

## The disastrous results of the budget showdown

by Chris White

Prospects for an international financial blow-out in the period between now and October have been significantly increased as a result of the political shenanigans around the U.S. budget for fiscal year 1988. Confrontational fun and games between the Executive Branch and the Congress, set into motion by the President's televised address to the nation on Monday, June 14, and escalated by the House and Senate Democrats' responses, pretty much ensure that the United States will not be doing what so-called "international markets" demand it do, "rapidly and fully."

For his part, the President has challenged the Democratic leadership in the Congress to a showdown on budget policy. The President, and his advisers, have mapped out a campaign to go to the American people to make the fight on the terrain they have chosen. For the White House, the issues are that the so-called budget process has to be reformed, before any specific budget discussions take place. Beyond this, the President demands passage by Congress, of an amendment to the Constitution to mandate so-called balanced budgets, a line-item veto, and perhaps budgeting under two-year authority for the budget.

Absolutely unacceptable for the White House, is any package involving tax increases, or what they call budget-busting expenditures on the domestic social program side.

### 'An offer I can refuse'

Meanwhile, the budget package adopted by the congressional Democrats in their conference committee, and scheduled for floor vote in the House and Senate in the last week of June, or first week of July, violates all the President's proscriptions. The congressional budget permits a \$7 billion nominal increase in the defense budget, provided the Presi-

dent adopts a program to increase tax revenues by \$65 billion over the next three years. Without a first increment of \$19.5 billion for fiscal year 1988, there will be no increase in the defense budget at all.

The outlined package has been already rejected by the President, "treating the budget deficit with tax increases, is like treating anemia with leeches," he said. White House spokesman Marlin Fitzwater, and Office of Management and the Budget's James Miller, have both announced that the package will be vetoed. Defense Secretary Caspar Weinberger has denounced the package for destroying the U.S. defense build-up. "Reason has slipped its leash," Weinberger said. As for the President, he said in a prepared statement, "This is an offer I can refuse."

These developments set the framework for an escalating international confrontation on U.S. government finances, over the months of July, August, and September. Full congressional passage of the budget will be followed by White House veto, by congressional mobilization to override the veto, and so forth. By the middle of July, as the veto fight gears up, the whole will become combined with the equally devastating question of the U.S. debt ceiling.

In the meantime, the President will have embarked on his national mobilization, beginning with trips to Florida, and then on to other parts of the country. The fight will be on. In this chicken game, the loser will be the one held politically responsible for the international financial collapse that will almost surely ensue. And that indeed was the substance of the President's threats against Congress in his June 14 televised address to the nation.

Meanwhile, leading international institutions, such as the Basel, Switzerland-based Bank for International Settle-

ments, and the Organization for Economic Cooperation and Development in Paris, have increasingly linked the maintenance of financial confidence in the dollar credit system to the demand that the U.S. budget and trade deficits be reduced. Both organizations have recently produced reports to that effect.

If they be heeded in the form they present them, they will probably be disappointed.

Both the BIS and the OECD argue that monetary policy alone is insufficient to do what is required under present crisis conditions. They contrast the required changes in so-called fiscal policy. For them, monetary policy involves manipulations of interest rates and currency exchange rates. Fiscal policy concerns taxation policies of governments. Their demand is that the U.S. government, along with the governments of West Germany and Japan, employ taxation to reverse the patterns of demand between the three nations. The United States should no longer import the exported production of Germany and Japan. Further, the United States should reduce domestic spending, slow the growth of defense spending, and increase taxes.

This policy itself is in fact a recipe for producing the biggest monetary and economic debacle in human history. The only way what the OECD calls a "rebalancing of demand patterns within the major nations" could be adopted is by collapsing the financial system, and plunging Germany and Japan into depression along with the United States.

### **Not an economic policy**

This is not actually an economic policy. It is a blueprint to hand the entire world over to Russian domination; on the other side of the financial crash, this will undoubtedly ensue. If that's the only way the United States can restore confidence among international private investors, as both the OECD and the BIS claim, then those private investors probably deserve to end up in Russian psychiatric wards.

There are different kinds of problems here. On the one side, there are those among the listed protagonists, such as the President, who really do not know what they are talking about. On the other side, there are those within the U.S. Congress, the BIS, and the OECD, who may well know what they are talking about; what they are actually doing, however, turns out to be something very different.

The President, for his part, is now in the process of transforming his usual ideological baggage into another demagogic campaign to save the American people from tax increases and the U.S. Congress. He insists, as he has for the last seven years, that what is required is a constitutional amendment to balance the budget, and a reform of what is now becoming known as the "failed budget process."

His record is sufficient to demonstrate that a constitutional amendment to balance the budget would actually change nothing. If such an amendment had been passed during his very first year in office, back in 1981, and his economic

policies had remained the same, the budget deficit would still be where it is today, in the region of \$200-220 billion. If the Constitution of the United States had to be changed every time somebody wasn't prepared to admit they didn't know what they were talking about, it would not guarantee that they would learn what they had up to then refused to master. t. If they

On the congressional side, as in the case of the Bank for International Settlements and the OECD, the budget of the United States, and therefore the economies of the Western world, are being held hostage to a very different kind of agenda. The gutting of especially the U.S. defense budget is a precondition for ongoing capitulationist negotiations with the Russians, a sign that the Western heirs of Neville Chamberlain, and his friends, are in good faith in their negotiations with the Russians. The President since August of 1986, when it was decided to overlook approximately \$80 billion of the budget deficit to maintain the pretense that Gramm-Rudman targets were being met, has pursued such negotiations with the Russians, to maintain the appearance that his economic policies actually work.

The pretenses may have worked, in the negotiations leading up to the adoption of the budget for the current fiscal year. They will not work in the same kind of way again.

The United States is now the world's largest debtor nation. It depends on an inflow of foreign funds of about \$180-200 billion to finance its budget deficit, and its trade deficit. This year, at least through the end of May, the inflow dried up. There was no net inflow of foreign funds into the United States. Uncertainty, now, about what will happen to the U.S. budget, and budget deficit, fueled by the confrontationism rampant between the White House and Congress, will help accelerate the dissolution of the international markets on which the dollar credit system rests.

This time it ought to be clear that what is needed is a new approach entirely. The present mess cannot be cleaned up by drawing from the store of rhetoric and palliatives that created the disaster in the first place. All that will do is create an even bigger mess.

There are alternative proposals, put on the table by economist and presidential candidate Lyndon LaRouche, who takes his point of departure respecting what to do from grounds which all others refuse to acknowledge even exist. The breakdown of U.S. government finances is part and parcel of the \$13 trillion bankruptcy of the dollar credit system as a whole. The profile of the breakdown of government finances conforms to the profile of the breakdown of the whole. The growth of the claims of debt has been outstripping the production of real wealth available to monetize the debt.

What are urgently needed are measures to increase the wealth-producing capacities of society by revitalizing economic activity, including productive employment in agriculture, industry, and infrastructure. Unless the developing confrontation around the budget is soon shifted in that direction, the disastrous consequences will not be long in emerging.