

Bush Budget Proves Greenspan Is a Liar

by Carl Osgood

Just days before the Bush Administration released its Fiscal 2006 budget, Federal Reserve Chairman Alan Greenspan, from London Feb. 6, told the world's financial markets that the United States has found the definitive solution to its twin deficits—trade and the Federal budget. He hailed the supposed effect of the declining dollar on U.S. exports, and intoned that “market pressures appear poised to stabilize, and over the longer run possibly to decrease the U.S. current account deficit.” That, with the new fiscal restraint which has supposedly emerged in the Bush Administration, made the budget deficit as good as under control, spoke Sir Alan.

Speaking to the same Advantage Enterprise 2005 conference in London, however, was former Clinton-era Treasury Secretary Robert Rubin. Rubin, in plain English, warned the conference that “The U.S. imbalances can have bond market effects, and raise complex questions about our currency. There is a fairly good chance that the dollar could decline.” He called on President Bush to rein in the deficit and warned, “It will not be fixed by tinkering around the edges. The U.S. is at a critical juncture.”

While the currency markets apparently took Greenspan's orders (the dollar rallied against the euro), the FY 2006 budget that the Bush Administration released proved that it's Rubin who's right. That proof lies just as much in what's in the budget, as what's not in it.

Not included in the \$2.5 trillion spending plan are the costs of the continuing wars in Iraq and Afghanistan; the costs of privatizing Social Security; and those of reforming the Alternative Minimum Tax and extending the tax cuts which otherwise begin expiring in 2009. While most of the Social Security and tax costs would not begin until after FY 2006, it was once customary that a budget plan project the effects of such proposals out to at least five years, and at times, ten. No more.

Though they are out of the budget plan, nobody is denying that those costs are there. Vice President Dick Cheney, during a Feb. 6 appearance on “Fox News Sunday” with Chris Wallace, jauntily allowed that the privatization of Social Security, as presently being put forward by President Bush, will cost \$758 billion over the next ten years, “and trillions more after that.” Any day now, the White House will be sending up a supplemental request of \$75 billion for Fiscal 2005, for the wars in Iraq and Afghanistan. Add that to \$25 billion that

Congress voted up late last Summer, and the FY 2005 cost of the wars is \$100 billion. It's no secret that sometime early in 2006, the Administration will send up another supplemental request for \$50 billion or more. And as for the tax cuts, Rep. John Spratt (D-S.C.), the ranking Democrat on the House Budget Committee, estimates that those will cost \$1.6-1.8 trillion over ten years; to “fix” the Alternative Minimum Tax could add another \$642 billion.

Democrats Pounce on Budget Plan

All of that makes a mockery of the Bush Administration claim to cut the deficit in half over the next five years, and Congressional Democrats have jumped all over that fact. Spratt noted that five years ago, the budget was in surplus by \$236 billion. “Every year since then,” he said, “the bottom line of the budget has gotten worse under President Bush, declining to the point where this administration has set three dubious records in a row” in terms of the budget deficit. Fiscal Year 2004 ended \$412 billion in the red, FY 2005 is projected to end at minus \$427 billion, and the administration is projecting a deficit of \$390 billion for FY 2006. “This budget will not put us on a path to halving the deficit in five years,” Spratt said. “It will put us on a path to endless deficits and mountainous debt.”

Rep. Charles Rangel (D-N.Y.), the ranking Democrat on the House Ways and Means Committee, took a more humorous approach during a Feb. 8 committee hearing. He told Treasury Secretary John Snow that because the costs of Social Security privatization weren't included in the budget, he would simply issue a press release declaring that privatization is “dead. . . . If you were serious about it, certainly it would be included in the budget.” He then added that “maybe we might get into the fact that the war is over, since that's not in the budget. And I may get a chance to say: And don't put any faith with those bonds that are in the Social Security trust fund, because the President says that's not money either.”

It is not just Democrats who are angry about the funding cuts and other proposals contained in the budget document. Senate Budget Committee chairman Judd Gregg (R-N.H.) said, “This is a budget which is going to create some significant angst amongst my colleagues” because “everybody's ox gets gored,” although Gregg considers this character of the budget praiseworthy. House Budget Committee chairman Jim Nussle (R-Iowa) and Senate Appropriations Committee chairman Thad Cochran (R-Miss.) have both expressed concern about cuts in agricultural subsidies; Sen. Olympia Snowe (R-Me.), when asked if she had any problems with the budget, simply said “How long do you have?”

Senators Pete Domenici (R-N.M.) and Gordon Smith (R-Ore.) have both pledged to block a proposal in the budget to sell electricity generated by the four Federal Power Marketing Authorities at the nationally-determined “market price,” which would raise electricity rates by 20% in the Pacific

Northwest, and gouge \$12 billion from consumers over 10 years.

