

RED INK AND THE REAGAN BUDGET



Dirch Halstead — Liaison

Gary Allen is author of *None Dare Call It Conspiracy*; *The Rockefeller File*; *Kissinger*; *Jimmy Carter/Jimmy Carter*; *Tax Target: Washington*; and, *Ted Kennedy: In Over His Head*. He is an **AMERICAN OPINION** Contributing Editor.

■ IT WAS just after high noon on a hot Thursday in the City of the Angels, only nine days before the Fourth of July. As he replaced his smoking telephone in its "holster," Ronald Reagan's face flashed a broad grin. He had just won a high-noon duel in the sun — his latest victory in a series of battles with powerful political foes. Not only had he

emerged unscathed, but his opponents had been severely wounded.

This showdown in the political Dodge City on the Potomac had been brewing since early May when the House and Senate passed their first Budget Resolutions. These had authorized Budget "cuts" for Fiscal 1982 at levels acceptable to the Reagan Administration, but left the de-

cisions on how much to appropriate for each program to the Committees in the House and Senate. As expected, the Committees in the Republican-controlled Senate went along with the Reagan-Stockman plan on spending goals, but the House Committees, obedient to the "Liberal" Democratic Leadership, came up with their own Budget proposals. When their recommendations were put together into a single Budget bill, it called for reductions in 1982 outlays that totalled \$37.8 billion. The Democrat bill gave President Reagan eighty-five percent of what he wanted in terms of spending allocations — but did not cut as deeply as the Boraxo sheriff wanted in key social programs (Food Stamps, Welfare, aid to education, school lunches, Medicare, Medicaid, etc.). President Reagan and his White House hands were not satisfied with this; so, the White House staff and O.M.B. Director Stockman laid out their own package of changes that might make the Democrat bill acceptable. Stockman's changes would cut a claimed \$5.7 billion deeper into social programs for 1982 and an overall \$22 billion more by 1984.

This action was seen as high-handed by "Liberal" Democratic leaders; especially by Speaker Tip O'Neill, who was afraid of losing his authority to a pro-Reagan coalition of Republicans and Southern Democrats. Although numerically still in the majority in the House of Representatives and in control of its Committees, the Democrats were seriously split. Many wished to dissociate themselves from the poor leadership of Tip O'Neill and his highly unpopular public image as a master of the old-style politics. Already, sixty-three Democrats had defected to the Reagan side during the voting in May on the first Budget Resolutions. Boss

