

David Rusk
4100 Cathedral Avenue, NW #610
Washington, DC 20016-3584
(202) 364-2455 (phone)
(202) 364-6936 (fax)
DRusk@Starpower.Net
www.davidrusk.com

Remarks of David Rusk to HUD Interns
 Washington, DC
 September 4, 2003

As HUD interns, some of you may become permanent HUD employees. Many others will seek careers in state or local government or in private, non-profit agencies dealing with housing and community development.

I'd like to address not the issues that you face today but the world you're facing tomorrow or the day after tomorrow – not as defined by housing needs (which the previous speakers have outlined thoroughly) but by the public policy environment.

An Albuquerque city budget director once told me that “it’s never a priority until you put a dollar to it.” So let’s look at the federal budget.

For FY 2002, the federal budget was \$2.052 trillion. The table breaks that down into its largest components. (All my information comes from the on-line 2002 Statistical Abstract so it is a year out of date.)

FY 2002 Federal Budget

<u>Category</u>	<u>\$billions</u>	<u>Pct.</u>
Social Security	\$460	22.4%
Medicare	\$327	15.9%
[Gross Interest on National Debt]	[\$339]	[16.5%]
<i>Net</i> Interest on National Debt	<u>\$178</u>	<u>8.7%</u>
sub-total (inter-generational)	\$965	47.0%
National Defense	<u>\$348</u>	<u>17.0%</u>
sub-total	\$1,313	64.0%
All other federal programs	\$739	36.0%
Housing & Comm. Dev.	\$38	1.9%

The largest chunk of the budget (22.4%) goes to Social Security payments. Almost one-sixth (15.9%) covers Medicare. Interest payments on the national debt account for 8.7%. And if you read the fine print, gross interest payments would be almost twice as high except that the federal government “borrows” hundreds of millions of dollars annually from the current surplus in the Social Security fund, leaving an IOU that must be redeemed at some future date.

That means that almost half (47%) of the current federal budget is devoted to what we might call the “inter-generational transfer” – taxes that working people pay today to support retirement benefits and medical care for the elderly and interest payments on the debts of past generations.

Add National Defense (17%) and almost two-thirds of the federal budget goes to these four items. All other federal programs fall into the remaining one-third. Appropriations for housing and community development amount to \$32 billion – less than 2% of the total budget. (A 2% solution! – “It’s never a priority until you put a dollar to it.”)¹

Let’s shift gears and examine the history of our national debt. It took 192 years (from 1789 to 1991) for our national debt to reach \$1 trillion. Then, in an orgy of tax cutting, our national debt quadrupled to \$4 trillion in just the next twelve years. The triple digit annual deficits peaked at \$290 billion in FY 1992. Thereafter, tax increases and budget cuts began to reduce the annual deficit. The 1989 compromise plan (for which the first President Bush was excoriated by the conservative right) began the process but the decisive step was taken by the Clinton Administration’s 1993 plan (that passed Congress on a straight party line vote). From FY 1998 to FY 2001, the economic boom, fueled by falling interest rates because the federal deficit had been brought under control, generated actual surpluses. We were actually paying off our national debt.

Now we’ve returned to the era of massive tax cuts and soaring deficits again – over \$300 billion for the current year. Last week the bi-partisan

¹ In fairness, the federal government’s impact on the national housing market goes far beyond budgeted programs. The federal government organized and controls the modern mortgage market. In 2000, for example, the Federal Housing Administration and the Veterans Administration insured or guaranteed mortgages for 8 million home owners (about 20 percent of all mortgages) with an outstanding principal of \$370 billion. In addition, government-organized mortgage pools such as Fannie Mae and Freddie Mac held \$2.5 trillion in mortgages in 2000.

Congressional Budget Office (CBO) estimated that the deficit for FY 2004 (that begins in four weeks) would be a mind-boggling \$644 billion! And that's *before* the Bush Administration asks for another \$60-70 billion for Iraq, as reported in this morning's *Washington Post*. [Note: Several days later the actual White House request was for \$87 billion.]

In its latest report the CBO also estimated that the cumulative deficit would be \$1.4 trillion for the next decade. As the CBO all but explicitly acknowledged, however, that is a gross underestimate because, by law, its estimates are bound by what Congress has actually enacted. So the CBO's estimate of \$1.4 trillion must assume that the various tax cuts expire as projected (which nobody in Washington believes – and the Bush Administration wants to make most cuts permanent); that new spending will be held to the rate of inflation (the increases have been twice that rate for the last two budgets); that there will be no new programs (such as \$400 million for prescription drugs for the elderly); and that no tax dollars will be spent in Afghanistan and Iraq from 2005 onward.

Economist Allan Sloan writes that “by the time you're finished adjusting for reality, the projected budget deficit [for the next ten years] is about \$7.4 trillion, not the advertised \$1.4 trillion.”² By 2013, \$4 trillion will be owed by the U.S. Treasury to the Social Security Trust Fund just as baby boomers reach retirement age. Writes Sloan: “I don't see how that debt can be honored without huge borrowings from outside investors that would send [interest] rates to the moon, or huge cuts in other programs.”³

Is there anyone in this audience who doubts what will be one of the earliest “other programs” facing “huge cuts?” Housing and community development – our 2% solution. Despite vigorous lobbying by groups like the National Housing Council and the Housing Assistance Council, my colleagues on this panel, there is not broad national support for meeting the housing and neighborhood development needs of poor communities.

So this is the future toward which you as HUD interns are being led along with all the rest of us – a world of towering debt and budget cuts that will likely eliminate HUD as a meaningful force for social progress.

² “The Brainteaser of Deficit Math,” *Newsweek*, issue of September 8, 2003, page 37.

³ Of the 58 percent of our national debt currently held by “outside investors,” about 60 percent is held by the Japanese and Chinese.

For a generation the popular political mantra has been “Americans are overtaxed!”

Compared to what? Compared to the many pressing, unmet needs of our society?

Or compared to whom? The international Organization for Economic Cooperation and Development reports that in 2000, adding together all federal, state, and local taxes (including payroll taxes), the United States had the *fourth lowest taxes* (29.6% of Gross Domestic Product) of thirty OECD member nations. Japan (27.1%) and Korea (26.1%) have lower taxes than the USA. *Mexico* (18.5%) brings up the rear (or leads the way, in the conservatives’ view). By contrast, most European countries’ total tax levels range from the mid-30% to mid-40% (though Sweden leads the list with all taxation adding up to 54.2% of GDP).

So I would define the primary challenge for housing and community development practitioners of the future not as promoting affordable housing for working families or finding ways to improve housing conditions in poor rural communities or providing humane shelter for the homeless.

The challenge to you either in your professional capacity or, more importantly, as responsible citizens is to turn this tax-cutting, deficit-exploding, political trend around.

We have important public business in this country. Government isn’t “the problem.” Government is part of “the solution.” Government counts. Effective government is the essential foundation of an effective society. We must be prepared to pay – through increased taxes – for our vital public needs at home and abroad.