Harsh Austerity

The budget, in order to meet its claim of cutting the deficit in half by 2009, imposes cuts across all of discretionary spending, except for defense and homeland security. The problem is, of course, that the total amount of non-defense, non-discretionary spending is only slightly higher than the claimed deficit, that total being \$464 billion in 2006, only rising to \$497 billion in 2009. Of course, the Administration is not ignoring mandatory spending programs, including Medicare and Medicaid, and is proposing legislative changes that would reduce those spending categories by \$137 billion over ten years. Nearly every department of the government, except for the Pentagon, the State and Homeland Security Departments, and a few other agencies, get cuts of 1% to 11.5% from the levels appropriated for Fiscal 2005. Many of the cuts are imposed on programs that impact the general welfare, and constituency groups are reacting.

A coalition of the U.S. Conference of Mayors, the National League of Cities, and the National Association of Counties lit into plans to reorganize and substantially reduce the Community Development Block Grant (CDBG) program. The CDBG, which was funded at a level of \$4.7 billion in Fiscal 2005, is to be combined with 17 other grant programs and funded at a total of only \$3.7 billion in Fiscal 2006. The president of the U.S. Conference of Mayors, Akron, Ohio Mayor Don Plusquelic, charged, "This new proposal is totally unacceptable and we are extremely disappointed that this tactic is being used as an excuse to eliminate CDBG and cut much-needed local resources to local communities." According to its supporters, the CDBG created or retained 90,637 jobs in 2004, and assisted 168,938 households with their housing needs.

Military veterans are another constituency group which will be hit hard by the budget plan. It calls for \$70.2 billion in total funding for the Department of Veterans Affairs, \$33.4 billion of which would go to discretionary programs. However, the plan holds the increase for healthcare to less than the rate of inflation, demands an unspecified \$590 million in management "efficiencies," and proposes fees that would, by the VA's own estimate, drive 213,000 veterans out of the VA's medical system in 2006.

The largest part of the VA's discretionary budget, medical services, promises to be a major point of contention this year, as it was last. For FY 2005, Congress funded the VA's medical services at a level of \$19.5 billion, which was \$1.7 billion more than the Bush Administration requested. This year's request is for \$19.8 billion, an increase of about 1.5%, although the Bush Administration claims credit for a 47% increase in veterans healthcare funding since 2001. Rep. Lane Evans (D-Ill.), the ranking Democrat on the House Veterans

Affairs Committee, blasted the proposed health care budget as making a "cruel mockery" of President Bush's rhetoric during his State of the Union speech, praising the sacrifice of American troops in Iraq. Evans noted that the small increase in medical programs is "far from the 13-14% VA has testified it needs annually, to even maintain the current level of services." As for the management efficiencies, Evans said they "seem to be coming at the expense of access to care."

The Meat Ax

Other programs getting hit include:

- The Low Income Home Energy Assistance Program, which helps low-income families with their energy and air conditioning bills, gets cut from \$2.2 billion to \$2 billion. In contrast, a bipartisan coalition of members of the Senate, led by Sen. Jack Reed (D-R.I.), is calling for funding the program at \$3.4 billion in 2006, because of increased need caused by the economic collapse and skyrocketing energy prices.

- The Community-Oriented Policing Services program, or COPS, takes an 80% cut, and the Justice Assistance Program, which received \$1.3 billion in Fiscal 2005, is eliminated altogether in 2006. "This administration talks about homeland security, but then guts funding for the very programs that help secure our homeland," said Joseph Estey, the president of the prestigious International Association of Chiefs of Police and chief of police of Hartford, Vermont. He warned that these cuts will force many police departments "to continue using antiquated and inefficient communications equipment and others to lay off officers."

- Amtrak, the only cross-country passenger rail service available in the United States, is zeroed out for Fiscal 2006 by the White House, pending passage of the Bush Administration's proposed "Passenger Rail Investment Reform Act." The proposal would both dismantle the Northeast Corridor, and turn Amtrak's long-distance train operations over to state compacts and private corporations, effectively ending cross-country passenger rail service. The budget document frankly admits coercion: "with no Federal subsidy, Amtrak will be confronted with the need to take steps to implement structural reform."

While the Pentagon is seeing an increase of 4.8% to \$419 billion, the Department of Defense budget reflects the price the Army is paying for the Iraq war—even though war costs continue to be funded outside the budget.

The Pentagon budget plan calls for adding \$35 billion to the Army's baseline budget over the next five years, but is paying for that by retiring one of the Navy's aircraft carriers and cutting production of the Air Force's F/A-22 fighter, from about 250 aircraft, to 180. Furthermore, the Navy will only get four ships in Fiscal 2006, a sharp drop from the nine that were requested in 2005, and the six originally planned for 2006. The cuts in the shipbuilding program are also expected to be challenged in the Congress.