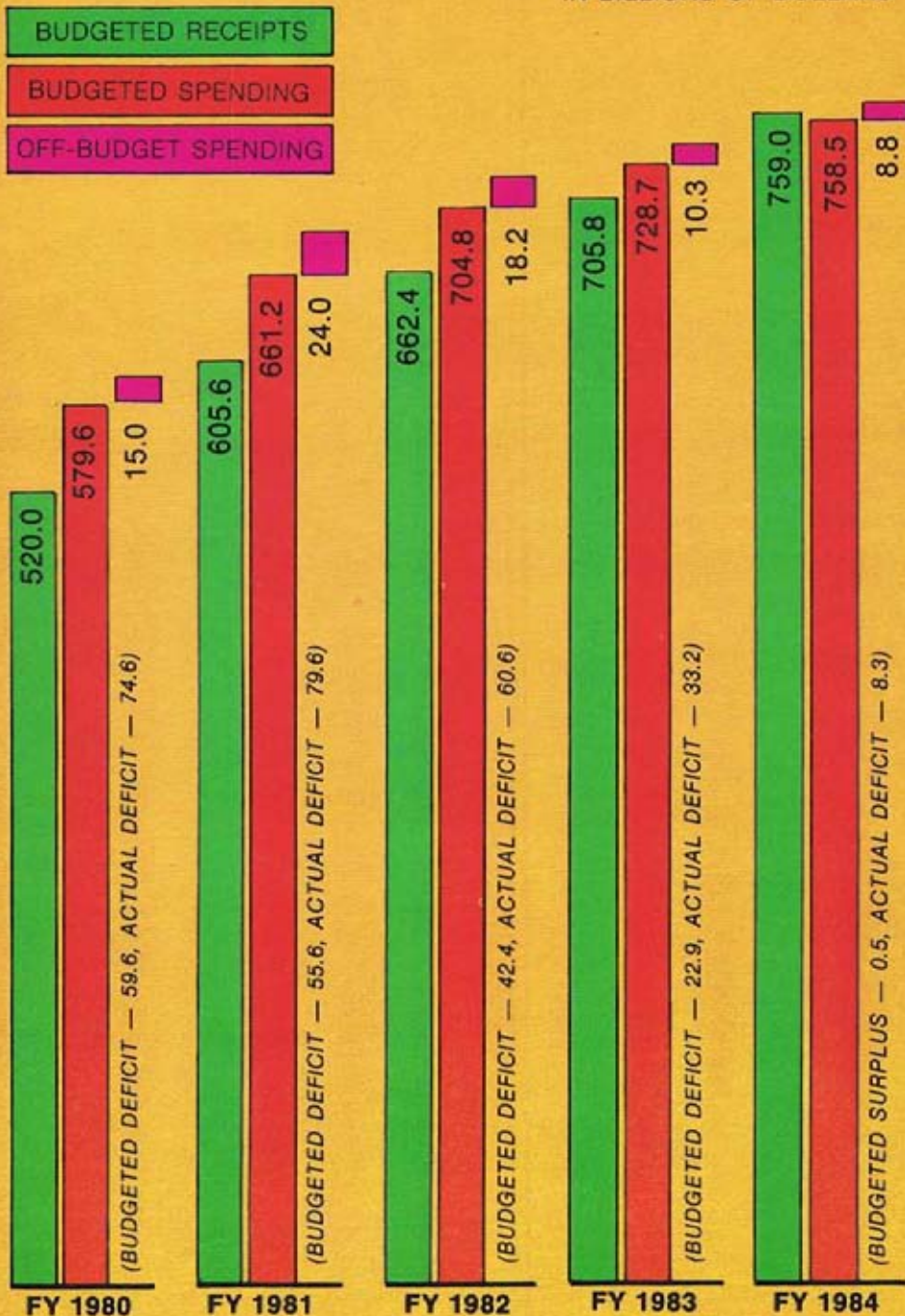
O'Neill was losing his grip on his own party. (See John Rees's article which follows.)

With the President's popularity still high, O'Neill and the House Democratic Leadership saw little chance of defeating the Stockman changes as a single package — so they maneuvered the fight into the House Rules Committee, which decided to force the Republicans to submit the changes in six separate amendments instead of as one measure. The idea was to make it far more difficult for Congressmen to approve specific cuts that might be unpopular with special interests among their constituents. They knew that while most people claim to be in favor of cutting the Budget, virtually everybody opposes cuts in their own subsidies. "Cut the Budget, / But don't cut me; / Cut the other fellow / Behind the tree!" It would be to the advantage of the spenders to focus the power of special-interest opposition on specific and controversial cuts in Social Welfare programs. O'Neill charged that "The Reagan Program" concealed a "hidden agenda" of cuts that many Congressmen would not vote for if taken up individually.

For example, if Congress voted for the Reagan-Stockman changes all in one vote, a Representative could claim to an angry constituent that he had only reluctantly accepted reductions in government loans to college students for the sake of passing the President's overall program. But if the "Liberal" Democrats had their way, the Congressmen would have to go on record as voting yes or no on the sole issue of student loans. As many TRIM Committees have found out, few Congressmen like to have their voting records exposed to public scrutiny. Besides, the less specific, the better politically. If Tip O'Neill & Company could split the

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IN BILLIONS OF DOLLARS



With the Reagan Budget some \$40 billion above last year's Carter Budget it is time to start thinking about electing a Congress next year that will be willing to give us the immediate \$100 billion in cuts, and balanced Budget, necessary to stop inflation, bring down interest rates, and save our economy.

Stockman measure into pieces, each to be voted on separately, they could use the pressure groups to foil the Reagan program.

Because party discipline generally holds up better in votes on strictly procedural questions, the House Leadership felt that making the rules fight a key test would give them their best chance of winning back the sixty-three defectors who had voted Reagan's way on the May Budget Resolutions. Therefore, the procedural fight came as a choice of one amendment *vs.* six amendments in this test between President Reagan and Speaker of the House O'Neill.

The White House staff feared that Reagan's policy package could never be passed unless it was enacted all at once; and quickly, before the new President's popularity began to subside. So a pep-talk breakfast was set up between Reagan and the Democrats who had voted with the Reagan forces before. Only forty of the sixty-three Democrats showed up, and some of those were concerned about Mr. Reagan's vagueness on details of his proposal.

