

Reagan swallows IMF dictates in budget 'compromise'

by Kathleen Klenetsky

On April 24, just two days after meeting at the White House with a group of austerity-mongers that included free-enterprise cult leader Milton Friedman, Citibank President Walter Wriston, former Nixon economic adviser Herbert Stein, and ex-Treasury Secretary William Simon, to discuss the U.S. and world economic situations, President Reagan went on national television to appeal to the American public to support the deficit-reduction proposal that is now being debated on Capitol Hill.

Charging that the federal government is doing things "never before felt possible or desirable," Reagan called on Americans to mobilize pressure on Congress to enact deep cuts in the federal budget. "My fellow citizens," said the President, "the time has come for Government to make the same hard choices your families and businesses do. The time has come for your public servants to bring spending down into line with tax revenues."

With this, Reagan put his personal prestige behind an economic package that has nothing to do with "balancing the budget" or "reducing the deficit," as the President no doubt has been led to believe. Instead, it represents the first tangible consequences of America's submission to International Monetary Fund surveillance, which was formally announced—with the open approval of U.S. Treasury Secretary James Baker III—at the Fund's Interim Committee meeting on April 17-19.

For the last year, the IMF has been demanding that the United States make budget-cutting its top priority, warning that disaster lies just around the corner if Americans refuse to tighten their belts.

Through James Baker, White House Chief of Staff Don

Regan, Secretary of State George Shultz, and other Eastern Establishment types, who have assiduously worked on the President's "free-enterprise" ideology and consequent susceptibility to viewing government spending cuts as sure guarantors of economic health, Reagan has been manipulated into the position of advocating what in effect are IMF "conditionalities" for the United States.

In contrast to his second inaugural speech, in which the President forcefully rebutted the neo-Malthusian, zero-growth ideology fostered by the IMF and its affiliates by asserting, "There are no limits to growth and human progress," Reagan's April 24 address reflects the stranglehold which the Baker-Regan-Shultz cabal now has over the administration.

The budget proposal Reagan went to bat for is, by the Fund's own recent public admissions, just what the IMF ordered. Worked out last month between the administration and Republican senators led by Majority Leader Robert Dole (R-Kan.), the \$52 billion worth of cuts would eliminate 17 federal programs and would freeze the level of financing in about 20 others.

Some of its major and more controversial provisions include slashing Medicare, a program where previous cost-control efforts have already adversely affected recipients; sharply reducing federal farm programs, at a time when farm bankruptcies are reaching crisis proportions; and eliminating federal subsidies to Amtrak, the Export-Import Bank, and the Small Business Administration.

On Social Security, Reagan has agreed to limit the cost-of-living increase in Social Security to 2% per year, even if inflation stands at 4%. Despite the President's attempts to soften the impact of this decision by maintaining that inflation

is likely to decrease because of the "recovery," the cuts represent the first major step toward gutting the so-called middle-class entitlement programs which are keeping millions of Americans slightly above the poverty level.

Already, the proposal has created a political storm; the only reason the Democrats haven't been able to exploit it as fully as they would like to is that Democratic National Committee chairman Paul Kirk let slip in early April that he believed—as do nearly all Democratic Party policymakers in *private*—that entitlement programs must go under the axe.

It is in the area of military spending, however, that Reagan's compromise is most disappointing—and potentially most perilous. For months following the November election, the President resisted the loud demands being raised from all sides—including Dole and other members of his own party—that the Pentagon do its "fair share" in cutting the deficit.

Reagan teamed up with his Secretary of Defense Caspar Weinberger to reject such specious "equality of sacrifice" arguments, warning repeatedly that reductions in military spending would imperil U.S. national security.

In the initial round of congressional hearings on the defense budget this past February, Weinberger had responded to suggestions from certain members of Congress that the administration's proposed 5.9% after-inflation Pentagon increase for FY1986 be reduced to 3%, by terming that figure "half the bare minimum" necessary to sustain U.S. national security.

