Reagan should have listened

The interest-rate add-on to the budget deficit is now being used as political ammunition against him.

Had President Reagan followed our advice in January, and made Federal Reserve Board Chairman Paul Volcker—and the effect Volcker's interest rates will have on swelling the federal deficit—the major item of his proposed budget-cutting fight, he would be in much better shape today.

Suddenly, this issue has become a hot item. Even members of the Reagan economic team are picking up on it. Allan Greenspan, who was chairman of President Ford's Council of Economic Advisers, and now a member of President Reagan's economic advisory committee, has told the clientele of his economic consulting firm, Townsend-Greenspan, Inc., that his own forecast for the 1982 fiscal year Reagan budget is $718.8 billion, a figure $23.3 billion higher than that projected by Reagan's budget staff. He estimates that $6 billion of these higher expenditures will go for the interest bill of the government.

This view is also shared by the liberal Congressional Budget Office. A CBO staff economist reported May 21 that the net increase in the interest bill will be $8.1 billion for the federal government in fiscal year 1982, and that the gross interest on the public debt will be $10.8 billion higher than the Reagan March 1981 revised budget.

The Reagan administration was itself in part convinced of the effects of higher interest rates, since it moved the projection of gross interest on the public debt up from $92 to $93 billion to a projected $98.1 billion for fiscal 1982. (*EIR* had predicted in January 1981, and still predicts, that the gross interest on the public debt for fiscal 1982 could reach $95 to $100 billion).

The administration, in its prediction of the gross interest on the public debt, is assuming that for fiscal year 1982, the rate on newly issued 91-day Treasury bills will be 9.3 percent and the rate on newly issued six-year-plus Treasury bonds will be 10.2 percent. The CBO figures new 91-day Treasury bills will be 13.7 percent and six-year-plus Treasury bonds will be 11.0 percent, for a total gross projected interest on the public debt of $108.9 billion.

Any way you cut it, both liberals and conservatives recognize that the White House's toleration and encouragement of Volcker's interest-rate policy will swell the federal budget by $6 to $11 billion, just on the account of the government interest bill (on a net or gross basis).

This already wipes out part of the intended benefits of the budget cuts. The CBO figures that as much as an additional $20 billion will be added onto the budget expenditures—and the deficit—by increased unemployment expenditures and higher inflation caused by Volcker, and a military buildup. Greenspan foresees a smaller $17.3 billion added on by these elements and the Kemp-Roth 10 percent per year, three-year tax cuts.

It was entirely predictable that, quite apart from the effect of Kemp-Roth tax cuts, Reagan's budget, drafted by Office of Management and Budget director David Stockman, premised on the support of Volcker's high interest-rate program would put Reagan into deep trouble. It is interesting that it took the professional Wall Street economists and think tanks so long to catch up with *EIR*'s analysis.

There is more to this issue. First, by a 96-0 vote, the Senate, including all the Republicans, voted against the President's proposed deep cuts in Social Security eligibility and benefits. The mail against the cuts was astounding, congressional offices report. But how could Reagan have miscalculated the mood of the country so badly? The financial and Eastern liberal press have played this up as a big defeat for Reagan that could significantly slow his momentum on the budget and tax issues.

Where does this leave Reagan? From the Wall Street conservative side, represented by Allan Greenspan, the view is that the tax cuts are too large and inflationary, and that personal tax cuts will have to be reduced, while the "refundability tax" scam will be favored (see page 24). The liberals are now using the expected swollen 1982 budget to demand a military cutback.

This could doom Reagan's budget and tax proposals to congressional inertia, while Volcker blows the economy out from under Reagan's feet with his higher interest rates.

President Reagan would not be in this dilemma if he had listened to *EIR*'s all-too-accurate warnings of last January.