Bush's support may sink in budgetary quicksand

by Steve Parsons and Kathleen Klenetsky

If George Bush thought that his military flight forward into the Arabian peninsula would somehow rescue him from the political fallout of the crumbling U.S. economy, he'd better think again. Behind the polls pronouncing massive popular support for the President's adventure, growing discontent and anger over the state of the domestic economy threatens to blow that support to smithereens.

In the four short weeks since the President committed U.S. forces to the Gulf, the economy has entered a new phase of collapse, making it now well-nigh impossible for the Bush administration to try to gloss over the fact that the American economy is in a deep depression.

Just days after Bush's supposedly "triumphal" meeting with Gorbachov, the reality of the collapse began to burst through the layers of coverup and jingoism. First, the ballyhooed economic summit with congressional leaders over that same weekend did not produce the deficit reduction agreement so eagerly sought by Bush for his address to Congress on Sept. 11. Instead, Bush—using the requirements for the Mideast mobilization as inducement—had to demand that Congress present such an agreement by Sept. 28, or the nation would undergo devastating cuts next month through Gramm-Rudman sequestration strictures.

Holding the sky up

That same day, Bush's nostrums were juxtaposed with grim congressional testimony delivered by Comptroller General Charles Bowsher before the Senate Banking Committee. Bowsher unveiled a Government Accounting Office report warning of major bank failures and the woeful inadequacy of Federal Deposit Insurance Corp. protection (see *Banking*, p. 21).

The study confirms previous estimates that the FDIC's Bank Insurance Fund will lose another $2 billion this year. The *Washington Post* said the report "stunned members of Congress, who already are wrestling with the economic and political consequences of the massive cleanup of the nation's savings and loan industry." "If the sky is not falling, it's shaky," said Sen. Richard Shelby (D-Ala.). "We better get ready to hold the sky up." Committee Chairman Don Riegle (D-Mich.) asked if "it is conceivable we may have unrecognized losses out there that may exceed what is in the fund?" to which Bowsher replied, "That is a fair statement."

The GAO also reports that in 1988-89, some 22 banks, including the recently closed National Bank of Washington, went bust either without ever appearing on the federal government's list of troubled banks, while others appeared for only one quarter before they bellied-up. Bowsher said that the Bank of New England was not even on the list when its staggering financial problems came to light early this year.

On Sept. 12, two more bombshells greeted Bush's vision of a "New World Order." Congressional Budget Office Director Robert D. Reischauer told the Senate Banking Committee that up to 700 banks could fail in the next three years, wiping out the FDIC and costing the government $5-6 billion a year.

According to the CBO, the FDIC now has only $13.2 billion in its insurance fund, or only 70¢ for every $100 in deposits, the lowest level since its creation. Banks currently pay only 12¢ for every $100 of insured deposits, with the rate capped at 32.5¢. House Banking Committee Chairman Frank Annunzio (D-Ill.) has introduced a bill that would require banks to pay $1 for each $100 in deposits, which would raise $25 billion for the increasingly shaky FDIC.

But as Reischauer noted, such a boost could put many banks over the edge, thus eating up both the increased funds and the banking system at the same time! In any event, he added, a recession will certainly bankrupt the FDIC, as would the failure of one very large bank. "We're skating on thin ice, but our pants are still dry," he said.

Complementing Reischauer's remarks that same day was another GAO report that blows apart the budget summit charade. The GAO now estimates that the Fiscal Year 1991 federal budget deficit will be $372 billion, if the Social Security trust funds are not used to bridge the gap. That is nearly four times greater than the $100 billion deficit projected by the Bush administration in January, and almost twice as large as what it will now admit to.

Moreover, the GAO report stated that the current goal of cutting $500 billion over the next five years is "only a first step," and that *$1 trillion* in cuts are needed in the next six years if the economy is to be spared from the government's crowding out of other borrowers in the credit markets.

Besides noting that the interest payments on the national debt have increased more than any other federal budget item program—skyrocketing 222% from 1980 to 1989—the GAO report denounces the fraud of the Gramm-Rudman-Hollings deficit reduction language: "Five years of technical compliance with the law have resulted not in meaningful deficit reduction, but rather in a whole new generation of off-budget and other misleading budget reporting practices that hide the true magnitude of the problem."

State and local budgets crises

The political volcanic eruption augured by the federal budget and banking collapse is already evident in a cascade of state and local financial crises. The National Conference of State Legislators reports that revenues in 30 states are below expectations, citing such cases as Virginia's $1.4 billion gap, and Maryland and Florida taking in $150 million and $500 million, respectively, less than what was projected. A tax revolt is shaking Massachusetts, New Jersey, and other states, with eight placing revenue-limiting measures on their November ballots.

Butte County, California threatens to become the first county in American history to go bankrupt, with 17 others in the state, plus counties in at least three other states, reportedly on the brink. "The gradual fiscal collapse of county government, given its present fiscal structure, is inevitable," warns the County Supervisors Association of California.

In Massachusetts, the collapse of the once-touted "miracle" economy has virtually doomed the Democratic gubernatorial nominee this fall, in a state where registered Democratic voters outnumber Republicans by more than three to one. The state is facing another $150 million in immediate cuts, on top of hundreds of millions in recent cutbacks and new taxes. Because the state has not been able to make expected transfer payments to them, five towns and cities have already been put into de facto receivership, with their local governments now under the thumb of non-elected "financial control boards," based on the infamous 1975 New York model.

Philadelphia is facing insolvency this fall, even though it has raised taxes to nearly the highest level of any city in the nation. Its credit rating is on a par with junk bonds, and no bank will lend it a nickel. And in the battleground of New York and other urban areas, where drugs, crime, poverty, and cuts in government services have created a situation bordering on anarchy, political incumbency is increasingly something one might wish on his enemies.

Murder through austerity

As of this writing, it appears that the budget summiteers will agree on cuts in the order of $50 billion. This is, of course, far short of what Gramm-Rudman demands; but to avoid the chaos of automatic budget cuts, it is likely they will rewrite the sacred Gramm-Rudman rules—for the third time in five years.

As for the budget cuts themselves, the major consensus agreement among the budget negotiators is to sanction the murder of senior citizens. According to a report in the *Washington Post,* under the budget compromise now emerging, half of all non-defense budget cuts will come out of Medicare. Some $28 billion in payments to providers will be slashed over the next five years, $27.1 billion "saved" by jacking up premiums according to beneficiaries' incomes, and $17.2 billion gained by forcing the elderly to pay more for medical treatment.

This kind of meat-cleaver brutality in the midst of the titanic collapse has even Bush supporters warning of doom. The consensus of eight Washington, D.C. political analysts, who recently met to review the political health of the Bush presidency, is that the President is "riding high" in the polls now. But if the economy worsens or there is a military stalemate in the Persian Gulf adventure, Bush is in trouble. "If the focus comes back to the economy, and if there is a tax increase, which I expect, and if we have a recession . . . he is going to be in much more difficult straits," said Paul Weyrich, president of the Free Congress Foundation. Analyst Kevin Phillips warned of a possible "October Surprise" by the White House in an effort "to pull off [a military victory] in the middle of October intended to influence the November elections."

Geopolitical strategist Edward Luttwak bitterly commented that the U.S. is in effect a Third World nation, with no ability to sustain the obligations of a major power. In a *Washington Post* guest commentary Sept. 9, he wrote, "Until now, it was only Third World ministers that would go on the road asking for donations as we are now doing. But that is perfectly appropriate, because the United States has itself been sliding into Third World conditions—although in truth nowhere else is the typical Third World trait of massive public and private insolvency more in evidence."