The crucial floor vote on the Rules Committee recommendation was scheduled for Thursday, June twenty-fifth. With less than twenty-four hours to rally his team, President Reagan left Washington on Wednes-

day afternoon for a speaking tour in Texas and California. Arriving in San Antonio, he addressed a cheering convention of Jaycees. Retaliating against the attacks by Tip O'Neill, Reagan asked: "Where on earth has he been for the last few years? The answer is, right in Washington, D.C.!" The President called the Social Welfare programs "good intentions run amuck — Budgetary time bombs set to explode in the years ahead." Back on board *Air Force One*, en route to Los Angeles, Reagan authorized telegrams to all one hundred ninety House Republicans and the sixty-three Democrats. When he arrived in Los Angeles, reports from his aides informed him that he was still twelve votes short of winning the next day's big vote. Time was running out and it looked as if O'Neill's Hole-in-the-Budget gang had the votes to scuttle the Administration's fiscal changes.

In his nineteenth-floor hotel suite in Los Angeles, Ronald Reagan spent Wednesday night and Thursday morning telephoning nineteen Democratic Congressmen to persuade them to vote his way on the critical procedural vote. He reached six key Texas Democrats dining together at Washington's University Club, and the telephone was passed around the dinner table so each could speak with

the President. Later, Reagan called on other Southern Democrats in hopes of persuading them off the fence.

Louisiana Democrat John Breaux was summoned to the telephone while he was dining in the F Street Club, another of Washington's exclusive restaurants where politicians gather. Breaux told the President that he was still undecided. Shortly afterwards, White House aides approached John Breaux and asked him what it would take to win his support on the crucial vote. He reportedly indicated two conditions for his vote: The Administration would have to stop opposing a federal loan program to sugar farmers (many of whom are in Breaux's District), and the White House should support changes in a fuel-usage law that would encourage utilities to switch from oil and gas to coal. He was notified that O.M.B. Director Stockman would drop Administration opposition to the sugar loans.

As Thursday's pre-vote debate got under way, the galleries were packed, and Republicans stalled for time with a series of speeches while the Great Communicator continued his telephone work from the Century Plaza Hotel in Los Angeles. According to *Time* of July 6, 1981, "Breux himself was called off the floor only 30 minutes before the vote by Reagan, who began: 'I understand you are interested in the Fuel Use Act. I'm told by my people that we have worked something out . . .'"

The Reagan forces won a narrow but startling victory of 217 to 210, with twenty-nine Democrats breaking party ranks to support the President over the exasperated Speaker.

Clearly, Ronald Reagan's up-to-the-deadline efforts had done the trick. As *Time* put it, "By the time Wright and Michel took the floor to

bring the debate to its fiery conclusion, Reagan's persuasive powers and calculated horse trading had taken effect. Breaux and three of his Louisiana Democratic colleagues, converted by the White House switch on the Fuel Use Act, were among the 217 who voted to uphold the President's position in the rules fight."

This procedural vote assured that the Reagan package would be considered as a whole rather than be divided into six pieces. The next day the actual vote for this important part of the tentative Budget plan was an anticlimax. The passionate rhetoric had already been spent on the rules fight, and the Administration's plan to reduce the rate of growth in social spending passed the House by a vote of 217 to 211. It did this with so little debate and scrutiny that some of the losing "Liberals" charged the Administration was ramrodding a bill through Congress which few, if any, had even read. It was a wildly hypocritical charge for "Liberal" Democrats who have done exactly that for decades. After all, they used to explain, if Congress insisted all its Members actually read the bills on which they vote, they could not have passed one-tenth of the thirty-five hundred laws enacted over the past ten years.

Even so, the bill was a messy document — consisting of some one thousand pages with many penciled-in alterations and scrawled notes. As a matter of fact, it was so hastily drafted that the bill mistakenly included the name (Rita Seymour) and telephone number (225-4844) of a woman in the Congressional Budget Office who helped draw it up. Just who wanted Miss Seymour's number, and for what purpose, we do not know. Tip O'Neill, with evident sarcasm, inquired whether Miss Seymour
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mour should be enshrined in the annals of our country's fundamental laws. But the new congressional coalition was on a roll, and O'Neill could not stop it. He moaned: "I hope that someday this day is forgotten. I've never seen anything like this in my life."

