

Domestic Credit by David Goldman

U.S. in receivership on July 17?

A proposal to take the budget "out of the hands of politicians" confronts the President.

July 17 marks the next confrontation between the White House and Congress over the federal debt ceiling, and the administration may come out under virtual receivership. Congress narrowly averted federal bankruptcy by giving the Treasury a 60-day extension of the expiration of the \$2.3 trillion debt ceiling on May 17.

President Reagan has already taken the first steps toward a national receivership, by agreeing to discuss some form of "automatic sequestration" of funds under the Gramm-Rudman-Hollings legislation.

A letter circulated by Reps. Buddy MacKay (Fla.) and Rod Chandler (Wash.), representing the Democratic and Republican sides of the House, has already drawn about 100 signators endorsing automatic budget cuts, should the federal deficit exceed the Gramm-Rudman targets. The Supreme Court threw out that feature of Gramm-Rudman last year, ruling that a computer in the General Accounting Office of Congress could not usurp administration functions under constitutional separation of powers.

Now, Sen. Phil Gramm (R-Texas) and his colleagues in the Senate, and the McKay-Chandler group in the House, want to force "automatic sequestration" back down the administration's throat, forcing the White House not to challenge the constitutionality of the plan.

According to aides to McKay, the object is to win the automatic sequestration agreement in return for passage of the budget ceiling, and to compel the President to agree to some form of

special agency to rule on further budget cuts. Either an "economic summit" meeting, or a national commission on the model of the Social Security Commission, would be impaneled, under the plan, to take the matter out of the hands of the politicians.

The lobby of U.S. government creditors, represented by such Washington groups as the Committee for a Responsible Federal Budget, thinks that the McKay plan will succeed.

Note that none of these advocates of federal receivership argues on behalf of any specific budget cuts. The object is merely "to throw [the administration and Congress] into a room, lock the door, and let them come up with any combination of cuts or tax increases they want. Otherwise, they go bankrupt," according to one congressional aide.

The House leadership, thus far, has taken a "tolerant" attitude toward the McKay initiative, although Speaker Jim Wright (D-Texas) has not signed the letter, an aide reports. But more important than the present nose-count will be the circumstances surrounding the July 17 crisis.

European leaders are expected to refuse to adopt the open-throttle monetary policy which the United States is demanding, when the world's big seven industrial nations' leaders gather at Venice for their regular economic summit June 6. In effect, the United States is asking them to encourage their private banks to extend themselves further in the shaky international market. Why should they, when America's biggest financial institution, Ci-

ticorp, has just pulled in its horns?

Senior European officials who will attend the summit are warning that no agreement will come out of it. A recent meeting of the Group of 30, one of the International Monetary Fund's advisory bodies, broke up in disagreement, a participant reports, because the Europeans and Japanese refused to accept the reflation plan pushed by the IMF staff.

That virtually guarantees a further crash of the dollar and U.S. bond markets, around the June 6 summit. By the time of the July 17 debate, U.S. federal bond yields will probably exceed 10%, after their spectacular rise from about 7.5% in March, to over 9% at present. They might go much higher.

Ten percent long-term bonds imply 12-13% home mortgages, an impossible situation for corporate borrowers. The runup of interest rates, along with the inflationary effects of the collapsing dollar, will have tattered the illusion of "economic recovery" beyond mending, and the pressure to reduce the deficit will be extreme.

The problem is that nothing short of a general financial reorganization of the dollar-based banking system, including a 30-year stretch-out of Third World debt, and preferential low-interest credit for the goods-producing sector, will stop a financial crash. That will not stop the U.S. creditors' committee, i.e., the commercial banks and the International Monetary Fund, from using the crisis to demand the same sort of receivership for the United States, that the Third World has endured.

That scenario is calculated to put winning cards in the hands of the Gramm-McKay-Chandler combination, by the time the extension of the federal debt ceiling comes up for renewal.