Reality is wiping out Bush's so-called popularity

by Andrew Rotstein and Susan Welsh

When euphoric pollsters gave President George Bush record 70% popularity ratings after his military "victory" over the 2-million-person nation of Panama last December, *EIR* cautioned that the veneer of support for the President would soon be chipped away, as the two issues on which he is most vulnerable rose to prominence in the public view.

First, and most important, is the deepening economic crisis, which no amount of emergency infusions of liquidity to prop up the Dow-Jones Industrial Average can cover up over the longer term.

Second is the simmering Iran-Contra scandal. Despite the so far generally successful coverup of the role of then-Vice President Bush in running the illegal arms-for-hostages traffic, the lid is not securely on the pot, and new evidence is emerging to reopen the case—including notably the hitherto-suppressed pages of the notebooks of Lt. Col. Oliver North. In fact, the *New York Times* reported on May 19 that a new federal grand jury has begun a criminal inquiry into the Iran-Contra affair that is expected to examine "lingering questions" about the extent of involvement by Bush and President Reagan in the sale of weapons to Iran and the diversion of the profits to the Nicaraguan Contras.

Even the Establishment's own media are beginning to profess dismay at the President's stubborn attempt to pretend that there is nothing seriously wrong with the economy—at the same time that he has reversed himself on his famous "Read My Lips" no new taxes campaign pledge. "Wall Street figures said they found preposterous the President's statement at his news conference on Wednesday [May 16], that he could not spell out publicly the real nature of the problem now because to do so would 'frighten the market,' " reported the *New York Times* on May 18. "By saying that," the *Times* quoted Robert H. Chandross, chief economist in the New York office of Lloyds Bank, "he's implicitly saying, 'You'd better be scared.' The markets are pretty astute. They realize the true position of the budget is worse than he's been saying."

The *Times* continued, "What the White House is seeking to remedy is the incorrect signal that Mr. Bush and his economic advisers sent early this year when they based the administration budget on a wildly optimistic economic forecast. Now they apparently fear that if the mistake is not corrected quickly it could damage the financial markets, send the economy into a tailspin. . . . Mr. Bush said Wednesday that reaching an accommodation on the budget would be the biggest test of his leadership on domestic policy. It is also likely to be the first time he had to go before the public with bad news."

According to this report, "Many Democrats hold the conspiratorial view that [director of the Office of Management and Budget Richard] Darman doctored the economic forecasts so that Mr. Bush could maintain his no-taxes pledge for the first 18 months of his presidency."

The 'hurry-up-and-wait' budget talks

As talks between the White House and Congress over the federal budget deficit got under way during the third week in May, it quickly became clear that the real issue that prompted the talks—a financial system which is dangerously close to the brink—is the one subject that may not be discussed in public.

President Bush already admitted as much after the first negotiating session on May 15, when he rejected all pleas to deliver a special nationally televised address on the budget, because he didn't want to say anything that would "suggest a crisis or frighten the markets."

The administration's quandary—having to stress the seriousness of the situation to compel a compromise, but having to avoid bold talk that might trigger a panic—has given the whole affair a schizophrenic, "hurry-up-and-wait" quality.

So far, the summiteers are still grappling with varying estimates of the size of the deficit, as a prelude to discussion of spending cuts, tax increases, revision of Gramm-Rudman targets, or some combination of the above.

But no figure mentioned includes the ballooning costs of the savings and loan bailout, which, under current law, must be counted in the budget. And just when Americans are beginning to absorb the bad news about the real cost of the S&L fiasco, Washington has served notice that the Federal Deposit Insurance Corporation (FDIC), which deals with the supposedly "safer" commercial banks, is running $5 billion behind plans in cleaning up the mess of failed banks.

