

The looming prospect of U.S. economic emergency

by Nicholas F. Benton

A government crisis of unprecedented proportions is unfolding in the United States as the countdown to Oct. 1 is under way. Oct. 1 is the start of a new fiscal year (FY 1987), and the pressure is on the government to arrive at a consensus on the budget by that date to be able to continue "paying the bills."

In the past, when the President and the Congress have not agreed on a budget by Oct. 1, the government has literally shut down for a day or two until some form of temporary, short-term legislation, known as a "continuing resolution," is passed to pay expenses a week at a time until a full-year budget is finally passed into law.

This year, however, there is a new feature which changes all this, and is now in the process of throwing the government into an unprecedented crisis. It is the Gramm-Rudman deficit-reduction law, which commits the government to reduce the size of the federal deficit (the amount of projected outlays in excess of projected income) to a specific sum. The federal deficit was near \$200 billion in Fiscal Year 1986 (FY 86), and the Gramm-Rudman law calls for that sum to be lowered to \$144 billion in FY 87. This has to be achieved by massive cuts in expenditures because the President, in particular, will not tolerate lowering the deficit by raising taxes.

The Gramm-Rudman law, passed last December, originally gave authority to a budget agency of the Congress, the Government Accounting Office (GAO), to make automatic, computer-generated cuts in the budget by Oct. 1 if the Congress and President failed to come within \$10 billion of reaching the \$144 billion deficit target by that date. This automatic computer-generated budget cut is known as "sequestering." The law was written to provide an incentive for the government to come to a consensus in order to avoid "sequestering." Namely, if they did, they were allowed a \$154 billion deficit, but if they failed, automatic "sequestering" would, according

to a pre-set formula, draw the deficit all the way down to the \$144 billion target, thus taking an additional \$10 billion out of the budget.

The fall-back

This Gramm-Rudman law remains operational, with one significant change, even though the U.S. Supreme Court declared it unconstitutional last July. The Supreme Court's ruling against the law was based on a technicality, only. It said that the law's provision to make the GAO the agency of "sequestering" was a violation of the U.S. Constitution's "separation of powers" of government because the GAO is an agency of the Congress, which is the legislative branch. The Congress can correct this technicality by passing a law shifting the "sequestering" authority to a budget agency of the executive branch; namely, the Office of Management and Budget (OMB). If they did this, all the same automatic, computer-generated budget-cutting features of Gramm-Rudman would still be in effect, and constitutional.

However, the Congress has not had the time to pass a law making this adjustment. Instead, they are prepared to resort to a so-called "fall-back provision" in the law which, rather than making computer-generated "sequestering" automatically binding, simply requires a vote of approval from the Congress to become law.

Therefore, for political reasons (the November elections are approaching when all 435 congressional and 34 out of the 100 Senate seats will be contested) and especially for economic reasons, leaders of the Congress and the Reagan administration have all expressed their desire to produce a budget within the constraints of the Gramm-Rudman amendment.

The economic reasons for this are clear. With the collapse of the U.S. industrial and agricultural base, and with record

U.S. trade deficits and debt-equity imbalances, the only thing now delaying a total blowout of the U.S. financial system is the so-called "discipline of the government" to impose austerity through budget cuts. The combination of a certain amount of capital investment in military production and this "discipline" is the only basis of value for the dollar. However, these two props for the economy cannot co-exist, since the biggest victim of Gramm-Rudman "discipline" is the defense budget itself.

Nonetheless, the "discipline" of Gramm-Rudman has already produced certain definitive results. For one, it has led to an absolute cut of \$4.3 billion in the federal Medicare budget (health insurance for the elderly) for FY 87, at a time when that budget is already far too low and euthanasia laws are being expanded to cut health care costs. For another, congressional leaders and key Wall Street advisers to President Reagan—namely, White House Chief of Staff Don Regan and OMB Director James Miller—agreed to falsify the data released Aug. 20 telling the Congress how much more they had to trim from the budget by the Oct. 1 deadline, grossly understating the real size of the deficit at \$164 billion, rather than what is in reality closer to \$230 billion.

