

Threat of Financial Collapse Looms Over Budget Debate

by Carl Osgood

While the U.S. Senate is a long way from debating the necessity of a New Bretton Woods, the realities of the ongoing collapse of the global financial system, and the Bush Administration's response to it, are beginning to seep through the cracks.

The annual budget debate got off to what the White House viewed as a "promising" start on March 9, when the House and Senate Budget Committees each passed resolutions which, though differing in particulars, largely followed the Bush Administration blueprint. The process rapidly turned tumultuous, however, when the Senate began debate on its resolution, as a number of Republicans began to break with the austerity dictates in the document. Before long, House Budget Committee chairman Jim Nussle (R-Iowa) was threatening that if the Senate did not go along with the Bush budget, there might not be any agreement between the two chambers on a resolution, this year. "The House isn't going to budge when it comes to spending," he said. If there's no agreement, it would be the third time in four years that the budget process went forward without a budget resolution.

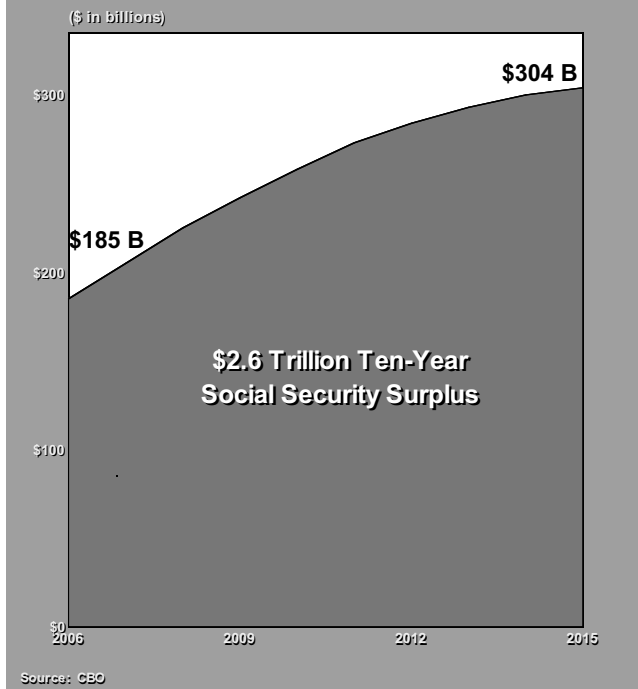
Underlying the tumult is, of course, the ongoing collapse of the financial system and the accompanying crash of the dollar—some of the reality of which was acknowledged by Sen. Kent Conrad (D-N.D.), the ranking Democrat on the Senate Budget Committee, during a Senate floor speech on March 14. Conrad noted that, increasingly, the growing annual deficits in the Federal budget are being financed from abroad, by foreign buyers of U.S. Treasury bonds. The total external debt of the United States has almost doubled to \$2 trillion since President Bush has been in office, and much of that debt is held by foreign central banks. Conrad warned that that "makes us more vulnerable to the decisions of foreign

central bankers as to the economic security of this country." Conrad asked the Senate "What happens if they decide some day they are not going to continue loaning us money?" The answer, of course, lies in recent headlines highlighting the vulnerability of the dollar, to plunge at mere rumors that one central bank or another is considering diversifying its foreign holdings out of the dollar. "These are the risks being run due to a reckless fiscal policy," Conrad said.

Yet, the budget resolution under debate, Conrad said, will worsen the problem, by actually increasing spending, much of which is not accounted for in the budget, and giving more tax breaks to those in the top income brackets. The dividends and capital-gains tax cuts in the budget plan will benefit those making a million dollars a year, to the tune of \$35,000, while those making less than \$50,000 a year will get \$6. Conrad used a chart to demonstrate that the Federal deficits in the next five White House budgets (FY2006-10) only appear to decline somewhat because the Social Security surplus is included in them, and it is projected to grow rapidly over that period. If that "borrowing" of the surplus is taken away, Conrad showed, then even Bush's own projections of Federal budget deficits get steadily larger from now to 2009. He emphasized the hypocrisy of Bush's prattling about a multi-trillion-dollar Social Security deficit sometime in the future, while Bush creates that deficit by spending Social Security's current surpluses on further tax cuts for wealthy Americans and multinational corporations.

