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## U.S. defense spending

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# Volcker faction still hopes to force cuts

by Kathy Burdman

The May 25-26 Williamsburg heads of state economic summit at this writing looks as if it will be a deadlock on the pressing world debt and currency crises. "If the summit were held tomorrow, nothing would happen," a senior White House official told *EIR* March 31.

However, Fed Chairman Paul Volcker and a faction in the administration, cooperating with such outside groups as the budget-bashing "Group of 500," and the Atlantic Council of the United States, is still lobbying for a "New Bretton Woods currency scheme." According to leading participants in the lobbying effort, the main target of the scheme is the U.S. defense budget.

British financial spokesmen, meanwhile, warning that failure to act will lead to a monetary crash, are also pressing with new intensity for a "new Bretton Woods" arrangement. Under this, the International Monetary Fund would be set up as a global credit arbiter to reorganize the bankrupt \$700 billion debt of the Third World and Eastern Europe. Along with Lazard Frères banker Felix Rohatyn, Sir Peter Leslie, the managing director of Barclays Bank International, and William Mackworth-Young, chairman of London's Morgan Grenfell, have all flooded the world business press with calls for an IMF or Bank for International Settlements-run global version of New York City's Big MAC, to enforce austerity on every nation.

Washington sources agree that President Reagan personally will have nothing to do with any such supranational schemes at this time. Acting under orders, Treasury Secretary Donald Regan told the London *Financial Times* March 30 that he is "emphatically against" all global debt restructuring schemes. "They're not sufficiently worried to do anything dramatic," an economist close to the IMF complained to *EIR* about the administration.

President Reagan's optimism is based in part on his new \$175 billion program for high-technology defensive weapons systems, which he expects will revolutionize the U.S. industrial base, dispensing with the need to deal with the IMF.

The fact remains that the \$700 billion "debt bomb" is still ready to explode at any moment. Some senior administration sources admit that the United States has no alternate program to that of the IMF to deal with this prospect of world financial catastrophe.

The Atlantic Council of NATO and the IMF crowd have put on the table the second set of demands for their new Bretton Woods, an IMF-run world currency system.

### 'Sacrifice national sovereignty'

Spokesmen for the Atlantic Council say the new currency system, if implemented, will pre-empt the President's new defense initiative, along with the entire U.S. defense budget, by putting the U.S. dollar and the nation's credit system under IMF control.

IMF propagandist Leonard Silk of the *New York Times* put it bluntly in a March 30 column promoting a "new Bretton Woods" monetary conference. President Reagan and other leaders "must recognize that they cannot solve their individual economic problems without sacrificing some of their national sovereignty," he wrote.

Indeed, supporting the Atlantic Council on the currency issue are former Johnson administration Defense Secretary Robert McNamara, McGeorge Bundy, and the other zero-growth leaders of the peace movement who have called for the United States to simply abandon its nuclear defense capability, and destroy America's defenses.

The Atlantic Council's Working Group on International Monetary Affairs has prepared the most widely circulated currency plan. The group is chaired by former Fed chairman William McChesney Martin and IMF official Frank Southard, and includes former Treasury Secretary Henry Fowler of Goldman, Sachs; Morgan Guaranty chief economist Rimmer de Vries; BIS economist Robert Mundell; and former Fed official Scott Pardee.

As Fowler told a journalist, "We are the same people as the 'Bipartisan Committee on the Budget Crisis,' which is calling for President Reagan to slash U.S. defense spending" by over \$100 billion and to cut the U.S. budget by over \$200 billion in the next few years. Fowler, McNamara, and Peter Peterson of Lehman Brothers Kuhn Loeb run the group of seven former cabinet secretaries and 500 Wall Street bankers which, Fowler says, is "a hundred percent behind" the Atlantic Council currency demands.

### 'Defense must take its licks'

The Atlantic Council and its BIS-IMF sponsors plan that there will be no U.S. beam weapon program, because if their new currency scheme goes through, the United States will not be allowed to finance it. Under the IMF austerity programs, the U.S. defense budget and with it the beam weapons program would have to go, Southard and Fowler said.

"Reagan's proposal for defensive high-technology weapons is nothing new, and frankly I don't care about it, because it won't come to anything after what we have to do to the entire U.S. defense budget," Southard told *EIR*. "The President was wrong when he said it's not just arithmetic. It is arithmetic, we simple can't afford these systems. We have got to cut the whole U.S. defense budget by \$100 billion, and damn new systems."

"That's what the Atlantic Council believes, and the point is, we are the monetary policy component of the bipartisan committee on the budget," Southard pointed out. Under the IMF's new currency system, "defense will have to take its licks," he stated.

