Haig and Volcker block U.S. recovery policies

by Graham Lowry, U.S. Editor

Two interrelated challenges remain before the Reagan administration, following the crucial victory on the AWACS question: the overall direction of foreign policy, and the domestic economic collapse.

The AWACS vote was so crucial, as we have emphasized, because it countered a specific scenario for the Iranization of the Middle East, which in turn is part of the overall Malthusian blueprint for isolating the United States politically, and finally destroying it economically, on behalf of supranational de-industrialization. The question now is whether the administation, and those outside Washington who ought to be shaping national policy, can make the required link between the technological-development principles that could guide economic recovery at home, and the vast potential for stability and prosperity abroad if the United States were to start "exporting progress."

Haig's continued drive to wreck the Middle East and Central America, among other places, is an extension of maneuvers by British Foreign Secretary Lord Carrington and his ally, Socialist François Mitterrand. Both these gentlemen are still intent on eliminating any influence of American national interest in the Middle East specifically, and weakening both the Soviet Union and the United States generally—to the point that neither retains sovereign capabilities sufficient to prevent the realization of the European oligarchy's dream of "world feudalism."

The economic question

The pattern of recent developments in Washington, however, indicates the emergence of major potential obstacles—though so far no clear alternatives—to this perspective. A fight has broken out over control of U.S. foreign policy, centering around the proliferation of Alexander Haig's ostensible blunders and open feuding with Defense Secretary Caspar Weinberger and top White House staff members. After Haig's public charge that a senior White House official had been waging "guerrilla warfare" against him for nine months, by the second week of November there was a widespread press campaign for his ouster, and a developing agreement among insiders that Haig's days were numbered.

Sources close to the administration point to the Jack Anderson column that carried Haig's charge as a setup initiated by the Reagan inner circle, who fed the line to Anderson hoping that Haig would take the bait and make a public counterattack. Once Haig fell for the trap, the word went out "that Haig is around the bend, that he is frantic and panicked." As one former U.S. ambassador put it, "my guess is that Reagan will have a period of quiet and then get rid of him in January."

Haig's weak public support for—and widely known private opposition to—the AWACS sale may have sparked the effort by some of the President's advisers to build a climate for his resignation; but his former backers are also clearly writing him off as a blunderer too discredited to carry out their policy of East-West confrontation and Third World destabilization. Consequently, strategists formerly allied to Haig are busily spinning out proposals for cabinet-level reshuffles generally tailored to strengthening the hand of Henry Kissinger's other protégés within the Reagan administration. A frequently cited candidate to replace Haig is former Treasury Secretary George Shultz, who along with Kissinger and then-Treasury

Undersecretary Paul Volcker shared leading responsibility for destroying the Nixon administration—and for setting the United States on the ruinous economic path that Volcker has pursued with a vengeance at the Federal Reserve.

The fact that Shultz, who currently heads Reagan's private board of economic advisers, would be mooted for Secretary of State is of special relevance to a more fundamental point. The issue which will determine all others, including foreign policy, is whether the administration will act to free the nation from Volcker's enforced depression. In addition to the battle centering around Haig, the evidence has mounted since the beginning of November that political and economic realities are forcing a reconsideration of the Reagan economic program. It is that process—and the dangers potentially posed to Paul Volcker—which determined the context for the most recent and celebrated flap around OMB Director David Stockman's submitting his resignation. While the President declined Nov. 12 to accept it, the issues involved are by no means resolved.

By early November, the White House's pursuit of its self-defeating budget-cutting and budget-balancing had run into a number of dead ends. In the face of continuing economic disintegration, Reagan's demands for additional major reductions in federal benefits and social programs for 1982 are regarded by most Republican congressional leaders as politically unsaleable if not wrong-headed, and as eroding Republican prospects at the polls next year. That message was communicated to the President in their response Nov. 2 to his requests, agreeing to only about half the level of additional 1982 cuts and revenue increases which Reagan publicly demanded in September. Their alternative package also made only a negligible concession to Reagan's proposal for nearly a $3 billion additional reduction in benefits progams. Instead, Senate Republican leaders began fielding a series of proposals for major new taxes, in direct violation of Reagan's ideological and campaign commitments. Senate Finance Committee Chairman Robert Dole (R-Kans.) took to nationwide televison to call for an excise tax on all energy consumption, while Republican Majority Leader Howard Baker mooted a national sales tax to underwrite the defense budget, as well as deregulating natural gas and imposing a "windfall profits" tax on it.

In the midst of such rapid political unraveling, Reagan called another meeting at the White House, reviewed his choices, and stated Nov. 3 that if major tax increases were the only way to balance the budget by 1984, "then there won't be any balanced budget." The next day, the Senate Republican leadership marshaled a 48-46 margin to save two nationally important development projects from David Stockman's axe: the Tennessee-Tombigbee Waterway and the Clinch River nuclear breeder reactor in Tennessee.

In response to Reagan's threat to abandon the totem of a balanced budget, an IMF overseer of the U.S. economy proclaimed the Reagan economic program "a failure" and demanded additonal tax levies and budget cuts. If the administration fails to reduce the budget deficit, the IMF official warned privately, the IMF will advise Volcker to step up his credit crunch against the U.S. economy. "If the deficit continues to rise, the only agency left to fight inflation will be the Federal Reserve," he stated Nov. 4. "The Fed's job will become more and more painful because they will just have to tighten credit more to contain inflation. Interest rates will rise again, and the financial markets will suffer badly."

Warfare within the administration surfaced the day following Reagan's statement as well, when David Stockman leaked to the press a claim that the federal deficit will hit $145 billion in 1984 unless the budget is slashed accordingly. Backing Volcker and the Fed, he added that inflation would come down "if the Fed sticks to its policy." In the Senate, Republican members of Pete Domenici's Budget Committee, all lobbying targets of the IMF, drafted a proposal for $80 billion in additional taxes and $100 billion more in budget cuts over the next three years.

At the White House, Reagan's outside economic advisory board gathered to tell him that as long as he made further budget cuts and kept money tight, he could tolerate a deficit rather than impose new taxes. These high-level advisers—George Shultz, Alan Greenspan, Paul McCracken, and Walter Wriston—are in fact attempting to rig the economic policy debate such that the invariant of any package is maintaining Volcker's roadblocks to industrial investment and continual gutting of the government's ability to foster major capital improvements and infrastructural development.

Speaking at New York University on Nov. 2, Shultz, now Chairman of the Bechtel Corporation, warned the government will face "companies going bankrupt . . . slow growth, unemployment, and recession. . . . But there must be no subsidies of any kind." Shultz reiterated the Volcker-IMF formula: "The only way interest rates will come down is to cut the budget."

But President Reagan is by no means comfortable with this advice. According to sources close to the White House, he fears that Volcker's credit squeeze will cause a liquidity crisis and has begun pressuring the Fed to "ease up" on interest rates. "To hell with the budget deficit," one such source commented. "The administration wants credit in the system for corporations to float bonds. . . . The White House is putting pressure on the Fed to inject liquidity into the system."

What becomes of these signs of opposition in the White House depends on the action or inaction of political forces in the United States at large.