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Budget crisis reaches a turning point for Bush

by Chris White

On May 15 begins what will, without doubt, be the first in a series of so-called summit meetings between the White House and congressional leaders on the subject of the Fiscal Year 1991 budget, and the federal government's budget deficit. A Sunday, May 6 gathering at the White House, with Bush, Budget Office Director Richard Darman, Treasury Secretary Nicholas Brady, and the majority and minority leaders of Senate and House, respectively George Mitchell and Tom Foley for the Democrats, Robert Dole and Robert Michel for the Republicans, cleared the way for what the pundits now presume will rapidly become a matter of "substance" rather than merely process.

The May 6 meeting marks a watershed, of sorts, for the President and his administration. For his leadership style is perhaps best epitomized by the notorious one-liner from his 1988 election campaign, "Read my lips: No new taxes." The participants agreed that there would be "no preconditions" applied to the upcoming budget summit. "Everything would be on the table," it was later stressed by White House spokesman Marlin Fitzwater. The President wants "an open debate that is unfettered with conclusions about positions taken in the past."

So, it seems, May 6 was the day that this President had to begin to eat the political equivalent of the broccoli which, he once told us, it was his presidential prerogative to refuse.

Indeed, over the next weeks, it may become evident that the May 6 White House meeting marks the same kind of turning point for the present administration as the meetings held in the Nixon White House in the spring and summer months of 1971. Those meetings produced the notorious Nixon U-turn, when the Friedmanite free enterprise advocate became a converted Keynesian emulator of British Prime Minister Harold Wilson. On Aug. 15, 1971, the dollar was taken off the gold standard. Later, after the bankruptcy crash of the Penn Central Railroad, the full panoply of wage-gouging austerity was implemented.

Of course, there are also those who look at the cleared presidential table, and the dishes that are about to be served up, somewhat differently. Over the same weekend, the finance ministers and central bank governors of most of the Group of Seven nations were gathered in Washington, D.C. for one of their regular exchange rate and monetary coordination meetings. By May 8, the U.S. Treasury was preparing to begin the largest quarterly debt refinancing in its history, when $30.4 billion of 3-year, 10-year, and 30-year bonds were to be brought onto the market.

Could not the weekend table-clearing have simply been one of the regular series of tricks pulled off by this administration? A *coup de théâtre,* designed to encourage increasingly reluctant participants from abroad in U.S. Treasury auctions, to keep the money coming, on the basis of an apparent commitment from the leaders of U.S. institutions to do something to reduce the deficit they have been required to continually finance?

The auction over, successfully, Washington would go back to its usual ways until the next such quarterly financing falls due, on or about Aug. 15, breathing a sigh of relief that the tottering U.S. credit structure had been held together in the interim.

Tax revenue base collapses

There is much more involved. Publicly, it is reported that the trigger for the May 6 White House gathering was the publication on May 4 of the Bureau of Labor Statistics non-farm sector payroll series of employment data. If the 70,000 or so people taken on to the government's payroll to conduct the 1990 census are excluded, non-farm payrolls shrank for the first time since the Greatest Period of Prosperity in American History began, back in 1982-83.

Behind the scenes, it had been evident before Treasury

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official Glauber announced the quarterly refunding requirement on May 1, that top-level officials were already apprised that revenues coming into the IRS after the April 15 tax deadlines were way, way down. It can be surmised that news of the mounting revenue shortfall, which Glauber refused to address in his cited press conference, was prominent among the factors which precipitated the White House turn away from the standing "Read My Lips" doctrine. When asked if he had an estimate on tax revenues, Glauber refused to comment.

