# Will Reagan remain boxed in by the BIS 'permanent depression' plan?

by Richard Cohen

The early months of 1983 will decide whether the U.S. administration musters the will to reverse the current slide into deep economic depression and irreversible decline in national-security capabilities. Any serious presidential moves to that end will require a public and ruthless break with the Swiss-based Bank for International Settlements (BIS), the International Monetary Fund (IMF), the axis of City of London and New York banking interests and their two chief Washington-based spokesmen, Federal Reserve Board Chairman Paul A. Volcker and former Secretary of State Henry A. Kissinger.

The parameters of this projected 1983 political crisis became clear during the recently concluded lame-duck session of Congress, when two new political factors surfaced limiting the damage of late-year BIS efforts.

Washington and the U.S. Congress had been delivered a striking message as a result of the 1982 national elections. Notable shifts in both the electorate and organized local constituency groups, all suffering under the weight of increasing unemployment and general benefit cuts, made it known that any further tampering with the already pillaged domestic U.S. budget and with important entitlement programs, especially Social Security, would be politically intolerable.

## The BIS policy

Starting in April 1981, this journal alone has covered in detail the history of BIS-Volcker Tavistockian blackmail of the White House. At that time, inside agents of the BIS, Office of Management and Budget (OMB) Director David Stockman and presidential economic adviser and current chairman of the President's Commission on Social Security Alan Greenspan led a whispering campaign charging that Reagan's budget cuts were not enough; Stockman publicly suggested cuts in the Social Security program. The BIS, at their annual meeting in June 1981, warned that if the President did not meet their conditions, then Paul Volcker would have no alternative but to stick to high interest rates. The BIS demanded that Reagan seriously cut the U.S. defense budget, cut the rest of an already whittled-down domestic budget, initiate cuts in entitlement programs including Social Security, and finally, increase taxes and do away with Reagan's personal income tax cut program. Since June 1981, the President has made significant concessions to these demands.

After an October-November 1981 presidential concession calling for deeper cuts in the U.S. domestic budget than the already austere Reagan '82 budget, a policy pushed through by Stockman and his mentor, White House Chief of Staff James Baker III, disaster struck. Reeling under the impact of growing unemployment and a decreasing revenue base, both the White House and the Democratic-controlled Congressional Budget Office (CBO) were forced to project even more shocking budget deficits into the planned 1983 budget—deficits they claimed were sure to require high interest rates if not drastically cut.

A bandwagon of leading Republicans and Democrats swung into action by the beginning of 1982 to front for the BIS-Volcker effort. The Democratic National Committee (DNC) chairman, banker Charles Manatt, AFL-CIO President Lane Kirkland, and former Vice-President Walter Mondale moved to subvert efforts among moderate Democrats in the House of Representatives and the Senate, led by House Majority Leader Jim Wright, Sen. John Melcher and Sen. David Boren to forge an alliance with the White House against BIS-Volcker blackmail. Then, these three Volcker frontmen led a public campaign blaming Reagan for high interest rates while claiming that Volcker was only doing his job. Now-leading candidates for the 1984 presidential nomination Sen. John Glenn, Sen. Gary Hart and Sen. Fritz Hollings also covered for the BIS-Volcker effort.

Of even more importance for the White House at that time was the boisterous conversion of the Senate Republican leadership to the BIS plan, headed by Senate Majority Leader Howard Baker (R-Tenn.), Senate Finance Committee Chairman Robert Dole (R-Kans.), and Senate Budget Committee Chairman Pete Domenici (R-N.M.). Reagan was told that he would either have to drop the second and third year of his tax cut proposal or drastically increase taxes. By mid-January 1982, after intensive consultations and meetings with leading New York commercial and investment bankers, Dole and Domenici's staffs had crafted a ground-breaking excise tax proposal.

By May 5, after a series of unholy backroom negotiations between James Baker, the Senate Republican leadership, and O'Neill, a BIS-crafted new budget austerity package was agreed to. In addition to "deep cuts" in the domestic U.S. budget, the May 5 plan called for an additional $99 billion in extra taxes in fiscal year 1985.

By October 1982 the absurdity of the BIS-Volcker monetarist policy was plain. After the most energetic, painful budget cutting in recent history and immediately after the most sizable tax increase in post-war history, the U.S. budget deficit had risen from an original OMB-estimated $42.5 billion for fiscal year 1982 to a now-conservative estimate of $190 billion for FY84. Most other responsible estimates go well over the $200 billion level.

