If Reagan dumped Volcker, what would he do next?

by Richard Cohen, Washington Bureau Chief

If President Reagan fails to add substance to rising early-1982 anti-Volcker noises in the U.S. Congress and the White House itself within the next few months, he and the country will face a full-scale disaster by April.

The content of calamity was ruthlessly outlined by Federal Reserve Board Chairman Paul Volcker two days prior to the President's first State of the Union Address, given Jan. 26. Volcker, speaking before the National Association of Homebuilders, an association ravaged in 1980-81 by the Fed's high interest-rate policy, stated bluntly that he will subject the nation to an intensified continuation of the same policy. If Volcker makes good on this threat, he will have turned the screws on the economy the final 180 degrees necessary to detonate a full-scale depression by mid-spring.

Volcker said the same thing to the Joint Economic Committee of the U.S. Congress and the Retired Persons Association on Jan. 26. Volcker's rabid campaigning was precipitated by an unexpected presidential decision reportedly rendered on the morning of Jan. 21. At that time the President made clear to his stunned advisers that he would not promote a series of excise taxes on "luxury" items in his fiscal 1983 budget.

A deal is off

Most Washington insiders are convinced that the excise tax proposal would have been a signal to the Federal Reserve Board and Wall Street that the President would be prepared to strike a deal with Volcker. In his Jan. 19 press conference Mr. Reagan had stipulated that a Fed policy of moderating interest rates would be required to secure economic recovery in July 1982 when the second wave of tax cuts takes effect. The preconditions for a Reagan-Fed bargain were scrapped with the President's no-tax decision. Hence Volcker's new rampage, and Treasury Secretary Donald Regan and the Fed began on Jan. 27 to throw barbs at each other.

The President's decision to resist the tax increase demanded by Volcker and the Bank for International Settlements (BIS) did not result from any in-house reevaluation of the failure of the President's "Economic Recovery Program," however. The White House faces a budget deficit in the range of $150 billion with no program for reducing that deficit, and the President added insult to injury by dodging all serious economic questions in his State of the Union address—instead promoting a "fantastic" government shell game reorganization program whose practical chances of getting through the '82 Congress are nil.

According to Capitol Hill sources, this evasion will begin to generate a climate in Washington in which no one will believe that the President can recapture his consensus-making capability on Capitol Hill. Some fearful Republicans here have already termed this process the "Carterization of Reagan."

London-Swiss forces are determined that by April this "Carterization" process, capped by Volcker's spring economic collapse, will result in a Presidency with no independent power. These forces are also committed to eliminating all trusted Reagan advisers by means of contrived scandals no later than April. This outcome can be averted if and only if Reagan and his remaining loyal staff, along with anti-Volcker Democrats and Republicans in Congress, heed the economic recommendations of *EIR* founder and National Democratic Policy Committee Advisory Board Chairman

Richard Iari. NSIPS

A Jan. 20 rally in Olympia, Washington.

Lyndon H. LaRouche, who has decided to launch a major intervention into the nation's capital, challenging leading legislators and the White House itself to demand the removal of Volcker and the return of control of the nation's credit to elected officials in order to deal with the economic emergency. LaRouche will urge the introduction of a two-tiered credit system geared to generating real increases in productivity, and a gold-reserve monetary reform that would simultaneously thwart the financial-warfare capabilities of London and Switzerland, and redirect investment toward U.S. re-industrialization. I am convinced that the LaRouche intervention may well be the President's last chance, and the nation's.

Washington observers concur that Congress is now under even more intense pressure to counter Volcker than it was during the summer 1981 recess. And, with the White House itself now at odds with the Fed, press fronts for the BIS, including the *Christian Science Monitor,* have openly warned of an uncontrollable Congress-White House revolt against high interest rates. What this chemistry lacks at present is clear programmatic leadership and a national movement behind it, with the potential to determine the outcome of the 1982 congressional elections. Within the White House and on the Hill, no such leadership exists. What the London-Swiss forces most fear is the way the LaRouche program and the rapid growth of the NDPC are intersecting this revolt potential.

To contain that intersecting threat, the BIS has two instruments: the George Bush-James Baker group within the White House, and the "supply-siders" whose policies would be as destructive as Volcker's.

The resuscitation of David Stockman, who in November openly backed the Volcker-BIS plan for tax increases and defense cuts, by White House Chief of Staff Baker, antagonized long-time Reagan supporters. Baker's strengthened role in White House decision-making signaled the rise of Vice-President Bush, a 25-year ally of Baker. Finally, the danger that Mr. Reagan would capitulate to Volcker's demands for tax increases threatened rebellion among the President's conservative ranks.

