Balanced-budget mania pushes nation to the brink

by H. Graham Lowry

At both federal and state levels, government budgets in the United States are on the verge of complete collapse. The attempt to manage the crisis, *under the same policies which created it,* has become a mad scramble which is also ripping apart the nation's political institutions.

In the Congress, the issue of the economic crisis has been turned into a debate over whether that body should even have the power to oversee the finances of government—a fundamental responsibility which the Constitution assigns to the Legislative branch. The debate is driven by the hue and cry over the federal deficit, which, by any honest accounting, will top $500 billion this year. Thus the Congress is threatening to institutionalize draconian austerity, by promoting a balanced budget amendment to the Constitution.

A House vote June 11 to submit the amendment to the states for ratification fell only nine votes short of the required two-thirds majority. The final tally was 279 votes for, and 153 against. Its backers do not intend to give up the effort. But regardless of whether or not it can be passed on a subsequent attempt, the underlying issue remains: What is to be done about the deepening U.S. economic depression, other than futile and increasingly crazed attempts to balance the budget? Even for most of the amendment's opponents, the debate is about *how*—rather than whether—to enforce austerity.

House Speaker Tom Foley (D-Wash.), who opposes the amendment for the "horrendous" effects it would have on the economy, fears it could be ratified by the states within a year. He recently noted that most state legislatures have already memorialized Congress in favor of it, under the specious argument that 44 of the 50 states are required by law to balance their budgets—therefore, why not the federal government? The states, however, can resort to issuing bonds for capital spending on such things as infrastructure, for example, while the proposed amendment would deny that authority to the federal government and limit its appropriation of funds strictly to the amount of revenue it takes in.

At a time when decades of destructive economic policies make it urgent that massive federal funding be devoted just to rebuilding the nation's infrastructure, the amendment would write off any hopes for recovery. Moreover, without such measures to reconstruct the country's physical economy, the tax base will continue to collapse far below its currently flattened level. Official unemployment soared to 7.5% in May, the highest level in eight years, guaranteeing a further dropoff in revenues.

Even by the Labor Department's fudged figures understating the case (see page 15), the decline from a year ago in the productive sectors of the economy is sufficient cause for alarm. Unemployment in construction rose nearly 2 percentage points; in mining, 1.4; in manufacturing, 0.3; and in agriculture, 2.3. Among the nation's once-productive urban centers, New York City posted an official unemployment rate of 10.5% in May, up a full point in just one month.

Euthanasia for a sick economy

With or without a constitutional amendment to enforce it, the legislative bloodletting required to balance the federal budget under current policies is unimaginable. A study for the House Budget Committee released May 26—using absurd deficit projections based on a magical assumption of renewed economic growth—put forth a scheme for eliminating the deficit over the next five years. Current spending levels would have to be cut by $38 billion the first year, $70 billion the second, $113 billion the third, $173 billion the fourth, and $237 billion the fifth year.

To reach less than half the $38 billion in cuts the first year without raising taxes, the Congress and the White House would have to agree to scrap the space station, the superconducting supercollider, and the Seawolf submarines; shut down veterans hospitals; and slash or eliminate federal funding for mass transit, airports, community development, small business loans, rural housing, and maternal health care. Over five years, entitlement programs—such as Social Security, Medicaid, and Medicare—would be cut by at least $297 billion, which is "only" about $30 billion more than last year's entire deficit.

The opportunity to enforce entitlements cuts—and smash the already marginal living standards of the poor, the sick, and the elderly to smithereens—is precisely the reason that President Bush and his budget director, Richard Darman, have lobbied so zealously for the balanced budget amendment. As Darman declared in a television interview June 9, "The problem is, from the President's standpoint, two-thirds of the budget never comes to him for review. Two-thirds of it grows and grows uncontrollably every year. . . . That's where our spending problem is, and there's got to be some additional discipline to force us to attend to it." Meanwhile, Bush has moved to accelerate entitlements cuts by the states, by waiving current federal regulations mandating certain minimum levels of welfare and medical assistance.

The collapse of the states

Those who argue that budgets must be balanced only by cutting spending, raising taxes, or both, should take a closer look at what has happened to the budgets of state governments across the nation. Nearly three-quarters of the states racked up significant deficits this year, even though half of them imposed major spending reductions and tax hikes which were supposed to keep their budgets in line. Most dramatic is the case of California, which last July enacted record budget cuts and tax increases totaling $14.3 billion, only to announce on May 20 of this year a further deficit of $10.7 billion. The combined shortfall of $25 billion is more than 40% of the state's entire budget. Without making further massive cuts immediately, Gov. Pete Wilson has declared the state will be broke by the end of June.

Even current levels of federal spending cuts are blowing out more state budgets as the July 1 beginning of the new fiscal year approaches. In New Jersey, where the legislature is considering $1 billion in further cuts in a proposed $16 billion budget for next year, the state treasurer announced June 3 that the Bush administration had rejected its claim for $450 million in back Medicaid reimbursements. The money had already been counted on the ledger sheet for the current budget, and its loss has set off another budget-cutting binge.

Most states have also resorted to accounting tricks and shifting the burden of costs to local communities, in an effort to keep the balanced-budget game going. A number of states, including Illinois, have proposed taxes on health care providers, to cover what the state already owes them. A health maintenance organization (HMO) covering 58,000 Chicago area residents, including 43,000 Medicare recipients, filed for bankruptcy June 3, citing the state's failure to keep up with Medicaid reimbursements. To make matters even more absurd, state regulators had cited the HMO in March for failing to operate with sufficient funds, thus preventing it from signing up new members or re-enrolling old ones.

The scramble to find new revenues without reviving the real economy has turned some state budgets into veritable floating crap games. Iowa is one of a number of states which have legalized riverboat casinos in the name of boosting revenues and expanding jobs. Two of the five floating casinos plying the Iowa side of the Mississippi River recently announced they were steaming off in search of more lucrative waters, after complaining of multimillion-dollar losses due to Iowa's low-stakes limit. Days later, one of the company's remaining boats filed returns with the Iowa Racing and Gaming Commission, showing net operating revenues of more than $50 million for its first 11 months of operation, and a net profit of $6.6 million.

Needed: a 'balanced President amendment'

Only a complete reversal of the nation's economic policies can bring about the recovery which its current leaders believe will magically occur. Democratic presidential candidate Lyndon LaRouche recently observed that the nation doesn't need a balanced budget amendment, rather, "What we need is a balanced President amendment."

There is evidence that more and more Americans agree with him. In North Dakota's June 9 Democratic primary, LaRouche was declared the winner with 28% of the vote (see following page). In a campaign statement released following his victory, LaRouche declared, "It means that the issues which I have raised in the course of the campaign, will be forced to the surface and must be debated and discussed at the highest level, not only in the United States, but internationally."

While the North Dakota primary was a presidential preference poll, rather than a vote to elect delegates to the Democratic convention, the LaRouche victory is the most powerful development to date in its potential to shift the discussion of how to deal with the economic crisis. North Dakota's voters had the opportunity to see a 30-minute television broadcast on June 7, presenting LaRouche's "Program for an Industrial Recovery." LaRouche proposes creating 6 million new jobs, by federalizing the Federal Reserve as a national bank, to issue $600 billion a year in loans at 2-4% interest, for public works infrastructural projects, and high-technology private sector engineering and industrial undertakings.

The North Dakota results, which Cable News Network called a "shocking development," may signal the beginning of the end for the deficit reduction mania which has pushed the nation to the brink.