

VIDEO: Taxpayers, Where Is Your Money Going?

Tax dollars are allocated to financing the war and the "bank bailout"

By [Prof Michel Chossudovsky](#)

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Excerpts of Michel Chossudovsky's March 2009 article entitled *America's Fiscal Collapse*.

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[America's Fiscal Collapse](#)

- by Michel Chossudovsky - 2009-03-02

This is a "War Budget". **The austerity measures hit all major federal spending programs with the exception of: 1. Defence and the Middle East War: 2. the Wall Street bank bailout, 3. Interest payments on a staggering public debt.**

The budget diverts tax revenues into financing the war. It legitimizes the fraudulent transfers of tax dollars to the financial elites under the "bank bailouts".

The pattern of deficit spending is not expansionary. We are not dealing with a Keynesian style deficit, which stimulates investment and consumer demand, leading to an expansion of production and employment.

The "bank bailouts" (involving several initiatives financed by tax dollars) constitute a component of government expenditure. Both the Bush and Obama bank bailouts are hand outs to major financial institutions. They do not constitute a positive spending injection into the real economy. Quite the opposite. The bailouts contribute to financing the restructuring of the banking system leading to a massive concentration of wealth and centralization of

banking power.

A large part of the bailout money granted by the US government will be transferred electronically to various affiliated accounts including the hedge funds. The largest banks in the US will also use this windfall cash to buy out their weaker competitors, thereby consolidating their position. The tendency, therefore, is towards a new wave of corporate buyouts, mergers and acquisitions in the financial services industry.

In turn, the financial elites will use these large amounts of liquid assets (paper wealth), together with the hundreds of billions acquired through speculative trade, to buy out real economy corporations (airlines, the automobile industry, Telecoms, media, etc), whose quoted value on the stock markets has tumbled.

In essence, a budget deficit (combined with massive cuts in social programs) is required to fund the handouts to the banks as well as finance defence spending and the military surge in the Middle East war. Obama's budget envisages:

1. defense spending of \$534 billion for 2010, a supplemental 130 billion dollar appropriation for fiscal 2010 for the wars in Afghanistan and Iraq, and a supplemental \$75.5 billion emergency war funding for the rest of the 2009 fiscal year. Defence spending and the Middle East war, with various supplemental budgets, is (officially) of the order of 739.5 billion. Some estimates place aggregate defence and military related spending at \$ 1 trillion+.

2. A bank bailout of the order of \$750 billion announced by Obama, which is added on to the 700 billion dollar bailout money already allocated by the outgoing Bush administration under the Troubled Assets Relief Program (TARP). The total of both programs is a staggering 1.45 trillion dollars to be financed by the Treasury. It should be understood that the actual amount of cash financial "aid" to the banks is significantly larger than \$1.45 trillion. (See Table 2 below).

3. Net Interest on the outstanding public debt is estimated by the Bureau of the Budget) at \$164 billion in 2010.

The order of magnitude of these allocations is staggering. **Under a "balanced budget" criterion -which has been a priority of government economic policy since the Reagan era-, almost all the revenues of the federal government amounting to \$2.381 trillion would be used to finance the bank bailout (1.45 trillion), the war (\$739 billion) and interest payments on the public debt (\$164 billion). In other words, no money would be left over for other categories of public expenditure.**

TABLE 1 Budgetary allocations to Defence (FY 2009 and 2010), the Bank Bailout and Net Interests on the Public Debt (FY 2010)

\$ Billions

Defence including Supplementary allocations; \$534 billion (FY 2010), \$130 billion supplemental (FY 2010), \$75.5 billion emergency funding (FY2009)

739.5

***Bank bailout (TARP plus Obama)**

1450.0

Net Interest

164.0

TOTAL

2353.5

Total Individual (Federal) Income Tax Revenues (FY 2010)

1061.0

Total Federal Government Revenue (FY 2010)

2381.0

Source: Bureau of the Budget and official statements. See [A New Era of Responsibility: The 2010 Budget](#)

See also [Office of Management and Budget](#) [note: since February, the amount of the bank bailout figures has been revised]

* The officially announced bank bailouts to be financed from Treasury Funds. The timing of disbursements could take place over more than one fiscal years fiscal years. The actual value of bank bailout cash injections is substantially higher.

