

A Volcker-controlled President and a secret memorandum

by Richard Cohen, Washington Bureau Chief

President Ronald Reagan is now moving recklessly on a course that will lead to a crisis of global proportions before the end of the year. While little has leaked out of the Aug. 17 National Security Council meeting and the Aug. 18 "economic summit" held in Los Angeles with presidential participation, the parameters of presidential concern have emerged clearly. The *aching* vulnerability of Reagan's just-passed "economic recovery program," a vulnerability successfully manipulated by Volcker, the central bankers, and the supranational banking community on numerous occasions over the past six months, has now dramatically spilled over into the area of national security. The ostentatious appearances of Secretary of Defense Caspar Weinberger and Secretary of State Alexander Haig at the Aug. 18 economic meeting signaled that the President's devotion to a high interest-rate policy has so unbalanced the federal budget that serious cuts even in defense are now under discussion.

Knowing that this politically deadly presidential predicament will only get worse, well-placed forces inside and outside the administration have begun a sometimes public lobbying effort aimed at enlisting the President behind a number of dramatic and hair-raising schemes that would simultaneously "bail out" the President and swiftly "militarize" the national economy. But the "high-risk" scenarios now being peddled to the White House all require a serious crisis, possibly economic but most probably military, to justify their activation. Further, sources insist that both probable harsh Soviet reaction and the potentially uncontrollable economic collapse have been blindly discounted by all involved. Reports

from the White House further indicate that in addition to having a political justification for considering such a high-risk move, President Reagan now believes that he has obtained through his victory in Congress an FDR level of political invincibility which allows him far greater political latitude.

The predicament

Washington analysts are convinced that White House failure to act on the explosive combination of factors surrounding the budget deficit could be politically fatal to the President. Despite public denials by Reagan, the federal deficit for fiscal 1982 is reported to now range between \$60 billion and \$80 billion, not the \$42.5 billion indicated by the White House. Holding to that \$42.5 billion figure has always been the administration's gauge of success. White House political advisers believe any presidential attempt at temporizing on the deficit size would be politically catastrophic.

On the other hand, further large-scale cuts in social services, already prepared as contingencies by Stockman's OMB, are judged by many of Reagan's political intimates to be so large and politically sensitive that they would be injurious to the President. Finally, a serious move on the defense budget in tandem with social service cuts, reportedly proposed by Stockman at the Aug. 18 meeting, opens the door to an endless assault on U.S. defense expenditures, already deficient in critical areas of advanced research and development. In recent public accounts, Stockman, while meeting with Weinberger Aug. 7, unveiled a proposal that called

for \$100 billion in defense cuts through fiscal 1983, 1984, and 1985.

Deficit projections for fiscal 1983 and 1984 have been officially raised, reportedly now requiring an additional \$75 billion in further budget cuts over the two-year span. Most budget followers agree, however, that the administration's deficit projections are muffled and the actual deficits are significantly higher. Finally, and most important, there is no guarantee that the primary cause of the increasing deficit, namely, high interest rates, is going to go away in the immediate future; this leaves a ticking, self-escalating factor built into the budget deficit.

The profile

The Ronald Reagan who sat down with his cabinet to address the critical implications of the budget problem is not the same person he was a month ago, according to my sources. They attribute extreme importance to a distinct personality change in the President. Mr. Reagan is now reported to have sharpened the distance between himself and state and regional officials, including some of his closest political allies, such as Gov. William Clements of Texas and Gov. James Rhodes of Ohio. The President is also reported to believe that his overwhelming congressional victories, culminating in the tax bill sweep last month, now provide him with new political leeway. The internal White House hype made public Aug. 1 at an administration press conference dubbing Reagan "the new FDR" is said to have generated a sense of euphoria among the White House entourage which has left Reagan with serious illusions as to the extent of his political powers. Observers point to the recently announced White House decision to return this fall to those issues which nearly devastated his campaign in the early stages, such as school prayer, nonextension of the Voting Rights Act, and abortion, to indicate how deep White House self-delusions are.

Importantly, Reagan's "new sense of power," which was contrived over the past month, has coincided with the President's deepening trust in and obedience to the central bankers and the Trilateral Commission. Reagan's great tax bill victory was won two months ago when Reagan intensified his deal with Federal Reserve Board Chairman Paul Volcker in order to gain central bank support for his watered-down tax proposal. At that time, Reagan not only pledged not to attack Volcker and the policy of high interest rates, but to the delight of those same central bankers, defended the policy at the Ottawa summit a week prior to his tax victory. Many close to the White House were shocked to learn that while at Ottawa, Reagan agreed to unprecedented intelligence arrangements with Trilateral-backed French President Mitterrand. The Mitterrand

arrangement paved the way for the even more shocking Reagan-Socialist International relationship when Reagan allowed his offices to be used to pressure for the installation of Socialist Bettino Craxi as Italian prime minister. Finally, the President moved swiftly to carry out one of the primary tasks set forth for heads of government by central bankers at the Ottawa summit. One week following his tax victory Reagan responded to the Socialist International set up PATCO strike with a brutal elimination of the union. The Reagan response has all but guaranteed sharp confrontations with Socialist International-directed government worker strikes this year, setting the pace for a full-scale confrontation with organized labor around major contracts next year.