Poor Tip.

Even so, it has been hard for many of us to become euphoric over Mr. Reagan's congressional triumph. True, the "Liberals" in Congress did take an embarrassing beating, and Reagan does seem to have put together a slim majority coalition with bubble gum and baling wire. But it took a terrible lot of wheeling and dealing to win that close vote. Among the pork-barrel deals made by the Reagan people to get some on-the-fence Democrats to vote for it was a promise to "phase out" federal support of school districts near military bases instead of eliminating them in 1982 as proposed. To help keep Northern Republicans in line, the Reaganites acquiesced to an increase of four hundred million dollars (and up to \$1.8 billion) to help poor people buy fuel for their homes. Promises were also made to certain Congressmen that they could fill key federal appointments. For example, Massachusetts Republican Silvio Conte was assured that the friend he wanted for a position in the Agriculture Department was all but approved. In other words, an all-out political effort was required to achieve the narrow margin of victory on that key procedural vote.

The Reagan Budget victory was in fact more psychological than substantive. The Democrats had already given in on eighty-five percent of what Reagan wanted. From the per-

spective of the overall Budget the differences on the other fifteen percent were relatively minor.

In order to reconcile the House Budget bill with the Senate's version, a Conference Committee consisting of sixty-nine Senators and one hundred sixty Representatives was formed — the largest Senate-House Conference Committee in the history of Congress. This Committee negotiated the final terms of the Budget on July twenty-ninth, with \$35 billion in Budget "cuts" for next year. Congress formally passed this Budget and sent it to President Reagan for his signature two days later. While the final details of the Budget were not available as this article was released, the Budget cuts in the House bill are close to the "final" figures.

The \$48 billion Medicare program will be cut by \$1.4 billion next year. This represents only about three percent of the program's budget, and most of the savings will come from changes in the government's method of payments to nursing homes, hospitals, and other health-care institutions. Medicare patients would be required to pay a fee of one dollar per day for the first sixty days of acute hospitalization.

In transportation, about \$1.2 billion would be saved by reducing subsidies and grants to Amtrak, the Merchant Marine, mass-transit rail construction, and by the elimination of the Civil Aeronautics Board.

Some \$1.8 billion will be cut from the school-lunch program by tightening eligibility to include only the "truly needy" rather than children from middle-income families who can afford to pay for their own food.

Food Stamp outlays will be reduced by about \$1.9 billion, with approximately a million people out of the current twenty-three million recipients losing their eligibility, and

those remaining receiving an average of five dollars less each month.

About three million college students who now automatically qualify for student loans from the federal government will be required to meet a "needs" test on family income.

Some three hundred thousand jobs in the scandal-ridden C.E.T.A. program will be abolished, saving about \$3.8 billion from that enormous make-work scheme.

In the Aid to Families with Dependent Children program, stiffer income requirements for eligibility are to be imposed, and "workfare" schemes — requiring recipients to perform public work in exchange for aid — could be set up by the states.

Spending for some two hundred fifty federal programs will be involved when the new Budget goes into effect on October first, the beginning of the new Fiscal Year. The administration of about fifty minor social-service programs will be transferred to the states through a series of block grants. The *growth* in federal outlays for Social Welfare programs will be reduced.

Among interesting items in the new Budget bill which, however, do not affect spending directly were: partial deregulation in radio and TV station licensing, a ban on the proposed nine-digit ZIP code, and provisions for awarding up to ten thousand dollars to any federal worker who reports fraud, waste, or mismanagement in federal bureaucracies if follow-up remedies result in substantial savings.

What is deceptive about all of this — and what the Establishment news media have all but ignored — is that the base line for the spending reductions is *not* this year's Budget (Fiscal 1981) but rather the estimated Budget for 1982 arrived at by extrapolating from the Carter policies and as-

sumptions. All the statistical estimates for the various "cuts" are not reductions in spending from this year to next year but reductions from what the appropriations *would* be if spending for next year were to be based on Carter assumptions about program participation and spending policies enacted by previous Administrations. Remember that candidate Reagan said President Carter was spending too much money in Fiscal 1981, not that he was merely *planning* to spend too much in Fiscal 1982.