The administration has yet to give any estimate as to how large the shortfall in revenues collected after April 15 might be. Taken together, the turn in the employment series, and the decline in government revenues, show that the reality of economic collapse has finally begun to catch up with this administration. Rising employment keeps up the nominal amount of the revenue the government derives from household and individual taxes and Social Security payments. When employment and revenues begin to fall together, then immediately at hand is the prospect of an accelerating chain reaction, such as economic collapse, reflected in bankruptcies and unemployment, reduced government income, while, at the same time expenditures on such accounts as unemployment and welfare increase. Then the government's deficit balloons, and efforts to contain catastrophe by cutting expenditures, the method adopted consistently since 1981, simply accelerate the decline.

Crisis can no longer be ignored

The watershed is not simply a political or rhetorical type of turning point. Between Sept. 15, 1989 (when the failure of Canadian speculator Robert Campeau's Allied and Federated department store empire collapsed the secondary market in non-investment-grade securities, the $200 billion per annum pool of funds from which the otherwise non-creditworthy borrow) and Oct. 13 (when the stock exchange's Dow-Jones Industrial Average fell by 200 points), the U.S. economy and financial system entered a deflationary spiral. Alan Greenspan at the Federal Reserve and his colleagues among the federal regulatory agencies, government departments, and the investment and commercial banks, attempted to deal with the changed reality the same way they dealt with the crises that erupted between 1982 and 1989, when the volume of combined debt and financial speculation was increased by about $2 trillion each year. They threatened, they blackmailed, and they threw money at problems, to maintain the appearance that everything was as it had been. Daily Federal Reserve intervention into the New York Stock Exchange, via Chicago's futures index, to keep the Dow within a narrowly defined range; weekly infusions of credit into collapsing parts of the banking system, like New England; and arm-twisting of allies for funds, as in the case of Japan, are part of the pattern.

And none of it worked. By the end of March, what had been the $200 billion per annum junk bond market had collapsed to zero. There were no new issues that month. Corporate earnings for the first quarter of 1990 fell by 18% compared to the same quarter the year before, after a fall of 15% in the fourth quarter of 1989 compared to the same quarter in 1988. Among the worst performers were the steel industry, off 51%; the automobile industry, down 64%; marine transportation, down 68%; and trucking, down 97%. Eastern banks, which include the tottering New England Federal Reserve District were down 60%, and the catch-all diversified financial services down 98%.

The earnings collapse was accompanied by a parallel collapse in the rate of increase of lending during the quarter. Business lending for the first quarter was down about 30% from the year before; real estate lending was down by almost 40%; and lending to consumers, one of the mainstays of the so-called recovery, was down 65%, at an annualized level, from the rate of the year before.

Budget deficit out of control

There was one element of growth in all this. At a meeting held for Republican lawmakers on May 8, Director of the Office of Management and the Budget Richard Darman provided the administration's third revision of its estimate of the federal budget deficit for the 1991 fiscal year. In January, when Bush delivered his budget message to Congress, it was estimated that $34 billion would have to be cut to meet the Gramm-Rudman target of a $66 billion deficit. By March, Darman had increased that estimate to the range $40-50 billion. Now, in the estimate of the administration, the range is $60-100 billion in cuts required to meet the Gramm-Rudman target, depending on whether the savings and loan bailout is included or not. Meanwhile, the estimated deficit for the fiscal year in progress is increasing proportionately, and as frequently. The administration's estimate began the year at $123 billion, and has been upped to over $150 billion. The Congressional Budget Office goes higher, into the range of $180-200 billion.

So, Sunday, May 6, the President had his first generous helping of budget broccoli. There will be more to come, and not just for him. For we will surely now get the kind of idiocy which says that the way to deal with collapsing revenues is to increase taxes. That is, in effect, to say that the way to deal with a depression is by making the depression worse. And it will be worse. For there are also groupings, typified by Georgia's blow-dried Republican congressman Newt Gingrich, who are calling for emergency powers for Bush so that the President can deal with the crisis as he sees fit. The knee-jerk reaction will indeed be: austerity and more austerity, especially against those least able to bear it, together with the elaboration of the institutions of a police state to enforce that austerity. That is no doubt the menu that is being prepared right now in various kitchens, for presentation to the newly cleared presidential table.