Nevertheless, 3% is exactly what the President is now pushing—and there are plenty of signs that through its assets on Capitol Hill and in the Wall Street community, the IMF will succeed in slashing that pathetic increase even further.

SDI in peril

As *EIR* has warned, the Strategic Defense Initiative (SDI)—a program which Reagan accurately called "the most hopeful possibility of the nuclear age"—is most likely to be threatened as a result of the administration's "compromise" on the defense budget.

Earlier in April, congressional foes of the program unleashed an offensive against the SDI, centered on a so-called "Alternate Strategic Defense Initiative Authorization Act for Fiscal Year 1986." Initially co-sponsored by Senators William Proxmire (D-Wisc.), Charles Mathias (R-Md.), John Chafee (R-R.I.), and Dale Bumpers (D-Ark.), the bill calls for slashing funds for the program by 50%—reducing the administration's \$3.7 billion request to \$1.87 billion—and placing crippling restrictions on the program.

Specifically, S.879 would reorient the SDI away from advanced technologies capable of affording a comprehensive population defense, and toward the weak High Frontier project advocated by Gen. Danny Graham. Under the terms of the legislation, most funds for the program would be allocated to conventional point-defense technologies, and not the most promising systems, such as particle beams, lasers, and other directed-energy capabilities. The bill would create a

panel, appointed by Congress, to oversee day-to-day implementation of the SDI—an intolerable intervention, and probably a violation of constitutional strictures on the separation of powers.

The measure, which has already garnered 19 backers, came under tough criticism from Lt.-Gen. James Abrahamson, head of the SDI program, and Fred Iklé, Undersecretary of Defense for Policy, during April 23 hearings in the Senate Defense Appropriations Subcommittee.

The legislation is a "mutilation" of the President's original proposal, said Iklé. Abrahamson charged that the bill would so "fundamentally change the structure of the program that it would be a totally different concept," emphasizing "only terminal defense," and even there failing to supply the money necessary to achieve even that limited goal.

Abrahamson pointed to the ban the bill would impose on all demonstration testing, as of particular concern. This provision alone would "cripple the program," he stated. "Experiments must be conducted demonstrating technological adequacy to comprehensively validate technologies that would support a thoroughly reliable and effective multi-layered defense," Abrahamson told the panel. Without them, "the necessary foundation cannot be provided for you [Congress] and a future President to make an informed decision with respect to possible development."

The SDI Office chief attacked "those who would unnecessarily limit and inappropriately focus the thrust of the SDI. To specifically address a hard point defense of strategic military targets, for example, would be incomplete and programmatically redundant. . . . If technologies supporting a multi-layered defense do prove viable, then people as well as military assets would be protected" by the SDI.

Although S.879 pays lip-service to the need for the U.S.A. to conduct a strategic defense research program, the real goal of the bill's backers is to sabotage the program. "We'd like to have zeroed the SDI altogether," Cindy Levine, a Chafee aide who helped draft the legislation, admitted in an interview. "But that wasn't politically realistic, so we came up with this approach instead." Levine bragged that Abrahamson's charge that the bill would completely alter the SDI's direction was "absolutely correct."

The bill's supporters contend that it has an excellent chance of passing. "Maybe we won't get down to \$1.87 billion," said one source involved in pushing the measure, "but I think we have a good shot at cutting the funds [for the SDI] down to \$2.1 billion." The same source noted that since Sen. John Kerry (D-Mass.), scion of the oligarchical Forbes family, has just introduced a measure to slash SDI funding to \$1.4 billion, S.879 "looks like the model of moderation and reason. That's why we're getting such prominent Republicans like [Nancy] Kassebaum [Kan.], [John] Heinz [Pa.] and [John] Danforth [Mo.] behind us."

Despite Abrahamson's and Iklé's spirited defense of the SDI, there is no way the program will be protected if the IMF is allowed to continue to run the U.S. economy.