Domestic Credit by Richard Freeman

Yes, Virginia, there is no federal budget

There is *a problematic budget resolution, a debt-ceiling hassle, and an unstable government securities market.*

The House vote by 219 to 206 on June 10 to approve the House Republican leadership budget resolution for fiscal 1983, called the Michel-Latta budget resolution, could blow up at any moment. Wall Street celebrated, but the bull market was premature. In a month's time there could be either no federal budget, or worse, no U.S. Treasury market.

The reason is that the House did not pass a budget, but only a budget resolution. The distinction is crucial. "When you pass a budget," stated Bob Sinche, economist for Bear, Stern investment bank, on June 11, "you work out binding spending limits for each item of the budget. A budget resolution doesn't do that. All it does is set a general spending, revenues, and deficit limit, and recommended spending limits for very broad categories. Once the budget goes to committees, there could be squabbling and increases of the line items, so the budget blows up."

Sinche pointed out that this is what happened with the fiscal 1982 budget. "The House and Senate passed that resolution in July, 1981, and as of today, nearly 12 months later, we still don't have a final budget. The Congress has been living by extending continuing resolutions whenever it needs cash."

In fact, all the hard questions, where to cut and by how much, have been left unsolved. "The 10 percent personal tax cut for July 1983 leaves a gaping hole in the fiscal year 1983 budget. To fill that revenue gap, there should be either defense cuts or Social Security cuts," stated an official at the Federal Reserve Board. But, he added, "they won't get to attempting to solve that problem until after the November elections."

One additional problem is the debt ceiling, currently at $1.0798 trillion, which will be reached by mid- to late June. If the debt ceiling is not renewed, the U.S. Treasury cannot raise any new money and the U.S. Treasury market will explode. The U.S. government, after about 10 days, would have to begin shutting down. Rep. Phil Gramm (D-Tex.), a conservative controlled by the Fabian Heritage Foundation, told a reporter June 8, "I think the debt ceiling should be allowed to run out. The U.S. government would be run on a daily balance of whatever money was around in the Treasury," or the small amount of taxes arriving in July. "This would mean that the President would start shutting down departments and furloughing officials, until a balanced budget was adopted." Rep. Robert Walker (R-Penn.) is proposing that a "balance-the-budget" amendment be attched to the debt-ceiling bill, which would prevent the bill from being passed.

The size of the increase in the debt ceiling could also cause problems. Rep. Dan Rostenkowski (D-Ill.), Chairman of the House Ways and Means Committee, is proposing a $47 billion debt ceiling extension—which would give the government enough money to spend until Aug. 7, by Rostenkowski's calculations. In the meantime, the Treasury stated June 11 that it plans to propose to ask for the debt ceiling limit to be increased from $1.079 to $1.275 trillion, an increase of 20 percent or $200 billion, to cover the expected large fiscal 1983 deficit. This means that the administration thinks the deficit will be larger than the $100 to $120 billion figure it is currently promoting.

Many conservatives may howl and attempt to block the debt ceiling bill because it is "too large" and be joined by Democrats anxious to discredit President Reagan.

Moreover, the trading of government securities has been unsettled since the May 17 disclosure that Drysdale Government Securities had defaulted on $320 million in interest payments. The volume of trading has shrunk, and the exposé of another troubled government securities dealer, Comark, by the *Journal of Commerce* June 8, could further threaten that market.

Thus, both the budget and the Treasury debt market could get out of control at any moment.

And the budget resolution itself has many unanswered questions. It presumes that interest on the public debt will fall $15.8 billion below projected levels. Why and how, especially if, as Treasury Secretary Regan announced June 9, the U.S. prime rate will still be 14 percent by year's end? The budget resolution projects $20 billion in new tax increases. From where? From a GNP growth projection. But GNP has already fallen since the original projections were drawn up two months ago.