

Republican Budget Resolutions In Search of a Dollar Blowout

by Paul Gallagher

For a nation approaching a \$750 billion annual rate of deficit in its trade and current accounts, and facing multiple warnings of the threat of a collapse of its currency, the Bush Administration's proposed U.S. Federal budget for 2006—in both its current forms as Republican Senate and House budget resolutions—is an exercise in dangerous economic incompetence.

The problem is not the size of its projected Federal budget deficits through 2010, as such; these projections, in any case, mean little, as made clear by the White House's recent years' claims, vs. the ensuing real budget deficits. The trade and current-account deficit is now far larger, and represents a massive flight of productive, well-paid jobs from formerly strong U.S. industrial sectors. Former Federal Reserve Chairman Paul Volcker raised the alarm on April 11 that that deficit is only being funded by the United States taking in 80% of the capital flows of the entire planet; former Treasury Secretary Robert Rubin has been warning that this process—in which the United States is taking on over \$1 trillion in new foreign debt annually just to finance these deficits—can blow out the dollar financial system.

The worst incompetence of the budget resolutions is not the Federal deficits. It is the Administration's and Republican Congressional leaders' attempt to shut down avenues for Federal investment in the essential categories of industrial capacity and economic infrastructure—transportation, power, water, trade infrastructure, hospitals, schools—which could raise real productivity and avert such a dollar collapse.

Budget Cuts' Absurd Logic

From 1970-2000, total Federal tax revenues and total Federal expenditures had each varied within the same relatively narrow range between 20% and 22% of so-called Gross Domestic Product of the economy. In 2000, Federal revenues were 20.9% of the GDP. But since 2001, Bush's

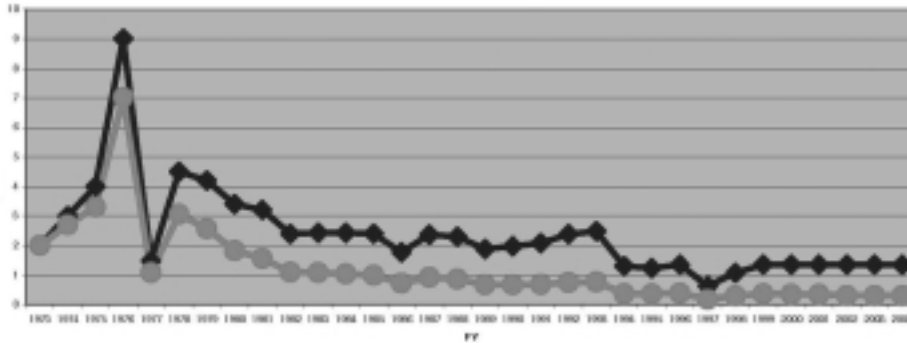
aggressive upper-income tax cutting has reduced Federal tax revenue abruptly, to only 16.8% of GDP, the lowest level since the early 1950s, while GDP itself has slowed down drastically.

Despite the virtual zero growth in jobs and the decline in real wages over the past four years, the Social Security and Medicare payroll taxes alone have come to be producing over 40% of this shrinking Federal tax revenue, while dedicated to support about 35% of Federal spending (Social Security benefits and Medicare health benefits). At the same time, military expenditures, including fighting two wars and “transforming” the military to fight in any number of other worldwide conflicts, have mushroomed to \$500 billion this year and next, nearly one-quarter of the total budget; the five-year budget resolution in the Senate proposes to increase this by roughly \$40 billion a year. There is also \$40 billion in Homeland Security spending. Interest payments on the Federal debt take another 10%.

