# A history of the push for a balanced budget

by Richard Freeman

As the first article in this *Feature* demonstrates, the budget-balancing mania has thrown the U.S. budget far out of balance. The process leading to that growing imbalance began in earnest in 1978-82, and includes the policy decisions during the Carter years, and the early years of the Reagan administration, particularly the disastrous Kemp-Roth "Economic Recovery Tax Act" of 1981.

The addition of the Gramm-Rudman-Hollings "Balanced Budget Act" of 1985, guaranteed that the United States would record a budget deficit of $341.6 billion by fiscal year 1990, and $386.4 billion by fiscal year 1992.

The following is a chronology of the critical policy steps that have shackled America's ability to deal with the budget in a reasoned manner.

## I. The Carter years

During the 1976 Presidential campaign, Jimmy Carter pledged that he would balance the budget during his first term in office. During his first year in office in 1977, Carter proposed a stimulus package to get the economy going, which was still suffering from the effects of the 1973-75 worldwide depression. However, when he deemed the economy was doing well enough, Carter scaled back the stimulus package, and began the process of attempting to balance the budget.

In 1976, when he campaigned for President, Carter was a little-known former governor of Georgia. Essentially his campaign linked incumbent President Gerald Ford, through guilt by association, with the 1973-74 Watergate scandal of President Richard Nixon. Candidate Carter's relative obscurity and short track record on which to judge him, endeared him to his handlers. These included Trilateral Commission founder and chairman David Rockefeller, who was also chairman of Chase Manhattan Bank. Rockefeller and his Wall Street friends bankrolled Carter's Presidential bid. Another prominent handler of candidate Carter was the New York Council on Foreign Relations (CFR).

Starting in the early 1970s, the CFR had been conducting a study, to which it attached a great deal of importance, called the "Project 1980s." This "Project" had many study teams and eventually wrote and produced over 30 "Project" books, which were published by McGraw-Hill. The studies were conducted under the guise of a series of projections of what the 1980s would look like under certain policy constraints. Only it wasn't crystal-ball gazing; the "Project" was drawing up a blueprint, which it intended to carry out by orchestrating certain financial and economic shocks and by getting its members into government.

The theme of the "Project 1980s," was a work by economist Fred Hirsch, "Alternatives to Monetary Disorder," which spoke of the policy for "controlled disintegration." It explained that there would be a series of shocks to the economy—interest rate increases, energy price increases, credit cutoffs—which would cause zero, and eventually negative economic growth. The economy would disintegrate, but, hoped the leaders of the CFR's "Project" team, it would be "controlled," not unmanageable. Four members of the CFR's "Project 1980s" team, Paul Volcker, Cyrus Vance, Zbigniew Brzezinski, and Michael Blumenthal, were appointed by Carter as chairman of the board of the Federal Reserve System (in August 1979), secretary of state, national security adviser, and secretary of the treasury, respectively. The Carter administration became the administration of "controlled disintegration."

Carter's austere budget-cutting was augured in his agenda for energy conservation, water public works projects, and nuclear energy. Carter was a fanatical pusher for energy conservation. In April 1977, months after taking office, he put forth this agenda:

- a new federal agency, the Energy Mobilization Board, to cut government red tape, including certain state and local regulations, inhibiting rapid development and construction of priority energy projects—largely projects of low energy-throughput per cubic volume of surface area;
- a surcharge on imported gasoline;
- a proposed tax on the wellhead price of domestic oil;
- stiff penalties on "gas-guzzling" automobiles;
- penalties for companies that refused to switch from natural gas and oil, to coal, for their heating and other energy needs. Carter asked Congress to approve $3.6 billion to pay for utilities to convert their power plants to coal.

In most cases, the spending represented pure waste, or a shift from relatively less expensive, higher-technology forms of energy, to relatively more expensive, lower-technology energy use. It decreased the overall efficiency of the economy.

