Carter's budget albatross

The Carter administration budget review has come out, and gives the GOP plenty of political ammunition—why was it released now?

On July 13, someone in the Carter administration leaked to both the *New York Times* and the *Wall Street Journal* an advance copy of Carter's midyear federal budget review. The budget review which had been embargoed until July 20 to prevent it from appearing at the moment that the Republican Party gaveled open its national convention, has given the Republicans the ammunition they needed. One Congressional source stated July 14, "the appearance of Carter's budget review a week early is shocking. Someone in his administration must want to get Carter."

The Carter midyear budget review also is shocking. As this publication stated nine months ago, the fiscal year 1980 federal budget deficit was nowhere near the $23 billion the Carter administration projected, nor the $30 billion the U.S. financial community predicted. In fact, the Carter budget review document places the fiscal 1980 budget deficit at $60 billion, more than twice the earlier predictions.

The Carter administration is paying the price for the credit crunch that Federal Reserve Board chairman Paul Volcker initiated last Columbus Day weekend. At the time, and until this day, the Carter administration fully supported that crunch policy. The Volcker policy, launched allegedly to "halt inflation" and support balancing the budget, deepened the economic collapse. As a result massive unemployment has ensued and the government is paying $3.5 billion more than it had originally projected for unemployment insurance alone. As yet, there are no firm administration calculations on the billions of dollars of tax revenues lost to the federal government as a result of the business downturn.

The Carter midyear review also projects a 9 percent unemployment rate by the winter, a 12 percent consumer price inflation rate over this year, and a 9 to 10 percent inflation rate in 1981.

There are indications that whoever leaked the Carter administration midyear review, or persuaded Carter to leak it, may well have had a higher purpose. The Carter midyear review seems to be part of a larger austerity package that is intended to stop any attempts to stimulate the U.S. economy. Its ultimate aim is to shape a U.S. economic reorganization that will preserve and buildup its high technology sectors, but sacrifice its housing, consumer sector and several of its basic industries.

Consider the way that the budget is put together. Not only did Carter run up a $60 billion budget deficit, but within three months of the end of the 1980 fiscal year (on September 30, 1980), a total of $60 billion of new taxes will go into effect, including $20 billion from increased Social Security taxes and windfall profits taxes, and individuals moving into higher tax brackets due to inflation. The net annual cost of the recession to the federal government is in the range of $120 billion, the figure that the *EIR* predicted nine months ago.

The tightness of the tax bite inherent in the budget—even though the budget is largely in deficit—constitutes a large fiscal drag on the economy. The drag could be seen if the economy were at full employment, because then tax collection would jump way up. Commenting on this aspect of the budget, Data Resources, Inc. wrote "the drain in purchasing power is roughly the same as that created by OPEC 11—the $18 per barrel jump in the price of imported oil over the last year. This sort of tightening. . .would subject the economy to downside risks unparalleled since the 1930s."

Why should an administration release such devastating information about its own failures? Whether Carter saw the final draft of the review, or was deceived into believing that releasing the worst possible figures was "being honest," is unknown. But their release gives out the argument that Carter will not tolerate anything stimulative for fear of making the deficit larger, including a tax cut. George Schultze, Carter's chairman of the Council of Economic Advisers, two weeks ago ruled out a tax cut until next year. Volcker in the last few weeks has entered the federal funds market to push up the rate when it threatens to fall below 9 percent. Thus he is not looking for an immediate drop in interest rates.

Carter is going for austerity and his budget review provides the rationale. It is enough to guarantee that Carter is not reelected.