

Escalating Military Spending and the Debt Ceiling: Lots of Posturing, No Solution.

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It is self-evident that no sickness can be successfully cured without proper diagnosis of the illness. In their frantic efforts to remedy the plague of national debt and deficit, however, US policy makers tend to shy away from the root causes of the problem and focus, instead, on scapegoats.

What are the root causes of the national debt and deficit? They are, first and foremost, the multi-trillion dollar bailout packages that were bestowed upon Wall Street in order to rescue the financial gamblers, the constantly escalating costs of war and militarism, the huge tax giveaways to the wealthy, and the skyrocketing costs of healthcare, systematically jacked up by the insurance and pharmaceutical companies.

And what are the scapegoats? They are the entitlements (Social Security, Medicare and Medicaid) and non-military discretionary spending: health, education, housing, transportation, the environment, community development, science and energy, human services, and the like. I call these items scapegoats because they are not the sources of the continued escalation of debt and deficit.

Take, for example, Social Security. First of all, it is a self-financing insurance program, funded by payroll taxes, not a handout or courtesy of Uncle Sam. Secondly, although it no longer has as big a surplus as it used to, nonetheless it still enjoys a considerable surplus. Indeed, without Social Security's surplus, the Federal Debt would be bigger than it is. Thirdly, to the extent that the trust fund may face a shortage in the future, it can easily be remedied by, for example, raising the maximum level of taxable income (for payroll purposes) from the current \$106,800 to a slightly higher level.

Like Social Security, Medicare is an insurance program that is funded by payroll tax. (Out of the 15.4% payroll tax 12.5% goes to fund Social Security and the remaining 2.9% goes to fund Medicare.). Only recently have Medicare expenses come close to surpassing its revenue. This too can easily be remedied if or once the maximum taxable income for payroll funding is raised above the current \$106,800. The financial pressure on the Medicare program (like that on the Medicaid program) is not so much due to the revenue side of the program as it is due to the cost side, for which the pharmaceutical and HMO/insurance companies are to be blamed, not the program itself. Indeed, the program itself has been a very successful case of single-payer health insurance programs. There are reasonable suspicions that this is why Medicare has been targeted for destruction by the powerful interest groups that view it as a "bad" example of a cost-efficient and successful health insurance program.

Just as the entitlements are thus not the sources of the problems of debt and deficit, so are not the non-military discretionary spending such as health, education and all other social and infrastructural expenditures. For one thing, these expenditures (or more precisely, investments in maintaining or building the society's physical and human capital) constitute only a small portion (15%) of the total federal budget. For another, their share of the increase in federal outlays has in recent years been quite minuscule, only 14 cents out of every dollar over the past decade—hardly big enough to be blamed for the astronomical rise in the federal debt and deficit during this period (Economic Policy Institute, Policy memorandum #187, July 13, 2011).

It is obvious, then, that the budget negotiators, posturing and shouting over the debt ceiling, are shamelessly lying to the American people when they blame the entitlements and non-military public spending as sources of the federal debt and deficit. An honest approach to the problems of debt and deficit would, instead, look into the real causes of these problems: Wall Street bailouts, war and military expenditures, tax giveaways to the wealthy, and out-of-control costs of health care.

The ruling kleptocracy and the corporate media have created a huge misperception regarding the bailout of the Wall Street gamblers: that the government paid only \$780 billion of the taxpayers' money (called TARP, or Troubled Asset Relief Program) to rescue the bankrupt or near bankruptcy speculators, and that once these financial speculators returned to profitability, they paid all they owed the taxpayers back—the end of the story!

In reality, however, the TARP money was only a small fraction of the government's giveaway of taxpayers' money to Wall Street. Other forms of government handouts, not known to the public, included trillions of dollars in terms of subsidies, backstops, guarantees, loans, purchases of worthless toxic assets at their pre-recession high prices, and a number of other confounding types of plunder. Here is how Senator Bernie Sanders (of Vermont) put it: "The first top-to-bottom audit of the Federal Reserve uncovered eye-popping new details about how the U.S. provided a whopping \$16 trillion in secret loans to bail out American and foreign banks and businesses during the worst economic crisis since the Great Depression." This explains why the federal debt has increased from \$9.2 trillion in 2007 to \$14.2 trillion in 2011, an increase of nearly 55%.

It is now common knowledge that a major contributor to the rising debt and deficit is the escalating spending on war and militarism, nearly doubled over the past decade (from \$295 billion in 2000 to the current \$560 billion). While the official Pentagon budget for the 2011 fiscal year is \$560 billion, the real figure is nearly twice as much as the official figure. The reason for this understatement is that the official Department of Defense budget excludes not only the costs of the wars in Iraq and Afghanistan, but also a number of other major cost items. These disguised cost items include: budgets for the Coast Guard, the Department of Homeland Security, nuclear weapons, veterans' programs, most military retiree payments, interest payments on money borrowed to fund military programs in past years, and more. Once these misplaced or disguised expenditures are added to the official Pentagon budget, total "security"/military-related budget items would amount to slightly more than \$1.1 trillion, which absorbs about one-third of the entire 2011 federal budget of \$3.4 trillion.

Another major contributor to the rising debt and deficit has been the huge tax breaks granted giant corporations and the very affluent layers of the society. For example, according to Citizens for Tax Justice (CTJ), known for its accurate reports on taxation, the

combined amount of taxes paid by the following 12 corporations for the 2008-2010 period was zero—no, it was less than zero! Collectively, they got \$2.5 billion in refunds.

The 12 corporations were: Exxon Mobile, Wells Fargo, DuPont, American Electric Power, Boeing, FedEx, IBM, General Electric, Honeywell International, United Technologies, Verizon Communications, and Yahoo. CTJ reports that “from 2008 through 2010, these 12 companies reported \$171 billion in pretax U.S. profits. But as a group, their federal income taxes were negative: -\$2.5 billion.” (It must be pointed out that although the total federal income taxes for the group of 12 as a whole was negative, 4 out of 12 paid some federal tax, but the little tax that those 4 paid was more than offset by the other 7 companies’ not having paid any.)

This is an indication of how major US corporations pay—or avoid paying—their tax liabilities. The extremely rich and powerful interest groups have (since the late 1970s and early 1980s) deliberately used a combination of raising military spending and lowering their tax obligations in order to redistribute the national resources from the bottom up. As this combination leads to increases in debt and deficit, it then forces cuts on non-military public spending.

This represents a cynically clever strategy on the part of the ruling plutocracy that benefits from war, militarism, debt and deficit: instead of financing their wars and military adventures by paying taxes proportionate to their income, they give themselves tax breaks, finance their wars of choice through borrowing, and then turn around and lend money (unpaid taxes) to the government and earn interest. The wealthy have thus successfully converted their tax obligations to credit claims, that is, lending instead of paying taxes, which is in essence a disguised form of robbery.

It is obvious from this brief analysis that Washington’s political dogs howling at the non-military public spending as the source of the escalating national debt and deficit are barking up the wrong tree. As long as the out-of-control spending on war and militarism is not contained, the multi-trillion dollar corporate welfare handouts (in the form of tax giveaways and costly rescue/bailout packages) are not curtailed, and the skyrocketing costs of health care are not restrained, the national debt and deficit are bound to continue their upward trend.

It is also obvious that the American people are lied to when they are told that all the wrangling that is going on in Washington over the debt ceiling is to reduce national debt. In reality, the national debt will continue to rise even if the corporate government takes a few trillion dollars out of it by further reducing the non-military public spending, that is, by further reducing the people’s standard of living.

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