### Nuclear energy and water projects

Carter was the most anti-nuclear President the United States has ever had. In 1977, Congress abolished the Joint Atomic Energy Committee (JAEC). Some of its functions were divided up among other committees, but the centralized thrust for nuclear energy was gone. In 1977, Carter vetoed legislation authorizing funding for design work on a breeder reactor demonstration plant in Clinch River, Tennessee, which was the nation's leading fission nuclear project at the time. Although Carter and the environmentalists were unable



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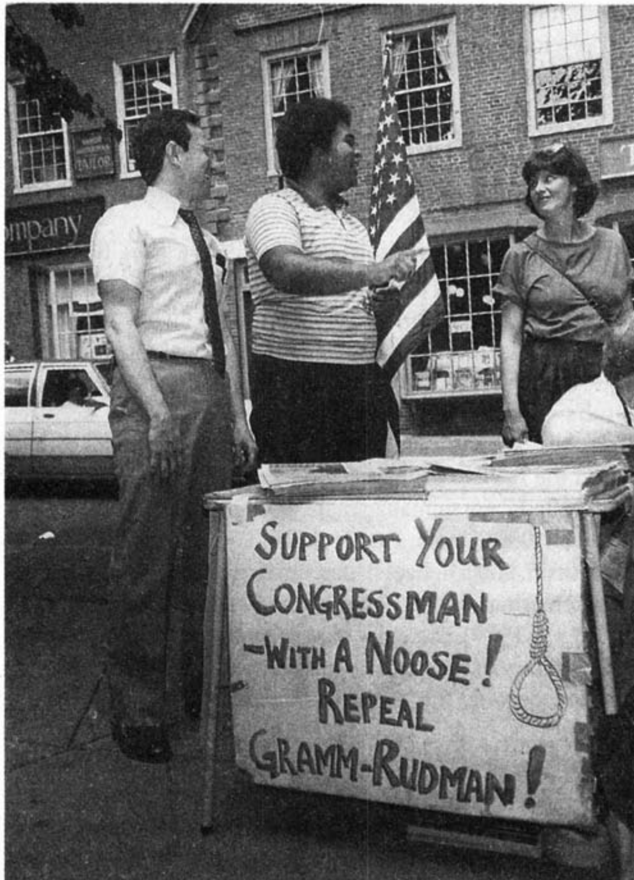


*The political movement associated with Lyndon LaRouche has consistently opposed attempts to balance the budget, because such attempts are doomed to failure. Here, a National Democratic Policy Committee rally in Boston in 1986, attacking the Gramm-Rudman-Hollings balanced-budget law.*

to kill that project until the "fiscal conservatives," such as the Heritage Foundation and the National Taxpayers Union, joined forces during the Reagan administration, it was an important blow to the development of technology to close the nuclear fuel cycle. In March 1979, the Three Mile Island, Pennsylvania nuclear power plant was shut down, with considerable evidence pointing to the possibility that the plant had been sabotaged. Within this atmosphere, Carter reorganized the Nuclear Regulatory Commission, giving it a pro-environmentalist direction. The construction of nuclear power plants per annum fell off sharply, and was soon at zero.

Carter also pushed the "Alaska lands legislation," which locked up huge portions of Alaska, preventing economic development and human settlement. He also had large tracts of land in Idaho and Colorado designated as "wilderness areas."

Early in his first year in office, Carter drew up what he called a "hit list" of water projects. He issued a list of 18 ongoing water public works projects that he wanted canceled, plus five others that he said should be modified. Carter justified the cuts on the grounds of pursuing a "cost-effective approach." After a fierce fight, Congress agreed to terminate 9 projects, and modify 3 of the 5 on the President's proposed list. In 1978, Carter vetoed a water projects appropriations bill because Congress had tried to restore some of the water projects he had eliminated. Carter also tried to block the access of various California agricultural interests to federal supplies of water for irrigation. During this period, Carter also superintended the deregulation of the airlines and trucking industry, with disastrous effects for the economy.

