# Editorial

## The budget deficit: a real solution

The Republican-controlled Senate voted overwhelmingly on Oct. 9 to mandate a plan to balance the federal budget by 1991. If this same plan passes the Democratic-controlled House, the federal budget will become the main instrument to destroy what is left of the producing economy of the United States.

The Gramm-Rudman-Hollings amendment was passed as part of a legislative package to increase the debt ceiling from $1.8 trillion to a little over $2 trillion. In 1981 the Congress had raised the debt ceiling to a little over $1 trillion. In just four years, the government deficit has doubled, to equal the amount created during the first 200 years of the republic. This staggering increase is indeed a cause for concern. The period of the sharpest rise coincides with Paul Volcker's tenure as chief of the Federal Reserve Board, the agency that more or less determines interest rates, and hence the cost of the fastest-growing part of the budget, debt service.

It is exactly that portion of the Volcker inspired deficit, the debt service, which Gramm's legislation leaves intact. The amendment proposes that the federal deficit be eliminated in stepwise reductions of $36 billion per year over the next five years. The cuts would come from discretionary spending, including defense, and from the annual adjustments in the entitlement programs (e.g., Medicare), with the exception of Social Security. Waivers would be allowed in case of war or recession.

The only other exception is debt service. Warren Rudman (R-N.H.), one of the amendment's sponsors, in a recent article, put current debt service at $200 billion, and its growth at $20 billion per year. If we assume the best case of the economy continuing to perform at its present level, and no major change in interest rates or inflation, even by the amendment's terms, the aggregate of budget deficits will go up by $350 billion, and debt service on that additional debt by another $40 billion.

The cost of deficit reduction and current and to-be-incurred debt service comes to a total of $420 billion minimum, or 25% greater than the current military outlays. There is no way that the federal budget could stand this amount of chopping.

Is there another way? The answer is yes. Lyndon LaRouche has drafted legislation under the title The National Emergency Defense Act, which shows how interest on government debt could be reduced to an annual rate of 2%-3%, meaning cash outlay annually of around $20 billion instead of $200 billion. The key to this proposal is the issuance of some $400 billion in new government credit through inflation-proof gold-backed bonds, whose term of 20 years would suffice to allow the credit to be returned in the profit from expanded agricultural and industrial production.

The question is a political one, and not in any limited sense an economic one. The Trilateral Commission, through its agents David Rockefeller, Paul Volcker, and Don Regan, is not going to let such a solution come to pass without a bitter fight. Behind the Gramm amendment there is a real political crisis. The U.S. debt has reached a staggering $2 trillion; the world debt is now over $750 billion annually. President García of Peru, adopting more or less the LaRouche proposal known as Operation Juárez, has proposed a solution to the international debt crisis, and is assuming international leadership against the IMF/World Bank.

The political fallout from the staggering domestic debt threatens to produce a similar political break with Trilateral policies. At this moment up pops Phil Gramm, the "ultra-conservative," to offer a debt-reduction measure to relieve the political pressure. In fact, the spiritual if not the literal authors, of this policy are the Group of Five industrial nations and the IMF, whose meeting takes place at the same time that Gramm unveils his plan.

Even if passed, the legislation will prove unworkable and will have to be repealed. The solution is an artificial one to real problems, namely that the U.S. real economy is in an accelerating downward spiral (see *EIR Quarterly Report*), and its credit system is bankrupt. Like all hot-house Trilateral solutions it is a hoax, and the real solution, the LaRouche proposal, will become all the more urgent.