Domestic Credit by Richard Freeman

The truth about the deficit

Government borrowing is not a problem—and more government spending on defense, not less, is urgent.

About $150 billion in paper value of stock-market equities has been wiped out since mid-January, most of it since Feb. 1, when President Reagan announced his budget message.

Wall Street's vultures, already circling above the administration's finances, want to link the two events in the public minds. They are linked, but not in the way Wall Street believes.

Except to the extent that the federal budget has been used as a vehicle for economic fraud, the budget deficit announced by President Reagan represents, in itself, no problem whatsoever. Fed chairman Paul Volcker, Presidential adviser Martin Feldstein, and their Wall Street cheering squad are either lying on this subject or abominably stupid.

The facts of the matter are straightforward. The major Wall Street investment houses know that both this year's and last year's budget were a genial hoax on the part of the Treasury and Federal Reserve. The hoax took the form of diverting massive subsidies to the consumer sectors of the economy to the "off-budget" column of expenditures, which is not officially counted in the federal deficit. The actual deficit for both years is closer to $300 billion than $200 billion as stated.

In order to buy the appearance of economic recovery in the United States, in the form of an auto and housing bubble, former bond salesman Donald Regan and Paul Volcker shoved an additional $86 billion on top of last year's federal budget. The $86 billion in "off-budget expenditures," largely in the form of a subsidy to the market for home mortgages, bought an anemic improvement in a housing industry that used to produce 2.4 million units per year in good years, but only 1.7 million during last year's "boom."

This year, the Treasury will add an additional $89 billion to the proposed consumer bubble.

Regan, whose former specialty at Merrill Lynch was legally questionable means of depriving the Treasury of tax revenue, added an additional 50 percent to the government's borrowing requirement to do this. Volcker used the boomlet in auto and housing to fake the industrial production index, as *EIR* founder Lyndon LaRouche documented in a Feb. 4 television report, to show a physical production recovery where none existed.

The difference this time around is that while Regan has offered a federal budget based on a projected consumer bubble once again, Volcker has stated bluntly that the scam cannot be financed a second year in succession.

Volcker was informed of this circumstance by the Bank for International Settlements, the Swiss-based central bankers' mafia, at the BIS meeting in mid-January.

As we reported last week, the budget data just made available by the administration (buried in section F-5 of the *Special Analyses* of the budget) show that the administration plans to increase the rate of such off-budget subsidies from $88.5 billion in 1984 to $94.8 billion in 1985.

The notion that a budget deficit, by itself, represents a drain on the economy is ludicrous. If private individuals borrow to improve industrial technology and enhance productivity, no one but a few maniacs like Milton Friedman suggest that this represents a problem.

If the federal government borrows from the public in order to finance research and development on a scale that private individuals cannot afford, e.g. space or military technology, the same result is accomplished.

For this reason, the least inflationary, least problematic side of the budget is the President's defense budget. The only weakness in the Pentagon funding plan is that it is much too small.

Apart from the $2.1 billion slated for beam-weapon development, the Pentagon should be spending at least $20 billion more per annum in its "industrial base" program, to propel the new technologies such as lasers which are associated with beam-weapons development into the defense industrial sector.

An investment of this scale would increase the productivity of the American metalworking industry five-fold during the remainder of this decade, *EIR* showed in a comprehensive study published in May 1983. Volcker et al., as we describe this week (see article, page 4), are using the deficit bogey against the potential for a defense-generated industrial renaissance. This is the same Volcker who has publicly said that what America needs is a permanent reduction in living standards, and whose policies since 1979 have done so much to obtain that result. The same goes for the Democratic liberals who have suddenly discovered the merits of fiscal conservatism, as a cheap wedge against the President, at a time when the nation's defenses require every effort to achieve adequate war-fighting capabilities.