## The oil hoax and interest rates

During 1978-79, the CFR activated the blueprint contained within their "Project 1980s" policy documents. Following the November 1978 occupation of the U.S. Embassy in Teheran by followers of Khomeini, a second Middle East oil boycott was begun, ostensibly by the Organization of Petroleum Exporting Countries (OPEC). But there was no OPEC oil cutoff. Oil tankers filled with oil sat 10 deep offshore from U.S. ports. It was the Seven Sister oils companies, led by the Anglo-Dutch energy cartel Royal Dutch Shell, which were responsible for the oil cutoff, just as they had been responsible for the first so-called "OPEC oil boycott" of 1973-75. This was an oil hoax: During the first oil hoax of 1973-75, the price of oil had increased from $3 per barrel to $12 per barrel. During the second oil hoax, the price of oil shot up threefold, to $36 per barrel.

The price of oil acted like a floor under energy prices. Soon the prices of coal, natural gas, and other energy supplies were rising, creating worldwide inflation and bankrupting nations dependent on oil imports.

In October 1979, Federal Reserve Chairman Volcker started raising interest rates, by exercising the Fed's power to raise the discount and federal funds rates, which determine the interest rate charged by commercial banks. By February 1980, the prime lending rate stood at 21.5%, and the interest rates on Treasury securities and all other instruments surged. In the hot-house atmosphere of high interest rates, speculation flourished, but production crumbled. Volcker publicly postured that he was fighting inflation, but in November 1978, in a speech in Leeds, England, Volcker declared his real intentions, stating, "Controlled disintegration is a legitimate objective for the 1980s."

## The Steiger Act

In 1978, the Steiger Act, introduced by Rep. William Steiger (R-Wisc.), was passed, and took effect in 1979. It reduced the top tax rate on capital gains from 49% to 28%. The 49% level was a reasonable rate; in fact, it should be much higher. The 49% rate cut down the short-term trading of stock for artificial price appreciation, and encouraged people to hold stock in a company which is making real industrial investments and profits. Short of such investments, the stock's price would not increase.

Part of the purpose of the Steiger Act was to stimulate the Dow Jones Industrial Average, which had been languishing during the 1970s below 1,000. The act also gave a windfall to

Steiger's speculator friends. This opened the door for Drexel Burnham, Kravis Kohlberg and Roberts (KKR) et al. to binge on leveraged buyouts, which artificially appreciated stocks, causing higher capital gains, but with less taxes to be paid. This accelerated the spree of takeovers and asset-stripping of companies.

### Attempts at budget-balancing

Carter released his fiscal year 1979 federal budget on Jan. 23, 1978. This was the first budget produced entirely by the Carter administration (earlier budgets had been shaped, in part, by the Ford administration). According to *Congress and the Nation* (Vol. V), the Carter budget "document hewed to the President's philosophy that government should be limited. That view was revealed by Carter's proud assertion that he was holding real spending growth above current-service levels [to] under 2%."

In opposition to Carter, House Majority Leader Jim Wright (D-Tex.) succeeded in having the House Budget Committee approve a plan that added $2.5 billion in budget authority and $300 million in outlays for accelerated public works.

On Jan. 22, 1979, Carter sent his fiscal year 1980 budget to Congress. "The policy of restraint . . . is an imperative if we are to overcome the threat of accelerating inflation," Carter said at the time. He stated that his "lean and austere" budget for fiscal year 1980 would have a deficit target of only $29 billion. The Congress voted out a budget with a deficit target of $23 billion. During this period, James Dale Davidson's National Taxpayers Union did get its proposal for a balanced budget amendment raised in Congress. In late 1979, the Senate Judiciary Committee on the Constitution approved a balanced-budget constitutional amendment by a 5-2 vote. It was drafted by Sen. Orrin Hatch (R-Utah) and introduced by Sen. Dennis DeConcini (D-Ariz.). The full Senate Judiciary Committee, on March 18, 1980, voted 9-8 to reject the proposed constitutional amendment. It should be pointed out that the actual budget deficit registered for fiscal year 1980 was not $29 billion, as Carter planned, nor $23 billion, as Congress planned, but rather $73.8 billion, i.e., *triple* the level Carter said it would be, according to his professed policy of "fiscal restraint." The real world had intervened.

