Clinton's budget: Forget the rosy scenarios

by Chris White

On April 8, William J. Clinton signed off on the budget of the U.S. government for fiscal year 1994 and sent the resulting package to the Congress. Weighing in at about five pounds, the 1,310-page document has more than one page for each $1 billion that the federal government will receive in receipts over the year. If only the document were as long in wisdom as it is in its number of pages.

The President's budget message echoes the themes of his campaign. "The plan flows from the demand of the American people for change and my vision of what America can be if we embark upon an economic strategy of investing in people and putting people first. . . . Enactment of the proposals in this budget will bring the vision that underlies my plan—a vision of a brighter, more prosperous future for America—a step closer to reality." This reflects the tone of what Clinton writes.

This is the budget which contains the plan to reduce the budget deficit over the next five years; the plan which, during the 1992 election campaign, was slated to reduce the budget deficit by half. But it is more reasonable to assume, as with the budget deficit plans of 1981, 1986, and 1990, that the deficit will again double with the latest plan to bring it under control.

Wild economic assumptions

The budget does not actually intend to reduce the deficit. Two variants are put forward: a so-called "base-line forecast," and an administration forecast. The base-line extends current expectations; the administration version interpolates the effect of the new administration's changes. Under the first version, the deficit is supposed to fall from $322 billion in the current fiscal year to $211.7 by fiscal year 1996, and then begin to rise again, ending at $250.4 billion in fiscal year 1998. Clinton's version follows the same trend, but ends up at $202 billion by 1998.

These outcomes are calculated on the basis of so-called "economic" assumptions, which begin to indicate where everything will go so wildly off track. Gross Domestic Product (GDP) is supposed to increase, at a slowing rate, but by about *25%* over the five-year plan. And, concomitantly, personal income, and therefore the revenue base, is supposed to increase proportionately. Unemployment will allegedly be reduced by an official 1.5% over five years, from 7% to 5.5%. Short-term interest rates are to increase by a mere 0.7% over five years, and ten-year interest rates are to decline. On this basis, the five-year plan will be blown out of the water by the time it is supposed to go into effect on Oct. 1, 1993.

Compared to the real world of deepening depression, these assumptions, the Congressional Budget Office's "conservative" projection, lie somewhere on the outer edge of the galaxy, in the region where the Hubble Space Telescope is supposed to be looking for evidence of the "Big Bang." The one will be as successful as the other.

Under such assumptions, the indebtedness of the federal government will increase by almost 50% over the life of the plan. It is presumed to rise from the statutory limit of $4.362 trillion in effect for fiscal 1993, to $6.221 trillion by fiscal 1998. Federal debt will increase twice as fast as the assumed increase in GDP, or tax revenues, while the deficit is supposed to decline slightly.

This brings us to the idiocies in thinking which assure that everything will go off the rails. It is not necessary to go through all 1,300 pages to find the problem. It is located, beginning on page 31, in the section on "Federal Borrowing and Debt."

Here, the argument is developed that the federal government issues debt for two principal purposes. It borrows from the "public" to finance the federal deficit. And, it issues debt to government accounts which accumulate surpluses. In which connection, it is stated, "Borrowing from the public has a significant impact on the economy. . . . It has to be financed from the savings of households and businesses, the state and local sector, or the rest of the world. . . . However, issuing debt to government accounts does not have any of the economic effects of borrowing from the public. It is an internal transaction between two accounts, both within the government itself. It does not represent either current transactions of the government with the public or an estimated amount of future transactions with the public."

A grand jury is in order

If the Justice Department was actually a defender of the law, a grand jury ought to be convened to get to the bottom of that. If Congress were doing what the Constitution framed its responsibilities among the three branches of government to be, committees would even now be investigating. Such a statement tells us that the government's finances are run in ways no different than what Michael Milken was doing with Drexel Burnham Lambert, or what his friends did with Executive Life Insurance.

The parallel is not extreme. If a corporation replaced the assets of its pension fund with holdings of its own bonds, claiming, while it liquidated its revenue-producing economic activities, that the interest paid on the bonds would guarantee the future integrity of the pension fund, those responsible would rightly be prosecuted for embezzlement, preferably before the corporation's doors were locked by officers of the bankruptcy courts.

Such is the kind of activity which the authors of Clinton's budget claim "does not have any of the economic effects of borrowing from the public." They know as much about economics as they evidently do about the law. Like Milken before them, it will not be too long before they find out that the effects of bankruptcy are very real.

The Social Security trust fund's receipts are based on monies docked from the wage bill of the employed. The funds represent economic activity performed by those who work. They are supposed to add to an asset base accumulated since the fund was established under Franklin Delano Roosevelt and earmarked to pay retirement benefits for those same present-day contributors. The Social Security trust fund is the biggest of those whose assets are being stripped and replaced by holdings of government debt. Currently, the fund runs a surplus of about $90 billion per annum.

Convert that surplus into holdings of Treasury debt. Funds dedicated to one purpose are transferred to current expenditures, such as debt service payments, while the Treasury paper inserted into the fund is supposed to provide the basis for future continuing retirement payments. Come the day, can you live off government bonds? Milken would probably say yes. Are they edible? Will they pay the rent? Will they pay medical bills?

Backed by the full faith and credit . . .

The fraud's defenders will no doubt point to the cited section: "Debt is the most explicit and legally binding obligation of federal government." How dare you question the faith and credit of the U.S. government? Never in more than 200 years have obligations incurred by the federal government been repudiated. Nor, it might be replied, has so much federal debt been replaced by so much more federal debt, as it has been since 1978. Nor have so much of the real assets of the country, based on the labor of its population, been converted recklessly into future commitments to issue more government debt.

In the current fiscal year, fully one-third of the government's outstanding debt ($1,092.8 billion) is held by government agencies. That sum, almost sufficient to finance six months of the government's activities, represents receipts of government trusts which, like the so-called Social Security surplus of about $90 billion per annum, have been fraudulently converted for purposes other than those for which they are legally dedicated, on the basis of a promise that they will in the future be restored. By 1998, that sum is assumed to increase to $1,681.8 billion, while remaining at approximately 30% of the total debt. The increase in that account over the five years of the plan is larger than any one year's worth of anticipated receipts from federal individual income taxes.

Tax receipts from individuals are estimated to increase more than 30% over the five years of the plan—faster even than personal income, or GDP, is supposed to increase. Yet the sums fraudulently converted from revenue into future promises to pay back, are slated to increase about 60% faster than revenues from individual tax receipts, and faster still than GDP or personal income.

This is the same profile of absolute lunacy which has been imposed in the name of "reducing the budget deficit" every time that battle cry has been raised since 1981. If obligations are permitted to increase faster than revenues, and if current receipts are converted into future claims against future receipts, which is what Treasury debt is, faster than either revenue or obligations in the form of debt increase, the result is insolvency and bankruptcy, and can be nothing else.

Acceptance of such an approach is not limited to government. Look at the opinion polls. Don't they mean that the "majority" view, that deficit reduction ought to be a top priority, is also, in effect, majority concurrence with the methods of a Michael Milken?

It is past time that the lesson was learned that the whole approach is insane. There is only one way to straighten out the federal government's budget. Forget the expenditure side, cut out the swindles and the frauds, and concentrate on increasing the revenues. When all types of unemployment are added together, even the government recognizes that unemployment is over 17%. Until that is faced, this country has no other future than that of the swindlers and frauds whose methods it so admires.