Reagan thus faces his new dilemmas as a puppet of the central bankers and the Trilateral Commission, a puppet deluded by the appearance of success to the extent that he has cut himself off from his base, believing that his powers of leadership extend beyond the normal boundaries of political and economic toleration.

The proposed solution

Sources within the Reagan administration have told *EIR* that immediately following the Aug. 17-18 cabinet meetings, a secret presidential memorandum was circulated to all relevant sections of the executive branch. Defense Department officials who confirmed the existence of the memorandum report that it had been sponsored by the Pentagon and the Federal Emergency Management Agency (FEMA). The memorandum requires that subdepartments from virtually every executive department will report to a new "mobilization policy board" organized by FEMA and placed under the direction of National Security Adviser Richard Allen. The "board" will, according to administration sources, move rapidly to assess the ability of the national economy to sustain massive increases in defense production. The "board" will also look at governmental and private-sector logistical capabilities to handle all levels of "emergency," and this will include a review of legal and constitutional roadblocks to emergency mobilization.

The Pentagon/FEMA-authored "emergency" planning program sponsored by the President indicates, according to State Department sources, preparations encouraged at the highest levels for a rapid shift toward "militarization of the economy." Leading elements in the Defense Department and the Arms Control and Disarmament Agency are actively considering the elimination of strategic arms limitation controls when the current understanding of mutual adherence to the protocol of SALT II runs out in December, and many in the administration also seek abandonment of the 1972 Anti-Ballistic Missile Treaty with the Soviet Union when it comes up for review early next year. These



At the Federal Emergency Management Agency.

actions, advocated by Weinberger intimates Undersecretary for Policy Fred Iklé, Secretary of the Navy Lehman, and Assistant Secretary for International Security Policy Richard Pearle, and supported by ACDA Directors Eugene Rostow and General Rowny, would immediately lead to an arms race that would not only preclude cuts in the current defense budget, but overwhelm it.

The Pentagon plan essentially demands a national emergency in order to activate the Weinberger plan for incorporating 50 percent of the nation's GNP under direct DOD control in the event of an emergency. And the secret presidential memorandum indicates that the White House has taken a big bite of this approach.

For Reagan's purposes, the Pentagon plan would immediately eradicate the budgetary dilemma. Through mandatory wage-price controls and top-down resource allocation, Pentagon planners are convinced interest rates would drop, removing the biggest immediate cause of increased budget deficits.

This scheme, which has obtained a fairly broad consensus in the administration, ignores completely the likely brutal Soviet response, combined with the inability of the civilian economy to sustain military requirements. In addition, the domestic acquiescence to such a move could only be bought at the expense of a dangerous international crisis used to justify "emergency." It is doubtful that the United States would emerge unscathed from such a crisis.

In addition to the "high risk" Pentagon proposals, columnists Evans and Novak reported this week that elements in the administration close to "gold advocate" Jack Kemp, including OMB Director Stockman, are beginning to lobby Reagan to take steps to put the dollar on the gold standard." The "gold standard" approach, according to its administration advocates, would immediately relieve the President of his budgetary problem by stopping price increases and thereby reducing interest rates. Under these circumstances, ac-

ording to those familiar with the Kemp-Stockman proposal, the defense budget could be cut as Stockman suggests without losing real dollar Pentagon purchasing power. If implemented, the approach would lead to a dramatic depression in the economy, yet sources close to the White House say that the President may be interested—while some analysts already recognize that the two options boil down to the same approach.

On Saturday, nationally syndicated columnist and Trilateral Commission executive board member Joseph Kraft, appearing on national television, went so far as to suggest that the road out of Reagan's current budgetary dilemma would take the President to Moscow for a summit with Soviet President Leonid Brezhnev. There, according to Kraft, Reagan could bargain strategic arms control with the Soviets and wind up with a sizable savings in the defense budget. While the Kraft suggestion has little chance of immediate success, it represents an option when the others fail. Kraft, an intimate of the leading circles of the New York Council on Foreign Relations close to British Foreign Secretary Lord Carrington, has been attempting to bolster the position of Carrington favorite Alexander Haig. Carrington has already involved himself in extensive operations to set the conditions for eventual regional agreements with the Soviets. A combination of such agreements would cut costs and buy time, while simultaneously providing the British with maneuvering room for strengthening their hand in Europe, Washington, and Moscow. Sources in Washington with access to Carrington report that Carrington's policy requires a series of crises which would bring the U.S. and U.S.S.R. to the brink of war.

As the White House begins to entertain these alternatives, clearly favoring the Weinberger plan, we are all taking giant steps toward crisis.

Correction: In our Aug. 18 issue, due to a mechanical error, two paragraphs of Lyndon LaRouche's article, "The Function of Teaching Grammar as a Crucial Element of Military Policy," were unclear. The two paragraphs, on pp. 38-39, should have read: "Any language developed as a literate language has neither more nor less than 7 grammatical cases, combined with neither more nor less than 180 distinct forms for expressing verbal action in respect to subjects and objects defined in terms of those seven cases. In other words, the grammar of any literate language has in and of itself 1,260 grammatical degrees of freedom, situated within a user's rigorous command of vocabulary of between 50,000 and 1000,000 terms.

"Any form of language lacking those rigorously defined degrees of freedom and vocabulary is an inferior, defective form of language. Any person lacking command of the powers of a literate language is to a corresponding degree functionally illiterate, and incompetent-ly educated."