The outgoing Carter Administration projected the Budget for 1982 to be \$739 billion. The estimate released by the Reagan Administration in July for its 1982 Budget is \$704.8 billion (almost ten billion dollars more than the previous estimate made in March of \$695.3 billion). The revised estimate for this year's Budget, on the other hand, is \$661.2 billion. Obviously, the 1982 Reagan Budget — based on the Administration's own estimates — will be \$43.6 billion *more* than this year's. That is critical. **There is no spending cut, and it is hypocrisy to claim there is.** By using the Carter Administration projections for 1982 as the base line, the *increased* spending levels are being called Budget cuts even though they will be \$43.6 billion more than this year's levels. Presumably, had the Carter Administration projected a one-trillion-dollar Budget for Fiscal 1982, Mr. Reagan would claim to be saving even *more* — about \$300 billion in Budget cuts.*

*Indicative of how times have changed, note that in the first year of the Eisenhower Administration, with Republicans in control of Congress, federal spending was cut nine billion dollars below that of Truman's last year. Federal spending, if you can believe it, actually went down. It was not just a reduction in the *rate of increase*. A cut of nine billion dollars in 1953 is the equivalent of a cut of sixty billion dollars from the 1982 Budget.

When on the campaign trail, candidate Ronald Reagan was telling us that the then-current Carter Budget was much too big. And it certainly was. If it was too large then, it is still too large today. But the Budget for next year under the Reagan Administration will be not only \$43.6 billion more than what is being spent this year, but \$125 billion more than what was spent by Carter and the Democrats in 1980! When that is called a cut, it is obvious that federal spending is as out of control as a Roman orgy.

Furthermore, as we know so well, government estimates almost always turn out to be *underestimates*, and are continually revised upward. By next September the 1982 Budget is likely to wind up much bigger than the currently estimated \$704.8 billion.

And the above figure does not even include the various "off-Budget" outlays and loan guarantees, which will run the real expenditures much higher. Off-Budget spending, alone, is now estimated by the Reagan Administration to be at a gargantuan \$24 billion this year and at least \$18.2 billion for 1982 (already upwardly revised from the previous March estimate of \$16.7 billion). This means that the real federal deficit for the coming year will be at least sixty billion dollars after you add the off-Budget outlays to the planned Reagan deficit of \$42.4 billion! Many forecasters predict it will be a great deal more. Wait 'til these deficits hit the debt market! It could mean interest rates of twenty-five percent.

When running for President, Ronald Reagan also promised us to get rid of the Department of Education, which is spending more than fourteen billion dollars this year. It is the newest of the Cabinet departments and should be the easiest to dismantle. It is true that Reagan and the

Congress are cutting the budgets of some programs under the jurisdiction of the Education Department, and that should save about \$4.7 billion compared to the Carter Budget proposals for 1982; however, this unconstitutional federal bureaucracy will still be with us.

Another fifth-wheel monstrosity which candidate Reagan pledged to abolish if elected is the Department of Energy. The eleven-billion-dollar D.O.E. boondoggle will remain intact, and with a larger budget. Meanwhile, this department has not produced a single barrel of oil.

Then there is the Environmental Protection Agency, which has held up an untold amount of industrial growth and energy exploration and extraction. Its budget in Fiscal 1980 was \$5.6 billion. The current estimate for this year is \$5.5 billion, and \$5.2 billion more for next year. This agency should be abolished outright.

An example of how Budget "cuts" can wither away is the Administration's effort to trim the subsidy of the U.S. Postal Service. In a move to encourage more efficiency in this government enterprise, Reagan has requested a cut of \$632 million from the 1982 operating Budget projected by the Carter people. The House of Representatives went even further and approved a cut of \$956 million. However, in order to head off a nationwide postal strike, Postmaster General William Bolger negotiated a \$4.8 billion contract with the postal unions. Most of the proposed cuts will have to be restored. America should never let itself get into the position of facing a crippling mail strike. To reduce our dependency on the government's mail system, and make us less vulnerable to such extortion, the Administration should have asked Congress to repeal those laws now on the books which prohibit pri-

vate companies from delivering first-class mail. It might have demanded this in exchange for the contract concessions it made to the unions.

The trouble is that, politically, President Reagan probably couldn't have squeezed much more in Budget cuts through the current Congress. The tragic reality is that it is very difficult really to cut the budgets of programs that are already in place and climbing on automatic pilot. This is especially true of the Social Welfare programs and entitlement outlays which are automatically triggered by changes in economic and social conditions.