On Jan. 28, 1980, Carter sent to Congress his fiscal year 1981 budget. Because inflation continued, Carter revised his budget in March 1980, working out $15 billion in additional spending reductions. In the budget, Carter assumed a $28 billion revenue increase ($12.6 billion of which was to come from a surcharge on oil imports) and, therefore, a fiscal year 1981 budget that would be in surplus by $16.5 billion. Instead, because of Carter's policies, it was in deficit by $78.9 billion.

## II. Kemp-Roth

As with the Gramm-Rudman-Hollings bill that was to come after it, and like the tactics that House Speaker Newt Gingrich (R-Ga.) and Sen. Phil Gramm (R-Tex.) are trying to apply today, the Kemp-Roth Tax Act was attached as an amendment to the resolution raising the federal debt ceiling.

Kemp-Roth is presumptuously called, "The Economic Recovery Tax Act of 1981." (The "Contract on America" calls the bill which contains the proposed capital gains tax rate cut, the "Full Growth and Employment Act of 1995." The Wall Street types mislabel their proposals.) The authors of this "supply-side" bill were, ostensibly, economists Jude Wanniski, Art Laffer, and Robert Mundel. Mundel was a professor at Columbia University, is the mentor of Wanniski, and is tied into the Mont Pelerin Society and different layers of the European oligarchy. Then-Rep. Jack Kemp (R-N.Y.) and Sen. William Roth (R-Del.) first introduced the legislation in 1977. President Ronald Reagan signed the legislation into law on Aug. 13, 1981.

The act was a speculator's delight:

- It reduced the capital gains top tax rate from 28% to 20%.
- It reduced the maximum tax rate on investment, or "unearned income" (income from interest and dividends) from what was then 70%, to 50%. This tax cut, like the capital gains tax cut, benefitted the wealthy.
- It increased the 10% investment tax credit for the rehabilitation of old buildings to 15% for buildings 30-39 years old, 20% for buildings 40 years and older, and 25% for certified historic structures. This accelerated the gentrification process of converting old warehouses into apartments, especially in New York, where people such as the Milstein brothers of Integrated Resources, and the Drexel Burnham Lambert and KKR crowd, closely tied to the Anti-Defamation League (ADL), benefitted.
- It reduced all individual income tax rates by 5% on Oct. 1, 1981, 10% on July 1, 1982, and an additional 10% on July 1, 1983. The cuts averaged 23% when fully phased in (the original act had proposed a full 30% in cuts in income tax rates). Simultaneously, indexing was introduced. This increased individual income tax brackets, the zero bracket amount, and the personal exemption, to reflect annual increases in the Consumer Price Index beginning with the 1985 tax year. The personal tax cut and indexing led the way in causing a big drop in revenues.
- It accelerated depreciation. Kemp-Roth replaced the existing system for depreciating assets over their useful lives with a new approach called "Accelerated Cost Recovery System" (ACRS). This sped up depreciation. For example, automobiles, light trucks, racehorses, and machinery and equipment that, under existing law had a depreciation range of up to four years, could all be written off in three years. Plus, a one-time, 6% investment tax credit would be allowed; all other machinery and equipment, single-use farm structures, such as hen-houses, petroleum storage facilities, and public utilities with a depreciation range up to 18 years, all could be written off in five years, with a one-time 10% investment tax credit allowed; public utility property with a current deprecia-

tion range of 18 years to 25 years, railroad tank cars, mobile homes, and theme parks, all could be written off in 10 years with a one-time 10% investment tax credit allowed; and finally, public utility property with a current depreciation range of more than 25 years, and all other buildings, could be written off in 15 years, with a 10% one-time investment tax credit allowed.

This allowed some accelerated depreciation of what we would consider to be useful plant and equipment. But, on the other hand, it led to a huge accelerated depreciation of computers and mostly office equipment, whose effect on the economy was minimal to zero. Also, the depreciation was often packaged with leasing arrangements, so that companies could skip out on a lot of their taxes.

