
The Rostenkowski Proposal

Budget back channel revives 1988 austerity blueprint

by Andrew Rotstein

Signs of a budget back channel between the Bush administration and forces in Congress suggest that a *de facto* revival of the draconian plan of the 1988 National Economic Commission is in the offing.

The key indication came when White House spokesmen gave an unexpectedly favorable response to the dramatic five-year budget proposal of House Ways and Means Committee chairman Dan Rostenkowski (D-Ill.). Rostenkowski has proposed \$511 billion in deficit reductions, yielding a fiscal surplus by 1995, by slashing defense outlays, freezing other spending, eliminating the Social Security cost-of-living increase for one year, and raising taxes on gasoline and top-bracket personal income.

Although the President had harshly rebuffed other sweeping proposals by Sen. Patrick Moynihan (D-N.Y.) and Rep. Richard Gephardt (D-Mo.), the Rostenkowski package was greeted as a "serious contribution" to the debate on spending and taxes. The reception was especially surprising, since its provisions sharply contradict Bush's budget doctrine on several major points.

Administration gives the nod

The surprise diminished, but the intrigue grew, when it came out that the powerful chairman had pre-cleared his proposal with Budget Director Richard Darman and White House Chief of Staff John Sununu. The Bush aides agreed to treat the plan amicably, while publicly upholding the President's trademark position on "no new taxes." Within days, Darman engaged in unabashed waffling on the tax issue in Capitol Hill testimony; the White House leaked word that it would accept a level of defense spending cuts close to the figure of Rostenkowski's colleagues in the House leadership; and Bush, who had repeatedly maintained that there would be no "peace dividend" to enhance domestic programs, suddenly broached the idea of a "growth dividend," while continuing to express anxiety about rising interest rates.

It appears that the administration, increasingly skittish about the economy, is indirectly encouraging congressional support for a massive "bitter pill" budget, with which the

President can then compromise in the overriding national interest of "licking the deficit."

Nothing new

The Rostenkowski approach contains nothing essentially new. In fact, promoting deep, comprehensive austerity in the name of civic-mindedness, trying to cushion the blows with consoling assurances of "equality of sacrifice," has been the core policy of the financial establishment since no later than the 1973-74 oil shock.

In the immediate aftermath of the Oct. 19, 1987 stock market crash, and the emergency negotiations on federal deficit reduction that followed, policy elites typified by Peter G. Peterson, investment banker and Council on Foreign Relations chairman, and former Federal Reserve chairman Paul Volcker, developed a new tactic. They projected that successful implementation of an austerity regime would require a new political combination to overcome seething opposition from entrenched political interests and from the population at large.

Their vehicle was the National Economic Commission. The NEC was created by Congress in December 1987, and charged with drafting the program for the administration inaugurated the following January. The commission was carefully engineered as a bipartisan, blue-ribbon group, representing key power blocs in Congress, industry, labor, finance, agriculture, among blacks, etc. The aim was to forge a consensus behind a tough and inevitably unpopular attack on living standards and public spending, to which the President could humbly defer, using the NEC's stature as "expert" and "above politics" as a shield to deflect criticism.

The NEC did not work exactly according to plan. Not because Bush necessarily disagreed in principle—the notion of "principled disagreements," in the case of George Bush, approaches an oxymoron—but because an early betrayal of his populist "read-my-lips" message, so soon after his election, would have strangled the new administration in the cradle. The austerity agenda would have to be advanced later, possibly in the context of the outbreak of crisis.

The Rostenkowski plan was quickly disavowed by many, including congressional Democrats. Increasing the gas tax, freezing pensions, leaving education and urgent infrastructure needs in the lurch, will be deservedly hated by the American people. Democrats in particular are not anxious to revive the ghost of Walter Mondale, at least not publicly.

Phony 'opposition'

But as a shrewd political observer of an earlier epoch once said, things are not always what they seem. The most vocal critic of the Rostenkowski plan, for example, is Senator Moynihan, who was a leading architect *and* a member of the NEC; Moynihan had been promoting a huge increase in the highly regressive gas tax until his populist Social Security gambit came along.

That plan, which usefully throws the whole spending and taxes mess on the table, but offers no substantive answers to speak of, has itself attracted only scattered support. Still, it is being touted by some Democrats, led by New York Gov. Mario Cuomo—but mainly because it advances their partisan interests by exposing the hoax of Bush's budget figures.

The latest entrant into this fray is Democratic power-broker Felix Rohatyn, who rode his Trojan hobby-horse to Washington in mid-March for a major speech. Rohatyn blasted the utter policy vacuum in Washington—an indictment that rings true in the mind of any thoughtful American. Yet the Lazard Frères managing partner, the man who presides over the notorious "Big MAC" financial receivership of New York City, offered merely another variant of the Rostenkowski/NEC harsh medicine, packaged to appeal to the Democrats' blue-collar base.

This is hardly surprising; Rohatyn, too, was one of the 14 members of the NEC. Rohatyn called for \$1 trillion for "reinvestment in America" by the year 2000. How financed? By cuts in defense, a boost in the gas tax (50 cents, compared to Rostenkowski's 20 cents), and "moderation" (please, no "cuts" or "freezes" here!) in entitlement programs.

The economic pay-back, after earmarking \$500 billion for deficit reduction, would be \$250 billion rebated to states and localities and \$250 billion for human and physical capital investment—a meager portion of what Rohatyn himself confesses is necessary for infrastructure alone. But then, this is a life-line from the man credited with "saving" New York City—the city now entering a financial and human abyss considerably worse than the 1975 bankruptcy crisis.

There are doubtless some congressmen and others who oppose the forthcoming Bush-Rostenkowski austerity for perfectly sound reasons relating to the squeeze on the average working family and the crying economic needs of their districts. The problem is that an effective counter to the NEC agenda requires a comprehensive attack on the economic roots of the budget mess and the looming collapse of the financial bubble—an admittedly heroic task from which nearly all of them, at least thus far, obsessively shrink.

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