

## The federal budget and the 'sacred cow' of debt service

by Criton Zoakos

As President Reagan was hopelessly laboring to cut \$42 billion from next year's federal budget, Lazard Frères banker Felix Rohatyn made a speech in New York to present to Reagan the terms of surrender which the underwriters of our national debt are attempting to impose on the federal government. Rohatyn, the man who turned New York City from a prosperous metropolis into an immiserated, drug-infested, crime-ridden hellhole, is not known for his concern for the poor and disadvantaged; his attacks against President Reagan's proposed budget cuts are not motivated by compassion. Rohatyn is the banker made famous by his outrageous promise to New Yorkers to give them "pain and agony," as his main means of financial restructuring.

What Rohatyn had to say to the President about the Federal budget was this:

"To bring the situation under control requires an extremely delicate combination of policies. . . . This might be done by a quick, bipartisan budget package to reduce the deficit by \$150 billion over three years, half by taxes, half by cuts:

"On the expenditure side an *across-the-board budget freeze*. It would include all military and domestic spending, *except interest costs*, saving about \$40 billion in the first year."

The remainder of Rohatyn's proposals is irrelevant. His demand to have debt-service payments be accorded the treatment of a "sacred cow" is the crux of the problem of our federal budget and our federal debt. The President of the United States will continue to remain hopeless and helpless in his attempts to deal with the monstrous problems of federal finances unless he proceeds to do the exact opposite of what Rohatyn proposes and stop treating the federal debt-service payments as the sacred cow.

For the 1986 budget now under discussion, these debt-service payments will be somewhat more than \$165 billion,

i.e., almost equal in size to the entirety of that year's projected budget deficit. For the sake of dramatizing the importance of the matter, one may argue that if the United States government announced a temporary 365-day deferral of debt service payments, the "monstrous federal deficit" would simply disappear, with hardly the need to touch any other federal program. If in addition certain other federal programs which are popular with Rohatyn's banker friends were to be cut or eliminated, the country would end up in 1986 with a net surplus, after having paid all its obligations in Social Security, medical care, and everything in the defense budget that Secretary Weinberger has requested.

### The Paul Volcker balloon

The \$165 billion in debt-service we are asked to pay in 1986 is due to the \$1.8 trillion debt the national economy is laboring under. Most of this debt, almost exactly *one trillion* dollars, was contracted during Paul Volcker's tenure as chairman of the Federal Reserve from 1979 to date. An item-by-item analysis of this debt will reveal that it is not justified on economic grounds. Volcker's arbitrary policies caused it, and were designed to cause it—for political reasons.

Volcker in 1979 launched an operation to strangle the U.S. economy ("controlled disintegration," he fondly called it in private), which he tried to rationalize as a "fight against inflation." His principal instrument was to bring interest rates up to 22-25%, thus driving the mafia out of business. Virtually instantaneously, the United States was plunged into the deepest economic depression in 50 years, with the army of the unemployed swelling to over 25 million persons. With a collapsing tax base, the federal government's tax revenues declined at the same time that the government was obliged to pay out scores of billions of dollars for unemployment compensation and related depression-induced costs. Because of

Volcker's policies, the federal government, to wit, "we the people," were forced, like damned fools, to borrow *one trillion* dollars for the purpose of 1) paying Volcker's higher interest rates, 2) paying for depression-caused loss of tax revenue, and 3) paying for depression-caused federal outlays such as unemployment compensation.

Since "we the people" can easily demonstrate that this *one trillion* dollar Volcker-debt was a politically induced cost caused to occur by a conspiracy of high-flying bankers and manipulators of "high finance," then we can also easily argue that this component of the \$1.8 trillion federal debt be set aside to be given special treatment—such as being frozen and all payments to it being frozen, pending completion of a full-scale investigation of the conspiracy to incur it. Merely freezing this portion of the debt would save the Treasury about \$100 billion in debt-service payment during the first year of the investigation.