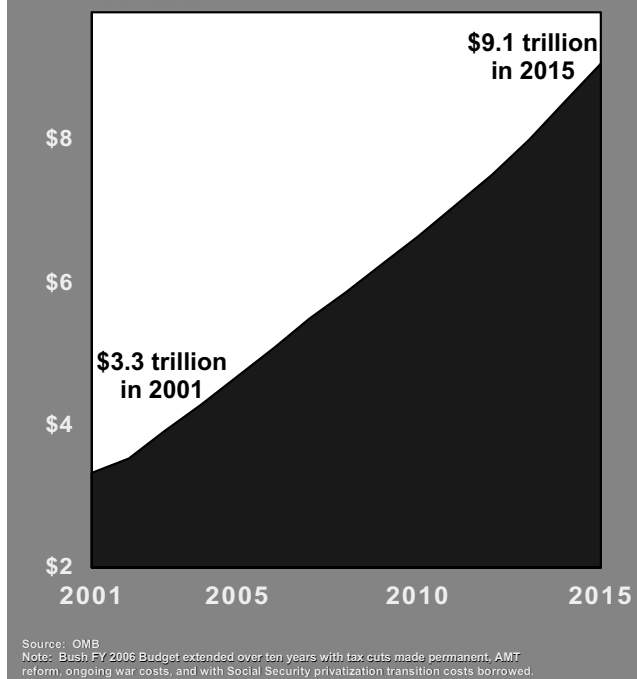
And Conrad noted, the cost of maintaining needed funding levels in programs crucial to many people, is a fraction of the \$32 billion cost of the Senate resolution's proposed tax cuts. To maintain the Fiscal 2005 funding level for veterans' benefits would cost \$300 million. To restore funding to be cut from the Community Oriented Policing program would cost

**Bush Budget Spends Every Penny of \$2.6 Trillion Social Security Surplus on Tax Cuts and Other Things
FY 2006-2015**



Publicly-Held Debt

Under Bush Budget with Tax Cuts Made Permanent, AMT Reform, Ongoing War Costs, and with Social Security Privatization Transition Costs Borrowed



Answering the Bush/Senate leadership budget for the Democrats, Sen. Kent Conrad of North Dakota showed with these charts and the table, that exploding U.S. debt and current-account deficits threaten a financial meltdown, and that the “privatization” looting of Social Security worsens that threat.

\$500 million; education, \$4.8 billion; community development block grant funding, \$1.7 billion; low-income heating assistance, \$220 million, and so on.

Republican Revolt Against Austerity

The budget plan’s bias in favor of austerity for the millions of people who are constituents of hundreds of various government programs, is also a factor in a small but significant revolt brewing among moderate Republicans. Medicaid is the largest program affected, but hardly the only one. The Bush budget calls for reductions in Medicaid spending by \$60 billion over five years, cuts which would fall heavily on already overstressed states. The Senate Budget Committee included in its resolution, instructions to the Finance Committee to make changes in law that would cut about \$15.2 billion from FY2006 programs under its jurisdiction, about \$14 billion of which will come out of Medicaid. But the committee added a Senate resolution that no bill should be reported to the Senate that would “undermine the role the Medicaid program plays as a critical component of the health care system of the United States,” nor would impose spending caps, “or otherwise shift Medicaid burdens to State or local governments” or “under-

Top Ten Countries Holding Our National Debt

Japan	\$715 B
China	\$191 B
United Kingdom	\$152 B
“Caribbean Banking Centers”	\$76 B
South Korea	\$69 B
OPEC	\$61 B
Taiwan	\$58 B
Germany	\$56 B
Switzerland	\$51 B
Hong Kong	\$50 B

Source: Department of Treasury.
Note: As of November 2004

mine the Federal guarantee of health insurance coverage Medicaid provides.”

The committee amendment was sponsored by Sen. Jon Corzine (D-N.J.), who warned that if the proposed cuts go through, the impact won’t stop at the states, but “is going to trickle down to our elderly, individuals with disabilities,

children—and what we’re really going to do is force people into the streets.” He added that the real problem is rising health-care costs and a growing number of uninsured; cutting \$14 billion out of the program is not a solution. Committee chairman Judd Gregg (R-N.H.) maintained, in reply, that the plan is not a cut, but rather a reduction in the rate of growth over the next five years. “We have to control the rate of growth in these health accounts,” he said. “These proposals don’t affect delivery of service.” He called the proposal “a marginal effort to try to address the most significant issue of entitlement spending, which is health-care.” Gregg nonetheless allowed the amendment to pass by unanimous consent. It was not Corzine’s amendment that worried him, but substantive attempts to take out the instructions to the Finance Committee.

