Bush under pressure to go with austerity package

by Kathleen Klenetsky

President-elect George Bush is coming under intense pressure to deal with America's economic ills by resorting to savage domestic austerity. Since the election, he has been flooded with advice from various quarters urging him to hike taxes, take an axe to the defense budget, and slash entitlement programs.

Although Bush seems disinclined to follow such a politically suicidal course, he's caught between a rock and a hard place. The U.S. economy is on the brink of collapse, so he must take action quickly. Only a dramatic departure from the "post-industrial" policies of the last 25 years could possibly avert an imminent financial and economic blowout.

But making that break will require substantial political courage on Bush's part, a willingness to incur the wrath of powerful political and financial powers. One immediate step Bush should consider, is junking Gramm-Rudman-Hollings, which is adding considerably to the budget-cutting pressures to which he is being subjected. Officials of the Office of Management and Budget (OMB) briefed Bush on Nov. 11 that the FY 1990 deficit will be $21 billion higher than the Reagan administration's $111 billion estimate. The Gramm-Rudman deficit ceiling for 1990 is $100 billion, so $32 billion in budget cuts would be needed to close the gap.

If, on the other hand, Bush decides to go with the austerity package being shoved down his throat, it will not only worsen the underlying causes of the country's economic problems, but create a political backlash that could destroy his presidency.

Hardball tactics

The pro-austerity factions are already playing hardball. In a carefully stage-managed maneuver designed to exert maximum muscle on Bush, Federal Reserve chairman Alan Greenspan on Nov. 16 went before the National Economic Commission, the bipartisan panel of "experts" which is supposed to advise the new President on how to reduce the budget deficit, to warn that unless the President-elect is prepared to slash domestic consumption and hike taxes, international investors will stop lending to the United States. Within hours, the dollar and the Dow plummeted.

According to well-informed European banking sources, Greenspan's remarks were deliberately intended to trigger such a response. Greenspan and the Bank for International Settlements banks "are starting a series of small, controlled crises to show Bush and the new Congress their power. They are letting the markets go 'out of control' to then show that only they can bring them back under control," a Swiss banking source confided to this news service. The danger in this strategy is that if the Fed is forced to increase short-term interest rates very sharply to keep the flow of foreign funds, as Greenspan mooted, it could detonate a chain-reaction series of banking and corporate crises.

Washington has been reverberating with the echoes of Greenspan's threats. Just days after his testimony, the General Accounting Office (GAO) issued 23 reports on various aspects of the U.S. economy, including one which said the budget deficit was much worse than generally believed, rejected Bush's proposed "flexible freeze" program as unworkable, and asserted that the financial markets "would not view as credible any deficit reduction effort without revenue increases."

Another report called for a reexamination of U.S. military alliances, claiming that, "The rising costs of our worldwide commitments, in the absence of increased burden-sharing by our allies, may simply be unavoidable." The GAO also criticized the Reagan administration's "unprecedented peacetime buildup of defense."

The GAO reports were considered an unprecedented intervention by the agency into the presidential transition process, and Bush seems none too impressed. Asked about the agency's report on the budget deficit Nov. 22, Bush said he would be guided more by his budget director than by the GAO.

Another rather unique intervention came from a private group called the American Agenda, which was set up for the sole purpose of making policy recommendations to the new administration. Funded by the Times-Mirror Corp., the outfit is chaired by former Presidents Jimmy Carter and Gerald Ford, and includes such influentials as Henry Kissinger, Brent Scowcroft (whom Bush named as his national security adviser Nov. 23), NEC co-chairman Robert Strauss, former Congressional Budget Office director Alice Rivlin, and former Secretary of State Edmund Muskie. Ford and Carter met with Bush Nov. 21 to present the group's recommendations, which include slapping an additional tax on gasoline; limiting the Social Security cost-of-living allowance escalator; slashing Medicare and farm price supports; and cutting $50 billion a year from the Pentagon budget over the next four years.

