Federal bankruptcy haunts Capitol Hill

by David Goldman

It is said that America is governed not by men, but by law. And that isn't any old law, but, specifically, Murphy's Law. Anything that might have gone wrong in the federal debt ceiling debate, did, and apparently will, up through the final budget reconciliation debate at the end of September. A constitutional crisis that neither side wants, is now accumulating out of petty acts of fear, malice, and venality, placing the threat of federal bankruptcy in permanent number-one status on the nation's political agenda.

After the pundits announced that the President had come unscathed through the Irangate hearings, Democratic presidential candidate Lyndon H. LaRouche, Jr. warned that the original motivation for constitutional crisis—the collapse of the administration's economic policies—would force its way through to the surface, in ways that no one at the time (the beginning of July) could predict with precision. Reality has begun to overtake precisely those institutions (the administration and Congress) least inclined to accept it, with results that remind the observer of the ocean-crossing scenes of the Marx Brothers' "A Night at the Opera," re-set on the Titanic.

At *EIR*'s deadline July 31, both Houses of Congress had agreed to extend the federal debt ceiling, which had expired July 17, to August 6, while Congress sought to hammer out an agreement to reduce the deficit, in return for an extension of the Treasury's approval to borrow.

The debt-ceiling extension enables the Treasury to mail out August's Social Security checks, and redeem Treasury bills coming due in the first week of August, thereby avoiding a default on obligations to both pensioners and creditors; the Treasury will be able to operate until roughly Aug. 15, the 16th anniversary of the great dollar crash of 1971, with the short-term extension.

Gramm-Rudman-Hollings charged through Congress after the last great debt-ceiling crisis in November 1985, when Congress refused to extend the debt ceiling until the administration accepted a spending straitjacket. However, the Supreme Court removed Gramm-Rudman's teeth by throwing out "automatic sequestration", by Congress, which in effect gave Congress the powers of the Executive, to effect across-the-board spending cuts should the deficit hit a pre-specified trigger. Now that the depressed economy has generated a deficit scores of billions of dollars above the original Gramm-Rudman targets, the same congressional leaders are demanding a "fix" for Gramm-Rudman, in the form of a "constitutionally acceptable" form of automatic sequestration, in return for approval of the debt ceiling.

Reality versus the OMB

The Treasury has asked for a $300 billion increase in the federal debt ceiling through November 1988, i.e., during the next 15 months. Although the normal debt-ceiling request runs ahead of projected borrowing requirements, that figure more closely approximates reality than the administration's spending projections.

The current Office of Management and Budget/Congressional Budget Office "consensus" forecast for the Fiscal Year 1988 deficit stands at $186 billion. Senate sources indicate that the CBO figure may come down to $179 billion, by figuring in Gross National Product revisions to include higher video-cassette rentals and so forth, and a projection of lower interest rates. However, senior staff at the Senate Budget Committee worry that a series of financial mines now just below the surface may detonate at any moment, putting an additional $50-100 billion of emergency spending on the congressional agenda.

These include the $50 billion backlog at the Federal Savings and Loan Insurance Corporation, now postponed through what regulators call a "federally sponsored Ponzi game" (see *EIR,* July 31, 1987); some $20 billion in emergency credits to the Farm Credit System; some $5-10 billion in bailout money for the exhausted Pension Benefit Guaranty Board; and an incalculable amount of support for the federally guaranteed mortgage-issuance agencies, including the Federal National Mortgage Association and the Government National Mortgage Association.

That will knock the currently proposed $150 billion spending limit for FY 1988 out of the ballpark.

Between now and next week, the Democratic-controlled House and Senate will wrangle with the White House over who takes the blame for the economic disaster to come. Astute Capitol Hill observers explain that the majority of both Houses holds a position which might be characterized as aggressive indecisiveness. The Democrats, above all, do not want to take the blame for automatic spending cuts under a strengthened Gramm-Rudman-Hollings bill, which will butcher the interests of their constituencies. Speaker Jim Wright, who holds this view, prefers tax increases, in the old liberal-Democratic formula.

Not only will President Reagan veto tax increases, for strongly held ideological reasons, but he will eviscerate anyone supporting them, given that the voters distrust Congress even more than they dislike tax increases. His problem, as some House Democrats point out bitterly, is that the administration does not want what is presented as the alternative, namely, automatic spending cuts, no matter how loudly the President proclaims his support for constitutional and similar spending limits. Here, the President's position is pure hypocrisy, to the rage of those Democrats who actually want to impose spending limits with teeth, in order to force cuts in military spending.

The current compromise in the Senate Budget Committee, where the first action must be taken, raises the Gramm-Rudman deficit target for Fiscal Year 1988 (beginning Sept. 30) from the $108 billion previously agreed (remember Reagan's "108 in '88" slogan?), to $150 billion. Barring some last-minute fiddling of estimates by the Congressional Budget Office, that implies $36 billion in spending cuts, including $18 billion of defense cuts, which the administration cannot afford. (The actual cuts required to limit spending to $150 billion would likely be several times that, as shown below.) Even less can the administration accept a straitjacket, at a point where its spending flexibility will be the only prop to the nation's financial system.

Strange bedfellow

This state of affairs leaves the administration and its supporters in the Senate, principally Pete Domenici (R-N.M.), the Budget Committee's ranking Republican, in a strange alliance with House Speaker Jim Wright, who wants to wreck the spending limit precisely in order to force the administration to do what it least wants, namely to raise taxes. In between Wright and the White House, who share an unprincipled agreement against spending limits, are Republicans Gramm and Rudman, and and their Democratic allies, e.g., Senate Budget Committee Chairman Lawton Chiles (D.-Fla.), and his allies in the House, including Buddy MacKay (D.-Fla.).