Exacerbating the sham of Reagan's March 5 deficit projections, the White House was informed no later than June-July 1982 of impending bankruptcy of a number of U.S.-based money-center banks if a U.S.-sponsored international financial bailout did not occur. Instrumental in that BIS-centered initiative for pilfering the U.S. Treasury was the appointment of George Shultz to replace the wayward Alexander Haig as Secretary of State.

Volcker responded to this massive pressure on the budget deficit by beginning to lower interest rates. In fact, Volcker's first steps toward seriously increasing the money supply in order to try to save the banks was conduited to the President in September by one of his chief lieutenants, Jim Baker, as a deal. According to sources close to the White House, Baker, Stockman, and other agents of the BIS told Reagan that as a condition for reducing interest rates, Volcker would require a commitment on the part of the White House to broach the entitlements issue, consider either the elimination of the third year of the personal income tax cut or increase taxes, and cut important programs out of the U.S. defense budget. While Reagan was never reported to have agreed to this quid pro quo, BIS agents in the administration continue to pressure the President to capitulate.

## The lame-duck impasse

Following the November elections, the Congress moved to complete business in a curious lame-duck session. Senator Dole, acting on behalf of Volcker and the BIS, proposed that the central topic of the session be the volatile Social Security issue. The President's Commission on Social Security, chaired by Greenspan with Lane Kirkland as a key member, rushed to push an austerity package on the issue. The lame-duck session, however, never took up the Social Security issue. Terrified congressmen, senators and White House political aides following a reading of the 1982 election tea leaves, were warned not to touch the issue. The message was clear—the American people would not sustain a Congress or a President that would push further cuts in the U.S. domestic budget (untouched in the lame-duck session) or more hideous cuts in Social Security and other entitlement programs.

But the lame duck session saw the President make concessions. The December continuing budget resolution did not contain funds for the production of the MX missile. As this journal alone reported even prior to the Nov. 2 elections, Secretary of State George Shultz and his friend Kirkland had extracted post-election economic and national-security compromises from President Reagan and Defense Secretary Caspar Weinberger. Shultz reportedly re-emphasized the BIS threat that "economic recovery" in 1983 is impossible without a sharp reduction in the federal deficit. Reportedly, Shultz was instrumental in rigging the scheme which sent the MX program into the lame-duck session attached to the ill-fated "densepack" basing mode. According to sources close to the Pentagon, both Weinberger and Reagan agreed to the Shultz plan knowing that it would be fatal to the MX. What these sources emphasized, however, was that the President's MX concession, no matter how well papered over by White House public relations efforts, would only be the first step in securing even deeper defense cuts in 1983.

Senate Republican leaders, headed by Majority Leader Howard Baker, were privately lobbying for a broader defense cut package, while opening the door for more sizable "public works" jobs programs in 1983. Speaking on national television on Nov. 18, Baker suggested that even larger "permanent depression" programs than the just-passed "highway" jobs program may be needed in 1983.

Sources close to the White House report that the President is unprepared to meet the demands of the BIS. Firstly, they point to the President's tenacious rejection of further Democratic make-work bills during the lame-duck session. They say that the President will stick to his guns next year. Secondly, these sources report that the President, Counselor Edwin Meese III, and National Security Adviser William Clark are actively assessing alternatives to the now-defunct MX missile. They report that one of the alternatives involves a version of space-based directed-energy beam anti-ballistic missile systems first suggested by *EIR* founder Lyndon H. LaRouche and Reagan intimate Edward Teller. Finally, these White House sources say that the President is not prepared to go beyond small ad hoc bail-outs while facing an uncontrollable budget deficit. Reportedly, he believes that the largest part of bank stabilization must come from the "recovery." In addition, I have been told that the President will not seek re-election if recovery is not visible by October 1983. In short, the President has no concessions to make. Failure to replace the MX with a beam-weapons defense system would mean fundamental capitulation on national security matters, and an attempted hyperinflationary bank bail-out, even when accompanied by BIS threats and blackmail, does not give the President what he desperately needs—an economic recovery.

What the BIS is afraid of is that the LaRouche program which answers both the national security and economic recovery dilemmas facing the President as he enters the third year of his presidency—the LaRouche proposal for a productive investment-led recovery spearheaded by a commitment to a "crash program" of beam-weapons development—is gaining the momentum necessary to bring along the President.