Volcker and the banks ready federal debt crisis to force budget cuts

by Richard Freeman

The *fondi*, the pooled resources of the European oligarchical families and their Eastern Establishment junior partners, are set to explode a national debt crisis on President Reagan around the time of his January inauguration. Their aim is to use the massive budget deficit as an unassailable argument against embarking on a crash program for development of the "Star Wars" anti-missile defense program.

One spokesman for the pro-appeasement, Wall Street-dominated Bipartisan Budget Appeal, which leads the budget-cutting forces, stated Nov. 27: "The growth of the budget deficit is the strongest argument that can be used against the Star Wars. The first few years of Star Wars will not be expensive, but its cost will become huge, unless stopped."

The truth is that an unleashing of America's scientific and technological capability to develop a beam-weapons defense is the one sure way to get out of the budget bind.

The *fondi* will try to force a budget-cutting crisis by mid-January, through a steady media drum-beat about the effect that a large budget deficit will allegedly have in forcing interest rates back up in 1985 (interest rates will rise, but not for this reason). Next, look for a bond-market and stock-market collapse, rigged by the holders of the national debt, to convey the idea that there is a lack of confidence. Finally, imagine headlines in the *Wall Street Journal*, "Investors No Longer Trust President."

Reagan will either cut the defense budget or he will be pilloried in a manner few individuals have ever had to endure.

This mood is butressed by a series of statements, which come from some predictable but nevertheless unexpected sources. Newly elected Senate Majority Leader Robert Dole (R-Kan.) has told the President in a face-to-face meeting with Republican leaders that defense will be cut. Dole is known to oppose the Strategic Defense Initiative.

One of his close intimates is Robert Ellsworth, one of the chief fund-raisers for the disinformation organization, the International Institute for Strategic Studies think-tank of London. Dole's replacement as Senate Finance Committee chairman, Robert Packwood, a liberal from Oregon, has called for $30 to $50 billion in budget cuts.

And in the realm of the bizarre, Barry Goldwater (R-Ariz.), the new head of the Senate Armed Services Committee, raised his voice Dec. 5 for a military spending freeze for the 1986 fiscal year budget. Goldwater also called for all funding to be dropped for the absolutely essential MX Peacekeeper intercontinental ballistic missile.

No choices

The weakness of President Reagan's posture right now is that he doesn't understand the terrain that he is operating on. He is surrounded by disloyal advisers such as Treasury Secretary Donald Regan and OMB director David Stockman, not to mention James Baker III's palace guard.

The troubled President, whose understanding of economics is limited, is proceeding to his second inauguration and State of the Union address on the economy prattling and cooing about his economic recovery. This reminds one of the country bumpkin all set for his first date in a shiny new suit that is two sizes too small. When he gets to his intended's house, he finds that she is 11-feet tall, has glasses the thickness of the bottom of a Coke bottle, chews garlic for a snack, and has the Marine insignia tattooed on her arm.

The spate of economics statistics showing falling home sales, durable goods orders, and auto sales, indicate that the faked 1983-84 recovery is deflating at an alarming rate.

No budget can possible be balanced with a collapsing real economy in process.

Buying up America

The percent increase in *fondi* control over America's national debt since 1979 is prodigious.

A chart helps to illustrate the point. If one adds up government debt held under the categories foreign, bank, insurance company, corporate (where the corporation is under *fondi* control, such as IBM, etc.), personal trust funds, and pension funds (which are nominally owned by unions but run by investment banks like Lazard Frères), one finds that the *fondi* own approximately 60% of the U.S. government debt. The government and Federal Reserve own another 30%, and

Who Owns the U.S. Government Debt

Ownership of Federal Securities (In Billions of Dollars)

Year	Total	Fed & Other Gov't Agencies	Com'rcl Banks	Individual	Insurance Co's	Corporation	State, Local Gov'ts	Foreign	Other
1956	273	74	57	67	14	17	16	6	20
1970	383	155	63	81	7	7	28	20	23
1979	834	305	94	113	16	24	77	120	83
1981	1004	334	113	110	28	18	96	131	171
1983	1382	396	176	130	47	36	na	160	na
1984	1592	na	190	142	na	48	na	171	na

that leaves very little for the average citizen to own.

The foreign owners of U.S. debt have increased their share of ownership from a mere 2% in 1956 to 11% in 1984. And most of these are not Arab sheiks. The overwhelming majority of owners are the old European families—the Cecils, the Thurn und Taxis, the Pallavicini, and the big Swiss banks which operate as financial safehouses for the old European family funds.

Then there are the commercial banks and insurance companies. They owned 11% of the debt as late as 1979, but it is projected that they will control 20% of the debt by 1985.

Remember back when your grandparents bought you a savings bond for $18.75 for your birthday, which upon maturity would be worth $25? That is now a thing of the past. Private investor ownership of the debt has declined from 25% of the share in 1956 down to a mere 9% today. And even that figure is deceptive. Because embedded within the category the Treasury describes as "Private Investors" are parternships and general trust funds, which are just instruments of the *fondi*. Take those out, and private individual ownership of the U.S. government debt does not exceed 3-4%.

The average American doesn't own his country's debt.

The Volcker 'revolution'

The most brutal irony of the current situation is that the United States, as a feature built into the national psyche, prides itself that it is a creditor to the poor Ibero-American, African, and Third World nations. In reality, the *fondi* are exploiting America's status as the world's largest debtor nation, a status entirely the responsibility of the noxious Paul Volcker.

The transformation in ownership of our country's debt came about during the same years that Paul Volcker's tenure at the Federal Reserve was bloating the size of the debt. With his October 1979 interest rate "revolution," Volcker created a climate in which it was impossible to make high-technology investments, develop manufacturing, or operate a farm. As a result, $1 trillion was added to the national debt.

In the fourth quarter of 1979, when Volcker took office, the national debt was $817 billion. By the end of fiscal year 1985 (which ends Sept. 30 of next year), the national debt will be at least $1,828 billion.

It could be larger. The Reagan administration is predicting a $205 billion budget deficit for fiscal year 1985 premised on a 4% real rate of growth in Gross National Product (GNP). However, that isn't going to materialize. The GNP may grow as little as +1% or may even become negative. That could swell the deficit to $250 or $300 billion.

Volcker brought about this situation in three principal ways: First, he collapsed the economic activity, and hence the revenue base, of the nation by plunging the United States into three successive dips of an ever-worsening economic collapse. This has cost the United States $500 billion in lost tax revenues since 1979. Second, he has swelled the interest on the public debt by an amount more than $150 billion. Third, he has added more than $70 billion in pay-outs for unemployment benefits, and food stamps, etc., due to unemployment.

Each year that a nation runs a budget deficit, government securities are being sold as Treasury debt, and the total for that year is added onto the outstanding national debt. Were the country to run a budget surplus, the national debt would be reduced accordingly. Up to the time of Paul Volcker, except the war year of 1943, the United States had only one year in which the national budget deficit was larger than $50 billion per year. That year was 1976. A national budget deficit of $50 billion was unheard of and had to be accounted for by an extraordinary event such as World War II or the effects of the oil shock, as in 1976.

But under Volcker, not only has the $50 billion deficit become common. The United States has run a $200 billion deficit (fiscal year 1983), four times the highest amount ever. Two hundred billion dollars is more than the deficit for all 12 combined years of Franklin Delano Roosevelt's term, including the cost of World War II. Clearly, the best thing President Reagan can do to reduce the budget deficit is to fire Volcker and eliminate the *fondi* control over the lifeblood of our economy.