

Domestic Credit by Richard Freeman

A glance at the budget

EIR was right about Volcker's effect on the federal deficit. Reagan is wrong about the measures needed to curb it.

First, a short quiz on the administration's plans for the fiscal year 1982 federal budget.

The Reagan administration will: a) cut the military budget; b) not cut the military budget; c) cut Social Security; d) cut Medicaid; e) move the military to China; f) get funds for the budget from Brazil; or g) all of the above.

If you, the reader, chose f), then you obviously missed President Reagan's Aug. 18 press conference in Los Angeles. When asked by a reporter where he planned to obtain the funds to increase defense expenditures while at the same time achieving a balanced budget by fiscal year 1984, President Reagan responded, according to the reports of all authoritative wire services, "Well, we sure won't get them from Brazil."

In the course of his press conference with reporters, that answer was perhaps the only one that could be taken at face value.

As for the rest of the President's responses concerning the 1982 fiscal year budget, he was mostly treading water, and made several statements that sharply contradicted statements he or his aides had previously made.

The President had closeted himself with his three top economic advisers on the morning of Aug. 18: Treasury Secretary Don Regan, Budget Director David Stockman, and Council of Economic Advisers chief Murray Weidenbaum, re-

viewing whether the President should jettison his January 1981 forecast and late July revisions that showed that the federal budget for fiscal 1982, which begins Oct. 1 of this year, would show a deficit of \$42.5 billion.

The previous day, Aug. 17, a White House press spokesman had said that the 1982 deficit would be \$20 billion larger than originally projected. Now, after meeting with his advisers, Reagan has retracted that estimation.

If the Reagan projections on the size of the budget deficit seem like a Laurel and Hardy routine, there is actually method in the madness. In point of fact, Reagan is stuck. The high interest-rate program of Federal Reserve Board Chairman Paul Volcker sent the fiscal year 1981 budget, which ends in six weeks, into an estimated \$60 billion deficit.

As we predicted on Feb. 17, the 1981 and 1982 Reagan budget projections overstate revenues and understate expenses because they omit from their estimates the true destructive effects Volcker's high interest rates have on the economy. With industrial shutdown, revenues are lower, while the cost of unemployment insurance payouts is higher.

Moreover, as others have belatedly joined *EIR* in stressing, high interest rates swell the interest cost on the public debt. *EIR* projects gross interest on the public debt will be in the range of \$115 to \$125

billion in fiscal 1982, one-sixth of all budget expenses.

As Ben Laden, chief economist of T. Row Price stated Aug. 19, "the actual 1982 fiscal year budget deficit will be \$60 to \$70 billion, with another \$10 billion on off-budget items." Laden notes that the Reagan administration projected a 4.2 percent real GNP growth rate for 1981, while the rate will probably not exceed 2 percent, in his estimation.

Reagan has been searching for a way out of this maze that would preserve Volcker's interest-rate policy. Such a solution does not exist. Office of Management and Budget Director Stockman, working from a secret IMF report, has proposed cutting \$40 billion from the defense budget through 1984, but that would make a mockery of the alleged military buildup.

The other options are cuts in Medicaid, Medicare and Social Security. But cuts cannot be made for the fiscal 1982 budget, which has already been debated and voted on by Congress, unless Reagan vetoes the appropriations; that is risky politically, and perhaps unconstitutional.

Reagan in the end will probably have little choice but to admit that the 1982 budget deficit will be \$60 to \$70 billion. "I think, he'll do that in about three months," said T. Rowe Price's Laden. "By that time, Reagan hopes that inflation will be down, and there will be some good economic figures and therefore a \$60 to \$70 billion budget deficit won't look so bad."

In the meantime, Reagan and his staff are attempting to hide the desperate straits they are in, and so they are releasing budget figures that make no sense.