

Domestic Credit by Richard Freeman

The 'Volcker add-ons'

An examination of the effects of the Fed chairman's policies exposes the current "budget process" as a fraud.

Volcker 'Add-On' To Federal Budget (In billions of Dollars)

Fiscal Year	Unemployment Costs	Interest Costs	Lost Tax Revenues	Total Volcker Add-On	Federal Budget Deficit
1980	6.33	5.78	11.2	23.31	73.8
1981	4.94	17.40	7.9	30.24	78.9
1982	12.92	26.39	85.6	124.91	127.9
1983	17.87	19.18	123.0	160.05	207.8
1984	14.40	30.43	121.2	166.03	185.3
1985	9.20	37.00	115.3	161.50	205.0
1980-85				666.04	878.7

Source: U.S. Budget, 1985; President's Report to the Congress, 1984: 1985 numbers are based on government estimates.

Senators and congressmen are now tripping over one another to engage in an unmanly spectacle called the "budget process." Both Democrats and Republicans proclaim the budget deficit "America's number one economic priority." Their aim is to cut it, either by cutting spending or increasing taxes or both.

The "budget process" is a fraud on three counts. First, neither the favored target of the liberals, defense, nor of the conservatives, welfare and programs for the elderly, is the cause of the budget imbalance. The real culprit, whom both liberals and conservatives refuse to fight, is Federal Reserve chairman Paul Volcker and his interest-rate policy.

Paul Volcker has caused 76% of the U.S. budget deficit since the start of fiscal year 1980.

Second, the budget is *not* America's number-one economic priority. It is not even a particularly important or interesting feature of economic life. The functioning of the real physical economy, expanding employment and output, is the primary economic con-

cern. If one gets the real economy functioning, the government's revenue base will expand geometrically; without cuts, and without tax increases, the budget will move into balance.

Third, the International Monetary Fund is purposively using the "budget issue" to bring the United States under supranational dictatorship and destroy this nation as a world power. The IMF's policies, demonstrated in countries all over the world, put budgets more and more out of balance.

Volcker represents an unofficial IMF dictatorship over U.S. economic policy, and that's why the deficit is now so large.

In October 1979, Paul Volcker put interest rates into the double-digit range, pushing them as high as 21.5%. They have stayed over 10% for the past five years, sent the economy spiraling into depression, and thus destroyed the tax base.

We count the costs of the Volcker policy in the accompanying chart as three-fold. First, unemployment costs; second, interest costs; third, lost tax revenues.

Assume that unemployment had stayed where it was in 1979. Assume that unemployment benefits remained the same, year after year, adjusted only for the inflation rate. The difference between what that "normal" unemployment level would be, with its associated federal costs, and the actual cost of unemployment benefits today, is the "Volcker Add-On" in unemployment benefits. We have refrained from counting the increased costs of Food Stamps to families due to unemployment, which makes the figure we use conservative.

Second, assume that interest rates remained the same as in 1979 and that the interest cost of the public debt only rose because the debt grew larger, not because the interest rate rose. One way of doing this is to see how much the annual interest debt service was on the total mass of U.S. debt outstanding in 1979. This was 5.11% of total debt. Assume that ratio to hold constant for all subsequent years. All interest payments above the amount calculated at that rate are a "Volcker Add-On."

Finally, assume that the GNP rose by a 5% real annual rate from 1979 onward, a rate of growth which, considering the fluff in GNP, is far too low to represent a real rate of growth. Since there is a fairly constant ratio between GNP and level of federal taxes paid, count the difference between the amount of taxes that would have been collected had Volcker not dislodged the economy and the actual taxes paid as the "Volcker Add-On."

Add up these three "Volcker Add-Ons"—it comes to 76% of the deficit from 1980 through 1985 (see chart).

This is, of course, conservative. Were the United States growing at the rates of the World War II mobilization or the NASA space mobilization, the budget would be in balance, and even in surplus.