Depression and War Blow Out Bush's Budget

by Carl Osgood

President Bush's Federal government, representing an economy six times the size of Gov. Gray Davis' California, now has a budget deficit estimated 30 times as large, for Fiscal 2004. The Office of Management and Budget (OMB) released its mid-session review on the Fiscal 2004 budget process, on July 15; the only conclusion a reasonable person could draw from the new numbers is that the Federal budget is blown out, and a new approach is needed. One and a half years ago, the OMB officially forecast a Fiscal 2003 deficit of $80 billion. The mid-session review, last year, raised that estimate to $109 billion. The Fiscal 2004 budget plan raised the 2003 red-ink estimate to $304 billion; and the new review has now increased that forecast to $455 billion—or about $600 billion before Social Security revenues are looted to make budget payments.

The OMB attributes this astonishing collapse to a severe shrinkage of anticipated tax revenues, which have now declined for three years in a row—1930s Great Depression-style. According to the July 15 report, the revenue collapse has added $66 billion to the 2003 deficit, just since the January 2003 estimate; and $95 billion to the anticipated Fiscal 2004 deficit. The collapse is worse than that, because OMB counts the surpluses in the Social Security and other trust funds. Without them, the actual deficit for 2003 will be in the neighborhood of $618 billion.

Parties Ignore the Reality LaRouche Forecast

Then the OMB review forecasts that the FY 2004 deficit will grow to $475 billion ($638 billion without the trust funds)—but the rate of collapse of the U.S. economy has probably already made that figure irrelevant. The review optimistically ignores the ongoing collapse process, and predicts that the deficit will be cut in half by 2006 by "stimulus" from the 2003 tax cut.

EIR's warning of two months ago that the deficit is spiralling out of control ("U.S. Fiscal 2003 Deficit Could Top $500 Billion," *EIR,* June 6) is borne out. *EIR* announced then, that while the Bush Administration's tax cuts were a factor, the primary driver behind the drops in revenue was the collapse of the economy, in two areas in particular. One is the physical economic collapse, which is seeing manufacturing jobs, in particular, disappear for three years without let-up. Second, is the blow-out of the New Economy/information technology bubble, which had been providing a surplus flow of capital gains taxation into the Federal Treasury until 2001, when the bubble began collapsing. These two factors have had a huge impact on both income tax and corporate tax collections; *EIR* estimated their combined impact would gut $250 billion from FY 2001-2003 revenues. This is the leading edge of the unprecedented three-year-long fall in tax revenues.

Since the Bush Administration has clung to its Mont Pelerinite tax-cut policy, there is every reason to believe that the collapse will not only continue, but accelerate, bring even larger, and unsustainable, budget deficits in 2004, 2005, and beyond.

Democrats, denying the collapse themselves, continue their posturing against the GOP tax cuts. Rep. John Spratt (D-S.C.), the ranking Democrat on the House Budget Committee, noted the huge, multitrillion-dollar downward "swing" in projections in only two years, and told newly installed OMB director Josh Bolten, during a July 16 hearing, "I don't get a sense in reading your report. . . that you give any culpability to the three tax cuts that this administration has passed," for the growing deficits. He noted that the tax cuts have cut projected revenues, over the 2001 to 2011 period, by $3.746 trillion.

Spratt also noted future obligations that have not yet been accounted for in the present budget documents. One is the continuing costs of military operations in Afghanistan and Iraq, "which are now running at a rate of $5 billion a month incremental spending," he said. He warned that those costs alone could easily drive the Fiscal 2004 deficit to over $500 billion ($650 billion, or 6.5% of GDP, without looting Social Security).

The GOP is proving itself even more determined to ignore the collapse process than are the Democrats. House Budget Committee Chairman Jim Nussle (R-Iowa), speaking to reporters after the OMB review was released, insisted that everything was under control and would remain so, if the present GOP budget plan is adhered to. He confidently predicted that if that is done, the budget will be back in balance within nine years—despite the recent inability of OMB or the Congressional Budget Office to make budget and revenue forecasts for even nine months! Echoing the OMB report, Nussle called the deficit "manageable." His method is to reduce spending, in imitation of the recent years' failed efforts of the states to close their budget holes through fiscal austerity.

This mentality is reflected in some of the appropriations bills that the House has already passed. The bill funding the Departments of Labor, Health and Human Services and Education, normally the most contentious of the 13 appropriations bills, is indicative of the austerity approach the GOP is taking to the "spending side" of the problem, as Nussle put it. It cuts $1.2 billion out of special education programs, $750 million out of the No Child Left Behind after-school programs, and

$200 million out of the Low Income Heating Assistance Program, to name just a few. Rep. David Obey (D-Wisc.) tweaked the House: "We can somehow afford $2 trillion in tax cuts over the next decade, over 40% of which are targeted at the wealthiest 1% of the people, but somehow we cannot afford $3 billion more to educate our kids, or $3 billion more to help see to it that kids do not lose their health coverage in a time of national economic problems."