And of course many people have become dependent on, or addicted to, federal aid in one form or another. *U.S. News & World Report* recently revealed that 50.2 percent of the people in the U.S. rely on the government as their primary source of income. This means that half the people in our country are living off the other half. Do you know anyone currently receiving government money who doesn't want it to continue? Do you know any recipient who doesn't want still more? The 50.2 percent figure for those dependent on government transfer payments is up from thirty-three percent in 1960. The bottom line is that taxes can not be significantly cut until a substantial number of people is transferred from the tax-recipient category to the taxpayer status.

Consider that the average Welfare family in New York receives eighteen thousand dollars a year in cash and services — all tax free — compared to the average family of four who must get by on fourteen thousand dollars upon which it must pay taxes. How many of these Welfare recipients want to go to work and reduce their standard of living by a third after taxes? Such people may be

lazy, but few are that stupid! Naturally they strongly oppose having to lower their expectations from Big Government. They respond with wailing and gnashing of teeth, plus threats of rioting, burning, and looting like that in the 1960s.

The budget for the mammoth Department of Health and Human Services will thus be *increased* from \$229.1 billion for this year to \$247.5 billion in 1982. If you add defense spending and the \$93 billion interest on the National Debt to the seventy-seven percent of so-called "uncontrollable" transfer payments, you automatically have spending higher than the Himalayas.

And of course the political "Liberals" are regrouping for a counterattack in response to the so-called "Reagan Revolution." Contributions are up for such groups as the (Fabian Socialist) Americans for Democratic Action, Ralph Nader's Congress-Watch, Common Cause, etc. Indeed, a Progressive Political Action Committee (PROPAC) has been organized as a "Liberal" fundraising group and has targeted key Conservative Senators for defeat.

Especially vocal in their criticism of the Reagan Budget changes are Benjamin Hooks of the N.A.A.C.P. and Vernon Jordan of the National Urban League. They cry that Reagan hasn't given them anything, ignoring the fact that he didn't promise them anything. Claiming to represent American Blacks, they are in fact seeking to preserve their power bases by keeping people dependent on the federal plantation which they perceive to be threatened by the Reagan Administration. They are planning a protest march on September nineteenth in Washington, D.C., that could erupt into riots in the streets.

When one screams that he is no longer to get something for nothing,

it is not need that motivates him but greed. Even so, this gaggle of "civil rights" groups, supported by Leftist unions, will have tremendous political clout in opposing what they call the "Reagan Hood" practice of taking from the poor to give to the rich.

If the President cannot get congressional approval for truly significant cuts, we face tragic consequences. And remember that it would take a \$300 billion cut to return spending just to the level it was when Jerry Ford was bumping around Washington.

But the fact remains that our economy is very sick — and that the huge burden of federal spending is the prime reason. As corporate takeovers and huge business mergers are in the financial news, small and medium-sized businesses are being strangled to death by high interest rates. These rates are being forced up by the tremendous amount of Treasury borrowing in the private credit markets to pay for the unmonetized portions of the National Debt. This has crowded out other borrowers — including individuals and businesses who desperately need additional funds to hang on during the recession. Meanwhile the federal sponge is drying up money for capital formation that would allow industrial expansion and create new jobs.

If instead of borrowing this money the government were to have the Federal Reserve monetize all of the Debt (by printing up more new paper money and increasing the checking accounts in the banking system), the resulting increase in the money supply would be so great as to send inflation out of sight. But interest rates would still be bid up to cover inflationary expectations.

Either way we lose. And even if the government were able to balance the Budget at the present high levels

of spending, the increased tax burden would be so staggering as to choke the economy to its knees.

The key to high taxes, inflation, and our current high interest rates is the *level of government spending*. The important trend to watch is the direction of that spending. The trouble is that government spending will continue to go up for the next four years under the Reagan Plan. According to the Administration's own figures, outlays for next year will be at least \$43.6 billion more than this year. The Budget is expected to be \$728.7 billion in 1983; and, by Fiscal 1986, federal spending will top \$895.1 billion! These projections, moreover, are based on the assumption that we shall have declining interest rates and that price inflation will be about 6.2 percent next year, less than six percent in 1983 and 1984, and less than five percent in 1985 and 1986. Fat chance!