The Budget Deficit

These three categories of expenditure (Defence, Bank Bailout and Interest on the Public Debt) would virtually swallow up the entire 2010 federal government revenue of 2381.0. billion dollars

Moreover, as a basis of comparison, all the revenue accruing from individual federal income taxes (\$1.061 trillion), (FY 2010) namely all the money households across America pay annually in the form of federal taxes, will not suffice to finance the handouts to the banks, which officially are of the order of \$1.45 trillion. This amount includes the \$700 billion (granted during FY 2009) under the TARP program plus the proposed \$750 billion granted by the Obama administration.

While TARP and Obama's proposed bailout are to be disbursed over FY 2009 and 2010, they nonetheless represent almost half of total government expenditure (half of Obama's \$3.94 trillion budget for fiscal 2010), which is financed by regular sources of revenue (\$2381 billion) plus a staggering \$1.75 trillion budget deficit, which ultimately requires the issuing of Treasury Bills and government bonds.

The feasibility of a large short-term expansion of the public debt at a time of crisis is yet another matter, particularly with interest rates at abysmally low levels.

The budget deficit is of the order of \$1.75 trillion. Obama acknowledges a 1.3 trillion-dollar budget deficit, inherited from the Bush administration. In actuality, the budget deficit is much larger.

The official figures tend to underestimate the seriousness of the budgetary predicament. The \$1.75 trillion dollar budget deficit figure is questionable because the

various amounts disbursed under TARP and other related bank bailouts including Obama's announced \$750 billion aid program to financial institutions are not acknowledged in the government's expenditure accounts.

"The aid hasn't been requested formally, but appears in a line item "for potential additional financial stabilization efforts," according to the budget overview. The budget office calculated a \$250 billion net cost to taxpayers this year, because it anticipates it would eventually recoup some, though not all, of the money expended to help financial companies.

The funds would come on top of the \$700 billion rescue package approved last October by Congress. The White House budgets no money for fiscal 2010 and beyond for such aid." (Bloomberg, February 27, 2010)

Fiscal Collapse

A major crisis of the federal fiscal structure is occurring. The multibillion dollar allocations to the War Budget and to the Wall Street Bank Bailout program backlash on all other categories of public expenditure.

The Bush administration's \$700 billion bailout under the Troubled Asset Relief Program (TARP) was approved by Congress in October. TARP is but the tip of the iceberg. A panoply of bailout allocations in addition to the \$ 700 billion were decided upon prior to Obama assuming office. In November, the federal government's bank rescue program was estimated at a staggering 8.5 trillion dollars, an amount equivalent to more than 60% of the US public debt estimated at 14 trillion (2007). (See table 2 below)

Meanwhile, under the Obama budget proposal, 634 billion dollars are allocated to a reserve fund to finance universal health care. At first sight, it appears to be a large amount. But it is to be spent over a ten year period, — i.e. a modest annual commitment of 63.4 billion.

Public spending will be slashed with a view to curtailing a spiralling budget deficit. Health and education programs will not only remain heavily underfunded, they will be slashed, revamped and privatized. The likely outcome is the outright privatization of public services and the sale of State assets including public infrastructure, urban services, highways, national parks, etc. Fiscal collapse leads to the privatization of the State.

The fiscal crisis is further exacerbated by the compression of tax revenues resulting from decline of the real economy. Unemployed workers do not pay taxes nor do bankrupt firms. The process is cumulative. The solution to the fiscal crisis becomes the cause of further collapse.

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[America's Fiscal Collapse](#)

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ANNEX

The Preliminary Budget Figures for Fiscal 2010 (July 2009- June 2010) are contained in the following documents

[Budget of the United States Government](#)

Fiscal Year 2010 The Budget Documents

[A New Era of Responsibility: The 2010 Budget](#)

[Summary Tables](#)

See also:

<http://www.budget.gov>

<http://www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf>

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