

Backlash begins against Gramm-Gingrich gang

by H. Graham Lowry

The alarm has officially sounded, over the carnage expected from the gang of Conservative Revolution privateers and budget-cutthroats who sailed into Washington with the new Congress. The Treasury Department projected on Jan. 11 that more than a trillion dollars would be slashed from federal programs over the next seven years, under the combined onslaught of a balanced budget amendment and the Republican Party's "Contract with America."

Nearly half the damage would be inflicted on health care for the poor and elderly, through cuts to Medicaid and Medicare. The most devastating casualty, however, would be the elimination of the federal government's constitutional role as the promoter of the general welfare of the nation—simultaneously reducing the related functions of state government to ruin.

It was concern at the state level, in fact, which prompted the Treasury Department to let the cat out of the bag, by releasing extremely modest estimates of how much the states would lose in federal monies under the schemes of the new leadership on Capitol Hill. Democratic Gov. Howard Dean of Vermont, who chairs the National Governors Association, requested a state-by-state analysis of the impact of the proposed balanced budget amendment.

"I thought it was important for all governors to have state-specific data in hand," Governor Dean said. "A lot has been said both in favor and against the congressional leadership's proposal, but I hadn't seen any numbers. Now we have some important information that will allow us to have informed discussions on what a balanced budget amendment could mean to states."

Ammunition for the opposition

The numbers released by the Treasury's Office of Economic Policy deny, as usual, the reality of onrushing finan-

cial collapse. Yet they *reflect*, at least, the destructive consequences directly attributable to the Nazi-like scheme proposed by House Speaker Newt Gingrich (R-Ga.), Sen. Phil Gramm (R-Tex.), and their ilk. Politically, the impact of the Treasury report has blown a hole in the Gramm-Gingrich strategy of wreaking havoc under cover of darkness, by avoiding any light upon the specific targets they have in mind.

Treasury's state-by-state figures are only for fiscal year 2002, the deadline imposed in the amendment to complete the balancing of the budget. The estimates assume that spending cuts will be phased in by an equal amount over the seven-year period, and imposed across the board in proportional amounts—though exempting Social Security, defense, and debt service to the banks. Fewer cuts would be required in 2002, due to interest savings on reduced debt, so that year is actually a "best-case" example. "Nevertheless, the cuts required in 2002 would be severe," the Treasury reported to Governor Dean.

Spending cuts imposed by the budget amendment alone would slash direct grants to state governments by \$71.3 billion in 2002, while other federal spending "that directly benefits state residents" would be reduced by another \$176.5 billion. Those figures would jump to \$97.8 billion and \$242.2 billion with the extra measure of thievery in the "Contract with America," the Treasury estimates. Exemplified by the 50% cut in the capital gains tax demanded by Gingrich and his freebooters, that swindle would fatten the idle rich, gouge federal revenues, and require matching budget cutbacks. The aggregate looting of federal expenditures merely for anno Domini 2002—assuming the nation lasts that long—would weigh in at \$340 billion. In that same year, cutbacks in Medicare and Medicaid projected by the Treasury would amount to nearly \$162 billion of the total.

For state governments, already required by law to balance their budgets, the prospect of further cuts in federal aid leaves them no recourse but to eliminate still more funding for state programs, and enact new tax increases. Especially during the last ten years, that remedy has only worsened the cancer triggered by the "post-industrial society." Under the same rubric now employed in Washington, of "increasing efficiency" and "eliminating waste," such former industrial states as Michigan, Massachusetts, California, Illinois, and Maryland have thrown young mothers off welfare, evicted the elderly from nursing homes, abolished general assistance for the disabled poor, shut down health clinics and hospitals, and driven public school systems into bankruptcy. Virtually all of these budget-gouging measures were accompanied by repeated increases in state taxes as well. Under the hammer of a "balanced" federal budget and the "Contract with America," the states would have to further crank taxes up by an average of 17% across the board, the Treasury estimates, just to maintain the current, miserable level of vital services.

