Debt service is what's wrong with the budget

by Criton Zoakos

The federal budget for FY 1986, submitted to Congress by President Reagan on Feb. 4, 1985, envisages a deficit for 1986 of about $180 billion. At the same time, all interest paid on our public (federal) debt, will be $198.8 billion. For 1987 and 1988, the projected interest on public debt is projected to be $215 billion and $224 billion, respectively. The projected federal deficits for 1987 and 1988 are expected to decline to $164.9 and $144.4, respectively.

In short, the authors of the 1986 budget have proceeded on the philosophy that two years down the road, the American government will be paying interest on its debt almost twice the size of its projected deficit. One can say that if, for argument's sake, the federal government decided in 1986 to defer interest payments for 250 business days, it would have a balanced budget. Or, in 1988, if it were to defer interest payments for just one financial quarter, then resuming payments, it would have a balanced budget.

Nobody can pretend to be serious about balancing the federal budget who is refusing to address the fact that interest payments are the sole apparent cause of the deficit. Neither congressional critics nor administration officials have so far addressed this matter, which means that nobody is really serious about "balancing the budget."

The only reason the federal government is borrowing money now is to pay interest to the creditors from whom it is borrowing money. By next year, all the money the government borrows will go for debt service *plus* about $50 billion more collected from taxes. The U.S. government in 1985 is where the Mexican government was in 1980, doing all its borrowing for the sole purpose of "recycling" its debt. As this recycling costs money, the national debt keeps growing. Thus, while in 1984 the debt stood at $1.84 trillion, at the end of 1986 it will be $2.07 trillion. According to the philosophy presented in the FY 1986 budget, by the end of 1988 the debt will be $2.5 trillion and its annual interest will be what total actual defense expenditures are today. The government will be borrowing more to pay interest and spending more tax revenues to pay interest.

In short, beginning in 1986, the year of the current budget debate, the U.S. government will be in the same position as the developing-sector debtor governments: taxing its citizens, cutting its outlays, imposing austerity measures, gutting its economy, for the purpose of paying its creditors.

This is the underlying philosophy of the FY 1986 budget, and the most important element of its contents for voters and taxpayers to address.

Volcker's pernicious role

The current fight over the budget has "official circles" divided into three groupings.

The *first* grouping is the influential, prominent spokesmen for the very powerful, wealthy families which, with their wealth, act as the creditors of the U.S. government. In their ranks they include the *New York Times*, the *Washington Post*, the TV networks, the "prestigious" Bipartisan Appeal for a Balanced Budget, and others, who speak on behalf of the wealthy Eastern Establishment families and those families' investment houses and commercial banks. Their policy is to propose ever-growing tax increases and ever greater cuts in every category of government expenditure from defense to social security, Medicaid and Medicare, farm subsidies, and science and research grants. This is the liberal Establishment's program: budget cuts *and* tax increases.

The *second* grouping of "official opinion" on the matter is the vast majority of congressmen who are in unison demanding that the deficit in general be reduced, but that none of the programs affecting their particular constituencies be touched. Some of them are paying lip service to the idea of increasing taxes. Most of them are ready to propose deep cuts in the defense budget, on the assumption that this won't "hurt back home." None of them, without any exception whatsoever, is serious about resolving the problem of the budget deficit. None of them, either in the Senate or in the House of Representatives, has either presented or even privately considered presenting any budget alternatives to the administration's approach. None of them, needless to say, has even considered addressing the only problem worth addressing: How come our debt service has suddenly grown to be greater than our entire budget deficit?

This leaves the *third* body of official opinion on the subject of federal finances, the coalition making up the Reagan administration, whose policies are expressed in the just-submitted budget. As a whole, the "governing coalition" approach to the budget is not as absolutely and catastrophically disastrous as the proposals of the liberal Eastern Establishment, nor as childish and irresponsible as the posture of Congress. But it is a calamity in its own right. Its basic problem is the same as Congress's problem: It is afraid to take a serious look into the causes of the galloping national debt and the skyrocketing annual debt service bill.

Executive Intelligence Review's own studies on the subject of the federal debt have shown conclusively that from October 1979 onward, this debt grew by about $1 trillion for no good reason at all. Most of this $1 trillion growth, about 75 or 80% of it, resulted exclusively from Federal Reserve chairman Paul A. Volcker's irrational policies of high interest rates. One may reasonably argue that Volcker of the "independent Fed" pursued his high interest-rate policies with the sole objective in mind of reducing the U.S. government to the status of an ever-more-indebted borrower whose dependency on powerful private finiancial interests resembles more and more the humiliation imposed upon the governments of smaller nations around the world today.

This is a reasonable assumption to make about the motivations behind Volcker's policies of the last five years. As the government's budget document itself points out, back in 1980, the nation's debt was accounting for about 6.2% of total "private wealth"; by the end of 1984, our national debt was about 9.4% of private wealth. If one considers how the vast majority of this wealth is concentrated in the hands of the proverbial "80 families," our oligarchical establishment, one will quickly conclude that these families, during the "Volcker era," have dramatically increased the proportion of their family *fondi* which represents their "ownership" of national assets. As the debtor government has become more dependent on them, so their "wealth" has been defined more in terms of accumulations of government obligations to them. The more the U.S. government is forced into the practice of "rolling over" the national debt by increasing it each year, as the FY 1986 budget clearly does, the more these families' claim over our national resources grows as a proportion of their private wealth.

The 'Reagan coalition's' budget

It would be a mistake to consider the 1986 budget "President Reagan's" budget. It is the result of the opinions, priorities, and interests of a great variety of social groupings which, all together, make up the political coalitions which support the Reagan presidency. Some parts of it are very, very bad, like the absolute reduction in farm subsidies; a few are very good, such as the severe cuts in funding of the National Endowment of Humanities and other such Fabian monstrosities; most parts are mediocrities such as the timid, if commendable, marginal increases in the defense and science budgets. The totality is a perfect image of incompetence. What causes the incompetence is the "Reagan coalition's" inability to face up to the Volcker problem, the problem of the national debt's artificial ballooning.

The "Reagan coalition" is riddled with powerful interests which are in bed with the oligarchical families now enjoying the role of national Shylocks who are artificially, methodically, and at an exponentially increasing rate placing the republic in their debt. David Stockman is such a disloyal servant, as is Paul Volcker himself; so are the previous and the present secretary of the treasury; so is, philosophically if not financially, the secretary of state. Their presence and position in the Reagan administration is the result of the deals which supported the Reagan presidency.

However, neither the presidency as an institution, nor the personality of Ronald Reagan, its occupant, should be confused with the "Reagan coalition." The presidency, when well executed, is responsive to tasks and duties very different and distant from the interests of whatever political coalitions help elect the President. The office also possesses inherent powers far greater than any political coalition's and any oligarchical family-alliance's powers. The presidency has sufficient constitutional powers to protect the republic from becoming the indebted servant of any sly creditor. If the office is occupied by a person with adequate grasp of his historical obligations, these powers tend to come to the fore.

The indebtedness problem concealed in the FY 1986 budget can be gotten under national control should the President make the decision to inquire into the causes of the $1-trillion-plus indebtedness incurred upon the nation by the "independent Fed" of Mr. Paul Adolph Volcker. Nations have the obligation to pay their justly incurred debts and also the obligation to not be taken for a ride by reckless private adventurers of the "independent Fed" and its oligarchical patrons.

Without facing the fact that debt service payments have now grown larger than the federal deficit, there is no competent federal budget.