

## Bush budget: a kinder, gentler Heinrich Bruening

by Webster G. Tarpley

On the evening of Feb. 9, President Bush addressed a joint session of Congress to outline certain changes he proposes to introduce into the detailed budget sent to the Congress by President Reagan at the beginning of January. Although he sought to create the impression of a substantial departure from the Reagan budget, Bush's austerity diverges from Reagan's final budget only in minor details. After the glittering generalities of the election campaign and the inaugural address, this was the first occasion on which the new President had to be specific.

Despite the much-vaunted experience of the Bush team, he did so in a way which will satisfy no one. The Bush budget is a deadly catalogue of sacrifice and privation, where Bush's desire to be known as the "education President" turns out to be worth just \$411 million in hard cash. But at the same time, Bush's "flexible freeze" austerity is not nearly Schachtian enough to satisfy the Bank for International Settlements (BIS) clique, which wants a drastic compression of living standards and spending levels which Bush wishes to duck for the moment. Even on the level of the President's relations with the Congress, Bush's deficit-cutting method is seen on the Hill as a ploy to shift the onus of "bipartisan" cutting to the legislative branch, while the White House plays up tiny increases in social and humanitarian programs.

The speech delivered by Bush to the Congress was largely misleading, since he was silent on cuts and only modulated the "kinder and gentler" register. More details are to be found in a 193-page volume entitled "Building a Better America," which Bush forwarded to the Congress with his speech. This curious document is being referred to as "Quotations from Chairman George," owing to the many citations from Bush's campaign speeches which festoon the pages: "There is but one just use of power, and it is to serve people," is on page 11, but there is at least one on almost every page. We are reminded that Maoist China is the only foreign country the President has ever lived in.

The smoke and mirrors of the Bush budget proposals begin with the underlying assumptions about the behavior of the U.S. economy over the period ahead. The biggest *salto mortale* comes at the beginning: the prediction that federal revenues will rise by \$88 billion during FY 1990 as a result of the ongoing recovery and the invisible hand. This is based in turn on the notion that short-term interest rates will be about 7.4% for the Treasury; these rates are now one full percentage point above that figure and are headed higher. This means that the interest payments on the public debt, now \$168.8 billion, will rise above the projected level of \$173.3 billion Bush assumes for 1990. Related assumptions about "gross national product," inflation, and unemployment are equally utopian.

The other misleading aspect of the budget is the accounting method employed. In his press briefing, OMB chief Richard Darman ridiculed the old budgeting method, called "current services baseline" budgeting. The old method was that a budget item was thought of as holding steady if it continued to be funded at a level sufficient to provide the current service level, plus inflation. Above that was an increase, below that was a cut. According to Darman, this has a "curious Wonderland quality" since it suggests that "programs funded in the past must be funded at at least equivalent service levels in the future—with a built-in upward adjustment for inflation and other factors. In a sense, it treats spending programs as immortal. And it treats inflation as an acceptable given." Darman has replaced the "Wonderland" method with a "common sense approach," which measures budget cuts and budget growth simply by comparing the nominal amount spent one year with the nominal amount spent the next year. Using this sleight of hand, Bush can claim that he is adding \$2.4 billion, or 22%, to the NASA budget to fund the Space Station Freedom. In reality, Bush is adding nothing to the appropriation proposed by Reagan for FY 90, and is adding only \$126 million more in

spending authority. Bush intends to take all that back in 1991 by lopping off some \$270 million proposed by Reagan. Or, in the case of AIDS/HIV, including both "education" and research, Bush claims that he wants to spend \$1.6 billion, which he says is an increase of \$313 million, but this is in line with what Reagan had already proposed.

