The September budget crisis is now set

by David Goldman

The White House won a last-minute extension of the federal debt ceiling to the end of September, as Congress faced its annual summer recess the late evening of Aug. 7. For the third time in less than a month, the national bankruptcy of the United States has been postponed for the moment, by increasing the danger of national bankruptcy in the immediate future. A grand confrontation over the federal budget will erupt in the last week of September, with unforeseeable consequences.

"This whole business may be dealt with by adding a provision to suspend Gramm-Rudman in time of war," speculated one House staffer associated with efforts to force the administration to accept automatic spending cuts. With the United States on the verge of a shooting war in the Persian Gulf, military developments alone during the next six weeks may shake Washington out of its present imitation of a drunken fraternity brawl.

In any case, the constitutional issue, of whether the executive branch of government shall have the power to steer the nation through a time of crisis, has come to the surface. Last year, the Supreme Court ruled unconstitutional, the provision of the Gramm-Rudman-Hollings Act which gave Congress the power to dictate specific budget cuts, so-called automatic sequestration.

A combination of Gramm-Rudman Republicans and "conservative Democrats," e.g., Lawton Chiles (D.-Fl.) in the Senate and Dan Rostenkowski (D.-Il.) in the House, wants to force the administration to accept automatic sequestration, with revised language that the Court will accept. In other words, were the deficit to exceed a prescribed target of $140-150 billion, the President would be compelled to cut across-the-board; and to achieve that target, the administration would have to accept $30-40 billion in spending cuts starting October, of which half would come from defense.

The prospect of defense cuts of that magnitude was sufficient to make even this administration pause. Defense spending this fiscal year is already down 6% adjusted for what the government calls inflation, and much more in real terms. That consideration motivated a pattern of White House behavior that first frustrated, and then infuriated, the Gramm-Rudman tribe.

Last May, when the debt-ceiling crisis began, the President promised Senator Gramm that he would accept automatic sequestration, as a condition for the extension of the debt-limit to sometime in 1989; Congress offered a short-term extension to July 17.

When the short-term ceiling expired last month, Senate Republicans stalled, obstructed, and finally sabotaged an agreement on automatic sequestration (*EIR* Aug. 7, 1987, "Federal bankruptcy haunts Capitol Hill"). The President's rhetoric about spending cuts, which culminated this spring with his "108 in '88" radio broadcast (referring to the GRH $108 billion target for Fiscal Year 1988), is at cross-purposes with the Reagan administration's instinct for self-preservation.

It is not clear what the President thinks now, but whoever is running the Congressional Liaison Office of the White House will not accept even a $150 billion deficit target for 1988, and with good reason: It implies defense cuts of $18 billion under the current deficit projections, and much more in the real world.

Domenici at the bridge

Sen. Pete Domenici, the ranking Republican on the Senate Budget Committee, was left with the thankless task of agreeing in principle to the automatic trigger, while wrecking all efforts to introduce a trigger in practice. The House and Senate Democratic leadership became frustrated, and eventually furious. "It's not just a matter of getting White House consent on the automatic trigger," complained one Democratic congressman's legislative assistant. "We can't even get their input."

At the end of July, with the Treasury out of funds, Social Security checks waiting to be mailed, and Treasury bills coming due for payment during the first week of August, Congress voted a short-term extension until Aug. 6.

The House Democrats, led by Ways and Means Committee chairman Rostenkowski, hardened their demands. By Aug. 4, Rostenkowski was demanding a $140 billion spending trigger, rather than the $150 billion consensus figure circulated earlier, and a restoration of the congressional control over the budget struck out of the first Gramm-Rudman bill. The House and Senate moved farther apart, and the House-Senate conference committee entrusted with preparing an acceptable compromise stood in complete disarray by the morning of Aug. 7.

Disarray

After a final, acrimonious exchange of House and Senate plans, the conference committee broke down the afternoon of the 7th. The House sent over another version of its proposal to take over executive powers in the direction of spending cuts, and the Senate offered a version which amounted to presidential discretion to enact spending cuts if, when, and where he chose. The Senate Republicans then folded their arms, and invited the House to send over a proposal for short-term extension of the debt-ceiling, with no strings attached.

Several Democratic congressmen, including Buddy MacKay (D.-Fl.), moved to postpone the recess. An enraged Senator Gramm prepared an amendment which would have loaded the entire matter of automatic sequestration onto the short-term extension bill, forcing the entire mattter back to square one. However, Senator Domenici faced down the Democratic hordes in a game of chicken which concluded last night, with the failure of Senator Gramm's attempt to prevent a short-term extension, and Democratic congressmen's attempt to postpone the summer recess until an agreement was concluded.

Shades of 1932

That finishes the appearance of agreement between Gramm and the White House, leaving the President more isolated than ever. No one has spoken more passionately of budgetary contraint, to the point of campaigning for a constitutional amendment to balance the budget. However, Secretary of Defense Weinberger must have explained to him, or to Baker and Carlucci, that another $20 billion in defense cuts would inflict irreparable damage on American security.

There appear to be two choices left. One is that the Democrats will to do Reagan what the Democratic Congress did to President Herbert Hoover in 1932, when Hoover offered legislation for a National Recovery Act, and most of the other paraphernalia of the first Roosevelt administration. The Democrats shot down the same programs they would support during FDR's first 100 days, in order to ensure that a Democratic and not a Republican President would take these measures.

The comparison to Reagan is somewhat unfair to the late President Hoover, who at least acknowledged that the economy was in serious trouble, and sought to take action of some sort to correct the Depression. Reagan remains obsessed with the myth of his economic recovery. Reagan's political situation is correspondingly bleaker.

Not only will the Democrats attempt to nail him to the responsibility for economic misery generated by their budget guillotine; the economic mullahs of his own party will hold him to his word on spending cuts.

The other choice requires a national-security emergency, and a President willing to jettison the entire debate on the grounds that military contingencies make such spending cuts impossible. Thus far, the President has moved in the opposite direction.

Pressure on the defense budget opened the way for the disastrous zero option for intermediate-range missiles, and the zero option has taken on a life of its own as a public-relations gimmick, supposedly intended to rescue the President's image following the Irangate disaster.

The White House cannot simultaneously beg for a summit and an arms-agreement with Moscow, and demand that Congress throw out Gramm-Rudman on national-security grounds. The prospect for such a course of events now appears remote; but who knows what lurks in the waters of the Persian Gulf?

The banking crisis

Between now and end-September, when the debate resumes, the Treasury's ability to borrow $150 billion a year from foreigners may disappear, in the wake of the Third World debt crisis. When the debt-ceiling expired last May 17, bond-traders watched the minute-to-minute changes of the Japanese yen exchange rate, fearful that Japanese purchasers would boycott the Treasury market.

In the interim, foreigners have continued to purchase U.S. securities, and at a record rate—not least because the Japanese and other monetary authorities have clamped down on their own speculative markets, leaving footloose funds to chase the rising Dow-Jones average on Wall Street.

Brazil's bankruptcy, or a half-dozen related developments, could change that in a moment. At such time that foreigners ceased to finance the American deficit, Congress's talk of budget cuts will become as useful as patching a leaky roof while the house is burning down. The White House will then adopt emergency measures, or founder in a way that would make Herbert Hoover's ghost wince.