### The President's political problem

Such a sweeping political move would attempt to reverse a process of gradual takeover of the American Republic's finances by oligarchical financiers, a process which began with the Specie Resumption Act of 1876, accelerated with the Federal Reserve Act of 1913, and is now about to reach its climax, as the oligarchs' "creditors' committee" demands that we scrap our national defenses in the face of the growing Russian imperial drive, and submit to "Chapter 11" bankruptcy proceedings.

President Reagan will have to choose between the bankrupting and security-stripping of the United States on the one side, and a pitched battle with his "creditors' cartel" on the other. If he thinks there is a third option, he is misreading both the situation and the intentions of his enemies. The question is: What are the political assumptions from which the President must proceed in order to construct a competent federal budget for 1986?

First, the government budget must enable the Executive Branch of the government to fulfill its constitutional responsibilities, to do its job. In the context of the political realities of 1985 and 1986, this primarily means that the administration must efficiently defend the Republic from the Russian strategic challenge. A serious military evaluation leaves no doubt that nothing short of a 1939-44-style wartime economic mobilization would be adequate to solve our security problem.

The budgetary and fiscal implications of this fact are that 1) the defense budget must be the only admissible "sacred cow" of the total federal budget, and 2) all other items of federal expenditures must justify themselves by the degree of contribution they make in mobilizing and augmenting the actual productive apparatus of the national economy, which must be put on mobilization footing. The President has the constitutional right to declare *force majeure* and proceed along these lines. He also has the popular mandate with which he can steamroller any congressional opposition to what he

must do.

From this standpoint, many of the budget cuts which the President has proposed are ill advised, and many of the cuts which he could reasonably have made, he unfortunately avoided. For example, agricultural price subsidies must be increased, not decreased; funding of the Ex-Im bank must be increased, not decreased; funding for training the labor force must be dramatically increased, not decreased or "frozen."

Also from this standpoint, the matter of tax reform has not been presented by the Treasury in any reasonable way. The tax policy appropriate to a "wartime economic mobilization" of the United States must be so designed as to improve the quality and quantity of skilled labor power and of capital plant and equipment. It must provide tax breaks and tax incentives for the working population and for those investing entrepreneurs who choose to engage in actual production of tangible goods. At the same time, it must tend to "tax out of existence" every type of wasteful, speculative, or useless expenditure of capital.

Finally, a balanced-plus 1986 federal budget should be based on the following broad features: freeze of payments to the *\$1 trillion* Volcker component of the federal debt (thus saving about \$100 billion for this year), complete elimination of certain programs and agencies whose purpose is to discourage economic activity or which are being used for political ends by the "creditors' committee" of the government. In the first category, one should include the entire Environmental Protection Agency and its \$3.5 billion, the various programs of the Department of Housing and Urban Development, which merely subsidize rentier slumlords to the tune of over \$3.5 billion, and the various New York and Boston bankers' schemes for social control and corruption which go under the rubric of "Great Society" projects—Head Start, community "poverty pimp" programs, various "endowments" for "Arts" and "Humanities," the Legal Services Corporation, the neo-fabian "Mediation and Reconciliation" services, the National Labor Relations Board, the fraudulent Bureau of Labor Statistics, etc., saving the country an estimated \$20 billion annually. In the category of federally financed institutions which operate against the federal government and on behalf of Paul Volcker's "creditors' committee," one should not fail to place on the chopping-block the entire \$1.1 billion budget of the FBI and about one-third of the State Department's nearly \$3 billion budget.

These cuts, together with a freeze of the "Volcker component" of the debt, would enable us to balance the budget without touching so much as a hair from either the defense budget or Social Security, Medicaid, farm-price supports, etc.—and before we have even started increasing the revenue base which would result from an actual economic mobilization.

This year's budget debate has only one political problem to be dealt with: When Rohatyn proclaimed "interest costs" to be sacrosanct, nobody in the administration told him to shut up.