As a result, the Bush/Republican leadership's determination to severely “cut Federal budget spending” for the five fiscal years 2006-10, would be a worse-than-fool's errand—even were they not aiming for further, suicidal, upper-income tax cuts at the same time, and ignoring the ballooning current-account deficit and clear warnings of a dollar blowout coming. What they are proposing to cut, the so-called “domestic discretionary” spending that remains aside from military/Homeland Security spending and mandated entitlement programs, amounts to less than \$500 billion out of the \$2 trillion-plus Federal budget. And the amount they claim they are trying to cut by FY 2010, from that less than \$500 billion funding—for transportation, education, space exploration, agriculture, scientific research and development, public health, care of veterans, aid to states and cities, postal service, and so forth—is \$204 billion, nearly half! And this, while intending to enact

Clean Water Infrastructure Investment

(\$ Billions)



Infrastructure investment collapse: The funding of the EPA's Clean Water State Revolving Fund is down to one-fourth the levels of the 1970s; and inflation-adjusted, to less than one-tenth of those levels once reached. This year, the funding was cut by a further one-third. The bigger line shows Congressional appropriation levels; the lighter line shows appropriations in constant 1973 dollars.

further tax *revenue cuts* of \$129 billion in those five years, primarily by extending cuts in dividend and capital gains taxes. They are even planning—having adopted an amendment to the Senate budget resolution by Sen. Jim Bunning (R-Ky.)—a tax cut for better-off retirees, to cut Social Security payroll tax revenues by \$20 billion annually, even while George W. Bush proclaims at every opportunity that Social Security is going broke. The Social Security revenue that would be thrown away, currently funds Medicare health insurance.

On top of this delusional plan to decimate the low-hanging fruit of “domestic discretionary” spending by nearly half by FY 2010, the White House also wanted to start cutting the most vulnerable entitlement, Medicaid, whose poorer recipients have been rapidly growing in number because of the decline in jobs and wages, and the withdrawal of health insurance coverage by more and more employers, large and small.

Not Enough of a Revolt

The complete futility of this austerity strategy, is causing rank-and-file Republicans in the Senate, and some in the House, to desert the leaderships' budget resolutions on funding for key responsibilities of government. The biggest revolt, in early March, came when the Senate, on an amendment by Sen. Gordon Smith (R-Ore.), rejected outright the Administration's \$14 billion in cuts aimed at the Medicaid programs. Also likely to be beaten, is an attempt to cut out one-third of the FY 2005 funding level from the FY 2006 budget for Community Development Block Grants, which provide employment in the improvement of cities and neighborhoods. The proposed complete elimination of the budget for Amtrak national rail passenger service has split off Republicans including key Pennsylvania Sen. Arlen Specter. And even the

Homeland Security budget proposal has drawn a Republican revolt. Though the White House called for an increase of \$2 billion for FBI and other Federal anti-terrorism and Patriot Act activities, it cut by nearly \$1 billion the level of aid to traditional, local “first responders” like police, fire departments, and emergency medical departments. The Senate voted to restore all of that funding, in an amendment by Republican Sen. Susan Collins of Maine.

And the 2.4% cut (in real-dollar terms) from FY 2005 to FY 2006, in the budget for the Veterans Administration, is being fought by a bipartisan coalition in the Senate.

But the central insanity of the Republicans' current budget resolutions is that they virtually bar investment in critical new economic infrastructure, which could drive a U.S. recovery from industrial and economic collapse. Spending on development of high-speed rail corridors across the United States is reduced to zero, just as is Amtrak passenger rail (high-speed corridors under development in Florida and California have been killed by Governors Jeb Bush and Arnold Schwarzenegger). The overall budget for the Army Corps of Engineers, central to U.S. infrastructure construction since the 1930s, is proposed to be 11% below FY 2005, and not much more than half of what the Corps requested. The full funding potential of the Corps has been reduced by layoffs of its engineers and shutdown of some of its divisions. Environmental Protection Agency funding for the extension of clean water delivery systems is to be cut by one-third below FY 2005; that for watershed dams is almost completely eliminated. The overall Transportation Department budget is reduced.

And the White House and Senate resolutions schedule \$27 billion to be cut from national funding of education by FY 2010, in comparison to FY 2005, redirecting what remains away from development and early enrichment programs and toward the false panacea of national standardized testing in all grades.

This senseless White House budget strategy is one factor causing George W. Bush to lose his hold on the reins of power he seemed to have on Nov. 2, 2004. These cuts, if made, cannot affect the onrushing U.S. debt crisis, but can further destroy the U.S. physical economy. On the other side, the “ready-to-go” infrastructure investment requirements defined by governors and mayors and others, await up to several trillion dollars in Federal credits—and *that* strategy, of infrastructure investment, could remove the threat of dollar collapse the United States—and the world—now faces.