Bush Sends Irrelevant Budget to Capitol Hill

by Carl Osgood

President George Bush's fiscal year 2004 budget plan arrived on Capitol Hill on Feb. 3 without anybody having a clue as to whether it means anything. For the first time in living memory, a President's budget plan for the next fiscal year was submitted to Congress before the Congress had finished work on the current fiscal year's spending bills. Because of the collapse of the budget process in the 107th Congress, neither of the budget committee chairmen of the 108th Congress, Rep. Jim Nussle (R-Iowa) and Sen. Don Nickles (R-Okla.), can say whether they will be able to make the process work this year. Adding to the picture are declining tax revenues and the uncertainty of an Iraq war. The declining tax revenues have already made the projections coming out of the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) worthless. An Iraq war coming on top of that would likely knock over whatever is left of the process.

The futility of the situation already became evident as the Senate completed its initial work on the fiscal year 2003 omnibus appropriations bill, on Jan. 24. The Senate made so many changes to the bill that the House demanded a conference, ensuring that it could not be finished before President Bush's Jan. 28 State of the Union, as the plan had called for. Then, on Jan. 29, David Obey (D-Wisc.), the ranking Democrat on the House Appropriations Committee, moved that the House conferees be instructed to agree to the higher funding levels for a number of programs that were in the Senate-passed bill. He noted that the across-the-board cuts contained in the Senate bill, which were put in to keep the bill's total amount under the White House limit, took away billions from homeland security, veterans' health care, and other programs. Obey's motion was defeated on a mostly party-line vote of 209 to 200, but difficulties in the conference itself appeared to be developing. This was indicated by Nussle, who told reporters on Jan. 30 that it would be "unconscionable" if work on the conference report were to continue through the Presidents' Day recess. "I'll introduce a continuing resolution through to the end of the year, if that happens," he said, "just to bring it to an end."

Tax Revenues Are Collapsing

The budget document that arrived on the Hill proposes that the government spend $2.23 trillion, with expected revenues of $1.92 trillion, producing a projected budget deficit of $307 billion. That deficit figure includes a $175 billion surplus in the Social Security, Medicare, and other trust funds, so the actual proposed deficit is $482 billion. That revenue projection comes despite the fact that Federal revenues have fallen for two years in a row, the first time that has happened, the budget document states, in more than 40 years. The document admits that the 1990s rise in revenues was due, in large part, to the rise in the stock market over those years, and all of the features of the stock market bubble, such as employee compensation in the form of stock options, and so forth. "One unprecedented feature of the last two years," the document notes, "was how rapidly this highly taxed income disappeared, taking with it tens of billions of dollars in Federal revenue."

Taking note of this feature of the collapse, Senate Budget Committee Chairman Nickles told reporters on Feb. 3, "The reason why we have such enormous deficits . . . is because revenues have fallen." He blamed this on the recession that began with the fall of the Nasdaq in March 2000. "With that market decline," he said, "it's kind of dominoed through the revenue cycle," with a total decline over 2000 to 2002 of some 9%. "That's the reason why the CBO and OMB have missed their target so dramatically. That's the reason why . . . when CBO said, 'Oh, we project these enormous surpluses for the year [2001],' they missed it big time." The CBO and OMB estimates missed by such huge margins because "they didn't project or forecast such a significant reduction in revenues." Over 2000-02, the projections swung from a $5.6 trillion surplus over ten years to a $2.2 trillion deficit over the same time period, a difference of $7.8 trillion.

LaRouche Was Right

Whether he realized it or not, two implications emerge from Nickles' remarks. First, is that this is the story of the 2000 Presidential campaign, and Nickles might as well have been saying, "Lyndon LaRouche, and only he, was absolutely right about the condition of the budget and the economy in 2000; but since he cannot be mentioned, I say 'no one forecast . . .' etc." Second, this "swing" under way is so drastic that all projections of revenue and spending in the President's five-year budget should be thrown out as worthless; the budget should be assumed to be completely blown out, and the dollar as good as collapsed as a result, until the Congress and the Bush Administration are willing to go with LaRouche's "Super-TVA" credit-creation route.

Incredibly, despite the collapse that Nickles referenced, the budget forecasts an increase in tax revenues over the coming five years. It projects a decrease in revenues in 2003 to $1.836 trillion from the $1.853 trillion in 2002, then a substantial increase for 2004 to $1.922 trillion, $2.135 trillion in 2005, and $2.264 trillion in 2006. By 2007 the deficit is supposed to be down to $178 billion. The explanation for these projections is not only the relatively rosy economic picture that they are based on, but also the claims made for the tax proposals included in the budget plan. These include the proposal to eliminate the tax on stock dividend income and the acceleration of the tax cuts passed in 2001. These tax policy changes are supposed to create the economic growth that will produce the tax revenue growth that is projected in the budget.

However, these projections completely ignore the ongoing collapse of the U.S. economy, as indicated by the bankruptcy of almost all of the 50 states, the collapse of the airline and railroad industries, the collapse of health care, and the skyrocketing trade deficit, among other things. It is likely, therefore, that the Federal tax revenues, in a mirror image of what is happening to the states, will continue to decline, and that the deficit for 2003 will be much larger than is currently forecast. In any case, Bush's tax proposals are facing a tough time on Capitol Hill. Even some Republicans, such as Senate Finance Committee Chairman Charles Grassley (Iowa), are questioning whether they can be passed in their proposed form. House Ways and Means Committee Chairman Bill Thomas (R-Calif.) reportedly told Treasury Secretary John Snow that even he does not know how the tax cut plan is supposed to work. Republicans are reportedly concerned that, with the dubious revenue projections and soaring deficits, President Bush is overreaching by pushing for even larger tax cuts than he originally said.

