Government bankrupt by end of July?

An unresolved federal debt ceiling crisis may blow up in the administration's face.

Bill Simon has not yet announced a leveraged buyout of the Office of Management and Budget, but the prospects that the federal government will actually run out of money were strong and growing at *EIR*'s July 22 deadline.

Five days before the Treasury will run out of money, neither the Senate nor House has reached agreement on an extension of the federal debt ceiling, which expired July 17.

The Treasury cannot borrow money to cover its deficit, and will fail to mail Social Security checks if the federal debt ceiling is not extended by Congress by July 27.

Although Senate Budget Committee sources insist that some makeshift agreement will emerge by then—perhaps only a 30-day extension—Senate Budget Committee chairman Domenici is still locked in negotiations with Senators Lawton Chiles (D-Fla.) and Phil Gramm (R-Tex.) over an intended "strengthening" of Gramm-Rudman, to be attached to the debt ceiling bill.

Nothing has yet come to the Senate floor. After the Senate votes, the House must undergo the same process, and then the two versions must be reconciled in conference—all within six days. If not, the checks will not be mailed. What Domenici, Chiles, and Gramm cannot agree on, is the specific method of budgetary suicide which the administration will be asked to commit.

Last year, the Supreme Court threw out so-called "automatic sequestration" of funds, which provided for the General Accounting Office of the U.S. Congress to institute automatic across-the-board cuts, should the deficit numbers exceed proscribed levels.

All factions in Congress agree that automatic sequestration must now be restored. What they disagree about is the extent to which the administration will be entrusted to administer them, or to what extent Congress will execute the cuts.

Since the latter demand, favored by Senator Chiles, who "does not trust the administration to carry out the policy," according to Senate sources, raises constitutional issues, brewing the poison is no simple job.

Most commentators have, heretofore, dismissed these events as the usual debt-ceiling cliffhanger, which Congress has enacted every time the debt ceiling came up since late 1985, when it passed Gramm-Rudman-Hollings in the process.

However, the commentators have proved wrong; rather than resolve the debt-ceiling issue within days of its expiration July 17, neither the House nor Senate has shown any sign of resolution. The administration's economic credibility has finally died, and every rodent on Capitol Hill has come to gnaw on the corpse.

The House and Senate are responding, however incoherently, to massive constituency pressure to "do something" to correct the administration's disastrous economic policy, which forced heavy Republican losses in the last election.

The usual staged cliffhanger has run out of control, and turned into a real-life catastrophe.

No one has yet brought up the subject of how a failing economy will be brought into line with the Gramm-Rudman-Hollings "targets."

On July 16, Budget Director Miller told the Cabinet that the deficit for the fiscal year ending Sept. 30 would fall to $155 billion, down from previous estimates of $173 billion. That assumes a $20 billion windfall from tax reform, which will turn into a $20 billion reduction in revenues during Fiscal Year 1988, to which the Gramm-Rudman straitjackets apply.

Even assuming that Budget Director Miller is right, and tax reform produces a $20 billion swing toward the black, the current tax schedules, which postpone tax reduction to future years, should push the deficit back to the $190-$200 billion range for Fiscal 1988.

Gramm-Rudman currently demands a $108 billion deficit for that year. Even that assumes a continued gain in tax revenues.

As the sagging economy produces less tax revenues, and more federal obligations for entitlements payments, the deficit will rise well into the $220 billion range registered during FY 1986.

That does not count a $50-100 billion looming bailout for the Federal Savings and Loan Insurance Corporation, nor the corresponding bailouts of the Farm Credit System, the Pension Benefit Guarantee Board, and sundry other federal agencies.

That could bring the deficit up to the $300 billion range.

As *EIR* suggested last week, the Reagan administration's solution might be to declare a recession, suspending Gramm-Rudman with two successive quarters of GNP growth of less than 1%.