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# Federal Debt Fiasco

NEW YORK, May 15 (IPS) — Federal officials are panicking over the inflationary crisis that erupted on the credit markets last week, and are demanding an immediate assault on working class living standards to prop up the burgeoning federal debt.

A speech by Treasury Under-Secretary Edwin Yeo to the Minicipal Finance Officers Association in San Francisco last week signals that Wall Street and its friends in Washington cannot put off a second-round austerity offensive until later in the year, as they had hoped. Yeo proposed "confining the scope of state and local functions to that which is affordable within the jurisdiction's revenue base, (that is) fiscal and financial autonomy at the state and local level."

Unless a major financial catastrophe were about to break, the disgusting spectacle of a Ford Administration official publicly supporting the most discredited of Ronald Reagan's economic recipes — dropping $90 billion in Federal support to states and minicipalities and throwing the entire burden onto collapsing local governments — could have no explanation.

On May 12, the Senate passed the budget resolution for fiscal year 1977 which calls for deep cutbacks in social services while heavily increasing the size of the military budget. Income security programs would be cut $5 billion simply from the level needed to maintain current programs, health another $1.2 billion, veterans benefits almost $1.2 billion, veterans benefits almost $500 million. Meanwhile, the military budget will rise $8 billion. The budget was dictated to Congress by Wall Street through the Congressional Budget Office. Created last year, the CBO is headed by Alice Rivlin, formerly of the Brookings Institution. Its staff is heavily laced with former employees of the New York City Rand Institute, who set up the triage-bureaucratic apparatus being used in New York by Big MAC to reduce New York's population by two million people.

Also this week, Agriculture Secretary Earl Butz announced new food stamp eligibility requirements designed to remove over 4 million people from the rolls.

### Inflation Heading Out of Control

The financial crisis behind this austerity outburst is the immediate threat of dollar-sector hyperinflation outside of Treasury's or anybody else's control. A minor fiasco in last week's sale of $7.5 billion in Treasury IOU's marked the turning point after which the Federal government can no longer run a $100 billion per year deficit without direct Schactian looting of working-class incomes. In turn, a collapse of the U.S. government debt market would start an international chain-reaction in financial markets that would wreck Atlanticist political control in the U.S. and Western Europe.

During the first quarter of 1976, the U.S. government took up 75 per cent of all net credit issued by lenders in the U.S. in the process of financing its deficit. By looting funds required for capital investment, housing and current production, Washington managed to finance a budget of which half of all expenditures went to military, highway and other boondoggles, and debt service.

Government securities were issued at a record rate of almost $26 billion in the first quarter. Savings and loan associations, unable to invest in mortgages, bought $5.5 billion, while other private non-bank financial institutions — mutual savings banks, private pension funds, state and local retirement funds, life and other insurance companies, and credit unions — took down another $3.4 billion. Commercial banks, which are liquidating bank loans to productive industry at a rate faster than during the height of industrial collapse last spring, purchased an additional $6.1 billion. Nonfinancial corporate business, by running down their bank loans at record rate and "financing" the inventory-based upswing of production through massive "cost-cutting," i.e., speed-up, purchased an additional $5 billion.

This swindle, which virtually eliminated financing for construction and capital investment, is collapsing on two counts. First, the staggering volume of government debt-financing has produced a build-up of loose funds in the banking system which has increased the narrowly defined money supply (M1) at a 19.5 per cent annual rate over the four weeks. These are idle funds trapped in the banking system, the surfeit of over $30 billion in Federal deficit spending and $11 billion in corporate refinancing during the first month of this year.

Without touching the productive system, these funds flow directly into the "Eurodollar" market, and multiply by 12 to "n" times their original sum as a hyperinflationary mass available for currency, commodity and related speculation.

