

# It's Past Time To Repeal The 1997 Balanced Budget Act

by Richard Freeman

On July 11, Democratic Presidential pre-candidate Lyndon LaRouche called on the U.S. Congress to immediately repeal the Balanced Budget Act of 1997 (BBA), which is destroying America's hospital system, and is poised to destroy the U.S. economy as a whole. LaRouche described the BBA as a "bad idea whose time has gone."

The BBA stipulated that starting in fiscal year 2002 (which starts Oct. 1, 2001), the U.S. budget must be balanced or in surplus. Were the budget to be in deficit, then spending must be cut to bring it into balance. Since the U.S. general revenue budget had a deficit of \$103.4 billion in FY 1997, Congress immediately set about cutting the budget. Fascist austerity was applied in particular to the Federally funded medical assistance programs of Medicare and Medicaid, which the BBA specified were to be cut by a combined \$433 billion between FY 1998 and FY 2007. Since Medicare and Medicaid account for more than two-fifths of all payments made to hospitals, this was a direct attack on America's hospital system. As a result of the BBA, several hospitals have already either gutted services or closed.

Other U.S. budget programs which were to be cut, though not as severely as Medicare and Medicaid, were spared some of the scheduled budget cuts because of a development that emerged in 1999: U.S. budget revenues shot up. This phenomenon was almost entirely the result of the economy being whipped into a speculative frenzy, and the wild growth of the Internet-led "New Economy." These two non-productive sectors of the economy spurred upward, and increased the alleged "economic activity" to be taxed, which raised U.S. tax revenues.

## The Bubble Has Popped

But, the puncturing of the interrelated financial and New Economy bubbles has now reduced tax revenues, particularly on stock options and capital gains. In addition, the U.S. physical economy, such as machine tools, steel, and farm equipment, is collapsing, which also reduces tax revenues. Further, in a move which is touted as "stimulating" the economy, in June the financier-controlled Bush Administration rammed through a package of tax cuts that will amount

to \$1.68 billion over ten years. The tax cuts will not stimulate the economy (and the bulk of them go to the wealthy families, which comprise the upper 3% of the U.S. population, by income class), but instead will contribute to destroying the economy. Yet, George W. Bush's handlers have committed him to the cuts, at all costs.

The cumulative effect of the bursting of the stock and Internet bubbles, the collapse of the real physical economy, and the imposition of the Bush tax cuts, has dramatically slashed U.S. tax revenues.

The Bush Administration is talking about dipping into the Social Security Trust Fund, to make up a revenue shortfall this year, and raiding the Medicare Trust Fund and Social Security next year, for the same purpose.

At a Senate Budget Committee hearing on June 27, William Dudley, chief economist for Goldman Sachs investment bank, testified that U.S. tax revenues could fall \$50-75 billion below White House projections for FY 2002. But the imminent explosion of the global economic-financial system, will cause a Federal loss of tax revenue that is a several-fold multiple of what Dudley projects.

With the Bush Administration already proposing raids on Social Security and further raids on Medicare, one can get an idea of the enormous budget cuts, and destruction of infrastructure and services, that Bush would implement under the strict enforcement powers of the BBA, when hundreds of billions of dollars of tax revenues are lost under an impending economic-financial crash. Not only would that pulverize the physical economy, but the BBA itself was deliberately written to forestall the use of government power and spending that could be used in a Franklin Roosevelt-style economic mobilization to end the depression.

Under these circumstances, LaRouche has said that the BBA must be scrapped, and must be replaced by a policy that would put the bankrupt U.S. and world financial system through bankruptcy reorganization, and proceed with a Eurasian Land-Bridge-centered world economic reconstruction, that in the United States would generate real growth and huge real-economy-based tax revenues. This would allow dealing with the Federal budget in a rational and successful way.

## Gore's Dirty Role, Again

How was the BBA passed in the first place?

The BBA was sponsored by then-Senate Majority Leader Trent Lott (R-Miss.) and then-Speaker of the House Newt Gingrich (R-Ga.). But that is only part of the story. Critical support for the BBA, without which it would not have passed, came from Al Gore, then U.S. Vice President. This is the same Gore who pushed the fascist Welfare Reform Act of 1996, and whose henchmen are working overtime to shut down D.C. General Hospital.

