

Unreal Bush Budget Will Worsen Fiscal Crisis

by Carl Osgood

President Bush's Fiscal 2005 budget, submitted to the Congress on Feb. 2, is already provoking confrontation with Congress and is sure to worsen the fiscal crisis. It is based on assumptions that ignore the realities of the economic collapse, the fall of the dollar, and the consequent collapse in Federal revenues. The rate at which the collapse is occurring, as shown by the ballooning Federal deficit, makes Bush's promise to cut the deficit in half over the next five years completely ludicrous. While Congressional critics have been jumping all over the budget plan, they have yet to offer a viable alternative, further complicating matters.

The entire budget process promises to be difficult this year, not the least because of the huge Fiscal 2004 deficit of \$521 billion promised by the White House. Added to that, confrontation is already looming between the White House and large constituencies in the Congress for such domestic spending items as transportation, construction, and veterans' healthcare. Finally, while defense spending usually enjoys broad support in the Congress, members of both parties are rankled that the \$401.7 billion defense budget does not include the costs of war in Iraq and Afghanistan, nor other contingency operations related to the so-called war on terrorism—making inevitable yet another large Supplemental Defense Appropriations bill sometime in the next twelve months.

Meaningless Projections

Just three years ago, the White House projected that the Fiscal 2004 budget would produce a \$387 billion surplus; now, a \$521 billion deficit is being projected—a swing in “projections” of \$908 billion in three years' time. The projections for Federal tax revenues and outlays show similar dramatic changes over the same period. The effect of this was demonstrated by Federal Reserve Board Chairman Alan Greenspan, who set off a political storm in testimony before the House Budget Committee on Feb. 25, when he called for reducing Social Security and Medicare benefits—both of which are entitlements that the Federal government is required by law to pay—for workers at or near retirement age.

Promoting the same Mont Pelerinite policy of brutal austerity sought by financiers today, Greenspan said, “We will eventually have no choice but to make significant structural adjustments in the major retirement programs.” He demanded that Congress cut “as much as you can,” claiming that the

government was “overcommitted” in spending on promised benefits for retirees.

Greenspan’s fears about the exploding deficit—fears that the decline of the dollar will spiral out of control—may explain why Bush has suddenly made the switch to projecting himself as a fiscal conservative, after months of attacks on him by budget hawks as a big spender due to his record of the past two fiscal years. However, so sudden was the President’s switch, that much of Congress—including some Republican leaders—is still on a different track. This is clear in the looming fight over the highway bill, recently passed by the Senate and soon to be taken up by the House. Bush’s budget proposes a six-year, \$256 billion program, whereas the Senate passed a bill of \$311 billion, and the “conservative” House’s version comes in at around \$375 billion.

Bush’s characterization of highway spending during his Feb. 8 interview with NBC’s Tim Russert resulted in an eruption from House Transportation and Infrastructure Committee chairman Don Young (R-Ak.) who, in an angry letter to the President, suggested that Bush was getting bad advice from his key advisors. The two advisors, in this case, being Transportation Secretary Norm Mineta and Treasury Secretary John Snow, who wrote to Young on Feb. 2 that if the transportation reauthorization bill relied on an increase in gasoline and other transportation taxes, allowed funding of highway projects through bonding, and also provided highway financing from the general fund as well as the highway trust fund, they would recommend that Bush veto it. Young wrote to Bush, “The legacy we leave for future generations of users of our transportation systems will make or break our future economy. . . . We will either leave a legacy of congestion and immobility, or . . . a legacy of efficient freight movement and improvement in the quality of daily life for average people, who spend a major part of each day just trying to get to work, school, or providing food and clothing for their families.”

The Next Iraq War Supplemental

The big story on the defense budget is the unannounced, but expected Iraq/Afghanistan war supplemental for Fiscal 2005. Pentagon Comptroller Dov Zakheim said, during a Jan. 30 briefing, that last November’s supplemental will carry the Defense Department through Fiscal Year 2004 and that there would not be another request before Sept. 30 of this year. Since operations in Iraq and Afghanistan are likely to continue, Zakheim indicated that the department is anticipating asking for another supplemental early in calendar year 2005. Earlier, in a Dec. 19 interview, Zakheim had noted that, in 2002, Congress had rejected a DoD request for a \$10 billion fund for operations in Afghanistan. “It turned out that our estimates were pretty close,” he said. The DoD is spending about \$900 to \$950 million per month which comes to slightly over \$10 billion per year. “So,” he said, “our estimates were on the mark. Congress said no. And so, in response to the fact that we could not budget ahead of time for these operations,

we had no alternative but to ask for supplementals.” On Jan. 30, he added that this time, the DoD doesn’t have a good feel for the estimates in Iraq because no one knows what’s going to happen after the June 30 turnover of sovereignty in Iraq. “Sure, we can project what a maximum level is likely to be, but we don’t want to go to Congress and ask for a maximum level and effectively say, well, it might be a lot less but you give us more. Somehow, I don’t think that’s going to sit well,” he said.

That the costs alluded to by Zakheim, which are currently running at about \$4 billion per month in Iraq, are not included in the present budget is, itself, not sitting well with some members of Congress. Sen. Jack Reed (D-R.I.), during a Feb. 4 hearing of the Senate Armed Services Committee, said that “it seems that the operative logic here is that if it cannot be properly or accurately estimated, then it’s assumed to be zero, or it’s excluded from the budget.” He reported that, last year, when members of the committee asked for estimates of the costs of operations in Iraq, including the occupation, “we were told, essentially,” he said, “ ‘Well, we can’t estimate them, so we won’t include them in our specific budget request,’ ” which led to a \$79 billion supplemental.

In an effort to appear to be making good on its promise to hold the line on non-defense discretionary spending, the White House budget includes legislative proposals to re-instate enforcement mechanisms from the Clinton Presidency. The proposals include capping budget authority and outlays all the way to FY 2009 at the levels proposed in for FY 2005. It also proposes that the annual concurrent budget resolution, which is binding only on the current Congressional session and can be overridden by a three-fifths vote in the Senate, be replaced by a joint resolution, which would be signed by the President and have the force of law. Beyond that, it proposes a two-year budget cycle (the Defense Department has already put its internal budget process onto a two-year cycle), a Constitutional line-item veto amendment, and a permanent continuing resolution to prevent government shutdowns when Congress fails to complete the appropriations process by the Oct. 1 start of the new fiscal year.

In a Jan. 28 press conference, Senator Kent Conrad (D-N.D.) dismissed the proposed enforcement mechanisms with a wave of his hand. “This is not a serious plan for getting the country out of trouble,” he said. “In fact, what this plan does is push us further and further off the cliff of fiscal responsibility, and create huge problems for the country going forward.” He added, “I think this demonstrates this President is the most fiscally irresponsible in the history of the United States.”

While the Democrats have not been hesitating to attack the GOP on anything that impacts budget policy, the alternatives that they offer tend to be only a more “fiscally responsible” variation of the GOP formula. Of course, no plan for solving the problem is serious unless it includes a bankruptcy-style reorganization of the global financial system. It is only from within that framework, that a budget, based on the principle of defending the general welfare, will mean anything.