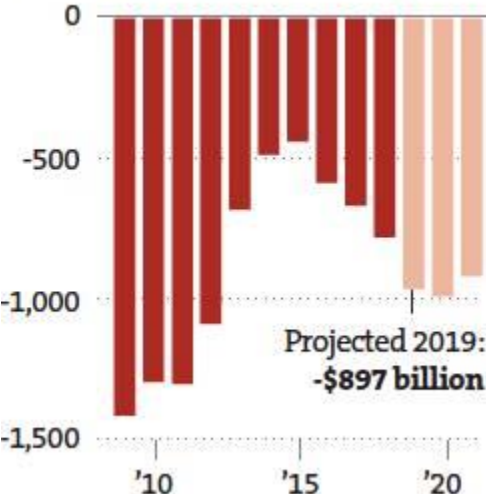


Deficit up 77% to start the year

Startling jump from same period of 2018 blamed on tax cuts, higher spending.

By DAMIAN PALETTA Washington Post

Federal deficits by fiscal year



WASHINGTON - The federal budget deficit ballooned rapidly in the first four months of the fiscal year amid falling tax revenue and higher spending, the Treasury Department said Tuesday, posing a new challenge for the White House and Congress as they prepare for a number of budget battles.

The deficit grew 77 percent in the first four months of fiscal year 2019 compared with the same period one year before, Treasury said.

The total deficit for the four-month period was \$310 billion, Treasury said, up from \$176 billion for the same period one year earlier. "It's big tax cuts combined with big increases in spending when they already had big deficits," said former Senate Budget Committee Chairman Kent Conrad, D-N.D. "So guess what, it's craziness!"

When Republicans seized control of the House during the Obama administration, lawmakers and White House officials embarked on a number of strained negotiations to try and reduce the gap between spending and tax revenue. During the Trump administration, there have not been any similar discussions, and Trump has largely pushed for an agenda of tax cuts and spending increases that has grown the deficit markedly.

Tax revenue for October 2018 through January 2019 fell \$19 billion, or 2 percent, Treasury said. It noted a major reduction in corporate tax payments over the first four months of the fiscal year, falling close to 25 percent, or \$17 billion.

As part of the 2017 tax cut law, the tax rate paid by corporations was lowered from 35 percent to 21 percent.

Spending, meanwhile, increased 9 percent over the same period.

The biggest increases were for military programs, which saw a 12 percent increase, and Medicare, which saw a 16 percent increase.

The Congressional Budget Office has projected that the deficit this year will reach close to \$900 billion .

The White House next week is expected to propose a new budget plan for the fiscal year that begins in October, and Democrats are working on spending plans of their own. So far, there has been little effort to reconcile differences between both parties, and neither has shown much interest in addressing the widening budget deficit.

The White House plan will propose cutting a number of domestic programs by at least 5 percent, including things like environmental protection, education, and foreign aid, according to Trump administration officials who have previewed some of the plans. It will also propose adhering to caps on military and nonmilitary programs put in place several years ago, but it will simultaneously propose boosting defense spending in an uncapped program as a way to divert more money to the military.

Fiscal conservatives have criticized this type of maneuver in past years, but White House acting budget director Russ Vought wrote in an editorial last week that it was the best option for diverting more money to the military.

The ballooning deficit comes as interest rates are expected to begin rising, driving up the cost of borrowing money. The government is projected to spend \$383 billion on interest payments for its debt this year, and that will rise to \$581 billion in 2022, according to CBO.

There has been a total breakdown in Washington, however, over how to address the budget deficit. The White House has walled off popular programs Medicare and Social Security from any proposed cuts, with Trump saying it would be too politically unpopular to pursue changes to programs used by tens of millions of Americans.

Democrats are also split over how to proceed. The ranks of fiscal hawks have dwindled, and a newer, vocal wing of the party has called for more deficit spending to finance social programs. Some in that wing argue the debt is less pressing than other social maladies, such as poverty or inadequate health coverage .

Instead of trying to resolve their differences, the White House and some Democrats are seeking to make the 2020 elections a referendum on economic policy, suggesting neither side is looking to reach a compromise in the coming months.

But the White House and Congress must reach an agreement on a new spending package by Sept. 30, 2019 or they could face another government shutdown.

Policymakers must also reach an agreement by this fall on raising or suspending the debt ceiling, as the government will no longer be able to borrow money to cover many payments if Congress doesn't act.