The Trilateral package for the White House

by Richard Cohen

Close observers of the White House now believe that between the Lausanne meeting of the International Monetary Conference two weeks ago and the conclusion of the Bank for International Settlements (BIS) meeting in Switzerland early this week, President Ronald Reagan was pressured to plunge ahead with a Trilateral-sponsored strategic package which, if continued, could destroy his presidency within a year.

Reagan, at a nationally televised press conference, promoted the Volcker sponsored policy of a summer of monetary restraint and budget cuts. The president followed his opening remarks, aimed at pressuring Congress to move rapidly with him down the austerity road by lending astonishing credence to Israeli Prime Minister Menachem Begin's "election gimmick" bombing of Baghdad, and proclaiming that the current instability in Poland represents a "crack" which will lead to the "beginning of the end" of world communism.

With the Soviets "tied down," the President has been sold on the dangerous argument that the already mushrooming budget cuts plus continued high interest rates can be tolerated over the course of this year and, in the case of budget cuts, over the next three years, and that while these "economic necessities" severely retard and delay the rebuilding of U.S. strategic and conventional military force, they are necessary "to turn the corner on inflation." To ensure that Soviet troubles are "felt," Haig got Reagan to agree to sell "lethal" weapons to Peking and simultaneously seal a $3 billion arms deal with the faltering Zia ul-Haq regime in Pakistan. The President bought it as the nearest available substitute for sustained U.S. military weakness.

Many think that if Reagan continues to pursue his Trilateral package through the Ottawa summit, rebuffing the positive alternative proposals of German Chancellor Schmidt and Japanese Prime Minister Suzuki, he will not only plummet politically in the United States, but will also set the country on course toward Hoover-style economic calamity. There are signs that a majority of congressmen are now unprepared to march with him on his austerity package. Similarly, realist elements within the European oligarchy have already stated publicly for the first time that the U.S. high interest-rate policy is bankrupt and unacceptable—as the conclusion of the BIS meeting showed.

White House watchers are convinced that this Trilateral strategic package was accepted by the President only after those same "Wall Street" forces who in concert with Federal Reserve Board Chairman Paul A. Volcker greeted Reagan's overwhelming victory on the House budget resolution with "unexpected" increases in interest rates and made it privately clear to the White House that a direct confrontation with the Fed chairman at this time would shatter the financial markets. The President, who had responded to the Volcker-Greenspan doublecross with a severe verbal attack on Wall Street, quickly hushed up on the subject two weeks later. The combination of private intimidation and Volcker's quick support for the reduced tax-cut plan marked the beginning of a shaky truce between the White House and the Volcker-Wall

Street combination. The truce was consolidated at the Lausanne International Monetary Conference, where Volcker "defended" Reagan's tax, budget, and monetary policies before Western central bankers. The central bankers wound up the Lausanne parley with a strong verbal endorsement of U.S. economic strategy—especially Volcker's high interest-rate policy and Reagan's budgetary policy.

However, between the end of the Lausanne meeting and the recently concluded BIS meeting—during which the President began to retail aspects of the Trilateral package—Western central bankers reversed themselves, sharply attacking the Reagan program at the BIS meeting. Again, the President was hung out to dry by the bankers he thought he had a deal with. At the BIS meeting, the bankers warned that the policy of tight money they had endorsed in Lausanne would lead to dangerous political consequences in Western Europe and the U.S. and simultaneously weaken the Western alliance by promoting currency and trade war. The BIS report went so far as to draw the parallel to the early 1930s.

Washington sources report that the bankers' sudden turnaround was the result of an unmistakable signal sent to the West by the Soviet leadership. The Soviet Politburo, through Georgii Arbatov, told Olof Palme and the Palme Commission that further discussion on disarmament proposals are now fruitless, whence BIS bankers' shift into the anti-high interest-rate orbit of Schmidt and Suzuki. Aside from forces tied to Palme's "peace movement" and the Socialist International who would clearly support the BIS recommendation for wage and price controls as the alternative, the broader and more general fear which spread through the European oligarchy following Arbatov's rebuff to Palme focused on the West's inability to rebuild its security capabilities while maintaining high interest rates.

Meantime, Capitol Hill sources report that support for the President's economic package is cracking. They say that Tip O'Neill's statement on June 18 that the House budget resolution that passed a month ago might well fail if voted on today, is close to the truth. These sources stressed that the growing Hill resistance to Reagan's budget and tax policies and Volcker's interest-rate policies are not restricted to the O'Neill Democrats.

Last week, scores of moderate House Democrats and long-term committee chairmen temporarily combined with O'Neill's forces to undermine White House attempts to permanently reduce congressional authority over budgetary decisions.

The White House will probably be forced to back off and not propose a substitute budget resolution over and above the heads of the House committee chairmen. On June 18 it was revealed that the Democratic combination had succeeded in splitting the Conservative Forum of House Democrats who voted en masse with the President on the original House budget resolution. The shattering of Reagan's conservative Democratic bloc coincided with fresh signs that a significant number of House Republicans would also not support a substitute budget resolution. Hill observers say that if the President backs off on June 19, House authority on budget and tax policy wil reassert itself.

Importantly, last week a powerful and expanding group of moderate Senate Democrats centered around David Boren of Oklahoma revealed that they will be going on a full-scale propaganda mobilization during the budget debate to attack the Fed's interest rate policy. This week, sources close to the House leadership reported a similar group there, headed by Bill Alexander (D-Ark.). These sources predicted that a parallel propaganda attack on the Fed and its policies would be launched during the House budget debate. These public attacks on the Trilateral economic package do not reveal the depth of private concern on Capitol Hill. One high-ranking Republican senator said that at meetings at the White House between David Stockman, Treasury Secretary Donald Regan, along with senate committee chairmen Dole, Hatfield, Garn, and Domenici, the Volcker interest rates has been a topic of Hill warnings for the past month.

The sudden galvanizing of House Democratic resistance to administration budget maneuvers can be attributed to the recent savaging of the already passed 1981 budget conducted by Stockman, according to one Democratic House committee chairman. Stockman, he says, has terrified congressional leaders by seeking serious rescissions in the 1981 budget outlays for "bare bones" projects—basic infrastructure. What congressmen are beginning to see in administration budget activity is a "blank check" for continuous rescissions that will ultimately involve the 1982 budget at the end of this year. As stated by administration officials one month ago, while the OMB was proclaiming the need for an additional $5 billion in cuts in the '81 budget, unexpected high interest rates had balooned the projected deficit—requiring further cuts. Sources close to the White House report that if interest rates remain high, the next area of the budget that will begin to be trimmed is defense.

Reports from the Pentagon now indicate that projected outlays for the soon-to-be announced U.S. strategic modernization program—sure to include the MX missile, Stealth, and possibly a new manned bomber—will not include what most defense experts confide is essential—the beginning of a new ABM system—and all of this without even considering the possible need for even further cuts.

The touch of Stockman's blade within what most committee chairmen already consider a starvation budget is now beginning to sow the seeds of political disaster on Capitol Hill.