EIR National

New budget abets slide toward sicker economy

by H. Graham Lowry

Despite all of President Clinton's talk about "seizing control of our destiny" and fulfilling "the American dream," the new U.S. budget is nothing more than a further slide down the dismal path of ruinous economic policy the nation has followed for the past quarter-century. The votes had not even been tallied on Capitol Hill when it was officially acknowledged that more austerity is on the way, that the deficit will continue to grow, and that no economic recovery is in sight.

Even the President's supporters expressed misgivings. As Sen. Paul Sarbanes (D-Md.) put it, "Our efforts to reduce the deficit may be of such dimensions as to trigger the economy into a downturn." With no plan to generate the massive needed investment in the reconstruction of the real economy, Congress merely stumbled its way to yet another concession to the prevailing national mania for "deficit reduction."

The wafer-thin margins of Clinton's supposed victory on Capitol Hill also reflect the absence of any clear ideas on how to respond to the economic crisis facing the country. The House of Representatives passed the compromise version of Clinton's budget plan on Aug. 5 by a vote of 218-216. The next day, the Senate deadlocked on a vote of 50 to 50, requiring Vice President Al Gore to cast the tiebreaker to secure passage. All 44 Senate Republicans voted against the plan, but only because it did not cut spending enough. Nowhere is there a provision for "economic stimulus."

Accelerating cutbacks

The five-year, $496 billion package of tax hikes and spending reductions includes the biggest Medicare reduction in history, a slash of $56 billion on top of years of chopping away at the federal health care program for the elderly. Another $7 billion will be sliced from Medicaid, largely by reducing payments to hospitals for treating the poor. Discretionary spending will be cut by $102 billion, through freezing payments at the 1993 levels. Cost-of-living adjustments for government retirees will be "delayed," clipping nearly $12 billion off their retirement income. The nation's motorists and its gas-fueled transportation systems will shell out an additional $25 billion in new gasoline taxes, raising the level to 18.4¢ per gallon.

Even with the fiction of higher rates of economic growth built into the budget plan, spending cuts are scheduled to *worsen* over each of the next five years, despite a record $241 billion tax increase. Cutbacks will rise from $21 billion next year to $46 billion in 1996, and will reach $89 billion in 1998.

Administration numerologists were already scaling back their growth projections, even as the Senate gathered to vote on the budget Aug. 6. The chairman of Clinton's Council of Economic Advisers, Laura D'Andrea Tyson, announced that she now expects the Gross Domestic Product—the statistical chimera which experts call "the economy"—to increase by only 2.1% this year, down a full point from her April reading of 3.1%.

By the government's own flawed accounting, the U.S. economy only grew at an annual rate of 0.7% in the first quarter of this year, and no amount of juggling the figures was able to push it above 1.6% in the second quarter. Few so-called economists believe it will reach 2% for the year, which means lower tax revenues than projected and yet another increase in the deficit. The White House chose to delay releasing its forecast for 1994 from the usual mid-July announcement, until *after* Congress voted on the budget bill.

According to economists who opposed the budget plan, what President Clinton calls "a renewal of the American people" will in fact ensure continuing economic stagnation. Donald Ratajczak, director of the Economic Forecasting Center at Georgia State University, told the *Wall Street Journal* on Aug. 9 that Clinton's plan will reduce economic growth next year and cost the economy 500,000 new jobs. Clinton himself claims it will generate 8 million new jobs over four years. On a monthly average, that would only add about 4,000 more jobs than government numerologists claimed during the depressed first seven months of this year.

'More cuts are on the way'

There is no case, by official reckoning or any other, for calling this "deficit-reduction" plan a blueprint for "economic growth." On the contrary, there are already clear indications that Congress has merely enacted the first phase of a continuing austerity program, with no relief in sight.

Senate Minority Leader Robert Dole (R-Kan.) announced after the vote that Clinton plans an "economic summit" with congressional leaders after the current recess, "to sit down and talk about budget cuts." In weekend news interviews following the budget's adoption, Treasury Secretary Lloyd Bentsen confirmed that more cuts were coming, declaring, "I think everything has to be on the table, everything." Vice President Gore said that further slashes in entitlement benefits would be included. "In fact, entitlements have been affected in the economic plan just passed, and they will be in the future," Gore declared.

Gore is scheduled in September to present another massive round of spending reductions under the rubric of "Reinventing Government." At President Clinton's ceremony on the White House lawn on Aug. 10 to sign the new budget legislation, Gore announced that "more cuts are on the way." Deputy Treasury Secretary Roger Altman chimed in that "people will be surprised at the sweeping cuts" which Gore's report will recommend.

Further tax increases

It is no secret on Capitol Hill that the administration also plans to pile more taxes on the nation's collapsed economy. According to advance leaks of an interview for the Aug. 23 issue of *Fortune* magazine, President Clinton is still talking about imposing a value-added tax (VAT)—the British-designed swindle which levies multiple sales taxes throughout a nation's production and distribution system. In an excerpt of the interview quoted in the *Washington Times* Aug. 8, Clinton said, "The question for America becomes—and I think we ought to have a debate on it, you know, there's a lot of support already in the Congress—whether we should lower either income or payroll taxes and substitute a progressive VAT." But there is no "progressive" VAT, especially in an economy where the revenue base is disappearing at the fastest rate in this century.

Clinton's advisers have already floated a 7% payroll tax increase to finance Hillary Clinton's health care "reform" program, scheduled to be sent to Congress this fall. The health plan, from all indications to date, will simply intensify current methods of rationing medical diagnostic and treatment procedures, in order to further reduce health care expenditures.

Reduced spending levels for health care may look good to deficit-reduction maniacs, but the only actual "savings" come in the form of depriving more people of medical treatment. The American Medical Association has already noted that the $56 billion cut imposed largely on Medicare providers means that physicians and hospitals will simply stop providing those health services for the elderly—or pass the costs on to other patients and the private sector.

While the budget regards human life as unnecessary overhead, it takes a more generous view of the speculative financial bubble which has engulfed the real economy. Congress inserted some little-publicized provisions for new incentives to throw more money into the ongoing real estate blowout. Tax breaks will be extended to developers who renegotiate loans on "troubled" properties, and to pension fund managers who invest in real estate.

President Clinton's original intent to take at least a token step in the direction of stimulating the economy was buried under the wave of hysteria for cutting the deficit. All that was left in the wreckage called the budget plan was an increase in tax write-offs allowed for new equipment purchases by small businesses, from $10,000 to $17,500—and a $1 billion grant (plus $2.5 billion in tax breaks) to create nine urban "empowerment zones" and 95 "enterprise communities" in impoverished rural areas and city neighborhoods.

Chain-reaction breakdown

Continuing federal budget cuts, especially in health care, translates into further disintegration of the nation's state and local governments. Required by law to balance their budgets, the states have for years covered federal cutbacks with spending reductions—and tax hikes—of their own. Now, faced with mass layoffs, plant shutdowns, and a skyrocketing toll of human misery, they are eliminating whole programs and vital functions, or dumping their costs onto local governments which cannot possibly meet them. Welfare assistance has been a major casualty and will continue to be so, as the new federal budget cuts welfare payments to the states by another $1.1 billion.

The once-thriving state of California is a case in point. The state has imposed budget cuts and tax hikes amounting to $25 billion over the last two years—nearly half of its *total* current budget of $52 billion. Yet this budget entirely eliminated local aid worth $2.6 billion, leaving county and city governments on the brink of bankruptcy—and unable to maintain police, fire, and emergency services without raising local taxes beyond the breaking point.