

to buy time by forcing Ways and Means Committee Democrats to accept a two-year 5-10 tax cut were finally rejected by the administration late this week. White House sources report that Reagan and his political intimates decided that they had enough conservative votes among Democrats to get their three-year proposal passed on the House floor. In addition, these sources

say administration strategists believe a second-round defeat for the House Democratic leadership paralleling the previous House budget resolution vote would "cut the sails" from O'Neill's crusade against budget cuts by firmly demonstrating that a bloc of all Republicans plus House conservative Democrats could override any committee setback for the administration.

Tip O'Neill has meanwhile launched "guerrilla warfare" over the budget that could succeed in paralyzing or even splitting the Democratic Party. Tip has already announced that the House Labor and Education Committee, chaired by Carl Perkins (D-Ky.), will be the central vehicle of counterattack. Proposed cuts in the school lunch program and tuition aid are said to be prime O'Neill targets for a fight. In all, the Perkins committee must cut \$10 billion from its budget, and committee sources already report that members are still unable to set a date to start deciding where to cut. The administration has already obtained the agreement of House Budget Committee Chairman Jim Jones, an Oklahoma moderate close to Jim Wright, to use his committee's legal authority to decide which programs to cut in those committees that either fail to complete their funding authorizations or exceed their allotted funding target. Many observers here in Washington now believe that O'Neill may attempt in the name of party discipline to force Jones to use his powers on behalf of O'Neill's strategy for chaos.

It is well known that moderate and conservative House Democrats considered O'Neill's behavior during the tax negotiations "obstructionist." One source commented, "If O'Neill wanted the world to know he had basic differences with Wright, Rostenkowski, and the Conservative Forum people, he couldn't have made it more clear." An O'Neill move to force these elements into open support for Reagan's budget cuts, which would happen by the beginning of July, may well fissure the party. This is the ironic upshot of the O'Neill push for "party unity" around the Democratic version of a tax bill, as well as raising hell on the budget side.

Capitol Hill watchers agree that O'Neill and his base of 100 liberal Democratic congressmen cannot seriously damage the administration on the Hill. But O'Neill's operation to polarize the moderates, combined with an already planned series of Socialist International-instigated anti-Reagan demonstrations, *can* seriously damage the administration nationwide if the economy falters further. Parliamentary deals and tricks such as the failed tax compromise between moderate Democrats and the administration have always fallen short when crucial economic decisions have to be made.

O'Neill will probably enjoy public demonstrations by midsummer. What the President and his potential allies need are visible demonstrations by organized labor and independent business by that same time—against Volcker and high interest rates.

Challenges to Volcker

What one Democratic leader has called a "high density of anti-Volcker activity" by labor unions, state legislators, lobbying organizations of businessmen, farmers and others, has developed nationally, looking toward a June 22 demonstration against high interest rates in Washington that is expected to draw more than 1,000 for a lobbying effort.

Organized labor in the state of Illinois, led by the Building Trades, staged a massive rally in the capital of Springfield June 2, immediately directed against antilabor legislation pending in the state assembly. But speech after speech to the 20,000 workmen, many of them from the building trades, attacked Paul Volcker and high interest rates.

In other states, at least eight state legislatures are known to have passed anti-Volcker resolutions, calling for lower rates, and in some cases, the Federal Reserve chairman's ouster. One such resolution, AJR-5, demanding Volcker's removal from office, is now pending in the California legislature, and is expected to be moved to the floor for a vote by next week. Heavy lobbying efforts by the National Democratic Policy Committee, the National Farmers Organization, the National Coalition to Reduce Interest Rates (sponsor of the June 22 effort in Washington), and other groups are being conducted on AJR-5's behalf.

On Capitol Hill itself, Sen. John Melcher (D-Mont.) announced June 1 that he will be holding "public forum hearings" to document the effects of Volcker's policies, providing backup for legislation to curb the Federal Reserve's powers. "High interest rates are killing the economy. They are costing jobs at a time when everything else we are doing is aimed at creating jobs in the private sector," stated Melcher. "I can't understand the President's indifference. . . . High interest rates may be acceptable to Wall Street, but they are not acceptable to me and I don't think that they are acceptable to small business persons and unemployed workers who are really hurting because of them."