These labile mixtures could shift at any moment, with unpredictable consequences. There are important differences between the Republican and Democratic approaches for automatic sequestration; the Republicans would leave it in the hands of the Office of Management and Budget, while the Democratic plans would give Congress a direct role in instructing the administration when and how to cut, bordering on the constitutional problems contained in the old Gramm-Rudman-Hollings bill. However, the house-fly trajectory of the Senate leadership has nothing to do with the contents of the plans as such.

On Friday, July 24, an unnerving sequence of events took place on the Senate floor. Domenici (Democratic staffers complain) "outfoxed" his Budget Committee colleague Lawton Chiles, who assumed the chairmanship after the Republicans lost the Senate last November, by forcing his plan for "automatic sequestration" onto the floor of the Senate prematurely. Senate Republicans leaked a copy of the Chiles plan to Chiles' Democratic adversary in the House, Speaker Wright, in time for Wright to make sufficient phone calls to Senate colleagues, urging them to humiliate his fellow Democrat's budget plan. Wright succeeded, and the Senate rejected the Budget Committee chairman's plan, 79-21.

Domenici then brought his *own* plan for automatic sequestration to the floor, but as a *procedural* motion, requiring a 60-vote majority. The Senate voted 49-47 for the Domenici plan, short of the 60 votes required, defeating it as well. Democratic proponents of a "fixed" Gramm-Rudman bill fumed that Domenici was fronting for the White House, which wanted to avoid the automatic sequestration business altogether. They are now threatening to hold up extension of the debt ceiling when the temporary provision expires Aug. 6, a day before Congress is scheduled to leave on its summer recess, and force a special session—which Wright is dead set against.

Sources close to Domenici defend their action, warning that "the Democrats are only interested in attacking the President when he is down." That is strictly true, and the constituency pressure on Congress to "do something about the deficit" should not be underestimated. Nonetheless, Chiles and his budget-cutting friends on the House side are less interested in ensuring that the President takes the blame for the budgetary disaster emerging for the 1988 election year, than in taking the opportunity to assert congressional control over economic policy for all time. Representative MacKay and his Republican ally Rod Chandler (R-Wash.) have a hundred members' signatures on a letter demanding an economic summit meeting to take matters out of the hands of the administration.

By July 29, Chiles and Domenici had announced agreement on a joint plan for automatic sequestration. By this time, the financial community lobby groups who had led the charge for automatic sequestration, were beginning to worry that the process had run out of control. Domenici's staff has been warning throughout that no compromise on automatic sequestration will be possible by Aug. 6, despite the announced deal with Chiles, given to the press with much fanfare the evening of July 29.

One lobbyist who attended a breakfast meeting of 65 representatives the morning of July 29 complained, "All discussion centered around the 1988 election. They know that spending cuts will cause grief, and they want this grief to come under Reagan, and make sure that a Democratic President and a Democratic House are elected in 1988. They also know that they aren't going to do anything next year, so whatever they do has to be done now. The problem is that they are split all across the board. They are vainly searching for an agreement among themselves, and they haven't found it. [House Ways and Means Committee Chairman] Rostenkowski (D-Ill.) is still split from Speaker Wright, and the Democrats are totally at odds among themselves."

A quiet campaign is under way to persuade the White House to rein in Domenici, and push through automatic sequestration. "From the White House standpoint, it's not so bad," argued one lobbyist. "All right, they have to cut $18 billion from defense this year, but that would still leave a 5.2% real growth in defense spending over the Reagan administration's term of office. And it would enable them to cut domestic programs that they would never be able to cut any other way."

But even if the White House makes a serious push for automatic sequestration, that might give Jim Wright the support he needs to destroy the measure in the House. Rostenkowski now backs automatic sequestration, but positions of this type may mean nothing important when the votes are counted. Literally anything might happen on Aug. 6, when the slightly postponed debt ceiling expires. The constitutional crisis just under the surface may erupt into view; it might be postponed until the budget debate reaches its climax at the end of September; or some third, unforeseeable sequence of events may emerge. The only thing clear in this situation is that the old rules of behavior lead to insoluble impasses, dictated by economic reality.

Inside the 'secret Irangate mystery

by Herbert Quinde

Roy Godson, a nefarious intelligence community privateer of the Project Democracy "secret government" and a longtime "LaRouche watcher," is being investigated by Irangate independent counsel Lawrence Walsh. The Georgetown University professor is the focus of attention because of his suspected role as the previously undetected manager of a network of money-laundering entities used by the secret government in renegade covert operations ultimately beneficial to Soviet strategic policy, among which were aiding the Contras.

If the probe results in Godson's indictment and conviction, the United States will be a big step closer to taking apart the unconstitutional apparatus that is blackmailing Ronald Reagan over the Iran-Contra mess and which has disrupted the functioning of the U.S. intelligence community.

Attacks on LaRouche

Godson's role in the conspiracy also sheds light on the attacks by the secret government against Democratic presidential candidate Lyndon LaRouche and his associates. Godson who is the product of a "neo-conservative" network of "ex-communists" and "ex-Trotskyists" associated with the AFL-CIO, has been a "LaRouche watcher" since 1968 at Columbia University. In 1975, he was already circulating the lie that LaRouche and his associates were Soviet assets who represented a secret Soviet terrorist capability. Godson, along with Tom Kahn, head of the AFL-CIO International Department, met with FBI officials in early 1976 to encourage them to continue their illegal "Cointelpro" operations against LaRouche's organization.

The Godson line that LaRouche is "KGB" became the rationale for running covert operations against LaRouche and his associates under Executive Order 12333, starting in 1982.

Documents made available through the Freedom of Information Act demonstrate how Godson disrupted the policy input provided by LaRouche to the Reagan administration.