We will look at the history of the BBA, and the draconian budget cuts it prescribed, especially for Medicare and Medicaid. Then, we will look at the explosive level of cuts that would have to be made, under the BBA, under conditions of economic-financial blowout.

## History of the BBA

In 1974, Wall Street forces pushed through Congress the Budget Act of that year. A key shaper of the Act was Arthur Burns, former chairman of the U.S. Federal Reserve Board of Governors. Among its features was the creation of the Senate and House Budget Committees, so that Wall Street could place technocrats in the Senate and House to run the budget process.

In 1985, the Gramm-Rudman-Hollings Balanced Budget Act was rammed through Congress. The Act promised to balance the budget within a few years. It promised to treat the U.S. budget as one would a household budget, even though they are, at root, different processes. Following passage of the Act, though there was acute budget-cutting, between FY 1985 and FY 1993, the U.S. general revenue budget ran a deficit each year, and the cumulative deficit totalled \$2.22 trillion. Over that same period, the U.S. debt outstanding increased by the same \$2.22 trillion. Not an impressive track record for a budget-balancing campaign.

In 1995, Wall Street heavily organized, through such institutions as the Heritage Foundation and the *Wall Street Journal*, for a Balanced Budget Amendment to the U.S. Constitution. A Constitutional amendment can be proposed by either two-thirds of both Houses, or two-thirds of the states. A convention then works up the amendment, which must be ratified by three-fourths of the states, before it becomes part of the Constitution. (Because a Constitutional Convention, once called, can consider any amendment before it, it is only with great care than Americans usually approach such a subject.) In both 1995 and 1996, the amendment fell short of the necessary votes in the Senate.

Having stirred up its populist troops through the amendment fight, Wall Street used its Conservative Revolution apparatus in the Congress to sponsor the Balanced Budget Act in 1997. Conservative Revolutionaries Lott, Gingrich, and Sen. Phil Gramm (R-Tex.) led the sponsors. In this process, Gore was pivotal. Gore used the weight of the office of Vice President to push for the BBA, and to attack all

opponents to the BBA inside the Democratic Party.

According to several sources, in 1996, Gore used every filthy tactic he could against Labor Secretary Robert Reich and others who opposed the Welfare Reform Act. Gore got President Bill Clinton to endorse the Act. The Act, which passed in August 1996, put welfare recipients to work in slave-labor jobs.

Gore was a die-hard budget-slasher, and used the program of "Reinventing Government," of which he was in charge, to carry that policy out during 1993-2001.

Gore claimed that he was "moving the Democratic Party to the center," but in reality, he was attempting to destroy the Franklin D. Roosevelt coalition of labor, minorities, farmers, and technology-proud businessmen, and the legacy of FDR's American System principles and policies of nation-building and advancing the General Welfare, inside the Democratic Party.

In the warfare on behalf of the BBA, Gore worked through the Democratic Leadership Council (DLC), a Wall Street-controlled group inside the Democratic Party of which he was a leader (see p. 70).

On May 6, 1997, DLC head Al From sounded the tocsin: "The Balanced Budget deal . . . is an historic agreement critical to our country. Passing it in Congress with Democratic Party support is crucial to the future of our party."

On May 8, 1997, in a policy statement, the DLC made known its embrace of Wall Street: "The balanced budget agreement is crucial to the Democratic Party's political future. . . . Simply put, failure to pass the budget deal would put further deficit reduction in doubt."

In July 1997, both Houses of Congress passed the BBA; on July 29, President Clinton signed it into law.

In 2000, in his run for the Democratic Party Presidential nomination, Gore cited his role in passing the BBA as a key accomplishment.

In the Democratic Party Presidential primary in Arkansas, on the other hand, LaRouche captured 22.5% of the vote, which entitled him to approximately eight delegates to the Democratic National Convention in July. LaRouche represented the hope of mankind, as the only candidate from either major U.S. political party who spoke openly of the worldwide financial crisis and who had a solution that would work: replacing the bankrupt world financial system with a New Bretton Woods monetary system, pivoted around the Eurasian Land-Bridge, which would spark global economic reconstruction.

The Gore apparatus ripped up the LaRouche votes, and refused to allow his elected delegates to be seated at the convention. Gore's thuggish act ensured his defeat in the November Presidential election.

