

Reagan's last budget sent to U.S. Congress

by Chris White

On Feb. 18, President Ronald Reagan's last budget was sent down to Congress to begin the ritual act of passage which will endow the nation with an operating budget for the next fiscal year, beginning Oct. 1, 1988. Unlike the budgets of the past four years, each of which became enmeshed in ritualistic warfare between the Executive and Legislative branches, this, the last one, promises to be different.

It's been put together on the basis of an agreement worked out between the outgoing administration and the Democrats in the Senate and House of Representatives. The agreement's framework is that hammered out during the weeks of theatrical non-stop bipartisan emergency negotiating sessions which followed the collapse of the stock market on Oct. 19, 1987.

As the agreement was finalized, in the run-up toward the legislators' Christmas recess, we reported that the nation's finances actually had very little to do with the package that had been concluded. We weren't alone in that. The deal, now manifest in the form of the fiscal 1989 budget, was to push off all the real problems into the lap of whoever happens to be elected President in November 1988. That way no one, whether from the administration, or from the Congress, expects to have to carry the proverbial can for implementing what are called "unpopular" measures, during an election year.

The budget, delivered to Congress, went with a message from James Baker, the Bush league campaigner who heads the Treasury Department, full of the usual paeans of praise to the durability of the last 60-plus months of unprecedented economic recovery. In which, as Baker said, not for the first time, the United States created more jobs than Western Europe and Japan combined. This budget is based on the same

kind of lying methods of fraud that created the so-called recovery in the first place.

Those who think, now, that adopting the chosen agreement will save their rearends come November have therefore got some painful lessons to learn. Yes, the budget package is based on a tissue of lies, known politely as "optimistic forecasts" of what can be expected over the months ahead. No, the budget isn't a "do-nothing" budget, and there's going to be hell to pay, as people realize that's the case.

Defense is savaged. Held at about \$299 billion, with presumably more prearranged cuts to come, as the apparent outcome of compromises between the administration and Congress, the SDI is being pushed into defunct status, the anti-satellite weapon is dropped, classes of weapons systems are wiped out, and a beginning is made on reorganizing U.S. troop deployments around the world. Namely, the dispositions are being made to begin to pull U.S. forces back from their engagements in Korea, and to rejigger deployments in Europe to involve less manpower.

It is not going to be any different on the domestic side. Federally backed programs in housing, transportation, water treatment, and sewage plant construction are chopped with the cutters' axe. Medicare is savaged again. The old don't seem to enter into the equation when the politicians get together to figure out how to avoid trouble in an election year. The housing and infrastructure cuts will pull the last remaining props of federal input out from states and localities.

Wild assumptions

This more than \$1 trillion budget is premised on some pretty wild foundations. Gross National Product is supposed to grow by 3.5% over the next year, taking the country over

the \$5 trillion level for the first time. Personal income is expected to rise. Pre-tax corporate profits are expected to rise. And therefore the government's revenue stream is expected to increase.

Inflation is supposed to come down to 3.9% from its present supposed 4.3%. Unemployment will head down toward 5.5%. And of course, rates of interest, on the market 91-day Treasury bills are expected to decline to average 5.2% over the course of the fiscal year.

This rosy outlook was made possible by the end of year agreement, under which the Democratic majority in the Congress permitted the Executive branch, through revision of the notorious Gramm-Rudman law, to "set the economic assumptions" which govern the budget-making process. Under this, agreed-on draft, the budget will fall under the Gramm-Rudman limit for the deficit in Fiscal 1989, of about \$135 billion, by some \$6 billion. In that sense, of twisty word games, the "hard decisions" won't have to be taken this year, as the budget is put through the process.

The official alternative view is represented by the Congressional Budget Office, which, employing assumptions significantly less rosy optimistic than those of the administration, foresees a budget deficit of \$176 billion for the same fiscal year, \$40 billion over the Gramm-Rudman limits.

Neither foresees what the pundits call "a recession," still less what they call a "deep recession." They both assume a linearly growing revenue base, and incorporate idiotic ideas about what's going to happen with interest rates, as the framework for the agreement. Yet, it's all a load of baloney.

Even assuming that the coming next phase of the collapse submits to the expectations of the parties to the agreement and obediently holds off till after the elections, the government's revenue stream is still going to be wiped out by what happened from August through October on the stock markets, and by what has also happened to bank and other corporate earnings. The results will swell the deficit, affect interest rates, which will swell the deficit, increase unemployment, which will swell the deficit, and so on.

Alternative is well known

On that basis the looney tunes in the administration and Congress have missed what might well turn out to be their last opportunity to do something about the looming financial crisis, without being stampeded by the onrush of the crisis itself. It is well known what that alternative would be, since the basic measures to be adopted have been circulated on national television, on the radio waves, and in the print media, by economist and presidential candidate Lyndon LaRouche.

First on the list is to drop the idiocy that the budget can be balanced by cutting out categories of expenditures. Since the value of the revenue tax dollar is falling faster than the expenditures can be cut, it's never going to work. For ex-

ample, last year's budget included a provision to mint several billion dollars' worth of pennies. It costs now 1.49 cents to mint a one-cent piece.

Instead concentrate on measures to increase the tax revenue base, by putting people back to work in productive jobs in manufacturing industries, agriculture and infrastructure maintenance. If this were done, along with the financial reorganization measures LaRouche has proposed, the oncoming crash would be stopped dead in its tracks, and the country put back on the path of a real economic recovery.

This kind of approach is what those who insist on pushing everything into the lap of the next President refuse to think about. The Bush people, of course, know that Bush is electorally dead if phase two does happen any time over the next months. The Democrats don't want the heat of implementing draconian austerity now, but all their official candidates are running around the country organizing for it.

It is known that the adopted course will make things far worse. Even Sen. Pat Moynihan (D-N.Y.) is talking of a conceivable \$300 billion deficit as a result of the budget now proposed. These characters are counting on their bipartisan economic commission, another presidential blue-ribbon body, made up of Moynihan, Lee Iacocca, Robert Strauss, Felix Rohatyn, and awaiting its Republican appointees, to do the job for them. Come up with a crisis austerity program next March, which the incoming President will, supposedly, have no choice but to accept, and to implement immediately.

For such people, George Bush has almost certainly been assigned the role Walter Mondale played in the 1984 elections. He's the Republican candidate the austerity-Democrats, and their banker backers, suspect they can most readily defeat. Therefore, he's the one they want to run against.

Back in the real world though, the bond markets began to sag in the days before the budget was released, as the Japanese central bank, and others, began the financial screw-twisting which is supposed to lead to an increase in U.S. rates of interest over the coming weeks. The Japanese were selling U.S. government paper they had bought in the auctions a couple of weeks before, and forcing the U.S. Federal Reserve to eat it. Declining bond values helps promote pressure for increased interest rates. Increased yields on declining bonds helps suck funds out of other markets, and into the bond market.

The Japanese move was a signal that, after all, the United States is now a net debtor nation. The kinds of arrangements the administration and Congress are counting on, to secure smooth sailing for the months ahead, are not in fact in the capability of the arrangers to make. Not only does what they arrange make matters worse, by far, but they also have the foreign creditors of the United States to contend with. Among them, it is now being said, as it was in Europe not long ago, that the second phase of the collapse cannot be postponed into next year. But that's not something the U.S. "arrangers" seem yet prepared to contemplate.