Costs of War Undetermined, Unincluded

Besides the revenue collapse, hanging over all of this, as Spratt noted, is the future cost of U.S. military operations in Iraq, Afghanistan, and possibly elsewhere. The OMB review attributes $47 billion of the 2003 deficit increase, and $20 billion of the estimated 2004 deficit increase, to increased spending due to the Iraq War. However, the review also includes this *caveat:* "These estimates do not reflect what the Administration previously indicated are expected but undetermined additional costs arising from ongoing operations in Iraq, extending beyond 2003." This means, in all likelihood, that the actual costs will be considerably higher in 2004 than what can be extrapolated from the spending estimates, so far.

Those "undetermined additional amounts" are likely to be a source of some friction between the Administration and the Congress in the period ahead. The Senate has so far decided to side with the White House on that issue. It rejected, by a vote of 53-41, on July 16, an amendment by Sen. Byron Dorgan (D-N.D.) to the defense appropriations bill, to require the Administration to submit an amendment to its Fiscal 2004 budget request indicating how much it thought it would need for operations in Iraq. Dorgan told the Senate, in a foreboding of perpetual war, "I don't want us to be in a situation where each Spring we have to produce larger and larger supplemental appropriations bills." But Senate Appropriations Committee Chairman Ted Stevens (R-Ak.) replied, that "Congress should not instruct the President to request funds now for future contingency military operations," and the full Senate went along with him.

The House has yet to formally speak on the matter, and the situation there is less clear. Rep. Obey (D-Wisc.), the ranking Democrat on the House Appropriations Committee, has pointed out on numerous occasions that the Congressional Fiscal 2004 budget plan includes no money for operations in Iraq, an incredible situation. Budget Committee Chairman Nussle was even more adamant after the OMB review was released. "We need straight answers about budget ramifications for the conflict in Iraq," he said, emphasizing that the Congress needs estimates and "they need to be accurate." When asked if the Congress would try to come up with its own estimates, if the Defense Department was not forthcoming, he said "The short answer may well be yes."

The Pentagon has so far been willing only to provide estimates for the current Fiscal Year 2003, which ends on Sept. 30, and that reluctant estimate averages about $3.9 billion per month. Of that average, over $2.5 billion is for contingency operational costs for logistics and transportation, and most of the remainder is personnel costs.

Pentagon Comptroller: 'Cash Out by October'

That $3.9 billion figure is itself only an estimate. As Pentagon Comptroller Dov Zakheim explained to *EIR* in an July 11 interview, the department only has the real figures for January, February, March, and April, averaging about $4.1 billion per month. Those costs are going to "tail down," Zakheim claimed, because some troops are already being pulled out, "and so your monthly costs have gone down." Not included in that monthly average, however, are costs for reconstituting forces that are and will be returning from the region—for which $4 billion was set aside in the Iraq War supplemental—nor does it include depot repair and maintenance of equipment used in the war, the Coast Guard deployment, the setting up of the Coalition Provisional Authority, or support of participating allies. All of these costs are covered by the $62.6 billion Iraq war supplemental passed in April.

How much those future costs will go down, Zakheim declined to say. "It depends on whether we'll pull more troops out," he said. "I can't predict that." The Pentagon is optimistically expecting up to 30,000 foreign troops to join American troops in Iraq by the end of the Summer, but talks are still ongoing, and a number of countries, including India, France, and Germany, have rejected U.S. entreaties. "So, to formulate a requirement right now when you have these unknowns, how many foreign troops will come, when will they actually show up, is probably premature." Zakheim expects that at the Oct. 1 beginning of FY 2004, "We'll probably cash-flow out of the resources that we have." In other words, the Pentagon will be covering the costs of Iraq and Afghanistan operations out of its operations and maintainence accounts, since no other money is budgeted. This makes inevitable the large supplemental appropriations request much feared by Senator Dorgan, sometime in early 2004.

If large numbers of reservists are retained in the region into 2004, the costs will remain substantial. Zakheim explained that in April, the department had set aside $13 billion to cover post-war stabilization costs, but that that had not included retaining large numbers of reservists in the region. Instead, "the reserves stayed; that number now went into the total calculus. . . . We weren't pulling them out and so when I testified in June, I said the number was in excess of $3 billion." As Zakheim explained, the reserves cost more to deploy because all of their personnel and training costs have to be counted. Active forces already have funding budgeted for personnel, training, and operations and maintenance costs, so the only costs for deployed forces that have to be counted are those that are incurred over and above the budgeted costs.