- It liberalized leasing laws to make it easier to transfer investment tax credit and accelerated depreciation benefits to businesses that could use them. The generalized spread of leasing created a new tax scam. Companies with clever accountants could figure out, through leasing, how to shelter and avoid taxes.
- It increased from 15 to 25 the maximum number of shareholders a small business could have and still retain the option of having its individual shareholders, instead of both the shareholders and corporation, taxed on income.
- It massively increased Individual Retirement Account (IRA) and Keogh (self-employed) retirement plans, which shelter income from taxes. It increased to the lesser of $2,000 or 100% of compensation, the amount an individual could deduct for annual contributions to a tax-exempt IRA plan, and increased from $7,500 to $15,000 the amount a self-employed

## KKK backer started the 'budget process'

Prior to 1921, the government of the United States did not have a federal budget. The Executive and Legislative branches of government did not concern themselves with the accounting procedure of balancing revenue against expenditures. In today's terminology, those former elected officials might have considered that to be an exercise in "virtual reality." Seventy-five years later, the budget-balancing process has caused the shutdown of the federal government, and consumes most of the time of Congress. And, it doesn't work.

Maybe our forebears knew something that today's Conservative Revolutionaries have overlooked. Or, more precisely, perhaps those Revolutionaries have a governmental philosophy totally antithetical to that of our Founding Fathers.

What do the federal budget process, the Ku Klux Klan, the Federal Reserve Act, and the League of Nations have in common? They were all sponsored by Woodrow Wilson.

Wilson's sponsorship of the KKK, the League of Nations, and the Federal Reserve occurred during his Presidency. His advocacy of a budget procedure began in 1884, when, as a university professor, he wrote *Congressional Government.* The book is an assault on the U.S. Constitution and an embrace of British parliamentary and administrative procedures.

### Wilson attacks budget surpluses

Some of today's budget-cutters would be aghast to learn that the father of their cause actually attacked the frequent budget surpluses of the U.S. government! Wilson stated, "From almost the very first they [Congress] have had boundless resources to draw upon, and they have certainly of late days had free leave to spend limitless revenues in what extravagances they pleased. . . . The chief embarrassments have arisen, not from deficits, but from surpluses." He continued, "The object of our financial policy, however, has not been to equalize receipts and expenditures, but to foster the industries of the country." He then praised the British Chancellor of the Exchequer, for whom "the support of the government is everything," and attacked the U.S. House Ways and Means Committee, for which "the care of the industries of the country is the beginning and end of duty." Wilson boasted that he was among the "first Americans . . . to entertain any serious doubts about the superiority of our own institutions as compared with the systems of Europe."

Therein lies the purpose of the budget process. It has nothing to do with deficits or household budgetary methods. It has always been an attack on the federal government's support for the conditions of physical economic growth.

How is it that the U.S. government, prior to Wilson and his cronies' imposition of a "budget process," managed to generate those horrible surpluses? There was no consolidated Executive branch budget. Each department—Agriculture, Interior, Navy, etc.—simply sent its individual budget to its parallel authorizing committee in Congress. And each committee authorized what the department needed. Coupled with the American System policies of internal improvements, protective tariffs, and government-generated cheap credit for production, this produced a surplus.

Wilson's British sponsors set out to transform the U.S. government, into a debt collection agency for the financial oligarchy. While the machinations were in progress for the imposition of the other elements of the coup, namely, the

individual could deduct for contributions to a tax-exempt Keogh retirement plan. Kemp and Roth said that these lavish tax breaks encouraged savings; many tax experts disagreed, saying that the money would have been saved anyway, without the IRA-Keogh tax breaks, which lose billions in tax revenues for the U.S. government.

• It vastly increased the exemption for the wealthy on estate taxes. It increased gradually, from $175,625 to $600,000 by 1987, the total amount that would be exempt from estate and gift taxes. By 1987, less than 1% of all estates would be taxed.

• These tax law changes, and some additional ones, created a bonanza for "investment partnerships." "Passive investment partnerships" were set up, whereby one could invest $1, and get back $2-4 in tax losses to apply against one's taxes. This provision was massively exploited by the ADL-linked real estate interests.

