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Domestic Credit by Andrew Rotstein

Reality stalks the recovery myth

Experts may not know the actual state of the economy, but the snowballing fiscal crisis suggests an answer.

Mounting anxiety over the shape of the U.S. economy intensified in late July, as the federal government prepared to announce a revision of its figures for Gross National Product for the past three years. GNP numbers are the most carefully watched economic statistics, and it was widely believed that the "corrected" benchmark figures might reveal two consecutive quarters of falling output for the first half of 1990—the government's definition of a recession.

Sure enough, the data released on July 27 sharply slashed GNP growth for the fourth quarter of 1989 to a microscopic 0.3% taken on a yearly basis; but the figures for the successive quarters remained unchanged, at a flaccid 1.7% and 1.2% annual rate. Of course, as financial columnist John Crudele pointed out in the July 31 *New York Post,* the government's statistics are riddled with arbitrary assumptions about job creation that have themselves been revised several times in recent years.

What is the actual state of the U.S. economy? "Nobody is sure," confessed Crudele. "Even the Bureau of Labor Statistics admits that [its] econometric model . . . is too new to tell it what happens when the economy contracts."

But there are some less uncertain ways of measuring real economic trends. The out-of-control fiscal crisis provides striking evidence that the economic slowdown continues to worsen, exploding even the most recent "revised" plans of crisis managers. On one level, unexpectedly low federal revenues and skyrocketing costs of the savings and loan crisis are more telling indicators of the economy's ills than the data from sophisticated models of Washington's vast information-gathering empire. These figures, at least, do not lie.

Only weeks ago, Budget Director Richard Darman announced that the anticipated deficit for Fiscal Year 1991, which begins Oct. 1, would hit $169 billion—$69 billion more than predicted last January, and fully $10 billion above the figure estimated as recently as June!

The Treasury announced July 23 that Washington ran a deficit of $11.22 billion in June, during a month when corporate income tax payments normally put the Feds firmly in the black. In June 1989, for example, the government ran a $7.79 billion surplus. But outlays soared 20% by June 1990, largely due to interest payments on the debt and costs of "resolving" insolvent thrifts.

On July 30, William Seidman, head of the Resolution Trust Corp., told the House Banking Committee that the ongoing rescue of the bankrupt savings and loans would require an additional $100 billion in FY91—meaning the agency will have spent more funds on the bailout in two years than the Bush administration projected spending within five years, when the RTC was created merely 12 months ago.

And so it goes.

The most recent evidence of accelerating economic disintegration is the desperate scramble by Congress to raise the ceiling on the national debt before the legislators leave for the August recess. Each move to lift the debt limit over recent years has provoked near-havoc, with dramatic proposals for deficit reduction, master plans for economic reform, and totally unrelated amendments and riders tossed in. (It was out of the year-end panic in 1985 that the Gramm-Rudman farce emerged.)

To minimize the recurrence of this nightmare, the White House decided to seek an unprecedented $322 billion increase in the debt ceiling, bringing allowable borrowing to $3.44 trillion. That would supposedly satisfy all Treasury financing needs through the next fiscal year, ending September 1991.

But now, with the continued slide in real estate values and tightened lending by banks, even this drastic rise in borrowing may be inadequate to keep the Treasury limping along—even though it represents a *doubling* of the national debt within the last six years!

The folly of the whole affair—endless variations on the game of musical chairs, while the underlying crisis of the real economy is assiduously ignored—is epitomized by the tragicomic history of the Gramm-Rudman measure.

In December 1985, Congress and the Reagan White House settled on this plan to phase down the federal deficit to zero by FY91. When the economy failed to cooperate with this tidy scenario, Congress, ever flexible, "revised" the timetable to require a balanced budget by 1995.

George Bush's turnabout on taxes has served to remind everyone that the government is several light-years from balancing the budget next year. And, the latest projections from the Office of Management and Budget indicate that the budget for even 1995 is now aiming at a whopping $100 billion shortfall—and if that estimate matches past ones, it's wildly optimstic.

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