Congress scurries behind Stockman budget plans

by Barbara Dreyfuss

Office of Management and Budget Director David Stockman's budget approach underlies the two main budget proposals on the table, proposals that will dominate the early-May congressional agenda. The President has announced that he will support the bipartisan version of the original administration proposal that was drafted by Stockman.

The new version, known as the Gramm-Latta alternative, was co-authored by House Democrat Phil Gramm of Texas, a leader of the Democrats' Conservative Forum, and by Delbert Latta of Ohio, the ranking Republican on the House Budget Committee. The White House reports that the third author of the plan was—David Stockman.

The Gramm-Latta proposal

The Gramm-Latta plan would trim a further $6 billion from the budget by cutting the strategic petroleum reserve and the contingency fund for national emergencies. Additional funds would come from overcharge fines on oil companies. Since it has substantial Democratic backing, the Gramm-Latta version is given a better chance of passage than the original.

The other major budget proposal before Congress is the Democratic leadership's plan, introduced by House Budget Committee Chairman Jim Jones, a conservative Oklahoma Democrat. What news reports have played up is the Jones bill's effort to restore about $4 billion in social-service cuts while taking close to $7 billion out of defense. This, however, is not the most notable aspect of the proposal.

The Gramm-Latta bill, like its GOP predecessor, prescribes slashing cuts in the internal improvements needed to revive stagnant U.S. productivity, as a precondition for economic growth. In both versions, Stockman intends to sharply cut farm loan guarantees, water projects, U.S. highway funds, and rail line subsidies.

The NASA programs, which through their technological breakthroughs and scientific advances add more by far to the economy than they take out (see Special Report), would also be chopped down. Cuts are planned as well for nuclear fission and fusion programs vital to providing energy for industrial expansion. And Stockman would also eliminate access by the Rural Electrification Administration (REA) to the Federal Financing Bank. The FFB issues bonds for the REA at low interest rates, so that the REA in turn can support electrification of the nation's farm areas, aiding utilities, industry, and consumers.

The Jones cuts

The Democratic alternative budget introduced by Representative Jones does not challenge Stockman on this sabotage. In fact, in some cases it goes even further in cutting essential programs. It deducts an additional $100 million from the administration's proposal for nuclear fission, and an additional $150 million out of the water projects budget. It also maintains the proposed NASA cuts and the slash guarantees.

Thus all the "intense bargaining" over the budget has yet to witness a legislative challenge to 1) the myth that it is the budget deficit per se that fuels inflation, or 2) the Federal Reserve's high interest-rate regime, which not only vastly increases nonproductive federal outlays in the form of interest payments on the Treasury debt, but undercuts the industrial investment needed to counter inflation. Those preoccupied with the deficit have done nothing about the fact that high interest rates account for $35 billion of this year's deficit and $40 to $60 billion of next year's.

Then there is the question of the divergent tax projections on which the budget proposals are based. The Jones proposal asssumes that Congress will not pass the Kemp-Roth tax cuts favored by the administration, and instead uses the income projections of the tax plan announced April 9 by Rep. Dan Rostenkowski (D-Ill.), which are $14 billion lower than those of Kemp-Roth. Rostenkowski's proposal is geared toward increasing savings and capital investment in industry, as compared with the across-the-board Kemp-Roth bill, but specific formulas are not yet included. It is true, as the Democrats charge, that the Kemp-Roth approach will not work, because it will allow continued industrial collapse.

Thus, as long as the administration continues to focus on Stockman's multi-version budget cuts and the Kemp-Roth bill, and as long as it neglects the catastrophic interest rates, it is walking into a giant economic trap.

It cannot be excluded that new initiatives will surface toward a well-targeted tax plan favoring industrial capital formation. Meanwhile, Congress is operating on a May 15 deadline for the First Concurrent Budget Resolution. If a resolution passes—a close vote is expected—each committee decides within the budget guidelines for its area how the budgeted funding will be spent.