1983 BUDGET

# Double blow against the U.S. economy

by Richard Freeman

Following the advice of OMB head David Stockman, President Reagan announced in his annual budget message to Congress Feb. 8 that he will continue for several years to endorse budgets based on interest rates remaining at least as high as they are now. The President also acknowledged that his fiscal year 1982 and 1983 budget deficits will be the largest in U.S. history—each close to $100 billion. He did not acknowledge that the size of those deficits chiefly results from Federal Reserve Chairman Volcker's usurious interest-rate policies.

The President has set himself to be driven from office in the biggest market crash in U.S. history—if the industrial economy doesn't collapse first. The set of budgets for 1983 through 1986 formulated by Stockman slash farm, science, and industrial infrastructure programs. The economy cannot withstand such a package. Moreover, Mr. Reagan is endorsing the very policy of interest-rate savagery that cost him $100 billion deficits in his 1982 and 1983 budgets.

Reagan stated in his budget message that three-month Treasury bill rates will average 11.7 percent in calendar year 1982, 10.5 percent in 1983, 9 percent in 1984, and above 8 percent in 1985. "Since market confidence has been so badly shaken by runaway inflation and interest rates in the past three years," he said, "it is apparent that interest rates over the next several years will fall less rapidly than we had originally anticipated. Between the huge inherited base of national debt, the higher interest rates, and the large prospective additions to the national debt in the next several years, our total debt service cost will rise substantially." He continued, "Interest payments on that debt will exceed our original projections by $18 billion in 1982 . . . and $182 billion over 1982-86 taken as a whole."

Despite this admission of the damage wrought by Volcker, Murray Weidenbaum, the head of the President's Council of Economic Advisers, Feb. 6 told reporters who had received drafts of the budget, "Progress in curbing inflation requires slow-down of growth of money supply and continued monetary restraint." And White House Counsel Ed Meese told the NBC news "Interview with David Brinkley" show Feb. 8, "We [the administration] give Volcker a vote of confidence. You can't just reach up in the air and boost investors' confidence. It takes time."

## Reagan's problems

But Reagan has not reckoned with the full extent of his problems. To achieve a projected $91.8 billion deficit in his fiscal year 1983 budget, which will go into effect Oct. 1 of this year and run through Sept. 30 of 1983, Reagan will have to force congressional passage of $55.9 billion in budget cuts, new taxes, and "user fees," a level of projected austerity that even leading Republicans are balking at. Furthermore, he would have to achieve the stated 5.3 percent real (i.e., inflation-adjusted) rate of growth in the economy when the economy may not grow, when measured in GNP, by even 1 percent.

It is thus likely that the fiscal year 1983 budget deficit could be $150 or even $200 billion. Morgan Guaranty Bank is predicting the deficit will be $120 billion, while the Congressional Budget Office says it will be $153 billion.

Since October 1979, when Paul Volcker began his high-interest-rate policy, it has been clear that the usury policy would blow the budget deficits out of control.

In October 1981, *EIR* predicted that Volcker would add $55 to $60 billion extra to the fiscal year 1982 budget deficit, projecting an overall deficit of $97.5 to $102.5 billion. This prediction was greeted with howls of protest that such a large deficit was impossible.

Then Stockman's Office of Management and Budget was saying the fiscal year 1982 budget deficit would only be $42.4 billion. The Congressional Budget Office then claimed the deficit would only be $43.1 billion. Meanwhile, the leading financial pundits on Wall Street, Evans Economics and Fidelity Bank Econometrics, claimed that the deficit would be only $13.6 billion and $33.5 billion respectively.

## Backfire effect

There is no mystery as to why we were right, while every other leading authority was wrong. High interest rates, applied to a run-down and over-indebted economy, must destroy that economy.

- Usurious interest rates swell the interest on the public debt, which is now on a gross level over $120 billion, or more than one-seventh of the entire budget.
- High rates destroy the tax base of an economy, and are causing a loss in the 1982 budget of between $25 and $30 billion.
- The high rates force an increase in programs such as unemployment, food stamps, etc. on the order of billions of dollars.