Through the application of supply-side economic incentives, Reagan hopes we can produce our way out of this burden, but trying to outproduce the destructive powers of Big Government is a huge gamble with slim odds. We have too many regulations, confiscatory taxation, exorbitant interest rates — while our rate of saving is the lowest in the industrial West. The momentum of these forces of destruction will not be overcome in a day.

Meanwhile, there are several financial time bombs — set to go off within the next few years. These include the crisis facing the Savings & Loan and thrift institutions, the unstable bond market, the dangerously over-bought real estate market, a shaky banking system, and the hang-over from the Social Security pyramid party. Any one of these crises could flare and spook our economy into a colossal financial calamity

that would make the Great Depression of the 1930s look like a mild downturn. And all of this has fallen into the lap of Ronald Reagan.

It is the staggering world debt situation that threatens the banking crisis we mentioned. According to banking economist Chandra Hardy, the debt owed by poor countries could multiply by two-and-a-half times by the end of the decade. Most of this \$580 billion debt is owed by only a dozen countries. Poland alone is now in hock to Western banks for a huge \$26 billion! Loan defaults by the needy Communists or by the dead-beat less-developed countries could indeed topple our banking system — precipitating a crash that would cause the Federal Reserve to exercise its terrifying new inflationary powers under the Monetary Control Act.

And of course the big bankers have again used government intervention to prop up some of their bad loans. Money from American taxpayers is funneled at ridiculously low rates to Third World bankrupts through such international mechanisms as the World Bank, the Export-Import Bank, the Latin American Development Bank, the Asian Development Bank, the African Development Bank, and the International Development Association. As Congressman Ron Paul (R.-Texas) has observed: "At a time when we are supposed to be cutting spending, the House Banking Committee has voted \$13 billion [*in off-Budget outlays*] to bail out the big banks. And the Committee took only about 13 minutes to do it. The large banks of New York and California have loaned billions to shaky dictatorships in Latin America, Asia, and Africa. Now they want their profits guaranteed by the American taxpayers, and the Banking Committee has gone along with the deal."

This bailout for the big bankers was passed by Congress on July thirty-first, when it voted for the final Budget bill before the August recess. It appears that Administrations come and go, but the big bankers run the show. What is especially important to note is that Reagan personally lobbied for the passage of this bill (H.R. 3439) on behalf of the bankers.

The Social Security time bomb is another matter. All the Reagan Administration has to do to create an uproar is to mention that it might have to make some reforms in the system to keep it from running out of cash next year and people scream bloody murder. The Administration blundered when it tried to get reductions of benefits or extension of the retirement age all in one quick reform. People planning to retire in the next few years were understandably horrified. There have already been demonstrations in Washington over the proposed alterations. But if the mammoth boondoggle does go bust there could be insurrection.

In a recent television documentary, CBS pointed out that a man who retires after forty years of paying into Social Security will receive all that he paid into the system after only eighteen months. In truth, of course, the money from current retirees does not come from the compulsory "contributions" (F.I.C.A. taxes) that they have paid over the years; the cash comes from current workers. Contrary to what Social Security officials have led people to believe, no real trust fund has been built. And since Social Security benefits are indexed to the cost of living, while the taxes of younger workers are not, severe conflict can be expected between the young workers now paying in taxes and the retired elderly receiving the benefits. Reforms in the system might postpone its cash-flow

problems for a few years, but this chain-letter scheme must inevitably collapse.

While the time bombs continue to tick, the problem is that unless conditions get really bad — and obviously so — the average citizen doesn't want to be bothered with politics or economic crises. He has been encouraged to believe that his leaders in Washington will take care of these dry and technical matters. We can thank Jimmy Carter for waking up many of our fellow Americans to the fact that we are in trouble. Carter's Presidency was so obviously incompetent, and the economy was getting so bad under his Administration, that millions of people who ordinarily do not think or care about politics became upset and swept him out of the Oval Office.

But after the Conservative victory in November, many people decided the war had been won. They have been swept up by the Reagan Euphoria and are becoming complacent just as the Left is regrouping for a counterattack. Subscriptions to hard-money financial newsletters are way down. Contributions to Free Enterprise foundations and think tanks have dropped. The prices for gold and silver are in a dramatic slump, indicating a worldwide confidence in Ronald Reagan and his ability to curb inflation.