So now, working with the \$164 billion deficit figure, Congress is approaching the Oct. 1 deadline faced with cutting another \$10 billion from its budget in order to come in below the \$154 billion Gramm-Rudman limit to avoid "sequestering." And, while the President's Wall Street advisors Regan, Miller, and Treasury Secretary James Baker are working with Congress to make these cuts and meet this deadline without a tax increase (including without the projected increase in revenues from the new tax reform law), the major crisis emerging from this whole process revolves around the issue of defense.

President Reagan, under advisement from Secretary of Defense Caspar Weinberger, requested a defense budget of \$319 billion for FY 87 last January. This included a total budget for the Strategic Defense Initiative of \$5.4 billion.

Now, however, the Congress' "reconciliation" package aimed at conforming with Gramm-Rudman, is expected to cut the defense total all the way down to \$288 billion—an astonishing \$31 billion cut (or 10%) below what the President and Secretary Weinberger have repeatedly insisted is an indispensable figure to maintain an effective deterrent against the unprecedented Soviet military buildup.

Moreover, the Congress wants to add to its draconian defense budget cut a series of restraints on the President which would cripple U.S. strategy in direct conflict with the President's policy. These restraints, passed in the House Defense Authorization bill, would: 1) force the President to comply with the SALT II accord, 2) prohibit nuclear testing, 3) prohibit anti-satellite (ASAT) testing, 4) stop the development of chemical weapons, and 5) slash the SDI budget by 40% down to \$3.12 billion. A Senate bill also prohibits the U.S. from granting SDI contracts to its allies if the same

work can be done at home.

The President, when he first learned the House had passed these restraints, went on national radio to promise the American population he would veto such measures. When asked by *EIR* Sept. 19 whether the President would accept a \$288 billion defense budget, White House spokesman Larry Speakes said tersely, "We want more."

But, Congress (with the help of Regan, Miller, et al.) is using Gramm-Rudman to blackmail the President into accepting these destructive policies by threatening to vote for "sequestering"—which would cut even more from the defense budget—if the President is not willing to sign their "reconciliation" bill before Oct. 1.

If the President vetoes the bill, then the Oct. 1 deadline would pass without a budget. The government would begin operating with no allocated money until a resolution was reached. Congress would be forced to postpone its scheduled Oct. 3 recess, and thus delay its opportunity to get back to home districts to campaign for the Nov. 4 elections.

This would enrage the Congress. According to Gail Foslter, chief economist for the Senate Budget Committee, "There is an odd mixture of liberals and right-wing Republicans" who would favor voting, under these circumstances, for "sequestering" in retaliation against the President's veto. This would cut another \$10 billion from the budget (reducing the deficit from \$154 to \$144 billion), and, according to the preset formula, more than half of this would come from defense, resulting in lowering the defense figure further to \$283 billion.

At that level of funding, according to a Pentagon report released in August, the U.S. would be forced to eliminate 590,000 troops (310,000 active, and 280,000 reservists and National Guard), more losses than the U.S. has ever suffered in any foreign war.

Meanwhile, as long as the President and Congress would be battling, the government would be without money, and if temporary appropriations were voted, they would, by law, be at the level of "sequestering"; namely, at the level that would force the Pentagon to remove the 590,000.

Therefore, it is the threat of this "nightmare scenario" which is being used to blackmail the President into signing the "reconciliation" bill, even though, as noted above, its massive defense cuts will destroy one of the only remaining props—military production—holding up the U.S. economy, as well as devastate the strategic defense capabilities of the nation.

As recently, the White House revealed its total confusion on the issue, when Larry Speakes gave totally contradictory answers to *EIR* inquiries about the effects of a presidential veto under the Gramm-Rudman law. In reality, the President's only real option is to begin exploring the use of emergency powers to free himself from the deadly "no win" scenario he is being forced into by Gramm-Rudman's proponents.