

## Domestic Credit by Lydia Schulman

### Deficit bigger than Carter admits

*In Jimmy Carter's 'State of the Union' address he put a \$615 billion label on Federal spending for the coming year. But a close look at matters suggests that there will be some "secret" expenditure, \$50 billion worth...*

The government and corporate debt markets, which have been drifting steadily lower since the first of the year with hardly a let up, are telling us something about the real size of next year's federal budget deficit. While escalating world political tensions may be a factor depressing the bond markets, the prospect of intractable inflation and federal budget gaps for the foreseeable future has put a rising floor under long-term debt yields.

As we go to press, the Fiscal 1981 budget is still under raps and still in preparation. However, our best estimate is that the \$615 billion spending figure that President Carter announced in his State of the Union message Jan. 23 could be off by more than \$50 billion.

Total federal spending in the current fiscal year has already climbed to an estimated \$555 billion (compared with the \$532 billion projected in Carter's January 1979 budget address). The federal deficit could go as high as \$45 billion. In fiscal 1981, which begins next Oct. 1, the government will supposedly spend \$615 billion and run a deficit of \$15 billion. Holding to those figures is going to take some very deft sleight of hand—such as hiding major expenditures in supplemental budget authorizations or shunting the spending "off-budget"—or drastic

cutbacks in social services, which will be very difficult in an election year.

Assuming the current rate of inflation, it would take government outlays in excess of \$615 billion in fiscal 1981 just to maintain spending at the same level as in fiscal 1980. Yet, even this would leave the following outlays unaccounted for:

- the 3.3 percent rise in real defense outlays projected by Carter in the State of the Union message,
- the \$2 billion price tag on Carter's new youth employment program,
- at least as much for the revived revenue sharing program for states and localities,
- \$6 billion in public housing subsidies promised by HUD (these funds are already slated to be raised via "off-budget" financing),
- and as much as \$15 billion in purchases of grain, frozen chickens, and other financial support mechanisms for the farm sector to offset the effects of Carter's embargo on U.S.-Soviet trade (these outlays will occur during calendar year 1980).

Part of the "secret" of Carter's \$615 billion expenditure estimate is the assumption of an 8 percent inflation rate on which it is built. Even government economists—the same ones who help prepare the

government's spending and revenue estimates—are now admitting off the record that they expect inflation to stick close to the current 13 percent annual rate for some time to come. Producer prices advanced 12.5 percent over last year, while prices of consumer goods advanced 14.1 percent. The prices of nondurable goods excluding food jumped 22.2 percent.

The government's inflation assumption means an understatement on the expenditure side of the budget of about \$25 billion, though inflation also throws wage earners into higher tax brackets and hikes government revenues at the same time. The various spending programs that have been floated by the administration will add on another \$25 billion to outlays. Thus, we are talking about fiscal 1981 outlays of about \$50 billion higher than the administration is willing to commit to paper.

The fiscal 1980 budget called for defense outlays of about \$125 billion. Current estimates put defense spending for this year at either \$127.4 billion or \$130 billion. Add to this the announced 3.3 percent increase in real outlays and a conservative 10 percent inflation rate, and you get defense outlays of \$147 billion for fiscal 1981.

Ironically, the administration may have trouble increasing spending in defense, the one area it is fully committed to increasing. Experts at the Center for Defense Information expect 1981 to witness the desultory beginnings of the MX missile program and the continuation of the Cruise missile fiasco, but little else, for the reason that the U.S. economy has very little spare capacity to start up an in-depth defense build-up.