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Domestic Credit by David Goldman

Deficit forecasts miss the mark

The administration's new federal budget deficit estimates wildly understate the problem.

The Reagan administration drew laughs from most observers Aug. 6, when it admitted that the present year's deficit would rise to at least $230 billion, but projected that next year's deficit would fall to only $143.9 billion. That figure, coincidentally, is just under the Gramm-Rudman ceiling of $144 billion, past which Congress must make automatic cuts across all federal programs.

Both these estimates assume a roaring economic boom starting right now, and lasting through October 1987. Gross National Product would have to grow (after inflation), starting from June 30, by a booming 4.2% to meet the administration's assumptions. GNP itself is a misleading measure of economic activity, and the government's own numbers are suspect; GNP continued to grow during the second quarter of this year, albeit at a low 1.1% annual rate, while all physical parameters of output fell.

However, Gross National Product will fall, rather than rise, during the next two quarters, leaving the United States with a deficit exceeding the administration's record $230 billion estimate for the year ending Sept. 30, and soaring far above it—into the $270 billion or higher range—during the 1987 fiscal year.

According to the administration's Aug. 6 budget update, "Real GNP growth for the four quarters of calendar year 1986 is assumed in the Mid-Session review to be 3.2%, compared to the 4.0% rate assumed in the February budget. In coming quarters, however, the favorable effects of lower oil prices, together with lower interest rates and the marked appreciation of foreign currencies relative to the dollar, should produce faster economic growth in FY 1987 than assumed in the budget."

That is not only nonsense; it is not even credible at the nonsense-factory on Wall Street. Reuters news service sent out the following item Aug. 7:

"The administration has come close to the mark in projecting a record $230 billion federal deficit this year but has lost credibility with its estimate of a $90 billion fall in next year's deficit, analysts say.

"The administration's view that the budget deficit for fiscal 1987 will drop to $144 billion 'bears no resemblance to reality,' said Stanley Collander, budget policy analyst for the Touche Ross and Co. accounting firm.

"'The administration has assumed what it wanted to assume in order to get the deficit low, even if it's not going to happen,' Collander said."

In fact, the administration's assumptions regarding falling oil prices and the crashing dollar, all point to an economic disaster, rather than economic growth. The falling dollar has already increased the U.S. trade deficit from less than $150 billion in 1985, to a projected $170 billion this year, despite the fact that America is importing fewer goods, and imported oil has fallen drastically in price. The difference lies in the nearly 40% appreciation of the Japanese yen and German mark against the dollar; fewer goods cost much more from these major sources of American products.

Falling oil prices stand to wipe out 7% of total U.S. economic activity, by *EIR*'s estimate: About 40% of U.S. oil production will cease to flow if oil remains at $14 a barrel or less, and virtually all capital-goods production related to exploration and development will shut down.

A much broader contraction of economic activity evidently began in June, with an unprecedented contraction of aluminum and steel output, even in advance of the ongoing USX strike.

With the physical economy contracting at a 15% to 25% annual rate, next year's budget deficit is more likely to approach $270 billion; in fact, when so-called off-budget expenditures are taken into account, as much as $400 billion.

Under the Gramm-Rudman-Hollings law passed late in 1985, a mere $173 billion deficit would force $30 billion in new budget cuts, shutting down an entire range of federal programs, including major portions of the defense budget. Official Washington is in a panic, with visions of lynch mobs waiting for congressmen after the next recess.

Tax receipts of the U.S. government do not follow physical output directly; if they did, the current rate of physical contraction would wipe $150-$250 billion out of tax revenues. However, a mere 5% decline in federal tax revenues would push the deficit up from the present $224 billion estimate by the Office of Management and Budget, to at least $275 billion. To bring the deficit down to the Gramm-Rudman target would require not $40 billion, but almost $140 billion, in additional budget cuts.

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