Behind the pressure for a 'budget compromise'

by Richard Cohen, Washington Bureau Chief

Pressures intensified in late March for President Reagan to accept deeper cuts in the fiscal 1983 federal budget. The question here is, despite appearances, not a presidential loss of power to Congress; the question is whether *both* the White House and the legislative branch will yield to a fiscal policy made above their heads in Wall Street and at the Swiss-based Bank for International Settlements (BIS), the Federal Reserve's controller. The President and Congress will then have to bear full responsibility for the budget program's wretched effects on the economy. BIS-run task forces of non-elected "crisis managers" will replace the governing functions of discredited, Hooverized officials, who were foolish enough to accept the argument that the primary cause of the depression is the budget deficit created in fact by Paul Volcker's interest rates.

Substance to 'breakthroughs'?

However, those blow-dried congressional committee staffers who relay the policies of the BIS and the New York banks fear the negotiations between Congress and the White House intended to secure the BIS budget package are not proceeding smoothly, even though on March 24 a "breakthrough" atmosphere was created when the White House announced that the pro-Volcker Chief of Staff James Baker III was about to enter into formal discussions with House Speaker Tip O'Neill, House Budget Committee Chairman James Jones, and House Ways and Means Committee Chairman Dan Rostenkowski on the 1983 budget.

It is worth noting, however, that on March 10 Mr. Reagan had called in BIS supporter Malcolm Baldrige, the Commerce Secretary, to tell him that he intends to stick with his own program despite business complaints about the size of the deficit; and James Baker was ordered into the room to hear that statement. And on March 19, Reagan refused to meet with his economic advisory board, after a six-hour meeting of the board discussed further budget cuts, cost-of-living reductions, and tax hikes. (Deputy White House Chief of Staff Michael Deaver reportedly backed the President's refusal.)

On March 19, speaking before the National Association of Manufacturers (NAM), the President chided "some in the business community" who had critized his tax- and budget proposal while emphasizing that he would not retreat on his tax program. Following his address, the Executive Board of the NAM met and issued a statement supporting the President's program. Finally, on March 23, speaking before the National Conference of Christians and Jews in New York City, the President sounded the Roosevelt theme of "no retreat."

Sources close to the White House are convinced that while the President may endorse the format of the discussions with the congressional leadership, he has made no commitments on substance. And while the President resists pressure for compromise, Congress, reflecting increasing constituency pressure for relief under recession conditions, the week of March 22 passed a supplemental budget for FY82 appropriating more funds than planned in the Reagan budget. This echoes a theme already well-developed in early reports from both Senate and House authorizing committees suggesting that committee requests will go well beyond the Reagan FY83 proposals. Further, those close to Wall Street and the BIS are taking note of additional constituency pressure in those key weakened sectors of the economy—construction and agriculture (see Congressional Closeup).

The pressures

These concerns have moved the orchestrators of the bi-partisan congressional effort to force the President to the negotiating table into a higher-pressure campaign. On March 16, Wall Street guru Henry Kaufman of Salomon Brothers was sent to testify before the House Budget Committee. Kaufman ranted that "Wall Street has lost confidence in Reagan's economic program and it must be changed in order to prevent economic tragedy." He then predicted that if the White House failed to join Congress in re-writing the budget, interest rates would rise sharply. In closing he warned, "We don't know whether the United States can avoid a 1930s-style Great Depression."

While Kaufman was threatening the President on Capitol Hill, Jacques de Larosière, Executive Director of the International Monetary Fund, told the American Enterprise Institute that the U.S. deficit has risen to levels that are no longer consistent with fiscal soundness. De Larosiere warned that if the White House and Congress do not increase taxes and cut entitlement programs, interest rates will go through the ceiling. The following day, March 17, Federal Reserve Board Governor Henry Wallich told a Washington press conference that increasingly high interest rates will result if the President refuses to reverse himself on tax and budget matters. And on March 19, Fed. Chairman Paul A. Volcker told the NAM just before the President's appearance that "there is nothing more urgent in coming weeks than resolving the budgetary problem." While his full-scale lobbying effort unfolded, Rep. Henry Reuss (D-Wisc.) Chairman of the Joint Economic Committee and an intimate of European central bankers, was busy introducing the new tactics jointly conceived by Reuss and—according to informed sources—a number of European bankers. These sources report that Reuss was behind the proposal by House Budget Committee Chairman Jones to the House Democratic Caucus on March 17 that would report the proposed Reagan FY83 budget onto the floor of the House immediately. The Reagan budget would presumably gain few votes even among Republicans, thus exposing the real weakness of the President's position.

While my sources suggest that the tactic is only a threat aimed at pressuring Reagan to the bargaining table, it reveals more devastating blackmail operations being actively discussed among Reuss and his associates. Admitting that the entire spring budget scenario has as its central goal "marginalizing the President," sources close to Reuss report that he and others are considering the option of going for a "congressional dictatorship over the White House—and in fact a period of congressional government." This is to be accomplished by an organized bipartisan congressional veto of the projected mid-May vote on increasing the U.S. debt ceiling if the President refuses to yield on taxes and budget matters. This bit of blackmail, while considered by most impossible to secure for lack of enough Republican defections, nonetheless increases pressure on the White House to submit to a deal.

While Reuss and Jones were issuing threats, Republican leaders announced that their efforts toward a budget compromise would shift from the Senate to the House, focusing on Speaker O'Neill. David Stockman, the Office of Management and Budget Director, put out the word that a compromise could be possible within two weeks, and suggesting that he had urged Capitol Hill Democrats to swear that "emergency measures taken for the good of all Americans in May will not become the object of partisan exploitation in November."

By the weekend of March 20 it was leaked that O'Neill had already entered into private talks with House Republicans, and rumored that he has already agreed to sell out the Social Security COL increase if the President proposes to do so first.

A scenario

Yet nervous congressional staffers are not convinced that a budget-cutting agreement will be reached even by mid-May. The March 21 *Washington Post* lead editorial, reflecting these growing fears, warned that failure to reach a White House-Congress budget compromise could explode by early summer into uncontrollable constituencies determining congressional and executive budget policy.

This spending will lead to serious increases in interest rates, warns the *Post,* which, however, advocates that rates should remain high under any circumstances. The *Post* reports that under these conditions this summer it is likely that at least one of six financially shaky major industrial corporations will go bankrupt. Congress will then target the Federal Reserve Board and its Chairman Paul Volcker for interest-rate relief, suggests the *Post*.

Less disturbing to the *Post* under these circumstances is the suggestion that Congress and the President will instead listen to a nest of economic Rasputins, clustered about Presidential adviser Milton Friedman, and opt for a "balanced budget" constitutional amendment in order to save political face.