But following the advice of the Mont Pelerin Society free-enterprise advisers in his cabinet such as Stockman, Reagan disregarded these backfiring results and is plunging ahead with the Stockman budget. If the Reagan administration had launched the economy on the path of mammoth exports, capital investment, and counterinflationary remonetization of gold, the budget deficits would be wholly manageable and soon reverse themselves. Under present circumstances, they are indeed a time-bomb.

Because the budget deficits require large financing at the same time that state and local governments, industry, farms, consumers, and others are in desperate straits and competing for funds, two consequences will follow:

The weaker forces contending for a severely limited volume of credit will be crowded out of the market into bankruptcy, intensifying the rate of economic collapse.

The intense competition for funds will force the price of the limited resource of funds upward, meaning interest rates will go higher.

Wall Street will not need a second invitation to use the bloated budget deficit to begin a run on the markets, with masses of bankruptcies the result.

Monte Gordon, the chief of research for the Wall Street firm Louis Dreyfus and Company, predicted Feb. 9, "I see the economy not pulling very much out of the current recession, and then because of the high deficit caused increase in interest rates, I see the economy going into a collapse in 1983 and again in 1984."

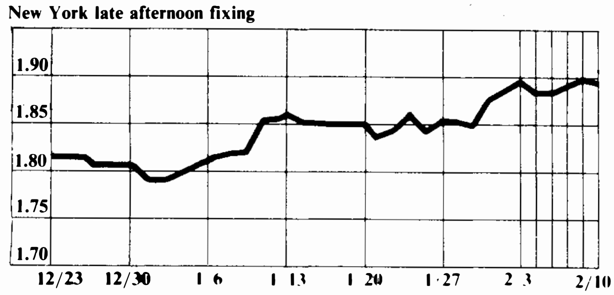
Moreover, the Reagan budget has cut to the bone many basic programs. The Farm Home Administration loans to farmers will be cut in half from 1981 levels. Highway construction will be cut by 21 percent from 1982 levels. The job-creating Export Import Bank will be cut by 18 percent. One billion dollars in new fees, including an 8 percent travel tax, will be imposed for users of the nation's airports; and $448 million in fees will have to be paid by the ships that want to use America's barges and waterways. Education will be cut by $5 billion, job training by $2.2 billion, and federal employee pensions cut severely.

Thus, while Volcker hammers what remains of productive industry, the prerequisite for a modern economy is being dismantled. Not only are the "users' fees" a peculiar expression of "free enterprise"; U.S. productivity itself is at stake. The transportation system is equivalent to a conveyor belt for industrial producers, considered as one large factory. When it is gutted, the producers are disabled. Even more obvious should be the consequences of reversing the already degraded American tradition of broad-based higher education and first-rate scentific R&D, consequences for both the civilian economy and the military base. Mr. Reagan has recklessly jeopardized his own political fortunes; the question is now whether Congress will allow him to lock the United States itself into the Second Great Depression.

## Currency Rates

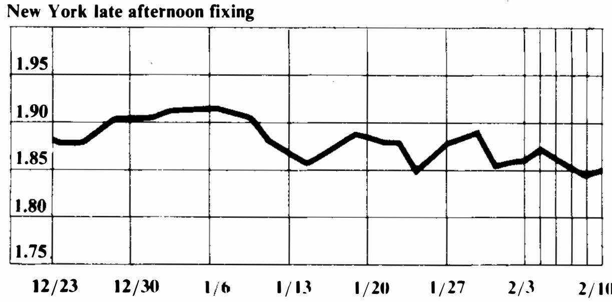
### The dollar in Swiss francs

New York late afternoon fixing



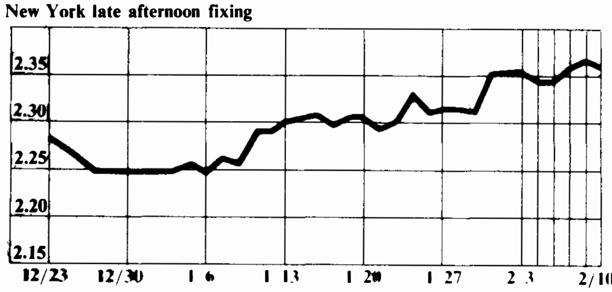

### The British pound in dollars

New York late afternoon fixing




### The dollar in deutschemarks

New York late afternoon fixing




### The dollar in yen

New York late afternoon fixing