On March 17, such a substantive attempt succeeded. The Senate voted 52-48 in favor of an amendment, co-sponsored by Senators Gordon Smith (R-Ore.) and Jeff Bingaman (D-N.M.) that struck out the Medicaid cuts. Instead, it established a Medicaid commission to examine the program and develop recommendations for reform. Smith told the Senate that what brought him to the point of opposing Senator Gregg and the Bush Administration on Medicaid was the principle that “in good times and bad, the people we do not abandon or put at risk are those who are most needy in our society.” He declared that he is committed to Medicaid reform, “but what I am not prepared to do is to put the budget ahead of policy, and that is what is going to happen if this budget contains this provision.” At least two other Republicans, Norm Coleman of Minnesota, who also was a co-sponsor, and Olympia Snowe of Maine, also spoke out in support of the amendment. Snowe, in fact, pointed out that the reason why there’s been so much growth in the Medicaid program that “the economic downturn which state economies experienced several years ago . . . has continued to leave many families jobless and without health insurance, forcing them into Medicaid.”

After the vote, an angry Gregg told the Senate that it would mean there would be no serious effort to control costs in the program for years to come. “And it’s been done by Republicans,” he said. “You just have to ask yourself, how they get up in the morning and look in the mirror.”

Amtrak Also Targetted

Another target of the budget axe over which the GOP may split, is Amtrak. As reported previously, Bush’s budget plan calls for zeroing out the Federal subsidy to Amtrak, in order to force it into bankruptcy. The budget would provide only \$360 million to maintain mass transit services in the Northeast Corridor, which is dependant on rail infrastructure. Sen. Robert Byrd (D-W.Va.) sponsored an amendment to add \$1.04 billion to Amtrak’s allocation, so that it can continue operating for another year. Byrd told the Senate that the elimination of Amtrak’s subsidy is not a recipe for a streamlined railroad, as the Bush Administration claims, but rather, “It is a recipe

for a dead railroad.” He warned that a transportation and economic disaster will result if the 13 million passengers who travel on the Northeast Corridor are forced onto the highways and into airports, instead.

Sen. Arlen Specter (R-Penn.) showed how much Republican support there is for Amtrak, when he inserted into the record his letter to the Budget Committee, signed by six other Republicans and 32 Democrats, asking it for the funding necessary to preserve Amtrak’s national network of passenger rail service. “The hallmark of an industrial society,” Specter wrote, “is having urban transportation.” He noted, as had Byrd, the tremendous amount of capital investment Amtrak needs in order to maintain safe and reliable service for the 25 million passengers it carries each year. Byrd’s amendment was defeated, however, on a 46-52 vote, with Specter and Lincoln Chaffee (R-R.I.) being the only Republicans to vote for it. The other five GOP signers of Specter’s letter may have been swayed by Surface Transportation Subcommittee chairman Trent Lott (R-Miss.), who promised to write a reauthorization bill that would “get a reliable stream of funds for Amtrak so its future can be certain, and so this does not have to depend just on annual appropriations.”

The Senate also acted on a number of other amendments that contradict the Bush budget. It adopted an amendment sponsored by Sen. Jon Ensign (R-Nev.) that increases funding for veterans’ medical care by \$410 million; but this followed a vote against an amendment by Sen. Daniel Akaka (D-Hi.), that would have added \$2.8 billion for that purpose. The Senate also voted 63-47 to increase funding for health and education by \$2 billion. An amendment to restore the so-called pay-as-you-go rule to the budget, died on a 50-50 vote, however, even though it had four Republican co-sponsors. It would have required that new tax cuts, as well as new spending, be paid for by offsets elsewhere in the budget. The Republicans’ current rule requires offsets for new spending, but not new taxes.

The House began debating its own budget resolution on March 17. It remains unanswered—given Nussle’s threat to go it alone if the Senate diverges too far from the Bush blueprint—is whether or not the two chambers will be able to agree on a spending plan. If not, the FY2006 appropriations process could be even more chaotic than those of the last few years.

**WEEKLY INTERNET
AUDIO TALK SHOW**
The LaRouche Show
EVERY SATURDAY
3:00-4:00 p.m. Eastern Time
<http://www.larouchepub.com/radio>