

Wall Street readies shock against Reagan

by Richard Freeman

In early December, a spokesman for the elite private citizens' Bipartisan Budget Appeal told a reporter that in January, the U.S. bond market would back up in response to a lack of confidence in President Reagan's ability to cut the budget. The spokesman stated that the rattling of the bond markets at the time of the President's second inaugural address would convince him of the wisdom of killing the Strategic Defense Initiative, the program for development of beam-weapon defenses against Soviet nuclear attack. "The cost of the program is the best argument against it," he stated.

The Bipartisan Budget Appeal is composed of 600 manured members of the East Coast Liberal Establishment's banking, diplomatic, and legal community. Its primary goal is the destruction of the U.S. defense budget. It is headed by former Lehman Brothers Kuhn Loeb chairman Peter Peterson, and includes the prince of appeasement, Cyrus Vance, and the heads of 22 of the 37 firms that are primary marketers of U.S. Treasury debt.

On Jan. 2, the group began to make good on its threat with all the subtlety of a fireworks display. The U.S. Treasury entered the bond market with an auction of \$5.75 billion worth of seven-year Treasury notes. The offered yield of 11.67%, while down from the last auction of such notes in October, was far higher than expected. Nevertheless, a bad reception to the Treasury issue sent bond prices tumbling as much as 1¾ points. Investors, such as the big insurance companies and investment banks which populate the Bipartisan Budget Appeal, stood on the sidelines and did not venture to buy issues, letting the prices drop.

In light trading Jan. 3, bond prices bounced back, but the amount, half a point, is less than a third of the previous day's drop.

Re-Dolent hearings

There is no way of proving that he knew the bond-market disaster was timed for that day, but on the same Jan. 2, Sen. Robert Dole (R-Kan.), in his last act as chairman of the Senate Finance Committee before assuming the post of Senate Majority Leader, staged a show-case hearing that permitted him to proclaim that "budget-cutting is the top priority of the 99th Congress," which opens on Jan. 4. Dole declared that his hearings were "clearly aimed at setting the stage for a major assault on federal spending in 1985."

To buttress his case, Dole produced Wall Street and government "experts" to blather a certain line. Both Alan Greenspan, a member of the Citicorp Bank board, and Martin Feldstein, each of whom once headed the Council of Economic Advisers, said that if Reagan cuts the budget by \$100 billion, interest rates could fall by two percentage points. Jimmy Carter's former CEA head, Charles Schultz, said higher taxes are needed.

But the really rancid aroma at the hearings emanated from Dole himself, who is by no means so interested in budget-cutting for economic reasons as he is for defense-policy reasons. Dole's chief military adviser and long-time friend is Robert Ellsworth, the top U.S. fundraiser for the KGB-penetrated think-tank, the International Institute for Strategic Studies of London, which has been outspoken against the SDI. Dole forbid any attack on the real causes of the budget deficit, announcing, "blaming Federal Reserve Board chairman Paul Volcker is not the answer—it's merely an evasion."

Of course, attacking Volcker is precisely the answer, since his high interest rates have accounted for roughly 75% of the \$1 trillion in outstanding Treasury debt that will have accumulated during Volcker's reign, October 1979 to the end of fiscal year 1985 on Sept. 31.

There is a grave danger that the budget debate will be the number-one item before the Congress during its next session, just as Dole prophesies. The danger lies in the fact that it is the economy, not the budget per se, that should be the true subject of any deliberations. Were the economy healthy and growing in physical terms at rates of 5% to 10%, a perfectly feasible proposition, then balancing the budget would be a trivial question—it would practically balance itself.

This goes to the heart of the matter. Cuts in the defense budget are not the only threat, not even the only defense-related threat. Various budget-balancers are committed to cuts in basic economic infrastructure—water diversion, nuclear power—as well as NASA space programs. Infrastructure is the backbone of future productivity and any military buildup the United States finds it necessary to undertake. Keep cutting infrastructure, and the United States could not conduct a military mobilization, a fact the Soviets understand all too well.

On the other side of budget-cutting, number-two Senate Republican leader Alan Simpson (R-Wyo.) justified the worse sort of chiseling against social security recipients, eliminating the cost-of-living escalator clauses, as if all those living on social security are well off and not hit by inflation. Simpson said that President Reagan had pledged during his re-election campaign not to cut the social security budget. "But Congress didn't make that pledge."

Chiseling against America's elderly has nothing to do with economic health. It is an ideological blindness to reality. Wall Street's Bipartisan Budget Appeal crowd intends to continue shaking up the bond market until all of Congress is caught in this ideological trap.