Today, Gore's henchmen, such as Donna Brazile, are mobilized to shut down the District of Columbia General Hospital, Washington's only public hospital, which has provided medical service to some 80,000 uninsured Washington-

nians. The hospital shutdown is a critical ingredient in implementing the genocidal policy of “Negro removal.” This flows from exactly the policy outlook that guided Gore’s rampage to pass the BBA.

### The BBA in Action

The BBA forced deep budget cuts in two major programs that make substantial payments to hospitals: Medicare, the Federal program that provides medical assistance to the elderly and disabled; and Medicaid, the Federal-state medical assistance program for the poor and elderly.

For the five-year period from FY 1998 through FY 2002, the BBA rammed through cuts in Medicare and Medicaid of \$115.1 billion and \$10.4 billion, respectively. More cuts were slated for the five fiscal years after that, so that for the ten years through FY 2007, Medicare and Medicaid were scheduled to be axed by \$385.5 billion and \$47.8 billion, respectively. Of this sum of \$433.3 billion, approximately 65%—nearly \$300 billion—is for payments for the elderly and poor, mostly to hospitals, and some to nursing homes.

To a hospital system already crippled by genocidal health maintenance organization policies, the BBA has proved disastrous. In 1997, some 44% of community hospitals’ revenues came from two sources: 33% from Medicare, and 11% from Medicaid. Hundreds of hospitals serving a large number of elderly or poor, derive an ever-larger share of their revenues—50 to 80%—from Medicare and Medicaid. Many hospitals are not able to survive the cuts.

On May 28, 1999, a spokesman for the American Hospital Association, which represents 5,000 hospitals out of the roughly 6,500 in the United States, told *EIR*, “Given the reduced level of reimbursement, many hospitals which remain open are cutting back or eliminating services: obstetrics, care for the elderly, and so forth. *They are rationing care*” (emphasis added). This is outright medical triage.

Though the Congress subsequently voted to restore a portion of the funds, the cuts were still so large that they forced deep rationing.

### The Looming Blowout

But the mechanism that is built in as the central principle of the BBA—that if the budget is not in balance, there must be cuts—will now unleash great destruction, under the impress of the implosion of the world and U.S. economic-financial systems. The world is overhung by \$400 trillion in speculative financial obligations, which cannot be sustained.

The Bush Administration’s Office of Management and Budget projected that over FY 2001-11, the U.S. budget would run a cumulative surplus of \$5.64 trillion. However, \$2.60 trillion of this alleged surplus is the surplus of the Social Security Trust Fund, which represents funds specially earmarked for Social Security, and should not be counted as part of the general revenue budget. Subtracting out the Social Security surplus, the remaining general revenue bud-

get surplus is projected to be \$3.04 trillion.

Almost the entirety of this \$3.04 trillion is to be consumed in paying out the Bush tax cut, and paying down the Federal debt.

But the projected surplus over the next ten years is based on fantasy. The Bush Administration projection is based on the assumption that over the next ten years, real GDP (that is, after inflation) will grow at a rate of 3.1% per year, that interest rates, as represented by ten-year U.S. Treasury notes, will be approximately 5.7% per year, and that there will be no fall-off in tax revenues, but instead a constant growth.

But even taking into account that GDP is a very poor measure of the economy, under an economic-financial collapse, real GDP will not grow at 3.1% per year, but will be sharply negative. As for interest rates, after Federal Reserve Chairman Alan Greenspan finishes lowering rates, and pumping huge amounts of liquidity into the financial system, in an insane attempt to save it, this will further feed the process of generating a Weimar-style hyperinflation. In response to that, Greenspan will have to send interest rates into the double-digit level. Finally, as for tax revenues, the bursting of the stock market bubble is wiping out a large amount of the stock options and capital gains; tax revenues derived from those sources are dropping, and will continue to drop.

The combined effect of these processes, is that tax revenues will plummet by hundreds of billions of dollars per year, with the tax revenue loss growing in succeeding years.

The so-called surplus, and all that is based upon it, will evaporate. The budget will plunge into deficit. Were Bush to continue with his tax cut, that will increase the size of the deficit.

Under these terms, the central principle of the BBA, of increasing budget cuts to balance the budget, will slash infrastructure and services needed for economic functioning and human existence so sharply, that the economy will collapse in a self-feeding spiral, further wiping out tax revenues.

This is why LaRouche, recognizing the dangerous policy-thinking embedded in the BBA, and that the BBA will stand in the way of adopting the emergency measures needed to end the crisis, has called for dumping the BBA now.

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