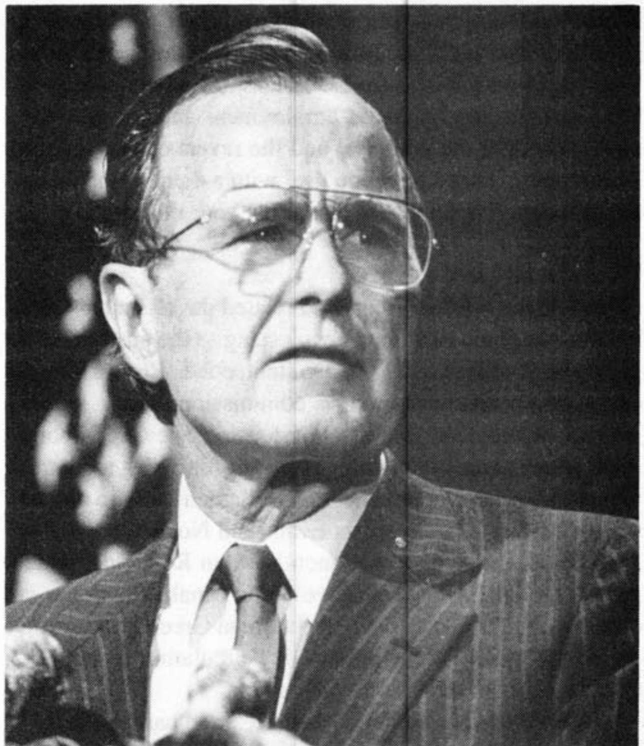
The NEC's role

The NEC has been torn by internal dissension over recent weeks, primarily between the Democratic members, who favor a big tax hike, and some, but not all, of the Republicans, who oppose this move. The fissures have become so sharp that commission co-chairman Drew Lewis announced that the group will postpone its report from Dec. 21 for another several months at least. Lewis and his co-chairman, Robert Strauss, had wanted to get the report out as early as possible, so as to influence the composition of the new federal budget.

But despite its internal problems, the commission is still capable of doing great damage, as its mid-November hearings demonstrated. In addition to providing Greenspan a forum for his fulminations, the NEC took testimony from a host of other leading advocates of the austerity non-solution to the U.S. economic crisis.

Alice Rivlin advocated slapping additional taxes on gasoline—not for the sake of protecting the domestic oil industry, but simply to force Americans to tighten their belts. Trilateral Commission member Bill Brock, the former U.S. trade negotiator, concurred: "I know of no industrial country in the world where gasoline does not cost at least twice as much as it does in the United States. . . . I'd like to see a major increase in the tax burden on gasoline in the first year, and further increases each and every year for the succeeding 10 years at a minimum."

As if that wasn't bad enough, Brock also called for a national tax on consumption, excepting only food, shelter, and medical care, and urged limits on the cost-of-living escalator for Social Security and other entitlement programs. Brock's demand for cutting consumption—which will mean a further decline in living standards of the average American—was echoed by numerous witnesses.



The President-elect—presumably he knows what bad shape the economy's in, since he must know what was done to keep it together through Election Day.

Two representatives from the Business Roundtable, John Creedon and James Lynn, insisted that far too great a proportion of the federal budget is going to Social Security and other entitlements for the elderly. They cited favorably an article in the Nov. 18 issue of *Forbes* magazine which charges that Americans over the age of 65 are robbing future generations by gobbling up a disproportionate share of spending.

Dr. Robert Bulger, representing the National Leadership Commission on Health Care, railed against the spread of medical technology as a prime cause of the deficit. We should strive to keep health care costs down by creating an environment to go slower with the "introduction of new technologies," even if this means "not getting out all options to all patients." In other words, it's less important to keep patients alive, than to save money.

None of these people are truly interested in the health of the U.S. economy. They are using the budget deficit issue as a cover for applying the same "IMF treatment" to the United States that has long been demanded of Third World countries. Cutting benefits to the elderly, and slashing defense spending, are not only stupid and immoral, but irrational.

The only way the U.S. economic decline can be reversed is by abandoning the "information economy" and restoring basic industry and agriculture—the real sources of wealth. What the country needs is to increase its real economic growth. This will, in turn, increase employment and productivity, thus expanding the tax base, and the revenues flowing into Washington. That's how you deal with a deficit—not starving grandma or grandpa, or disarming your military.

