

The budget agreement: smoke, mirrors, and hot air

by Chris White

No one is going to be very happy about the long-awaited, much-touted, so-called bipartisan agreement to cut the budget deficit. But whether they're happy or not doesn't really matter, next to the simple reality that it's now taken the combined brain-power of the administration and Congress a month to come up with a package which, relative to the magnitude of the financial and economic crisis now developing, is completely irrelevant. The agreement proves, once again, that no one in Washington, D.C. knows what is really going on, or what to do about it.

And, in any case, this agreement follows the norm in so-called bipartisan agreements on what to do about the budget. Formally, Congress and the administration have agreed to cut \$30.9 billion from the expected deficit for the current fiscal year, and a further \$45.9 billion from the budget for the coming year. The package agreed on late in the afternoon of Friday Nov. 20, is in most respects identical to what had actually been worked out over a week before.

There will be, in the first year, \$9 billion of new revenue raised from increased taxation. Five billion dollars will be cut from the defense budget in the first year, and \$8.2 billion in the second. Domestic spending programs will be cut \$6.6 billion in the first year, and \$9.35 billion in the second. Other "savings" will come from reductions in debt service, supposedly a by-product of lower interest rates, the beefing up of IRS tax collection procedures, sale of government assets, and so forth.

The President described the agreement as "a blueprint that sends a strong signal both at home and abroad that together we can and will get our deficit under control, and keep it that way. . . . This agreement is probably not the best deal that could be made, but it's a good solid beginning." House

Democratic leader Thomas Foley of Washington called the agreement "a milestone," more substantive than the "smoke and mirrors" of which critics have complained. Speaker of the House Jim Wright (D-Tex.) announced, "It is a real set of deficit reductions. It isn't painless for the very reason that it is real and not cosmetic."

If they're all agreed on what they're saying, that's sure enough a sign that something rotten is up.

Number one, even now, a month after the Oct. 19 "Black Monday" on the stock market, Congress and the administration have actually only agreed to give themselves 10 more business days to work out how the cited package will be implemented. For example, in the case of the agreed-on tax increases, what has been agreed on so far, is how much taxes will be increased. It has not been decided by what specific taxation programs the revenues will supposedly be increased, nor who will pay—though it is presumed that some kind of sales tax is coming down the pike, because income tax rates are not supposed to be affected. The agreement now gets thrown back into Congress for the specifics to be elaborated, over the 10-day period.

Number two, the agreement headed off the implementation of the updated version of the Gramm-Rudman deficit reduction act. If there had been no agreement, and no decision therefore to postpone the implementation of the automatic budget-cutting provisions of the act, then beginning on Nov. 20 at midnight, \$23 billion would have been axed from the budget.

Number three, the participants may well say that what they have agreed on is "real," not "smoke and mirrors," etc. It's actually *real* hot air. What kind of improved revenue collection procedures are going to make up for the \$100

billion in revenues that have already been lost to the Treasury as a result of the stock market debacle to date? That loss will increase to \$400-500 billion over the lifespan of the agreed-on two-year program. What lunatic seriously can calculate that declining interest rates will reduce federal debt service, when interest rates will of course be headed in the opposite direction entirely? Federal debt-service charges will be increasing, even as the collapse in revenues doubles the deficit, and then doubles it again.

The political 'street theater'

If there is not too much substance, apart from the defense and social spending cuts, to the agreement that has been reached, there is substance of a different sort to the political equivalent of street theater which has accompanied the month-long elaboration of the agreement, to its present ripeness.

The threat that the political leadership of the United States will actually get its act together, and even do something, has, from one week to the next, functioned as a kind of psychodrama, which has the purpose of keeping the country's restive foreign creditors in line. Over the two weeks preceding the "agreement," for example, the dollar's collapse was held at the level of 1.65 deutschemarks, largely by the expectation that an agreement would be reached during the course of that trading week. Reported breakdowns in the negotiations, and new efforts to complete the final drive into what one congressman called "the end zone," function as a part of the same effort.

Now, there is the prospect of another 10 days of such theater, 10 days designed to get the bankrupt monetary system through the Thanksgiving weekend, and into the week of Mikhail Gorbachov's "Pearl Harbor Day" arrival in the United States. Then it will, no doubt, be full steam ahead, for Christmas and the New Year.

From the standpoint of stage management, and perhaps even psychological warfare, those doing it probably do await the applause as they make it, through another day, and another week, one day at a time.

They evidently don't bother to ask themselves what it is that they are actually accomplishing with such a substitution of theater for competent policy.

Threats, trade war against U.S. allies

Meanwhile, the officials of the government which degrades itself to play the part in that theater, are running amok around the world. Tariffs imposed against Brazil, because Brazil dares to develop a computer industry. Tariffs threatened against Argentina, because Argentina refines its crude oil. Smash and grab raids conducted against Mexico's foreign exchange reserves, through capital flight and devaluation. Crude threats against Japan, South Korea, and Taiwan, coming from touring Commerce Secretary William Verity. Threats against Germany and Europe from newly elevated cabinet member Beryl Sprinkel, during the course of the just-

concluded gathering of economic officials of the OECD nations. Verity and Sprinkel took the same approach, respectively, to Asia and Europe: "Stop exporting your production to the United States."

The crude desperation of the U.S. financial deployment around the world is the reality of the bipartisan time-buying theater in Washington. Time is being bought to crush the supposed enemies of the policies of U.S. financial power, to head off the day of reckoning for the bankrupt U.S. banks.

On the European side, it is different. After the Black Monday crash, the cry went up from all sides across Europe, that the United States should drastically cut its budget deficit, and increase taxes, in a multi-year program. The figures bandied about, by luminaries such as former West German chancellor Helmut Schmidt, and banking officials in England, were in the order of twice as much as has now been agreed-on as the intended deficit reductions. They were demanding cuts of \$50-60 billion per annum.

Now, though, voices of relative sanity are beginning to emerge. Edzard Reuter, the new head of one of Germany's largest corporations, Daimler-Benz, told a New York audience that budget-cutting isn't the answer to the crisis—what is needed is a new concept for the world economy. The Daimler-Benz chief reiterated a standing proposal from the German banking sector that an equitable solution has to be found to the crisis of developing-sector debt. He warned that the financial crisis will only reach its full maturity in the sphere of East-West strategic relations, and that this reality increases the dangers of the developing crisis, and the consequences of continued leadership by press release and TV appearance, as a substitute for the necessary policy changes.

In Switzerland, the voice of the financial community, the *Neue Zürcher Zeitung*, editorialized that those who insist on reducing the "twin deficits" are running the danger of mistaking the symptoms of the crisis for its cause, and that consequently, their treatment may aggravate, rather than improve the crisis. The paper pointed to the effect budget cuts will have on the defense of Europe.

Still others are now insisting that the overall level of economic activity is tied to U.S. government spending, and that cutbacks, as they contract economic activity in the United States, will spread that contraction around the world.

In the United States, though, the policymakers' watchword remains, "buy time" and they insist that the crisis doesn't exist. Despite the President's protestations to the contrary, that's exactly how the current policymaking crowd is following in the footsteps of Herbert Hoover. It's not going to be very long before it becomes clear that the just-concluded agreement isn't worth the proverbial hill of beans. Then time will have run out for the characters who think that events can be orchestrated to accord with their desires, in defiance of reality. But until then, the clown show in Washington is going to become one of the most significant of the drivers impelling the world into the worst financial