

# Congress still threatens default

by Carl Osgood

On Nov. 30, House Speaker Newt Gingrich (R-Ga.) appointed Nick Smith (R-Mich.) to lead a task force to investigate the actions that Treasury Secretary Robert Rubin took on Nov. 15 to avert a default by the U.S. government on its debt obligations. Since the time of Rubin's action, Smith, with backing from George Soros's Wall Street interests, has been seeking a way to prevent Rubin from using such measures again, in the event that Congress continues to fail to approve an increase in the debt limit ceiling. The increase in the debt limit ceiling, necessary to avert a government default, has been a key hostage of the Gingrich crowd in their attempt to force through their Conservative Revolution agenda.

Smith sent a letter to Rubin on Nov. 17, demanding the legal justification for the Treasury Department's actions. He complained that "this attempt at circumventing the debt limit makes a mockery of the Congress' ability to limit the amount of debt this government can issue."

Rubin took action to disinvest \$61 billion from the Government Securities Investment Fund (the "G-Fund") and the Civil Service Retirement and Disability Fund (CSRDF) in order to make payments on \$57 billion in principal and interest on the federal debt that, had he failed to do so, would have forced the U.S. government to default on its obligations. Two days earlier, President Clinton had vetoed the bill presented to him by Congress for a temporary increase in the limit, precipitating Rubin's action. Clinton found the bill objectionable because it provided for a reversion of the debt limit to \$4.8 trillion, from \$4.9 trillion, on Dec. 12, the day before \$44 billion in government securities were to mature, which would have forced an immediate default.

The Treasury was forced into similar maneuvers in 1985 when the Congress had failed at that time to approve an increase in the debt limit. Then, as now, the failure was because of an attempt to tie budget deficit reduction to an increase in the debt limit. Then-Secretary of the Treasury James A. Baker III also disinvested trust funds to make interest, principal, and benefits payments. Unlike Rubin, Baker included the Social Security trust fund, which action later drew criticism from the General Accounting Office.

The Treasury Department expects to be able to operate at least through the end of December, and possibly well into January, without further action. On Dec. 3, Rubin told

American businessmen in São Paulo, Brazil that "we will do everything in our power" to avoid a U.S. government default, in the event a debt limit increase still has not been passed.

Smith has been leading a campaign since last summer to use the debt limit issue as leverage against the Clinton administration for the purpose of pushing through the Republican balanced-budget plan. Smith, in a letter on Nov. 22 to Gingrich, said, "I have been keenly interested in the debt ceiling and its use in obtaining a balanced budget." Smith's task force is pursuing an investigation that is intended to lead to public hearings and possibly legal action against the Clinton administration to prevent further use of the trust funds to get around the debt limit.

Smith circulated a memo on Nov. 22, saying that the real issue isn't simply "how the government keeps its books or when we reach a balanced budget. The true confrontation is changing the way government operates. . . . The question is whether we will have more government control over our lives, higher taxes, and greater borrowing, or whether we will go back to what made this country great—a frugal government and individual responsibility."

## Advice from speculators

Smith isn't simply spouting his own ideology. On Nov. 1, he revealed on the floor of the House that he, and other members of Congress, were getting advice from, among others, Stanley Druckenmiller, the managing director of Soros Fund Management. Smith reported that Druckenmiller was telling members of Congress to "stick to your guns" on the balanced budget, or they would see "the stock market fall." Druckenmiller, along with Kenneth G. Langone, the chairman of Invemed Associates, took out a full-page ad in the Sept. 26 *Washington Post*, saying that the financial markets would look at it positively if the federal government were forced into default, if it meant a balanced budget would be the eventual result.

Druckenmiller works for George Soros, who has made billions by destroying the national currencies of several countries, most recently that of Italy. However, for the time being at least, the Clinton administration has kept the speculators at bay, by successfully separating the debt limit issue from the budget issue. That was one of the outcomes of the "train wreck" in the middle of November when House Speaker Gingrich was taken out as the central figure in the budget negotiations between Congress and the administration.

Now, the Conservative Revolutionaries are in a panic because the Clinton administration could keep the government running indefinitely without a debt limit increase. The Joint Economic Committee released a report on Nov. 20 with a chart that shows that, by manipulating the trust funds, the government could run on without a debt limit increase until July 2001, through a second Clinton administration, and then some.