Rather than proposing a true alternative policy, the Democrats have preferred to blast the Republicans for the ballooning deficits. Kent Conrad (D-N.D.), the ranking member on

A Cut To Dismantle Amtrak

The Fiscal Year 2004 budget presented by President Bush on Feb. 3 proposes to give the nation's only national railroad, Amtrak, another push toward its dismantlement. Amtrak, which handles 90% of the country's remaining intercity rail service, could lose as many as 18 more of its existing long-distance routes. It has already shrunk dramatically since 1980. The $710 million proposed Amtrak assistance is, again, some $500 million short of what the carrier needs to remain whole, at a time when airline service is contracting rapidly due to bankruptcies, and the *Columbia* tragedy is another reminder of what shrinking budgets eventually do to transport infrastructure.

In the *Transportation* section of the budget, under the heading, "Reordering Intercity Passenger Rail Service," the Office of Management and Budget (OMB) attacks Amtrak for not having achieved financial "self-sufficiency." Such self-sufficiency would be virtually impossible, as Amtrak was created by Congress in 1971, to direct the wreckage of the old bankrupt Penn Central, including the looted rolling stock and rails. Amtrak needed a large infusion of funds to make capital improvements, which was never provided.

In 1997, the Gingrichite Conservative Revolutionaries passed the "Amtrak Reform and Accountability Act," whose Amtrak Reform Council was co-chaired by Paul Weyrich, the radical free marketeer, co-founder of the Carlist anti-Catholic Christendom College in Front Royal, Virginia. The Council's report stipulated that either Amtrak would reach financial self-sufficiency by September 2002, or government financing of Amtrak would be cut to force privatization sell-off of all but the profitable Northeast Corridor and a few other routes. The Fiscal 2004 budget copies, *verbatim,* the major demands of the Amtrak Reform Council:

- "Create a system driven by sound economics."
- "Require that Amtrak transition to a pure operating company"—that is, sell its capital equipment.
- "Introduce competition to provide higher quality rail service at reasonsable prices"; that is, privatize the long-distance routes and shut down the majority that would be considered to be "unprofitable."

The President's budget submission alleges that "one of the reasons behind Amtrak's fiscal difficulties is its continued operation of several routes that regularly lose hundreds of dollars each time a passenger steps aboard." It lists some: the Sunset Limited, Los Angeles to Orlando; the Pennsylvanian, Philadelphia to Chicago; the Texas Eagle, San Antonio to Chicago; the Three Rivers, New York to Chicago; the Southwest Chief, Chicago to Los Angeles; and the Kentucky Cardinal, Louisville, Kentucky to Chicago.

"For several of these trains, it would literally be cheaper for Amtrak to buy each passenger a plane ticket to the next destination," the budget suggests, with a doubtless unintended irony given the cascading bankruptcy of the nation's major airlines. The Administration otherwise calls on the states, whose budgets are all melting down, to pay for the routes.

The Transportation Department's budget section also states that "Amtrak reform can wait no longer."

Amtrak has warned it will shut down unless it receives $1.2 billion in government funding this fiscal year. "Maintaining a national network of trains is a Federal responsibility," countered Amtrak spokesman Dan Stessel.

the Senate Budget Committee, said on Jan. 30 that the figures showing a fourth-quarter GDP growth rate of 0.7% "indicates to me that the Administration is pursuing a policy of debt, deficits, and decline." The plan the Democrats have put forward revolves around extended unemployment benefits, tax cuts for working families and small businesses, and targetted assistance to states and localities in areas such as Medicaid and homeland security.

What Happens If There Is a War Against Iraq?

Without a change in economic policy, the bottom will fall out of the budget process, as the states have already discovered, simply because of the collapse in tax revenues. However, when the impact of a possible war with Iraq is factored in, an even larger black hole looms, because no one actually knows what will happen, either in terms of expenditures or in terms of the economic impact. Pentagon Comptroller Dov Zakheim was quite frank about the question during a Jan. 31 briefing on the Defense Department budget. He admitted that he had no idea what the war would cost, because no one can predict how it will go, whether it will be long or short, how much resistance will come from the Iraqis, what the cost of reconstruction will be, and so forth. "And anybody who gives you an estimate," he said, "the best they can do is—. CBO will give you an estimate, and they'll say, 'Well, we know we think we know how much it will cost by month.' No, they don't. That's garbage." Because nobody can say what that cost might be, nobody can say what the impact might be on the budget process.

That impact would be on both fiscal 2003 and 2004. The Bush Administration has already said that it will have to go to the Congress for a supplemental appropriation for fiscal 2003 to cover the current costs of military operations, which include the ongoing war buildup in the Persian Gulf. Because those costs were not covered separately by Congress, they are being covered out of the appropriated operations and maintenance funds. And, Zakheim flatly stated that those funds will run out in the fourth quarter of the fiscal year, or even possibly in the third quarter. That will happen even if there is no war against Iraq, and without taking into account the economic effects of such a war.

All of this leaves Capitol Hill's two budget chiefs in a quandary. Nickles admitted that restoring a budget process that broke down in the previous Congress will not be easy—and he said this in the context of both Houses and the White House being controlled by the GOP. Nussle, in his Jan. 30 briefing, laid out a schedule by which he hopes to complete work on a budget resolution by the statutory deadline of April 15, but he could not say whether the House will be able to meet that schedule. The danger is that if they try to go through the usual budget process, the whole thing will wind up being irrelevant, as the worsening crisis remains unaddressed.