Obama budget: War, debt and cuts in social services

Patrick Martin
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The Obama administration's budget for the 2011 fiscal year, unveiled Monday, projects massive US government deficits for the next decade, fueled by gargantuan military spending and the impact of the financial and economic crisis of American and world capitalism. The US national debt is projected to more than double over the coming decade, increasing by $8.5 trillion.

Administration officials also revealed that for the current fiscal year, which ends September 30, 2010, the federal deficit will approach $1.6 trillion, by far the largest ever, and nearly 11 percent of total US gross domestic product. This is up sharply from the $1.35 trillion estimate last week by the Congressional Budget Office.

The mushrooming deficit for the current year is largely a byproduct of the worsening economic crisis, which has simultaneously depressed tax revenues and forced the expenditure of much greater sums for unemployment compensation and other mandatory programs.

White House budget director Peter Orzag now projects that tens of millions of American workers will remain on the unemployment rolls for much of Obama's four-year term in office. The FY '11 budget assumes that the unemployment rate this year will average 10 percent, falling to 9.2 percent in 2011 and 8.2 percent in 2012, both figures well above those prevailing before the Wall Street crash of September-October 2008.

Even these unemployment and deficit figures are unduly optimistic, since they are based on a return to economic growth averaging 2.7 percent of GDP this year, 3.8 percent in 2011 and 4.3 percent in 2012, remaining above 4 percent for several more years, a figure last reached during the dot-com bubble of the 1990s.

In the event the GDP growth stagnates at the current level—let alone a return to slump—the unemployment figures could soar much higher into double digits, and the federal deficit would quickly reach a level that would precipitate a loss of international confidence and a collapse of the dollar. As it is, even the relatively benign scenario envisioned by the White House has the United States borrowing more in the next five years than in the entire previous history of the country.

Federal borrowing will rise from 68 percent of GDP at the end of the 2011 fiscal year to a projected 77 percent of GDP by 2020, close to the 80 percent mark projected as the "tipping point" when the credit of the US government would effectively collapse, as investors lost confidence in Washington's ability to repay its debts in any way except printing more dollars.

In the context of such gargantuan sums, the amount Obama proposes to spend on "job creation" in the 2011 budget, only $100 billion, is a drop in the bucket. If it was translated entirely into jobs, with no overhead costs or business profits, it would mean two million jobs paying $50,000 apiece—in a country with an estimated 20 million unemployed or underemployed.

As it is, however, not a penny of the $100 billion is for hiring workers. It consists largely of tax cuts for businesses that hire workers or raise their pay, extended unemployment benefits, and aid to state and local governments.

While the White House seeks to focus attention on the so-called job creation initiative, this spending is dwarfed by the real priorities of the administration—the gargantuan military establishment, and interest payments on the national debt, which go disproportionately to the wealthy and to foreign creditors.

The budget calls for an additional $33 billion in war funding for the current fiscal year, to pay for Obama's increase of 30,000 troops in Afghanistan, and for a total of $159 billion for Iraq and Afghanistan combined next year. Together with the $549 billion in the regular Pentagon budget, this brings total direct US military spending in FY 2011 to more than $708 billion. There is considerable indirect spending, including nearly all the budget of the Department of Energy, which operates the nuclear weapons manufacturing process.

Counting the additional funds requested this year for Afghanistan, total US spending in 2010 and 2011 for the two

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wars will come to $322 billion, compared to $354 billion in the final two years of the Bush administration. This is only a small drop, despite the assumption—by no means guaranteed—that all US combat forces will be withdrawn from Iraq by August 2010.

Fiscal 2011 is the first year that more money will be budgeted for the war in Afghanistan than for the war in Iraq, in part because of the enormous logistical costs of sustaining a huge army in a landlocked country with virtually no modern infrastructure. There is no specific appropriation for either war for Fiscal 2012, only a $50 billion sum described by the administration as a "placeholder," awaiting subsequent decisions on military policy, particularly in Afghanistan. Given the dismal state of the puppet Karzai government in Kabul, huge additional costs for the war in 2012 and beyond can be expected.

The administration has also budgeted an additional $5 billion to modernize the US nuclear weapons stockpile and tighten security procedures at weapons facilities. This is in response to a letter signed by all 40 Senate Republicans and independent Democrat Joseph Lieberman, that they would block ratification of a nuclear arms treaty with Russia unless the administration funds a modernized nuclear warhead program including new facilities at Los Alamos, New Mexico and Oak Ridge, Tennessee.

As for the cost of financing the federal debt, gross interest payments are projected at $499 billion in FY '11, rising to $888 billion by FY '15. Net interest payments are to rise from $250 billion in FY '11 to $507 billion in FY '15. The lion's share of these payments goes to wealthy investors, both in the United States and internationally.

In effect, the federal government is paying interest to the super-rich for the cost of borrowing the vast sums expended for, among other things, the Bush administration's tax cuts for those same super-rich, and the Bush and Obama administrations' bailout of Wall Street. The wealthy have reaped additional unearned income at every stage of this entirely parasitic process.

The only setback for the wealthy is that the Obama budget assumes the expiration at the end of this year of the Bush tax cuts for those making $250,000 a year or more. All other Bush tax cuts, including favorable business depreciation rules, are to be renewed this year. The result will be an increase of $678 billion over ten years in tax payments by the wealthiest families.

This represents approximately half of the $1.2 trillion in tax increases and spending cuts proposed in the new budget. The remaining tax increases—$120 billion on international corporations, $90 billion on bailed-out financial institutions, $60 billion in inventory taxes and $38 billion in taxes on oil and gas companies—are unlikely to be imposed, since they were incorporated into last year's budget and the Democratic-controlled Congress rejected them.

The main proposed spending cut is $250 billion to be obtained through a three-year freeze in non-military discretionary spending on domestic social programs. The White House is not proposing an across-the-board cut, but selective cuts and some program eliminations, but many details of these cuts are still unclear.

Among the specific cuts announced is the elimination of the Constellation program, the planned return to the moon by NASA. Instead, NASA will spend $6 billion over five years to develop a commercial spacecraft that private companies would build, to lift astronauts into low orbit around the Earth. Former NASA administrator Michael Griffin said, "It means that essentially the US has decided that they're not going to be a significant player in human space flight for the foreseeable future."

In his weekly radio and Internet address Saturday, Obama said cutting the federal deficit was just as important as creating jobs in his administration's priorities. The language is significant, since it represents a further shift to the right and an embrace of austerity policies for working people, even while unlimited federal support continues for Wall Street.

He also reiterated his call for the establishment of an independent federal commission to propose major cuts in entitlement programs like Social Security, Medicare and Medicaid, which comprise the majority of the federal budget. He also urged the reestablishment of congressional "pay-as-you-go" rules, which bar any net increase in federal spending, requiring that any increase in federal programs be offset by cuts to others.

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