Lehman Brothers sets fiscal pace

Investment banker Peter Peterson outlined the entire U.S. budget fiasco in June, emphasizes European Economics Editor Laurent Murawiec.

After the much-hailed $32 billion cuts in federal expenditures voted by Congress last spring, the same media that were hyping Reagan's handling of policy a few weeks ago are now savaging the President's policy as "doomed from the start," in the words of the *New York Times*. The financial markets are voting with their feet against stocks and bonds, and openly speaking of a liquidity panic. Faced with the impossible task of sticking to their self-imposed $42.5 billion deficit ceiling in fiscal 1982, the administration is now publicly proposing new cuts of $15 billion, $3 billion in the defense budget, and the rest in social entitlement programs.

The amount of cuts that will be required if the administration allows a recession to stifle government tax revenues and swell new expenditures goes much further than official spokesmen have been willing to concede; with respected Wall Street forecasters predicting a $100 billion deficit each year of this administration, Mr. Stockman's budget-slashing mania is not going to remain idle.

The story in the media is that "the markets" have sent continuing signals to Washington that not enough had been cut to inspire additional "confidence" in the administration's behavior. And the current liquidity panic is intended to box Reagan into more fiscal austerity and more suicidal gutting of productive activity. The one holy cow the administration will not touch being the untouchable Federal Reserve. But behind closed doors, the forces that are driving "the markets" have been working quite deliberately at creating this panic, and generating the conditions in which the administration would be compelled to go their way.

Peterson's manifesto

On June 25, the elite New York Economic Club heard the chairman of Lehman Brothers Kuhn Loeb, Peter G. Peterson (also a member of the Brandt Commission), on the theme "The President's Economic Program: The Summer of 1981 vs. The Dangerous Decade of the 1980s." That speech contains in outline every single element of the debates and decisions that have unfolded during the summer and are now coming to a head. After praising Reagan's "why not less" philosophy, Peterson raised the banners of further massive budget cuts: "The early economic strategy of the administration did not really confront the fact that the growth of transfer programs encouraged by the entitlements revolution has been the primary generator of our current predicament."

Wall Street is dissatisfied with the administration, Peterson continued, and its failure to tackle the problem of "wage rigidity," its foolhardy and inflationary defense program, its piling up of massive deficits, and its inability to cut growth enough to save the Fed from having to print money!

The 4.8 percent wage increase granted to federal white-collar workers instead of the 15.1 percent recommended by an independent panel, the revolting debate around the trimming of the defense budget, the additional budget cuts under review at this time and the massive support given by the administration to the Fed, can all be traced to the policy outlined by Peterson on behalf of the powerful financier forces of Wall Street and their international allies, the IMF and the Bank for International Settlements. Policies apparently cooked up by the administration in response to "the markets" had been pre-programmed and fed to the government.

But Peterson was demanding more: "Let us hold off on anything 'special' at this point: special interests, special industries, special regions, special consumers, special taxpayers . . . [the] special interest, constituency politics of the last 15 years" are the culprits: "any long-term commitment to significantly out government spending growth *must* confront [social] entitlements." Peterson hammered away at the necessity of destroying all constituency-based power in order to do precisely that.

Peterson's program demands large savings in the defense program; drastic reductions in entitlements—social security, federal pensions, Medicare, veterans benefits, etc.; a "very large tax" on oil and gasoline to further reduce energy consumption and build a strategic reserve; below-inflation-rate wage contracts; the major unions, IBT, UAW and USWA should be forced to accept a comprehensive effort at further deregulating the economy, starting with trucking; and repeal of the Davis-Bacon Act, as well as the Fair Labor Standards Act.

In his quest for "eliminating the automatic destabilizers," unemployment benefits, welfare agencies, etc., Peterson boldly states in the section "The Politics of Aging" of his speech that there are many, far too many old people in the United States; their numbers and the outlays they require are unbearable; "they form one of the most vociferous and well-organized lobbies on the Hill. *We are reaching the limits of common sense and equity.*" Peterson argues that either the elderly will have to go back to work, or they will have to do with far less.

'Thirty percent rates'

In his "Politics of Housing," Peterson brings the proposals of the Brandt Commission home to the United States, which has "superabundant housing," in fact far too many houses, he says. The "American housing dream" is termed the prime cause of the fall in fixed investment over the last decades! So bold a lie is only matched by the viciousness of the proposed policies, which amount to reducing the American population in order to "solve the problem of the deficit."

Ronald Reagan does not share this doctrine. Should he nonetheless agree to carry out the policies it stipulates, the results will be irreversible, as articulated by one of Peterson's closest partners at Lehman Brothers, who explained privately that "the present level of interest rates generates fundamental change in the economy, the credit system, and the political system: less economic growth and a decreased demand. The whole economy is being permanently transformed, towards less industry.

"Interest rates should be at 30 or 40 or even 50 percent, but people are always afraid that the whole house will fall apart, so they refrain from such extreme, but necessary measures.

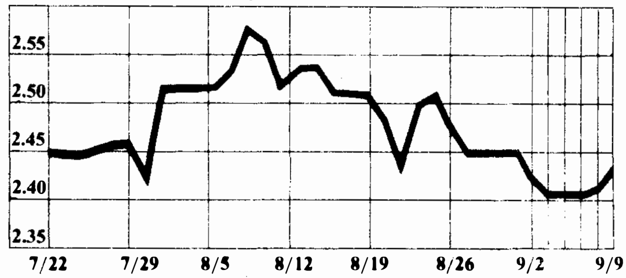
"Why worry about bankruptcies? We must re-allocate resources at new levels of productivity. There will be very little economic growth in the next decade anywhere in the world; virtually none at all in countries which reject Keynesian solutions. In countries that embrace Keynesian solutions, they will end up with different political regimes . . . be they black or red does not matter. There will be a lot of things that will explode."

This is the long-term outlook of those who have methodically charted the drift of the administration into more severe austerity, harsher deflation, and ultimately a violent economic collapse. The current liquidity panic is of their doing—it is an attempt to complete the encirclement of the President.

Currency Rates

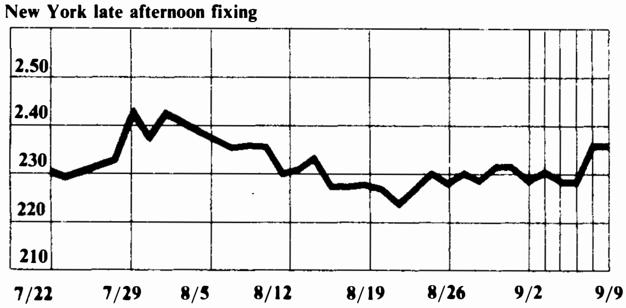
The dollar in deutschemarks

New York late afternoon fixing



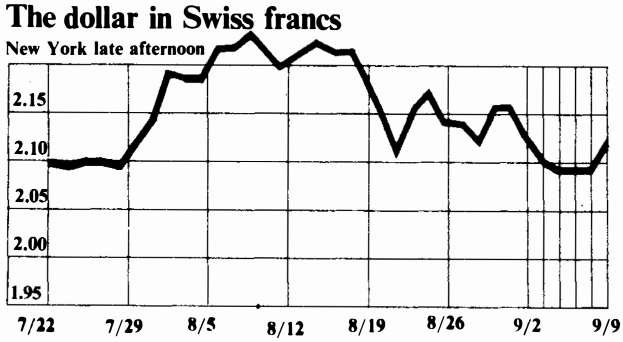
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon



The British pound in dollars

New York late afternoon fixing