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EXTENSION OF REMARKS
THE HONORABLE LES AuCOIN
IN THE U.S. HOUSE OF REPRESENTATIVES
DECEMBER 4, 1981

REAGANOMICS

Mr. Speaker, in its issue of Nov. 30, Business Week magazine published an article about President Reagan's economic recovery program.

Since Congress will soon be reconsidering a continuing resolution and debating additional budget cuts sought by the Administration, I urge my colleagues to read this article. I ask unanimous consent to reprint the entire text in the Record.

The article follows:

[From Business Week, Nov. 30, 1981]

REAGANOMICS RACES THE CLOCK

Although the Reagan Administration moved swiftly to silence Office of Management & Budget Director David A. Stockman after he publicly undercut President Reagan's contention that he could cut taxes, raise defense spending, and balance the budget in the foreseeable future, the damage done by Stockman's revelations in The Atlantic Monthly may be irreparable. Stockman's sin was to admit openly what many in the business community and on Capitol Hill had already come to realize; that the short-term effect of Reaganomics is to produce enormous budget deficits and that the Administration has no viable plan to deal with them.

President Reagan is not prepared to make a U-turn in economic policy right now, and there will be little pressure on him to do so. With the economy in a deep slide—November housing starts hit a 15-year low (page 46)—no one will be asking for spending cuts or tax increases soon. But the size of future budget deficits make almost inevitable major policy initiatives in the budget for fiscal 1983 that will go to Congress two months from now. These could include:

A draconian fiscal 1983 budget that will make sharp slashes in a wide range of nondefense spending, including programs of vital interest to business.

A possible cap for safety-net programs other than Social Security.

Tacit acceptance of smaller increases in defense spending than originally proposed by the Administration.

New attempts to raise revenues by closing loopholes, particularly those that benefit business and wealthy individuals; one possible candidate for extinction is the leasing provision of the tax act.

A reassessment of Reagan's policy has long been unavoidable. But the recession, with its devastating impact on the budget deficit, is forcing the Administration's hand. Even before the economy's slide became obvious, Stockman's budget watchers at the Office of Management and Budget were looking at steadily mounting deficits. By August, before the course the economy would take this fall was known, the OMB realized that the 1982 deficit could not be held to the Administration's projection of $42.5 billion. With the recession now draining receipts and driving up expenditures, the OMB expects this year's deficit to be at least $80 billion and perhaps $100 billion. Without further budget cuts, the deficit grows in future years, reaching $145 billion in fiscal 1984.

Even the measures now under consideration at the White House will not close a budget gap of this magnitude. As Stockman was quoted as saying in the Atlantic article, even after 20 social programs had been killed and 25 more cut in half, "huge bites . . . would have to be taken out of Social Security. I mean really fierce blood-and-guts stuff. . . . And it still didn't add up to $40 billion." Concedes one dispirited senior Reagan aide: "Maybe what we'll have to do is live with those big deficits."

OBSTACLES

That will not be easy. The Administration is counting on a robust recovery starting in the middle of next year—well before the midterm congressional elections—to save it from economic and political disaster. Reagan still believes in his program and thinks that the combination of scheduled installments of the tax cut, rising defense spending, and lower interest rates and inflation will produce a dramatic turn-around by next summer. "Reagan has great faith in his program and thinks it's going to work," says Senator Paul Laxalt (R.-Nev.). "Whenever anyone tries to get him to waver, he comes down hard."

But Reagan's faith will not make the financial markets believe, and their skepticism casts a cloud over the recovery. Although interest rates are currently plunging, the specter of deficits and a potential clash between an expansive fiscal policy and monetary restraint continues to haunt the financial community. Investors' expectations that large deficits mean high inflation rates is one reason why long-term interest rates have dropped much less than the short end of the market.

The major risk to the Administration, pointed out by Stockman in his unsuccessful bid for a policy change in early November, is that growing private credit demand will collide with the Treasury's vast borrowing needs and the Fed's continued tight rein on the money supply early in the recovery.

The problem could come even earlier than that. The Fed currently is trying to get money growth up into its target range but, as is often the case during recessions, this is proving difficult to do. Many Fed watchers believe that the central bank will not let rates plunge very much further, both because it wants to keep short-term rates a point or two above the rate of inflation and because a continued decline would begin to put serious downward pressure on the dollar in international money markets. Although sticky interest rates could prolong the recession or abort the recovery, the Fed feels it has little room to become more accommodative until the pressure caused by large deficits abates.

The Administration hopes to make the best of those deficits by using them as a spur to goad Congress to act on further spending cuts next year. The magnitude of the cuts that will be proposed is now becoming clear. The Commerce Department, which lost one-third of its budget this year, faces the elimination or sharp reduction of its trade development programs. "If we get into trying to cut the trade or economic areas, it will backfire on the taxpayers," says Commerce Secretary Malcolm Baldrige. Even so staunch a Reaganite as Environmental Protection Administrator Anne M. Gorsuch was shocked when OMB more than doubled her proposed cut in the EPA research budget to 44 percent.

ASSIGNING BLAME

But cuts of this size will be hard for Congress to swallow in the middle of a recession and with an election only months away. "They are clearly pursuing an anti-Congress strategy," says a Senate GOP aide.

The price Congress will exact for any major new budget cuts will be measures to raise substantial new revenues beginning in 1983. Reagan remains opposed to any change in the basic 1981 personal tax cuts or to the adoption of a broad-based consumption tax—he is reluctant to accept any tax increases. But if the President clings tenaciously to his belief that the supply-side program can still work without changes, Congress may seize the economic policy initiative and take his program apart piece by piece.●