Bush in the hot seat

While the NEC hearings and related developments were intended to panic Bush into acquiescing to the austerity program, he is still resisting being stampeded. Responding to Greenspan's testimony to the commission, Bush spokeswoman Sheila Tate told a television interviewer, "Economists never agree on anything. I mean, for every economist you cite, we can trot out one who is diametrically in opposition." Syndicated columnists Evans and Novak reported on Nov. 23 that a memo by economist Alan Reynolds, which states that deficits by themselves "don't make the dollar go down—or up" and attacks Fed chairman Greenspan for triggering the attack on the dollar—is "circulating through the upper reaches of transition Washington."

Bush himself is no fan of the NEC, and has repeated his vow not to raise taxes numerous times since the election. However, he has not displayed the same steadfastness on the issue of domestic spending. Although he continues to maintain that he will not allow any cuts in Social Security, his selection of Richard Darman, a protégé of James Baker III and Elliot Richardson, as Office of Management and Budget director, signals a willingness to scale back other vital entitlement programs. At the press conference at which Bush announced his appointment, Darman said that while Social Security will be protected, every other entitlement program, including Medicare and farm subisides, will be fair game. Bush did not demur.

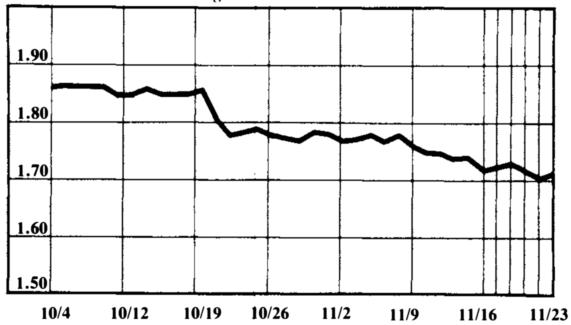
Then, on Nov. 25, the *Washington Post* ran a front-page article, citing Bush transistion aides as its source, which claimed that the Bush administration will back "substantial" Medicare cuts for fiscal 1990. Reached for comment, Bush told reporters that the stories "don't have authority behind them," but did not deny that trimming Medicare might be in the cards.

Bush could send a very different—and positive—signal in December, when he reportedly will select his two appointees to the NEC. Who they are will give a good clue as to his approach to economic policy in general. Bush is reportedly considering naming Richard Rahn, chief economist for the U.S. Chamber of Commerce, who violently opposes tax increases. That alone could trigger the panel's dissolution, since several Democratic members have threatened to resign if Rahn is appointed. Rahn did nothing to endear himself to the commission's pro-tax majority, when he testified to the panel that a tax increase would be the worst possible route to take.

Currency Rates

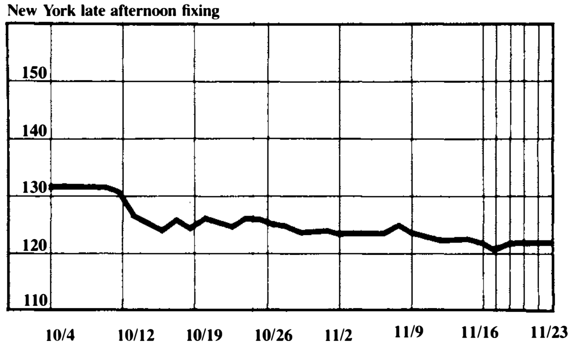
The dollar in deutschemarks

New York late afternoon fixing



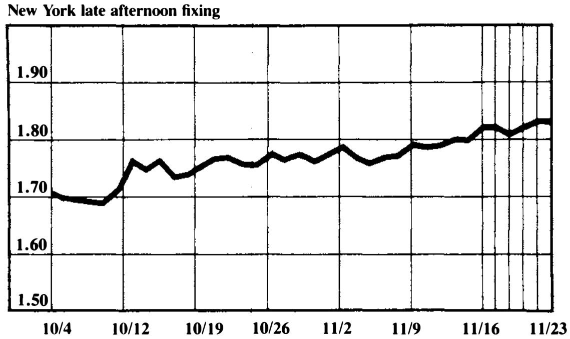
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing