

Bush Budget, Defense Increase Both Ignore Economic Reality

by Carl Osgood

If nothing else, the fiscal 2003 Federal budget proposed by the Bush Administration will give plenty of ammunition to the Democratic budget hawks in the Congress. The Democrats' political "take" on the suddenly erupted Federal budget deficits, was given by Senate Budget Committee chairman Kent Conrad: "we will be taking \$2.2 trillion of Social Security and Medicare trust fund money to pay for his [President Bush's] tax cuts and to pay for his spending proposals."

For election purposes, the Democrats are likely to take that "spin" for what is actually a depression collapse of revenues, as far as they can. Last year's huge projected surpluses, forecast at \$5.6 trillion through 2010, never really existed, as *only* Lyndon LaRouche and *EIR* stated flatly, beginning 1999. Now it's "official," that more than 80% of this mirage has disappeared; a \$1 trillion surplus to 2010 is now forecast, all of it contained in the Social Security, Medicare and other trust funds.

What this means for 2003, according to Office of Management and Budget (OMB) figures, is a total deficit of \$80 billion; but, if the trust funds are excluded, then OMB says the on-budget deficit will be \$259 billion.

Even without taking into account the fantasy economic projections underlying the budget, there are charges flying about of Enron-like accounting practices employed in the figures. Robert Greenstein, the executive director of the Center on Budget and Policy Priorities, noted in a Feb. 4 report that the projections used in the budget are "unrealistic," because "they are based on an array of budget devices and implausible assumptions, that mask hundreds of billions of dollars of tax reductions and government expenditures that are virtually certain to occur but are omitted from the budget."

Greenstein cites as one example, the assumption that the

number of taxpayers paying the Alternate Minimum Tax will swell from 1.4 million in 2001 to 39 million by 2012, something which Congress is not likely to allow to happen. Revenues are thus greatly overestimated for the future, and the administration has used that overestimation to ask that the recent and ongoing tax cuts be made permanent.

Two other CBPP reports indicate that the budget's tax deductions for health insurance and home health care, would not only disproportionately benefit upper-income taxpayers, but would also undermine employer-based health insurance, which is already being hit by shock increases of 30% or more in premiums this Winter and Spring.

Yet another gimmick to overstate revenue and understate costs, is the assumption that the Transitional Medical Assistance Program will be extended only one year. In fact, it is a well-established part of "welfare reform," as CBPP points out, and will be continued, as it has been for years.

Big Jumps: Not Just Defense, But Also FEMA

The biggest winner in the Bush budget is, of course, the Department of Defense. The Pentagon request is for \$379.3 billion, including a \$10 billion "contingency" fund, should it be needed for the war on terrorism. When funding for the Energy and Transportation Departments' national defense activities is included, the total national defense budget calls for \$396.1 billion, plus that \$10 billion fund.

The Pentagon increase over fiscal year 2002 amounts to about \$48 billion, less than half accounted for by the war on terrorism. Some \$19.4 billion is due to the war, \$6.7 billion is an adjustment for inflation, and \$13.3 billion is a topline increase granted to the Pentagon by the Office of Management and Budget. Another \$11.4 billion comes from accruals for

military and civilian retiree and health-care benefits. Built into the estimates are increases designed to avoid the need for a supplemental request for operations and procurement, as has been the routine for the past several years, which amounts to about \$4 billion. The budget plan projects that the Pentagon budget will grow to about \$451 billion by 2007.

The real unknown is the actual costs of the war on terrorism. A senior defense official said on Feb. 1 that the \$10 billion for contingency war costs is only a working estimate. The war in Afghanistan, plus continental United States defense activities, such as the air patrols over Washington and New York, are running at about \$1.8 billion a month, or about \$7 billion so far. That's a rate of about \$27 billion per year, which makes the \$10 billion estimate "exceedingly conservative," in the words of that official. This is underscored by the administration's plan to ask for a supplemental appropriation for fiscal 2002, in March, of undetermined amount.