The study acknowledges that this whole picture could worsen. The Treasury report explicitly omits the possibility of "the downward macroeconomic impact of a balanced budget amendment," let alone "the extent that implementation of an amendment slows growth and reduces state revenues."

More light on the den of thieves

Despite pressure from the Clinton administration and other leading Democrats, the Gramm-Gingrich gang has generally kept mum on the question of exactly what programs are to be slashed, especially in such sensitive areas as Social Security and federal health assistance. But a number of press leaks have shed some light on the matter. The *Boston Globe* reported on Jan. 8 that shortly before Christmas, House Republican leaders were told that Medicare and Medicaid would have to be cut by \$491 billion over the next seven years to balance the budget. Reuters subsequently reported that a draft document was secretly circulating among Senate Republicans, calling for an all-out assault on entitlement programs, and including a proposal to tax all entitlements as income. That bit of skullduggery would squeeze \$262 billion from the pockets of retirees and others over five years. The list of targets also includes 1.3 million veterans, who would be cut off from all benefits for having "low-rated disabilities."

Another swindle, publicly embraced by Gingrich on Jan. 14, would cut Social Security payments *and* raise personal income taxes, by the sheer bookkeeping fraud of reducing the supposed rate of inflation, to one point less than the change in the consumer price index. Studies by *EIR* have repeatedly demonstrated that the official rate has continuously underestimated inflation, and the resulting cost-of-living adjustments have already reduced Social Security payments and the personal income tax exemption below where they

should be. With this latest gimmick, Gingrich and the gang figure they can knock out another \$150 billion from the projected deficit over five years. Staffers at the Federal Reserve, whose chairman, Alan Greenspan, first floated the scheme, estimate that \$27.5 billion of that figure can be lopped off of Social Security, and another \$21.4 billion scooped up in higher income taxes.

To this preliminary blueprint for thievery, add the outright piracy intended in the proposed 50% cut in capital gains taxes, and it is no surprise that a backlash is developing against the Gramm-Gingrich agenda. As *EIR* will expose at length in an immediately upcoming issue, the plan to allow a 50% deduction in net long-term capital gains from gross income is simply a scheme for the rich to steal from the poor. Only 8.5% of all taxpayers even report capital gains; nearly two-thirds of all capital gains fall into the hands of those with incomes over \$200,000; and almost 80% of all capital gains are derived from speculative stock and real estate transactions! The Treasury estimates that this heist will amount to at least \$183 billion in lost revenue between 1995 and 2005, according to testimony presented before the House Ways and Means Committee on Jan. 10.

As for balancing the budget, the latest deficit projection from the Congressional Budget Office is already flattening the house of cards constructed by the Gramm-Gingrich gang. Office of Management and Budget Director Alice Rivlin told a House Judiciary subcommittee on Jan. 9 that the budget would have been slashed by "\$1.2 trillion without any tax cuts to get to balance in 2002, and that does boggle the imagination. It really means deep cuts in entitlement programs and things that have very wide acceptance in the Congress and in the country." Using a rules maneuver to shut down a Senate committee hearing on Jan. 17, Sen. Robert Byrd (D-W. Va.) declared from the floor, "It's the acme of arrogance for us . . . to put forward a constitutional amendment to balance the budget, without laying on the table so the American people can see, the plan by which we expect to reach that balanced budget by the year 2003." House Republicans, meanwhile, were reported backing away from their promise to specify their budget cuts, before proceeding to tax reductions centered on capital gains.

Sen. Edward Kennedy (D-Mass.) provided further evidence that resistance is stiffening on the Democratic side, during a Jan. 11 speech to the National Press Club. "The caricatures of us by the other side will be ineffective, as long as we vigorously oppose them and expose them, instead of sheepishly acquiescing in them. If Democrats run for cover, if we become pale carbon copies of the opposition and try to act like Republicans, we will lose, and deserve to lose. . . . We must not rob the people of the resource of government. It is their government, and we must make it work for them." Kennedy added that "the economy is the driving force in this country, and the most important social program."