### From Wonderland to sleight-of-hand

By virtue of the flexible freeze, a large number of domestic programs will be kept at their previous levels of funding, without even an allowance for inflation. These programs account for \$136 billion, or 12% of the overall budget. The defense budget is also frozen, but allowance is made for what the administration asserts to be the inflation level which is heavily underestimated in terms of the dollar's ability to command hard commodities in the real physical universe. According to Darman, the method was then to single out "headings," or general areas of spending, and fix a "lid" or maximum figure for each of these headings. The administration economic "Quadriad" is ready to talk to Congress about the dosage of austerity in each of these areas. Bush claims that with all this, he is bringing down the deficit by about 40% within one year, to meet the new targets set by the Gramm-Rudman-Hollings deficit reduction law. For FY 89, the Gramm-Rudman target was supposed to be a \$136 billion deficit, but various kinds of cheating got the deficit up to at least \$163.3 billion, by the administration's own figures. Now Bush claims that he will respect the FY 90 target of \$100 billion, coming in with \$91.1 billion of red ink. The fictitious assumptions of the budget make that feat impossible, as the vultures at the BIS were quick to note. Bush is trying to punt, to carry off one to two more years of the Gipper. In the meantime, there will be carnage:

- Defense will rise to \$291.2 billion, and even that will include the cleanup of old nuclear weapons production facilities and other burdens. Darman said that the budget requests for the Strategic Defense Initiative would stay at the Reagan FY 90 request level of \$5.6 billion, but he also referred ominously to a review of the SDI and other policy areas that Bush had ordered. Conventional wisdom is that the SDI will be very lucky to come through with this year's authorization of \$3.79 billion plus some allowance for inflation; after the Nunn and Aspin committees finish with it, the figure is likely to be lower. Bush plans to cut \$44.7 billion in authorization and \$30 billion in appropriations from the Pentagon over the next four years compared to Reagan's projections.

- Severe carnage is mandated for the farm sector. Agencies operating in the area of agricultural credit policy, including the Rural Electrification Administration, the Farmers Home Administration, and the Rural Housing Insurance Fund will have their outlays cut by \$3.63 billion. The Commodity Credit Corporation is slated to drop from \$13.9 billion to \$10.7 billion.

- Medicare will be savagely gouged under the heading of slowing the growth of mandatory entitlements. Projecting current trends, an increase of about \$13 billion in Medicare had been expected. The Bush budget slows that to an \$8 billion increase. Darman specified that the burden would fall on the providers of health care, not the users, indicating that this sum is to be taken out of the hides of the doctors and hospitals. Also under entitlements, Bush wants a freeze of the Cost of Living Allowances for retired federal workers, including retired military.

- Most of Bush's humanitarian programs add up to minuscule outlays. Rewarding successful schools will cost \$30 million in FY 90; recognizing superior teachers will cost \$6 million; the National Science Scholars Program (535 political patronage scholarships) will be just \$4 million; magnet schools will cost \$12 million. Designating the current Director of the White House Office of Science and Technology Policy as Assistant to the President for Science and Technology is even better—it costs nothing at all. For the War on Drugs, \$974 million of new money is sought, about a third of it for educational initiatives.

- On the FSLIC bailout, the budget pretends that total new outlays for FY 90 will amount to just \$1.9 billion, a mere bagatelle. Such subterfuge fools nobody.

- Bush's speech to the Congress was packed with Theodore Roosevelt-style environmentalism. He wants \$520 million in new money for clean air and fighting acid rain.

- Bush requested the creation of 70 Hong Kong sweatshop "Enterprise Zones," which would cause tax revenues to fall because of tax breaks provided. He proposes a cut in the capital gains tax to 15%, provided that the speculators hold onto their stocks for at least one year. Tax breaks for oil and gas producers are also envisaged.

Reactions to Bush's programs included a sharp drop in the dollar and Treasury securities on European markets, a sure signal that the BIS is not happy. There was also a steep decline in the New York Stock Market. Chairman Sasser of the Senate Budget Committee noted that Bush "can't tell us how he proposes to meet the necessary annual installment payments," and complained that Bush had included a "black hole" of cuts which Congress must decide. Chairman Leon Panetta of the House Budget Committee noted that "many of the tough choices were put off for another day." Chairman Rostenkowski of the House Ways and Means Committee predicted that the cut in capital gains would be defeated, and that tax increases would be required to reduce the deficit, saying "I'm not about to tell the wage earners in Chicago that they should pay a higher tax rate than the stockbrokers."

Chancellor Bruening held power in Germany from March 1930 until May 1932. He imposed draconian austerity by decree-laws (*Notverordnungen*) under a state of emergency. His government was repressive but highly unstable, and he was soon considered expendable by the bankers he sought to serve. Bush has not learned from this example.