The Joint Tax Committee, a bipartisan committee that evaluates the impact of all tax bills put forward in Congress, estimated that the Kemp-Roth "Economic Recovery Tax Act" would reduce federal tax revenues by approximately $749 billion over the five-year period from FY 1982 to FY 1986. The retort of the Kemp-Wanniski-Laffer-Mundel wise guys was that this would stimulate the economy on the "supply side," generating growth, and thus would increase the tax revenue base. But, as can be seen from a review of some of the leading tax cut features of Kemp-Roth, the thrust of the act was to increase speculation in real estate, leveraged buyouts in the stock market, and other forms of speculation. Combined with the reduction in the capital gains tax rate, Volcker's high interest rates, and the 1982 Garn-St Germain deregulation of the banking system (see below), Kemp-Roth led to a ballooning of the speculative financial bubble and a withering of the physical economy, which threw the budget deeper into deficit.

## Banking deregulation

On Oct. 12, 1982, one year after the Kemp-Roth Act passed, the Garn-St Germain Depository Institutions Act, which deregulated the banking system, was signed into law. Sponsored by Sen. Jake Garn (R-Utah) and Rep. Fernand St Germain (D-R.I.), it deregulated the entire banking system: the commercial banks and the savings and loans institutions. Vice President George Bush had been the head of a White House committee which studied, recommended, and oversaw banking deregulation. Previously, S&Ls had been restricted by law from investing more than 5% of their loans into commercial real estate. Now, that restriction was lifted entirely. This freed up liquidity for investment in the real estate partnerships and trusts set up under the Kemp-Roth Act, which, thanks to Volcker's forcing up interest rates, set rates of return in real estate at 20% and above per annum.

Moreover, the Garn-St Germain Act, coupled to the Volcker high-interest-rate regime, led to the bankruptcies of the S&Ls during the 1980s. During the 1970s, S&Ls made 20- to 30-year mortgage loans at interest rates of 3-5%. But when the prime lending rate averaged nearly 19% in 1981, the S&Ls had to be prepared to offer 15-16% on interest-bearing savings accounts and certificates of deposits. They had to pay 16% short-term, but were only earning 3-5% long-term—a formula for bankruptcy. Originally, many S&Ls fought the Volcker high interest rates politically. But, the Garn-St Germain Act enlisted the S&Ls in a scheme to recoup their money in quick-buck, high-yield commercial real estate deals, which previously had been off-limits.

The Garn-St Germain Act also allowed the S&Ls to shovel money into the stock market leveraged-buyout fever, which the Steiger Act had helped create.

It should be noted that the Kemp-Roth Act proved to be such a fiasco, that, led by Bob Packwood (R-Oreg.), the Senate passed the Tax Reform Act of 1986, to revoke, fully or

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Federal Reserve System and the income tax, a series of commissions was established between 1910 and 1920, demanding that the inefficiencies of representative government be replaced by "scientific" methods of fiscal management. By 1921, a Bureau of the Budget was established, under the directorship of Charles Dawes (whose infamous "Dawes Plan" ensured the wrecking of the German economy in the 1920s, and thus abetted the later rise of fascism). And so, the federal budget was born.

Congress capitulated by establishing the Appropriations Committee as a buffer between federal departments and their authorizing committees. We have gone one step further today, by placing the House and Senate Budget committees in authority over both the authorizing and appropriations committees.

### Subverting representative government

The purpose has always been one of severing elected officials from economic policymaking, and handing power over to the financial elite's "administrators." William F. Willoughby, a member of one of those early commissions, admitted in a 1934 book, "It is desirable to point out the great possibilities that are embraced in a system determined by an outside organization which has no legal status and has no control other than that which it is willing to impose on itself." Fifty years earlier, Wilson had declared, "Probably the best working commission would be one which should make plans for government independently of the representative body."

Or, as Rep. John Fitzgerald (D-N.Y.) insisted, in fighting the 1921 creation of the Bureau of the Budget, "Many who are urging the adopting of a budget in the U.S. are really in favor of a very revolutionary change in the whole system of government."

The Conservative Revolutionaries would agree.

—*Susan Kokinda*

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partially, some of the most egregious tax giveaway provisions of the Kemp-Roth Act. This included raising the capital gains top tax rate back to 28%, and closing some of the real estate tax loopholes. The effect of the closing of the loopholes was to blow out the New York real estate market in 1987-90, leading to the bankruptcy of the big New York and Boston banks, which Congress and Federal Reserve Board Chairman Alan Greenspan then began bailing out, both on and off the books, in 1987-93.

