

## A victory for Reagan... or for Haig and Volcker?

by Richard Cohen

The question now, following President Reagan's mammoth budget victory, is whether the administration will sit back and realize that it must next take on the interest-rate question, or whether it will delude itself that its political momentum is so great that it need not deal with Paul Volcker's crushing policies. As it stands, knowingly or unknowingly, on June 26 the House and David Stockman delivered a victory for Volcker, not for the White House.

During the third week in June, Democratic senators opposed to high interest rates met privately with President Reagan at the White House. The main question on the agenda was whether the President would immediately take open steps against the Federal Reserve's devastating credit policy. The President's "blunt and disturbing response" left the senators with no doubt that "in the immediate period," as an aide to one senator put it, the White House would not challenge the Federal Reserve chairman.

After shutting the door on this eleventh-hour appeal, the President announced that the administration would mobilize all its resources to confront and defeat the growing opposition to the President's revised and deepened budget cuts and "linked" tax proposals in the House of Representatives. The White House decision, announced June 19, to plunge headlong into confrontation with the House was sealed weeks earlier when the President and moderate House Democrats led by Majority Leader Jim Wright of Texas failed to enter into an

economic compromise that would have "dealt with the Volcker problem." Instead, the President succumbed to a series of private threats from Volcker's Wall Street backers and entered into a de facto truce with the Fed chairman around the time of Volcker's pro-Reagan performance at the international monetary conference in Lausanne, Switzerland.

### Stockman covers for Volcker

Since that time, the administration has moved with increasing vigor to cover for the staggering effects on the federal budget deficit of the higher cost of Treasury borrowing. It has unleashed Office of Management and Budget Director David Stockman to raid the already inadequate 1981 budget while proposing even deeper cuts in the 1982 budget. Washington insiders are convinced that the June 19 declaration of war on the budget in truth represented a near-fatal capitulation to a man who only three weeks ago was rumored to be on his way out of Washington. That man, Paul Volcker, is now running U.S. economic policy.

And, with the President and his immediate staff totally fixated on the mechanics of passing the President's "economic package," U.S. foreign policy fell firmly under the control of Secretary of State Haig. Like Volcker, Haig had been lurching toward early retirement when, following the attempt on the President's life, a truce was arranged between the White House and Foggy Bottom. As one source pointed out,

"The two individuals, Haig and Volcker, furthest away from the President are now running the show while the President is sent off to do the commercials."

White House sources have reported a rapidly growing isolation on the part of the President and his Oval Office intimates from the actual implications of the "economic package." They say the President and his associates have increasingly assigned the package's success or failure a solely political value. Now, however, the package—dangerous from the beginning—has been transformed into something far more lethal under the effects of Volcker's high interest rates and Haig's increasingly provocative substitute for U.S. military modernization, namely, arming China and Pakistan. The "circle the wagons" effort engineered by Meese and Nofziger, in conjunction with the "campaign atmosphere" rampant throughout the administration, has blinded the President's inner circle to the fact that the package around which they have built so much momentum is now pure Trilateral Commission.

In recent meetings with high-level administration officials, *EIR* founder Lyndon H. LaRouche, Jr., who chairs the advisory board of the National Democratic Policy Committee, warned that if the President does not "use his powers of emergency in concert with Congress to establish in one broad stroke a series of necessary monetary, banking, and tax reforms, the administration will feel the brunt of a September-October economic collapse that would make the 1930s depression look minor by comparison."

The combined effect of the Reagan budget will be to cut the 1982 budget by an additional \$5 billion below the original administration package and projects \$145 billion in "savings" from the combined 1982-84 budgets. Importantly, an estimated \$45 billion comes in the form of *permanent cuts*: reduced eligibilities for entitlement programs such as welfare, Social Security, school lunches, and Medicaid, the programs that have ameliorated depressionary conditions since 1965. David Stockman will be allowed to define the poverty level. (Similar stepped-up attempts by the administration to ram through "block grant" programs aimed at covering for direct program budget reductions failed miserably in House and Senate committees, but were partially restored on the House floor June 26.) In addition, Stockman's rescissions and deferrals in the 1981 budget, such as the recent decision to defer \$102 million in the Army Corps of Engineers' 1981 budget, demonstrate that in order to pay Volcker's higher debt service charges, the administration is already going far beyond trimming fat and is cutting essential meat and bone.

In the past several days, Mr. LaRouche has reported that another essential ingredient required to "wake the White House up" would be for leading moderate House and Senate Democrats to take their case to the White

House *publicly* on the interest-rate question. That process began June 23, when, under the leadership of Sen. David Boren (D-Okla.) and Sen. James Sasser (D-Tenn.), 11 senators took the floor to lambast the Federal Reserve's policies, draw attention to the drastic national and international consequences, and propose a nonpartisan joint effort with the White House to develop an immediate strategy to bring rates down—an appeal made in the form of a formal resolution by Democrat Jennings Randolph of West Virginia.

### Will protest suffice?

More generally, the interest-rate question has broken into the open on both sides of the House aisle. At a June 22 meeting of the House Agriculture Committee, scores of Democrats and Republicans alike attacked the Federal Reserve's policy and called for immediate relief for farmers. The same day, the National Coalition to Reduce Interest Rates held a Washington press conference (see page 57), drawing an exceptionally high number of press representatives.

Yet, whatever Congress says on the subject, there is no guarantee that the President will move off his current course toward disaster.

The connection between interest rates and foreign policy has been drawn, in its own way, by the Council on Foreign Relations. The overseas attack on high interest rates launched last month through the Bank for International Settlements, was generated by high-level concern over the rapidly hardening Soviet behavior. A series of cautionary attacks on Haig and Reagan began in the leading CFR press organs. The array includes the *Christian Science Monitor*, CFR columnist Joseph Kraft, the *New York Times's* Scotty Reston, citing John J. McCloy, and CFR leader Cyrus Vance, all protesting Haig's "goads to the Soviet bear." What these forces are beginning to see, and what they have been told by "realistic" Europeans, is that the Soviet leadership has been moved to assess all questions of the West in military mode. The traditional response of the anti-Trilateral CFR faction has been to attempt to sedate the Soviets through general support of Second International activity.

While this faction may move to curb the excesses of Haig and Kissinger, their most probable alternative to the Volcker policy, which has undercut all U.S. military-industrial credibility, will be a rerun of the 1970-71 "Nixon project"—wage/price controls and trade war—which Nixon bought from then-Treasury Undersecretary Paul Volcker and Henry Reuss. The P-2 scandal has placed Haig himself in jeopardy. But the nation at large remains under the control of the same groupings that together brought each disaster of the postwar period, so long as the President defends Volcker and Stockman.