"R&D for some laser program is peanuts, considering the horror of the overall defense budget," Henry Fowler agreed. "The Gang of Six," as he referred to the bipartisan committee of six former Treasury Secretaries plus McNamara, "is agreed that the U.S. budget deficit will destroy the U.S. economy, including the defense budget, unless it is brought down by another \$200 billion over the next three years."

The IMF officials in charge of monitoring the U.S. economy openly agree, banking sources said the last week of March. "The Reagan administration is only talking about reducing the U.S. deficit by \$46 billion from previous projections in fiscal 1984," an IMF official said. "That will still leave a \$190 billion deficit, and \$100 billion of that is structural, not caused by the recession. It must be gotten rid of."

The IMF official endorsed the Democratic liberals' attack on Reagan, carefully. "We can't play with U.S. politics, but we do note that the Democrats' new alternate budget has much more cuts in defense," he said. "Economically speaking, there is a need for a substantial cut in the defense budget."

Goldman Sachs consultant Henry Kissinger and Kissinger's former State Department aide Robert Hormats, now a Goldman Sachs partner, are promoting the scheme in the *New York Times* and *Newsweek*.

Federal Reserve Chairman Paul Volcker is working directly with congressional Democrats who want to force the U.S. into the new Bretton Woods arrangement, and wants Democrats to add a global agreement to turn debt and currencies over to the IMF. Volcker told pro-IMF congressmen that as part of the new system, he wants the U.S. defense budget cut. According to Henry Fowler, Secretary of State George Shultz is the "man who will push our position" openly within the cabinet.

## Currency questions

Entitled "The International Monetary System: Exchange Rates and International Indebtedness," the Council report calls for the U.S. to put the dollar "in harness" with other currencies, Southard told *EIR* end of March. Under the scheme, the dollar and the Japanese yen would be pegged to the European snake under a par value band system, which members pledge to uphold with intervention, "as in the EMS."

But the real "glue" of the new system, Southard said, would be a pledge by the United States and others to turn their national economic policies over to the IMF. "We're proposing that the IMF be given authority by the Group of Five finance ministers to conduct a monthly analysis of U.S. and other nations' prices, money supply, trade figures, and other policies, and to determine from these what the currency rates should be," he said.

"I wouldn't want to say that the United States should subjugate its monetary and other economic policies to the IMF, but certainly we must have coordination and concertation, not act unilaterally," banker Henry Fowler said. "We should not, for example, be allowed leeway to create credit when other countries are doing the same, so that every one inflates at once. There must be global agreement as to who is to increase credit, and who is to decrease it. We can't just implement American policies which are right for us domestically, if they might hurt other countries."

Sovereign national economic policy would be a thing of the past. "First we get the currencies into harness, and then we use this to get countries to harness their economic policies into coordination," he said. Southard cited the recent harsh austerity measures imposed upon France by its EMS membership as the model. "This shows the system would work," he stated. "The French economic policy was wrong, and now they've gotten their hands slapped."

"Now the system will impose discipline on them. Look how the French are being forced to go counter to their entire national programs, against their will, implementing the most rigorous austerity measures."

To sell the new Bretton Woods, its promoters have already deliberately created an international currency crisis by threatening to collapse the European Monetary System, as *EIR* reported last week—among other things in order to stampede the United States into the new arrangement. Morgan and the British deliberately pulled the plug on the French franc earlier this month.

"The disasters of the floating rate currency system show that it doesn't work," Henry Fowler stated recently. "You'd think governments would have learned by now that benign neglect is criminal, they can't simply walk away."

"We will get increasingly hysterical calls from Europe for the U.S. to get involved and join the Europeans in a coordinate currency solution," an aide to Undersecretary of Commerce Lionel Olmer, an Atlantic Council ally, said. "There will be a major net transfer of capital from Europe to the United States, and they won't like this. If the dollar does go up any further, there are going to be people in the administration who are going to push the idea that the United States must get involved in managing the currency system."

Overseeing all these deployments, Southard said, are Bank of England Deputy Governor Christopher McMahon, French Finance Minister Jacques Delors, and Helmut Schleiminger and Alexandre Lamfalussy, the manager and deputy manager respectively of the Swiss-based Bank for International Settlements. "The BIS in particular is very unhappy about and critical of the current floating rate currency system," Southard said. But Southard complained about the obstructiveness of the current head of the BIS, Swiss National Bank President Fritz Leutwiler. Leutwiler has blackballed Lamfalussy's promotion as replacement for the soon-retiring Schleiminger.