

Volcker runs the show in Washington, D.C.

by Richard Cohen, Washington Bureau Chief

Congressional leaders of both parties are busily advancing proposals for hundreds of billions of dollars in additional spending cuts and tax increases above the Reagan administration's requests. This self-styled bipartisan rush to prevent the alleged ravages of a monstrous federal deficit is being carried out under the supervision of Federal Reserve Chairman Paul Volcker.

Senate Budget Committee staff, operating for Committee Chairman Pete Domenici (R-N.M.) and Committee Minority leader Fritz Hollings (D-S.C.), have been in intensive discussions with leading investment and commercial bankers in New York City. In addition, Capitol Hill sources report that the Committee staff have operated in constant collaboration with Volcker and his staff.

These Senators have been told by both the bankers and Volcker that only if the projected federal budget deficit is significantly cut well beyond Reagan's austerity proposal will interest rates come down.

Volcker himself, appearing before the Senate Budget Committee on March 2, flaunted the fact that the benefits of such a deal are all on his own side. The following exchanges occurred:

Domenici: "What is the reason interest rates don't come down?" Volcker: "There is skepticism relating to the budget picture." Domenici: "Do you think interest rates would come down if Congress presented a credible budget?" Volcker: "Yes, but I would stress the word 'credible.'" James Sasser (D-Tenn.): "The economic statistics are staggering. I see interest rates as the primary culprit. Mr. Volcker, if we in Congress came up with

budget cuts that were substantial in 1983 and beyond, is the Fed prepared to respond by reducing interest rates to a reasonable level, and by that I mean 10 to 12 percent? If we bite the bullet, can we get a commitment to bring down interest rates?" Volcker: "You imply more power on our part than we have."

William Armstrong (R-Colo.): "Those of us who want to have a substantially smaller deficit . . . unless we can whisper to our colleagues that these cuts will yield a 4 to 5 percent drop in interest rates, we cannot get the votes for them. . . . Do you think we can have a 4 to 5 percent drop in interest rates?" Volcker: "Wow, that's a pretty substantial drop. I can't quantify anything. Let's just say that there will be a response." Volcker thereupon delivered a windy exposition of monetarist economic theories, to which Armstrong responded that he assumed that Volcker meant to say yes, he was going to make a substantial reduction in interest rates.

But when Armstrong asserted: "Let the record show that as a yes," Volcker responded: "I may have to correct the record."

A buildup of blackmail

Upon their return from the early-February recess, Republican Senators and Congressmen have been openly bullied by Volcker assets Senators Baker, Domenici, and Dole, in concert with the secret support of the Office of Management and Budget director David Stockman, and White House Chief of Staff James Baker III, into accepting Volcker's "budget-deficit" black-

mail. At the same time, Democrats in the House and Senate were undergoing the same brainwashing at the hands of Volcker operatives House Speaker Tip O'Neill (D-Mass.); Senate Minority Leader Robert Byrd (D-W. Va.); the Democratic National Committee Chairman, banker Charles Manatt; AFL-CIO President Lane Kirkland; and the Brookings Institution-run Congressional Budget Office (CBO).

The result of their common effort has been an orgy of deadly austerity proposals which have dominated Congressional-White House discussion during the month of February. Even prior to the February recess, Hollings formally issued a program that would freeze all cost-of-living (COL) increases for federal entitlement programs, freeze military spending, and eliminate the FY83 10 percent personal income tax cut.

On Feb. 22, Senator Baker publicly proposed a new federal income surtax of 5 to 10 percent that would be used to fund military spending. Even though this proposal would eliminate the Reagan personal income-tax cuts, Stockman called it "one of the more creative proposals."

Domenici, addressing the pro-Volcker Conference Board on Feb. 23, warned that the Reagan program would not work.

Domenici's own proposal, which assumes a continuing economic collapse in its projections, calls for \$200 billion in additional budget cuts over three years, and \$120 billion in new taxes. The plan includes slashing welfare, Social Security, and other entitlement programs by \$60 billion over three years, and cutting the defense budget by \$25 billion, while freezing all domestic discretionary spending at current levels and a freeze this year on all federal salaries.

Senator Dole warned on Feb. 23 that the Reagan budget would have to be rewritten by the April-May target date for Congressional adoption of another increase in the federal debt ceiling. Also on Feb. 23, Alice Rivlin, director of the CBO, urged the House Budget Committee to reduce COLs for federal retirement programs.

Two days later, a previously resistant House Minority Leader Robert Michel (R-Ill.) joined the bandwagon, calling for a reduction in COLs for federal entitlement programs, deferral of the final round of the President's tax cut, and trimming of the defense budget. Michel suggested that he was already in negotiation with House Majority Leader Jim Wright (D-Tex.) and House Budget Committee Chairman Jim Jones (D-Okla.) in order to promote a bipartisan budget that would be amended to the debt-ceiling bill in April-May. At the same time, Alice Rivlin told the Senate Budget Committee that the White House deficit estimates were egregiously underestimated.

David Stockman, appearing before the House Budget Committee, reported on Feb. 26 that a freeze on

COLs for non-Social Security entitlement programs "may be warranted." Stockman's discreet support for the congressional alternative to the administration's package reportedly issued from a previous weekend meeting of White House aides and Presidential advisers. The only topic on the agenda was the economy and its political implications. Sources at the meeting summed up the White House assessment stating that they "don't know of anyone on the White House staff that isn't praying the Congress do their work for them."

The authorization question

There are some limited signs of congressional resistance to screeching austerity on the appropriations side. Distress signals echoed through official Washington from the office of Senate Majority Leader Howard Baker (R-Tenn.) on the morning of March 2. Baker had just been informed of the results of a Senate leadership poll of unexpectedly rebellious budget-authorizing committees. After a full month of direct lectures and threats from Volcker and both the Congressional Republican and Democratic leaderships demanding deeper budget cuts and tax increases, the authorizing committees, operating under intense constituency pressure, are reported to have requested a whopping \$29 billion in budget authority beyond the Reagan plan.

Capitol Hill sources report that the authorizing committees' plan for increased funding for non-entitlement domestic programs over the Reagan budget would translate into a "shocking" \$10 billion in actual increases in appropriations, if the committees' recommendation stands. These sources suggest that Majority Leader Baker has called upon the leadership to press Republican committee chairmen to restrain their authorization projections prior to their official submission to the Senate Budget Committee on March 8.

In a potentially more important development, House Majority Leader Jim Wright, warning that the current economic crisis is very similar to the depression of the 1930s, called for an immediate high-level summit of legislative and executive-branch leaders with Federal Reserve chairman Paul Volcker to address the economic crisis. Wright told reporters on March 3 that he wants the summit to extract a promise from Volcker to restrain interest rates. Wright declared that the economy is "in a very desperate situation that is getting worse rather than better."

The summit Wright proposes would be bipartisan and held "in some secluded place" to work out a recovery program. Wright was careful not to attack President Reagan personally, and in fact praised him. House Speaker Tip O'Neill commented that there was no point in such a meeting unless Reagan compromised; he said nothing about Volcker. Wright, however, added that the meeting would be fruitless unless Volcker agreed not to act at cross purposes with the President.