Volcker adds $30 billion to deficit

by Richard Freeman

The *Executive Intelligence Review* projects that the policies of Federal Reserve Chairman Paul Volcker will add an extra $30 billion to the fiscal 1981 budget deficit of the United States. This amount is larger by half than all the cuts that Office of Management and Budget Director David Stockman and his associates have proposed—and some are very dangerous budget cuts.

Volcker's policy has added between $20 and $22 billion to the fiscal year 1981 budget's payment of interest on the public debt. On top of this, the United States carries into fiscal 1981 an extra $5 billion in unemployment benefit disbursements which were not there in fiscal year 1979. They were added because of the Volcker-induced recession in 1980. On top of this $27 billion, there are other costs Volcker's high interest-rate policy has built into the budget which have swelled the deficit.

The lead item here is the sharp loss in federal tax revenues caused by Volcker's recession. All told, the total amount of extra cost built into the federal budget deficit for fiscal year 1981—with some carryover from fiscal year 1980—is at least $30 billion.

Any economist or congressman who is serious about reviving the economy and doing a competent job on selective budget cuts could verify the above figures by simply consulting the appropriate items in the U.S. budget. They would find that:

- In fiscal 1979, according to information supplied by the OMB, the interest on the public debt was $60 billion. Fiscal year 1980 reflected the higher interest rates imposed by Volcker, swelling the federal interest on the public debt charges to $75 billion. If Volcker is allowed to maintain interest rates at their present level, as he has stated he will, best estimates are that the interest to be paid during fiscal year 1981 will be between $95 and $100 billion. (The OMB estimated last December that the amount will be $94.1 billion, but that estimate may have to be revised.)

Thus, during the two years of Volcker's policy command, interest on the public debt will have soared by $40 billion, or 40 percent of the total $100 billion amount. Between fiscal 1980 and fiscal 1981, the interest paid on the public debt portion will grow by $25 billion.

Some might object that this is attributable to higher levels of debt each year because of growing federal budget deficits. However, according to an expert on the subject at the House Budget Committee, for each increase on the federal budget deficit of $10 billion (which increases the total Treasury debt outstanding, now at $1,000 billion), the amount of interest grows by only $500 million. Thus, in the worst case where the federal budget deficit is $60 billion for fiscal year 1981, this will increase the interest paid on the federal debt by only $3 billion. The remainder of the $25 billion projected increase for 1981 in interest on the public debt, or $22 billion, is due to Volcker's mafia-style interest rates.

- It can be claimed that the total projected $94 to $100 billion in interest on the public debt for fiscal 1981 will not have to be fully disbursed. For example, the Treasury will be paid back $10 billion in interest on loans made to the Federal Financing Bank (FFB) and the Commodity Credit Corporation (CCC). But the FFB and CCC are not profit-generating agencies; where do they get the extra $10 billion projected for fiscal year 1981 to repay the Treasury? The answer is that the Treasury must float an extra $10 billion in debt for the CCC or FFB. Thus, this $10 billion cannot be netted out.
- In fiscal year 1979, unemployment compensation by the federal government was $10.7 billion. In fiscal 1980, under the influence of Volcker's provoked recession, this amount leaped to $15.6 billion. In fiscal 1981, the Carter administration's proposed budget projects that if the recession gets no worse, the unemployment disbursement will be $18.8 billion, or a leap of $8 billion in two years. Even taking inflation into account, this is a carry-forward of at least $5 billion in extra unemployment compensation in fiscal 1981 because of Volcker's triggered recession.
- As for lost tax revenues, it is difficult to disaggregate precisely how much the Volcker economic collapse cost, but the best estimate is that lost business and individual taxes cost at least $3 billion. It might be alleged that inflation brought in higher tax revenues because of bracket creep; but the same inflation also increased expenditures.

Ignoring this total of $30 billion tacked on to the budget deficit, Stockman is instead proposing a grab-bag of budget cuts, some of which, if passed, will endanger the economy and national security. These include:

- a proposed 20 percent cut in the nuclear fusion budget;
- a proposed 25 to 40 percent cut in Export-Import Bank funding;
- a proposed cut in CETA training (as distinct from employment) programs.

These cuts and others would probably cut the budget by $20 billion, only two-thirds of the $30 billion in cuts that could be effected with the elimination of the Volcker policy.