However, many of the tax scams in Kemp-Roth Act, while scaled back, are still on the books today.

## III. Gramm-Rudman-Hollings

On Oct. 3, 1985, the Senate was scheduled to take up a resolution to increase the debt ceiling limit. But in late September, Senators Gramm, Warren Rudman (R-N.H.), and Ernest Hollings (D-S.C.) introduced S. 1702, setting deficit targets for each of the five succeeding years, requiring a balanced budget by FY 1991. President Reagan signed it into law on Dec. 12, 1985. The bill, called the "Balanced Budget and Emergency Deficit Control Act of 1985," required that the federal deficit be eliminated using conventional legislative means, or, failing that, through "sequestration," an unprecedented, unconstitutional process that required automatic, across-the-board spending cuts, with the size of the cuts decided, not by Congress, but by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO), in consultation with the General Accounting Office (GAO). This was, in effect, an extra-legal dictatorship set up over Congress.

At this time, the budget deficit for FY 1986 was projected to be above $200 billion. The new law set annual maximum allowable deficits, declining by $36 billion each year, to zero by Oct. 1, 1990, the start of FY 1991.

Gramm-Rudman-Hollings (GRH) was passed using the same blackmail tactics as Gingrich and Gramm are using today: blocking the vote to raise the federal debt ceiling limit needed to keep the government functioning, until Congress first voted up the GRH bill. Sen. Bob Dole (R-Kan.) attached GRH to the resolution to increase the debt ceiling limit. Congress was stampeded into voting for the measure without much chance for thought. *Congress and the Nation* (Vol. VII, p. 44) describes the process:

"The budget measure swept through Congress with gale force after its introduction in late September [1985]. . . . The measure . . . was attached to an urgent bill raising the national debt limit and was enacted without benefit of the usual legislative process of committee hearings and markups. Even the floor action was telescoped, and crucial conference negotiations were conducted in private by House and Senate leaders of both parties."

*Congress and the Nation* states that "there had been no conventional committee action in either chamber on S. 1702, and there was a dearth of background material for the floor debate." A 66-member House-Senate conference committee voted out a final version of the bill on Dec. 10, 1985. Most members of Congress had little input. It was voted up by both houses of Congress on Dec. 11. President Reagan signed it into law on Dec. 12, 1985. Rep. Mike Synar (D-Okla.) challenged the constitutionality of a pivotal feature of GRH in the courts: the mechanism whereby the OMB, CBO, and GAO determined the level of the budget, in the event that Congress could not agree upon a figure for the cuts. On July 7, 1986, the U.S. Supreme Court upheld a lower court ruling that the procedure was unconstitutional. The court held that the GAO's role in ratifying the amount and scope of the automatic cuts violated the separation of powers doctrine. Anticipating such a result, the sponsors of the bill included a fall-back procedure giving the OMB final authority to determine the magnitude of cuts. This would turn the OMB, typically staffed by Wall Street budget-cutters, into a technocratic dictatorship over the budget.

Some of the features of Gramm-Rudman included:

• Deficit limits. It established maximum allowable federal budget deficits as follows: for FY 1986, $171.9 billion; FY 1987, $144 billion; FY 1988, $108 billion; FY 1989, $72 billion; FY 1990, $36 billion; FY 1991, zero.

What happened? The actual budget deficits were:

**LaRouche Campaign Is On the Internet!**

Lyndon LaRouche's Democratic presidential primary campaign has established a World Wide Web site on the Internet. The "home page" brings you recent policy statements by the candidate as well as a brief biographical resumé.

**TO REACH the LaRouche page on the Internet:**

http://www.clark.net/larouche/welcome.html

**TO REACH the campaign by electronic mail:**

larouche@clark.net

Paid for by Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee.

FY 1986, $283.1 billion; FY 1987, $222.4 billion; FY 1988, $252.9 billion; FY 1989, $276.0 billion; FY 1990, $341.6 billion; FY 1991, $386.4 billion.