Second, the one-shot looting operation that the Treasury used to finance its debt to date — soaking up money freed temporarily by collapse of industry — ended with last week's auction of Treasury bills and notes. Previously, the Treasury had been flooded with more bids than it could handle from corporations, savings institutions and commercial banks; this time, a substantial portion of the auction was dumped onto Wall Street dealers, sending the entire bond market into a panic.

As Under-Secretary Teo hinted, unless Wall Street can immediately increase the rate of cannibalization of working-class incomes — through cuts in the Federal and local budgets, destruction of housing, higher "pension" contributions and scrapping of plant and equipment — the entire chain-letter of U.S. government finances will unravel.

**Treasury Borrowing Spurs Pressure for Cannibalization**

The pressure for Wall Street to go all out for cannibalization right now is underscoredby the fact that Treasury financing needs will actually be increasing in the months ahead. The Treasury itself has admitted that it still needs to raise between $5.5 and $8.5 billion in new cash alone by June 30, and between $15 and $20 billion during the next quarter, concentrated during July and August since September is a corporate tax month. In addition, at least $9.7 billion in publicly-held long-term debt must be refinanced by the end of August. On May 13 the Treasury announced that it would sell $5.4 billion over the next two weeks to raise $1.25 billion in new cash and redeem maturing notes.

The Treausry and Federal Reserve are not blind to the price of defeat on their war on working-class income. The sudden rise in the annual growth of the money supply to 19.5 per cent has occurred while bank lending has fallen. The moment that banks open their credit windows the "multiplier" in the banking system could turn this rate of increase into 50 per cent per year. If the Federal Reserve is forced to turn on the printing presses to finance the Treasury deficit, Weimar levels of inflation will take hold.

In mid-December, when business loans started to drop off again after rising moderately from mid-September, the Fed, according to Chairman Arthur Burns' testimony May 3 before the Senate Banking Committee, decided to pump money into the economy and lower the discount rate and reserve requirements in order to sustain the mild upswing in production experienced till then on the basis of the Spring tax cuts. This was essentially a political decision taken to hold together the dollar empire in the short-term by creating the conditions around which a massive black propaganda campaign on the so-called U.S. recovery would be used to disorient and disperse coalescing pro-International Development Bank forces primarily in the Third World and Western Europe.

While business loans continued to plummet (they have fallen by $8 billion this year), the reserves pumped into the system, key to financing the Treasury's massive first quarter borrowings, built up pressure for a potential inflationary explosion. As the money supply began to take off, Burns tried to tighten up during late February-early March, only to see the markets immediately panic. Burns backed off, with the result that the money supply exploded from mid-March, setting in motion the obvious signs of a building inflationary wave, e.g. massive price increases in industrial materials and food.

The best indicator that Burns has actually lost control of the situation occurred late Thursday afternoon, when the bond market staged a mild rally on the news released that afternoon that money supply had increased $800 million for the past week, pushing the four week average annual rate of increase up to 19.5 per cent. The rally was based on the fact that Wall Street had expected a $2 to $3 billion increase, and was happy when it "only" turned out to be $800 million. The next day, the euphoria wore off and the markets fell back into their doldrums.

In this situation, monetary and fiscal policy per se is meaningless. Burns and his Wall Street overlords, said to be trying to pursue a "middle course," in fact have decided to move with a vengenance wigh their only option, immediate fascist rationalization of the economy.

Last week Burns supplied $500 million in reserves to the banking system, leading to a further big jump in the money supply, while this week he drained $2 billion in reserves. The only consistency over the past several weeks has been a gradual raising of the federal funds rate from 4 and three-fourths per cent to 5 and one-eighth to one-fourth per cent yesterday. As a result of this mild "tightening," occurring at the same time as the money supply is booming, bond prices have dropped 4 points over the past few weeks.

Sources close to Burns indicate that his slow tightening policy is designed to raise interest rates in order to pull money into the U.S. to finance the Treasury deficit. This tactic is baseed on consolidation of control over West Germany, which would have to finance this opertion.