But can Ronald Reagan get control of inflation and save America from the economic time bombs now ticking away? Don't bet the rent money on it. The emotionalism of the Reagan Euphoria is unrealistic. There is only so much that Reagan can accomplish immediately under the best of circumstances. And, as we have noted, the Reagan plan does not reverse the *direction* of federal spending since each year's Budget is to be larger than the one for the year before. Re-

member: The intention is only to *slow the rate of increase*, not actually to cut spending.

Trying to reduce the Budget gradually, and gradually to lower the level of taxation and inflation, won't work. The federal government is out of control and the President is making a big mistake by not telling us so. The momentum that has been built up over the decades is virtually unstoppable without a lot of pain. Slicing away at a little waste here and a little fraud there simply isn't going to get the job done. Or, to change the metaphor, Reagan is driving a bus which is accelerating down a steep mountain — and the brakes are shot. He can ease off the accelerator, but the momentum will continue to drive the bus downward on its perilous course. The runaway bus will eventually reach the bottom of the mountain — no matter who is President. The best that we can hope for is that Reagan may be able to slow the rate of descent, giving us time to prepare for the crash and to educate enough people as to why it happened and how to avoid it in the future.

As *Gold Newsletter* editor Jim Blanchard puts it: "As long as the American public looks to Washington for handouts, as long as Americans are in basic philosophic agreement with the philosophy of statism, then we are not going to have major change. Without a real educational and intellectual revolution, based on Free Market capitalism, we are going to continue to have the growth of big government and that means dollar depreciation."

Ronald Reagan took the Conservative vision of less government and more individual responsibility to the American people, and they elected him President of the United States. But his program is already being sabotaged. David Rockefeller's Council

on Foreign Relations and the Trilateral Commission have moved to surround the new President. There are at least thirty-four members of the C.F.R. or Trilateral Commission in the Reagan Administration, many of them closet Keynesians. Can we honestly expect this crew of Establishment retreads and banking *Insiders* to administer real change in government policy and preside over a return to the Free Market?

Consider those interest rates. Rather than monetize the Debt and continue to drive up prices, inflation resulting from our huge deficits is being fought with interest rates which would make a loan shark blush. These rates are already driving asset rich, and cash poor, businesses into the hands of Establishment bankers and into the pockets of connected giants through merger. As this becomes obvious, and the public grows angry about it, the Fed will start monetizing our Debt like crazy or the private sector contraction will drag us into an horrific depression and Reagan will get tagged with the name of Herbert Hoover Jr.

Of course, it could be that Reagan really has no control over interest rates. Earlier this spring there were widely circulated rumors that Fed Chairman Paul Volcker was about to resign. This turned out to be wishful thinking on the part of the Administration. The President and Volcker had a widely publicized meeting, after which interest rates did not come down. Perhaps Volcker explained the facts of financial life to the cowboy. Reagan may have learned that the President does not issue edicts to the Chairman of the Federal Reserve Board; that, if anything, it is the other way around.

It is also highly possible that Volcker has no leeway in the situation. According to French author

Jean Jacques Servin-Schreiber in his new book, *The World Challenge: O.P.E.C. And The New World Order*, Arabs who have billions of dollars tied up in U.S. Debt instruments and bank deposits have told the Federal Reserve to keep interest rates and the value of the dollar high or else the price of oil will be doubled. The world pays for oil in dollars, and the O.P.E.C. nations are tired of accepting a rapidly depreciating asset in return for a limited natural resource.

And you may recall that three years ago Paul Erdman, a former Swiss banker, wrote a best-selling novel entitled *The Crash Of '79*, in which a worldwide depression was triggered when the Arabs refused to renew their certificates of deposit in U.S. banks. It could be that only Erdman's timing was off.

Which brings us back to the Budget. We think Ronald Reagan is going to get no help from the Federal Reserve. You will recall that as the President was conferring with Western European leaders at the recent summit meeting in Canada, and listening to their entreaties to drop U.S. interest rates, Paul Volcker was telling the American press that interest rates would not be lowered. Also, monetarism will not by itself stop inflation and cure our economic problems — short of a depression. If you doubt it, ask the British! No, what is needed is massive cuts in federal spending, taxes, and regulations.

Which is why Americans had better forget about the Reagan Euphoria and start thinking about electing a Congress next year that will be willing to give us the immediate hundred billion dollars in cuts, and balanced Budget, necessary to assure low interest rates, abundant capital, a strong dollar, and a restored economy. Short of that, the American people are just kidding themselves. ■ ■