Instead of a mandatory balanced budget, because of its flawed methodology, Gramm-Rudman-Hollings generated a nearly $400 billion deficit.

- Budget process revisions. It established a new, accelerated timetable for Presidential submission of budgets and approval of budget resolutions, reconciliation (deficit reduction) measures, and appropriate legislation.

Reconciliation instructions and budget resolutions had the effect of requiring committees to recommend changes in laws under their jurisdiction, so as to achieve savings assumed by the budget resolution. In appropriations bills, Congress was to decide how much might be spent in a given year for a federal program.

- It established a special procedure under which the Senate Budget Committee could initiate a partial or full affirmation of a sequester order under procedures similar to those used for budget reconciliation. The Senate Budget Committee could require other Senate committees to submit legislative proposals to alter the order, and if a committee failed to submit the required alternatives, the Senate Budget Committee could draft the legislation itself.
- It set the amount by which program spending could be reduced in health programs, including: Medicare, veterans health, Indian health, community and migrant health centers. These programs could be reduced by no more than 1% in fiscal 1986, and by no more than 2% thereafter. Programs such as Medicaid, Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, and Child Nutrition were supposedly not to be cut.
- If, in fiscal years 1987-90, the CBO-OMB-GAO report projected a deficit exceeding the level specified for the upcoming fiscal year by $10 billion or more, it required the President to issue an emergency "sequester" order reducing federal spending, with certain exemptions, by a uniform percentage, as spelled out in the report.
- It designated as "out of order" a series of actions that would normally be taken by both houses of Congress. Once ruled out of order, these matters could not be brought up until three-fifths of the members of the House voted to allow it to be so ruled. The three-fifths level is a difficult level to achieve.

Between fiscal years 1986 and 1991, Gramm-Rudman carried out massive cuts in federal programs, but it produced a deficit of nearly $400 billion in FY 1991.

The GRH put the heaviest emphasis on cutting discretionary programs, including defense, education, some agriculture programs, and most transportation and housing programs. GRH was the coup de grâce for the defense industry: It triggered the process of massive shutdown. GRH cut some entitlement programs, but by lesser amounts. Gramm and Gingrich, this time around, plan to permanently eliminate every entitlement program, while cutting discretionary programs.

# NTU: weapon against the United States

by Anthony K. Wikrent

According to the *Congressional Quarterly's 1979 Chronology of The Federal Budget:* "The balanced budget, an idea that appeared on the verge of losing its political sanctity, was resurrected during President Carter's term as an expression of the anti-spending, anti-Washington temper of the times. The chief promoter of the balanced budget movement [was] the National Taxpayers Union."

It does not require close examination to see that the National Taxpayers Union (NTU) is a foreign entity controlled top-down from London. Its founder and president, James Dale Davidson, is a business partner of Lord William Rees-Mogg, former editor of the London *Times,* the mouthpiece of the British monarchy-led Club of the Isles. Davidson and Rees-Mogg publish *Strategic Investment,* a newsletter which has been leading the many spurious attacks on President Clinton, such as Troopergate, Whitewatergate, and over the Vincent Foster suicide.

## Grooming of an oligarchical stooge

Davidson was educated at the University of Maryland, where he supposedly set up the NTU as a young Republican disillusioned with President Richard Nixon's failure to attack "big government." This profile of a young American, who, though appearing to be "straight," was interested in tearing down his own government, no doubt attracted the attention of the British intelligence services. Davidson went on to Pembroke College, Oxford, England, for "graduate study."

In 1980, Davidson began popularizing the oligarchical economic outlook, writing *The Squeeze,* a primer on the "overall economic decline of America." For anyone conversant with the basic principles of Christian humanism that led Gottfried Leibniz to establish the foundations of modern physical economy, *The Squeeze* is clearly intended to steer the populist rage engendered by the post-industrial collapse of the U.S. physical economy, into channels the oligarchy could use to assault the U.S. government, specifically, and republican governments in general.

Davidson begins by arguing that the U.S. middle class is being driven into despair by a failure of "progress," the belief that "the future will will almost necessarily be better than the present." At this point, there would be no ground on which to object to Davidson. But as he begins to define the *sources* of