowered by five years, instead of raised as Ryan and others propose.

As for Medicare Parts A and B, raising the ridiculously low 1.45 percent tax just another 0.25 percent would end all financial stress in the A & B Medicare funds for decades to come.

For SSI, if Congress would restore the real value of unemployment benefits back to what it was in the 1960s, maybe millions more would return to work. (It's also one of the reasons why the labor force participation rate in the U.S. has collapsed the past decade). But then Congress would have to admit the real unemployment rate is not 4.2 percent but several percentages higher. (Actually, it's still over 10 percent, once other forms of 'hidden unemployment' and underemployment are accurately accounted for).

As for food stamps' rising costs, if there were a decent minimum wage (at least US\$15 an hour), then millions would no longer be eligible for food stamps and those on it would significantly decline.

In other words, the U.S. Congress and Republican-Democrat administrations have caused the Medicare, Part D, SSI, and food stamp cost problems. They also permitted Wall St. to get its claws into the health insurance, prescription drugs, and hospital industries-financing mergers and acquisitions activity and demanding in exchange for lending to companies in those industries that the companies raise their prices to generate excess profits to repay Wall St. for the loans for the M&A activity.

### The Real Causes of Deficits and the Debt

So if social security, medicare-medicaid, SSI, food stamps, and other social safety net programs are not the cause of the deficits, what then are the causes?

In the year 2000, the U.S. federal government debt was about US\$4 trillion. By 2008 under George Bush it had risen to nearly US\$9 trillion. The rise was due to the US\$3.4 trillion in Bush tax cuts, 80 percent of which went to investors and businesses, plus another US\$300 billion to U.S. multinational corporations due to Bush's offshore repatriation tax cut. Multinationals were allowed to bring US\$320 billion of their US\$750 billion offshore cash hoard back to the U.S. and pay only a 5.25 percent tax rate instead of the normal 35 percent. (By the way, they accumulated the US\$750 billion hoard was a result of Bill Clinton in 1997 allowing them to keep profits offshore untaxed if not brought back to the U.S. Thus the Democrats originally created the problem of refusing to pay taxes on offshore profits, and then George Bush, Obama, and now Trump simply used it as an excuse to propose lower tax rates for repatriated the offshore profits cash hoard of US multinational companies. From \$750 billion in 2004, it's now \$2.8 trillion).

So the Bush tax cuts whacked the U.S. deficit and debt. The Bush wars in the middle east did as well. By 2008 an additional US\$2 to US\$3 trillion was spent on the wars. Then Bush policies of financial deregulation precipitated the 2007-09 crash and recession. That reduced federal tax revenue collection due to collapse economic growth further. Then there was Bush's 2008 futile \$180 billion tax cut to stem the crisis, which it didn't. And let's not forget Bush's 2005 prescription drug plan—a boondoggle for big pharmaceutical companies—that added US\$50 billion a year more. As did a new Homeland Security \$50 billion a year and rising budget costs.

There's your additional US\$5 trillion added by Bush to the budget deficit and U.S. debt—from largely wars, defense spending, tax cuts, and windfalls for various sectors of the healthcare industry.

Obama would go beyond Bush. First, there was the US\$300 billion tax cuts in his 2009 so-called 'recovery act', mostly again to businesses and investors. (The Democrat Congress in 2009 wanted an additional US\$120 billion in consumer tax cuts but Obama, on advice of Larry Summers, rejected that). What followed 2009 was the weakest recovery from recession in the post-1945 period, as Obama policies failed to implement a serious fiscal

stimulus. Slow recovery meant lower federal tax revenues for years thereafter.

Studies show that at least 60 percent of the deficit and debt since 2000 is attributable to insufficient taxation, due both to tax cutting and slow economic growth below historical rates.

Obama then extended the Bush-era tax cuts another US\$803 billion at year-end 2010 and then agreed to extend them another decade in January 2013, at a cost of US\$5 trillion. The middle east war spending continued as well to the tune of another \$3 trillion at minimum. Continuing the prescription drug subsidy to big Pharma and Homeland Security costs added another \$500 billion.

In short, Bush added US\$5 trillion to the US debt and Obama another US\$10 trillion. That's how we get from US\$4 trillion in 2000 to US\$19 trillion at the end of 2016. (US\$20 trillion today, about to rise another US\$10 trillion by 2027 once again with the Trump tax cuts fast-tracking through Congress today).

To sum up, the problem with chronic U.S. federal deficits and escalating Debt is not social security, Medicare, or any of the other social programs. The causes of the deficits and debt are directly the consequence of financing wars in the middle east without raising taxes to pay for them (the first time in U.S. history of war financing), rising homeland security and other non-war defense costs, massive tax cuts for businesses and investors since 2001, economic growth at two thirds of normal the past decade (generating less tax revenues), government health program costs escalation due to healthcare sector price gouging, and no real wage growth for the 80 percent of the labor force resulting in rising costs for food stamps, SSI, and other benefits.

Notwithstanding all these facts, what we'll hear increasingly from the Paul Ryans and other paid-for politicians of the rich is that the victims (retirees, single moms, disabled, underemployed, jobless, etc.) are the cause of the deficits and debt. Therefore they must pay for it.

But what they're really paying for will be more tax cuts for the wealthy, more war spending (in various forms), and more subsidization of price-gouging big pharmaceuticals, health insurance companies, and for-profit hospitals which now front for, and are indirectly run by, Wall St.

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