

# 'Staggering' drop for federal tax revenue

By John Waggoner  
 USA TODAY

Federal tax revenue plunged \$138 billion, or 34 percent, in April vs. a year ago — the biggest April drop since 1981, a study released Tuesday by the American Institute for Economic Research says.

When the economy slumps, so does tax revenue, says Kerry Lynch, senior fellow at the AIER and author of the study. "It illustrates how severe the recession has been."

For example, 6 million people lost jobs in the 12 months ended in April — and that means far fewer dollars from income taxes. Income tax revenue dropped 44 percent from a year ago.

"These are staggering numbers," Lynch says.

Big revenue losses mean that the U.S. budget deficit may be

larger than predicted this year and in future years.

"It's one of the drivers of the ongoing expansion of the federal budget deficit," says John Lonski, chief economist for Moody's Investors Service. The Congressional Budget Office projects a \$1.7 trillion budget deficit for fiscal year 2009.

The White House thinks that tax revenue will increase in 2011, thanks in part to the stimulus package, says the report from AIER, an independent economic research institute. But it warns, "Even if that does happen, the administration also projects that government spending will be so much higher each year that large deficits will continue, and the national debt held by the public will double over the next 10 years."

The government may have a hard time trimming spending to

reduce the deficit when the recession ends. The 77 million baby boomers — those born in 1946 through 1964 — will start tapping their federal retirement benefits soon, which means increased government outlays for Social Security and Medicare.

"It will be doubly difficult for federal government to reduce expenditures and narrow the deficit as rapidly as they did following previous recessions," Lonski says.

At the end of the last major recession, in 1981, boomers were in their 30s. Their incomes were expanding, as was their appetite for goods and services.

"The American consumer led us out of previous recessions with some semblance of gusto," Lonski says. "They're too old to do it now."