Reaction to the Baker-Bush-Stockman ascendancy surfaced during the week of Jan. 18, when 45 groups including Christian fundamentalist organizations and outfits run by Anglo-Swiss agents Richard Viguerie, William F. Buckley, and Ed Feulner of the Heritage Foundation, along with various powerful single-issue groups, issued a "conservative manifesto" condemning the President's "drift toward moderation." Gathered in Washington, they demanded the ouster of James Baker and other White House staffers, and, in tandem with the right-wing social-democratic Committee for a Free World (CFW), which was meeting in Washington the weekend of Jan. 23, urged that U.N. Ambassador Jeane Kirkpatrick replace Al Haig as Secretary of State. They also demanded that Haig's closest aides, Walter Stoessel and, more emphatically Lawrence Eagleburger, be replaced by Fred Iklé, the Swiss mole now at the Pentagon's policy planning division, and James Buckley, currently in charge of arms dealings at State.

Under the banner of domestic populism and international anti-communism, the BIS crowd was creating a "countergang" to their wholly-owned Baker-Haig-Volcker subsidiary. The emergence of this pressure

"frightened the hell out of" the President's political advisers, as one source put it. They know that outside of LaRouche's NDPC, these conservative groups represent the only growing political movement in the country. Without them, it would be impossible for the GOP to hold the Senate and maintain a powerful minority in the House in the 1982 elections. Thus the White House response was quick. Baker and Presidential Counselor Edwin Meese III were dispatched to appeal to the group of 45 organizations. Senate Majority Leader Howard Baker reshuffled the 1982 Senate calendar in order to allow the conservative "social issues" of school prayer, busing, and abortion to dominate the Spring agenda. Under pressure from Rep. Jack Kemp (R-N.Y.) to resist tax increases, Mr. Reagan met with Kemp's friend Richard Rahn of the U.S. Chamber of Commerce and selected business leaders on Jan. 20. That meeting, plus the chants of "no tax increase" from the 45 groups, convinced the President.

The options

The President now faces four economic policy alternatives. While Kemp has now emerged as the champion of this anti-Bush amalgam, what he offers the White House is a Rasputin-like alternative to Volcker. Kemp, fresh from victory on the tax issue, and with increasingly broad-based support, now wants to push a program which would promote lower interest rates but keep money very tight by means of a British-style gold-reserve variant of gold remonetization, something to which the BIS would not be averse.

Baker and Stockman, who originally promoted a deal with the Federal Reserve on taxes, are now urging the President to fence with Volcker while they press for a massive looting of union pension funds in order to come up with the so-called savings that were supposed to be generated by the tax cuts. In a private discussion with Meese, one of my reporters was told that the problem with the economy is *not* Volcker, despite White House signals to the contrary. Other presidential advisers have told me recently that the President still believes his long-term program is working; they point insistently to the decline in the inflation rate, and identify their problem as merely short-term heavy unemployment in the auto and construction sectors. Thus, this alternative amounts to sticking with Volcker and waiting for an illusory recovery.

Third, there is the emerging Fabian Democratic alternative, which Mr. Reagan finds obnoxious and repugnant. Presidential aspirants Walter Mondale, Ted Kennedy, and Jerry Brown are proposing "permanent depression machinery," centered around wage-price controls, credit controls, and increased taxes on consumption. Those are the options competing with the LaRouche program.

Conference Report

CFW session attacks Germany's Schmidt

by Graham Lowry, U.S. Editor

The recently concluded Committee for the Free World (CFW) conference on "The Transatlantic Crisis," a three-day proceeding which nearly drowned in waves of anti-Soviet and anti-German rhetoric, operationally served as an international organizing session to plot the overthrow of the West German government of Chancellor Helmut Schmidt.

Concluding its public sessions with a keynote address by Henry Kissinger, the peripatetic, long-time specialist in political destabilizations and coups, the CFW gathering of European and British oligarchs and their American devotees featured continual public and private denunciations of Schmidt's efforts to defend West German's national interests and its role as a leading force for East-West detente and international stability.

The public attacks on West German policies at the conference, held Jan. 22-24 in Washington, were coupled with condemnations of President Reagan's "weakness" in responding to the crisis in Poland, both for not having "retaliated" effectively against the Soviet Union and for having failed to muscle the Europeans—especially West Germany—into joining in broader economic sanctions against Moscow. The efforts to pressure Reagan into plunging into confrontation with the Soviet Union were also aimed at forcing a break between Reagan and Schmidt, to eliminate any prospect of a joint commitment to stabilize the international situation, and pave the way for eliminating the Schmidt government itself. The agenda for such discussions at the CFW conference followed Kissinger's lead in a pair of wild op eds in the *New York Times* Jan. 17 and 18, in which he railed against Reagan's
obvious blast at Schmidt's detente policy, demanded an end to "appeasement" of the Soviet Union.

British manipulation

But the role of the British monarchy and its oligarchical allies in fomenting these assaults was evident at the conference itself, where British Lord Alun Chalfont, the Conservative Party extremist on strategic affairs, not only chaired some of the proceedings but