Exactly proving the fragility of the economy that Bush is so quick to deny, the one significant agreement to emerge from this preliminary jousting is, ironically, that cuts must *not* be so *great* as to cause a contraction of the economy that could easily get out of control. In other words, because cuts in federal spending and increases in taxes tend to dampen aggregate demand for goods and services, deficit reduction should not exceed 1% of the Gross National Product, or roughly $55 billion, lest the cure cause a disease worse than the present affliction!

The charade is further complicated by the jittery nerves of both parties when it comes to talk of raising taxes. House Speaker Tom Foley (D-Wash.) observed that the Budget Act of 1974 clearly intends the President to make proposals to which Congress then responds. Bush replied that under the Constitution, it's the legislative branch alone that has the power to raise revenues and to appropriate funds.

The cowardice and duplicity of Bush's position are hard to miss. Even congressional Democrats, while without any economic program of their own, are urging the White House to "come clean." House Budget Committee member Marty Russo (D-Ill.) said that people are "crying out for leadership," and urged Bush to use his popularity to lay out the facts, however unpleasant, to the country.

According to press reports, summit participants, who are at least formally agreed to secrecy about the talks, had their notes confiscated before they left the White House after the first meeting May 15.

More bad news

While both sides nervously circle the issues and circle each other, the process of deflation continues to accelerate, driven by chain-reaction wipe-outs in real estate, corporate debt, and banking.

Several worrisome new developments further undermined the rosy prognoses of the Bushmen:

- Circle K Corp., the second largest convenience store chain in the United States, filed for bankruptcy protection from its creditors on May 15.
- The U.S. trade deficit climbed 38.5% in March, to a seasonally adjusted figure of $8.45 billion, the Department of Commerce reported on May 17. The unexpectedly steep rise in the trade gap more than wiped out a 34.6% improvement in the deficit in February, when it fell to a revised $6.10 billion, the lowest since December 1983.

The nation's total import bill rose by 10% in March to $41.72 billion, from $37.92 billion in February. The cost of imported oil, which was the major factor in shrinking February's deficit, rose to $4.75 billion in March from $4.71 billion in February. The volume of oil imports rose in March to 261 million barrels, from 243 million in February. Among other goods, imports of motor vehicles, electrical machinery, computers, and industrial supplies went up from February levels.

- April housing starts were down 5% from March, and the rate of issuance of housing permits for 1990 is 17% below 1989. Housing construction is at the worst level of the decade, since the period of the Paul Volcker high interest rates during the Carter administration.

Meanwhile, the Dow-Jones stock index hit an all-time high the second week in May, partly fueled by inaccurate speculation that the Federal Reserve's Open Market Committee had moved to loosen credit.

While it is only a possibility that the stock surge was orchestrated to give Bush some political cover for his "not to worry" stance, it is not guesswork that the desire to avert a collapse is pushing the administration to new levels of strongarming financial markets, as the recent unprecedented jawboning session by top federal regulators with the nation's bankers made clear.

Demands for more austerity

Even harsher measures are in store, as the financial elites demand more austerity measures, rather than a fundamental reform that would reorient the national economy toward industrial and agricultural production.

Reagan economic adviser Martin Feldstein issued a call in a column in the *Wall Street Journal* on May 18 for substantial cuts in the Social Security cost-of-living allowance and in indexation of tax brackets for inflation. This revives the push against "middle-class entitlements" that's previously been the province of pro-austerity kooks like Bruce Babbit and ex-Colorado governor Richard Lamm, the depopulation advocate.

The incalculable House Minority Whip, Newt Gingrich (R-Ga.), has said that Bush needs "real control" of the Executive Branch in order to save $10-15 billion a year.

What Gingrich meant he didn't precisely say, but a full-page ad placed in the *Washington Post* by the "Citizens Against Government Waste" group of oligarch financier J. Peter Grace may give a clue. Behind much prattling about "fraud and abuse," what Grace's group has in mind includes a federal "chief financial officer" to force cuts by agencies that resist abandonment of their mission, and a presidential line-item veto, which would shred the constitutional system of checks and balances in one convenient step.