The budget earmarks \$38 billion for homeland defense activities, including \$3.5 billion in grants to state and local emergency and law enforcement agencies for training and equipment, \$4.4 billion for bioterrorism defense and \$4.8 billion to implement the Transportation Security Act passed by Congress last year. Most of that will go for hiring and training 30,000 new airport security workers, and for the procurement and installation of explosive detection machines in the nation's airports. It also includes \$380 million for a system for tracking the entry and exit of immigrants.

The grant program for emergency and law enforcement agencies of the states and localities, will be administered by the Federal Emergency Management Administration (FEMA), which will also see its own budget more than double between fiscal 2002 and 2003. Despite that doubling, FEMA's disaster relief fund actually is cut by almost \$300 million. The increase goes into emergency management planning and assistance.

Economic Collapse Will Have More To Say

Other areas of the budget will lose, and contention is taking shape in the Congress. Overall, discretionary non-defense spending is held to an increase of about 2%, below the fraudulently low official rate of inflation, and far below last year's 4-5%. Federal highway spending promises controversy; it takes a \$9 billion hit in the 2003 budget. Sen. Kent Conrad (D-N.D.) complained, "Cutting \$9 billion out of highway spending, at the same time the President says his number one priority is jobs, creates lots of problems."

Another area fought out will be the budget for the National Aeronautics and Space Administration. In his Feb. 4 budget briefing, the new NASA Administrator Sean O'Keefe focused on the crisis in the International Space Station program, which the administration decided would not be funded at a level to allow its designed completion, despite the impact on all of America's international partners in this frontier project. Also up in the air is the how many shuttle flights shall be funded.

The administration had proposed reducing the number of flights from six to eight per year down to four, but when pressed by reporters, O'Keefe waffled, and said that there will be four, possibly five, flights dedicated to the space station, and still others are possible, but will have to be "justified." The Outer Planet program has been eliminated, with O'Keefe stressing that the scientific community will have to "set priorities" everyone can agree on, if it hopes to have any more planetary missions.

What's going to make the bottom fall out of all of this is, of course, the economy. A rational person, seeing the chain-reaction of bankruptcy collapses in the global economy, would have to be very cautious about any future budget prognosis. These include the Asian currency crises of 1997, the Russian bond default of August 1998, which was rapidly followed by the collapse of the Long Term Capital Management hedge fund in September. More recently, Argentina has collapsed into chaos, and the Japanese banking system is on the verge of blowing out. Closer to home, more than 1 million manufacturing jobs have disappeared in the United States over the past year, the airline industry is losing money hand over fist, and corporations have been rocked by a growing series of bankruptcies.

But the economic outlook presented in the budget ignores all of these realities. The underlying premise is that what went on during the 1990s was an economic boom, rather than the growth of a cancerous financial bubble. Therefore, a mere "slowdown" followed the markets' peak in March of 2000, and a simple "recession" began in March of 2001, as declared by the National Bureau of Economic Research.

The Bush Administration's response is to call for an "economic security plan" that ignores all of the realities of the economic collapse. The provisions of the plan include speeding up last year's tax cuts, giving tax refunds to individuals who were not eligible for them last year, providing assistance to laid-off workers, including extended unemployment benefits and health insurance, reforming the alternative minimum tax, and offering better tax treatment for businesses that invest in new equipment. The Council of Economic Advisers claims that these measures could boost Gross Domestic Product growth by half a percentage point and create 300,000 jobs—similar claims were made for Alan Greenspan's interest-rate cuts starting a year ago.

And even the enactment of this "stimulus," though assumed in the budget, is unlikely now. Senate Majority Leader Tom Daschle (D-S.D.) pulled the economic stimulus bill from the floor of the Senate on Feb. 6, since neither side could muster the 60 votes necessary for passage for its particular version.

The contradictions between the Bush budget projections and the economic collapse make it more likely that, rather than providing the means to defend the United States from terrorism, the budget plan will actually intensify the graver dangers, which administration and Congress wish to deny.