Revenue Crash, War Fear Hang Over Budget Debate

by Carl Osgood

Unlike past years, this year's Federal budget process began with unanswered questions about the budgetary implications of a possible war with Iraq. More than a month after the Bush Administration submitted its Fiscal Year 2004 budget plan, questions related to the potential costs of war and its aftermath remain unanswered; the pressures for addressing domestic needs remain unabated; and most ominous, Federal tax revenues are continuing to "disappear" as the nation's economic depression deepens. Many members of the Congress from both parties are complaining about the Bush Administration's unwillingness to talk about what the costs of a war against Iraq, and its aftermath, might be. But the costs of the depression collapse of the economy—and of failing to take any action for recovery—is a far larger and darker cloud looming over the entire process, than the costs of war.

That collapse factor was again highlighted by the Congressional Budget Office (CBO) on March 7, when it released its report on the Fiscal Year 2004 budget proposals put forward by the Bush Administration. The report dealt, in particular, with the costs of the Bush Administration's latest tax cut plan; but what grabbed headlines was the CBO's revised projection of the Fiscal Year 2003 budget deficit, even if the tax law is not changed. As recently as January, the CBO projected a deficit of $199 billion. In its March report, it revised that projection to $246 billion, an increase of 25% in only two months. And this worsening uncertainty, in "forecasting" a fiscal year which is already half over!

"Almost two-thirds of that change," the report says, "stems from lower projected revenues, reflecting weaknesses in collections to date." That collapse in revenues is a reflection of the overall collapse process, the same collapse process that has hit the budgets of at least 48 out of the 50 states.

Economy Won't Return From a War

Neither does the revised forecast include the costs of a war with Iraq. Since the Bush Administration has, so far, refused to provide estimates for how much that operation might cost, Congress has been left flailing about in the dark. The CBO estimates that the force buildup in the Persian Gulf might cost as much as $14 billion, with the war starting out at $10 billion for the first month, and then about $8 billion a month after that. Returning forces back to their home bases will run about $9 billion, with any post-war occupation of Iraq costing anywhere from $1-4 billion per month.

The CBO admits, however, that "multiple unknowns exist

“The United States can send the armed forces to Iraq; soldiers may come back, but the economy won’t come back,” noted Presidential candidate LaRouche. Congressmen grappling with disappearing Federal revenues and an incalculable deficit, are discovering that truth to their chagrin.

about how a conflict with Iraq might actually unfold,” making the estimates no more than provisional at best.

As for the tax-cut package, the CBO estimates that if the White House’s latest package is enacted, the Fiscal 2003 deficit will rise to about $287 billion, and Fiscal 2004’s deficit will be about $338 billion.

The deficit figures become much worse, however, when the surpluses of the Social Security and other Federal trust funds are not counted; i.e., if those dedicated surpluses are not *taken* to cover up part of the general deficit. The Fiscal 2003 deficit, without the tax cut, becomes $408 billion without grabbing Social Security funds; and with the tax cut, becomes $452 billion.

The speed at which the economic collapse is unfolding, which is indicated by the rapidity of the changes in the CBO forecasts which is making them virtually meaningless, guarantees that the deficit at the end of the year will be much higher than the current forecasts are suggesting.

Against this background, sharp debates are developing over the costs of war with Iraq, the tax-cut package, and numerous domestic needs. One indication of this was a March 6 hearing the House Budget Committee held to take testimony on the Fiscal 2004 budget resolution from interested members of Congress. Rep. Don Young (R-Ak.), chairman of the 75-member Transportation and Infrastructure Committee, told the committee that $50 billion a year is needed just to maintain the highway and transit system at current levels. This contrasts to the $36.5 billion requested by the Bush Administration, and the $218 billion over six years authorized by the 1997 TEA-21 transportation bill. If improvements to the system are to be made, such as reducing congestion and upgrading safety, up to $78 billion per year will be required. Young warned that “if we don’t make improvements to the system, we won’t be competitive with other countries.”

Two days earlier, Treasury Secretary John Snow had been grilled by House Ways and Means Committee Democrats on the tax cut proposals. The tone was set by ranking Democrat Charles Rangel (D-N.Y.) who told Snow that the because the Bush Administration can not give any estimates as to the costs of an Iraq war, or post-war activities, or even to support the ongoing troop deployments, “it’s very difficult for us to be able to digest this suggested tax cut.” When Rangel tried to pin Snow down on those costs, Snow replied, “We can afford a war. . . . But we do need to make sure we have an economy that is growing and producing jobs.” Rangel then asked him how many more wars can we afford, to which Snow replied, “If we have a war, the purpose will be to eliminate an enormous threat and risk to the American people.”

Cutting Everything But Taxes?

Both the House and the Senate Budget Committees began marking up their budget resolutions on March 12, and both GOP-controlled committees were expected to adhere, closely, to President Bush’s budget plan, including the tax cuts. Whether or not those resolutions have a chance to make it through a conference committee is anybody’s guess at this point.

House Budget Committee chairman Jim Nussle (R-Iowa) is crafting a resolution which, while maintaining the full tax-cut package (for some in the House, $760 billion is not a large enough tax cut), is supposed to bring the budget into balance by 2010. In order to accomplish that, it calls for massive spending cuts in all non-defense discretionary programs and in mandatory programs as well.

In the Senate, on the other hand, Sen. John Breaux (D-La.) is saying he has enough Republican votes to cut the tax package in half. Meanwhile, deficit hawk Sen. Kent Conrad (D-N.D.) is threatening to introduce an amendment to the budget resolution, when it goes to the Senate floor, to freeze all tax cuts and spending “until we know the costs of war [in Iraq] and the aftermath.”

The Democrats, however, are still proceeding on the assumption—better put, the collective delusion—that the growth in the 1990s “Clinton years” was real economic growth, rather than the boom-bust financial speculation that most Americans now painfully know it was. “After four straight years of surpluses in the previous administration,” Conrad said on March 7, “this White House has dragged us into a new era of exploding deficits and debt.”

The truth is that the majority of the fall in tax revenues results from economic contraction, and is occurring even more rapidly at the state level, where taxes have not been cut since Bush took office. Only by adopting Lyndon LaRouche’s Super-TVA approach to rebuilding the economy, will the Democrats have a chance of offering an alternative that will mean anything.