Wall Street blackmails President

The bond-dumping threat is intended to force the President to make deep cuts in the budget, especially in defense.

According to top City of London sources, major Wall Street investment houses have accumulated the largest stock of bond holdings in history in the period leading up to the Nov. 6 landslide Reagan election. There are no published figures, but one estimate is that Wall Street investment houses, such as Merrill Lynch, Goldman Sachs, Brown Brothers Harriman, et al. could unload upward of $10 billion worth of such bonds.

"The holdings on Wall Street were clearly motivated by a desire to ensure the Reagan victory, but in such a way as to give Wall Street major blackmail leverage over the Reagan budget process," one leading London broker said on Nov. 16. "Now, the rate at which those houses unload those bonds onto the markets could have major impact on prices with an upward impact on interest rates. I would expect this dumping would occur around the January period before Reagan's State of the Union to create maximum panic impact on Congress over the size of the budget deficit," he continued. He cited the "coincidence" of the latest pressure from Treasury Secretary Regan, formerly head of Merrill Lynch with the Wall Street blackmail capability. Regan demanded cuts in the defense budget be considered.

President Reagan and his advisers have agreed to drastic spending cuts in all domestic programs, with defense spending cuts the major subject of debate, well-placed White House sources report. Budget Director David Stockman, the same sources say, has staked his career on a factional position for defense cuts. Stockman will ride point on this one; Treasury Secretary Donald Regan will support Stockman, but not to the point of risking his job. Stockman and Regan will focus on the Strategic Defense Initiative—the so-called "Star Wars"—in their axe-attack on the defense budget. One source describes this as a "Treasury policy coup."

A parallel fight has broken out in the Federal Reserve System. Fed chairman Paul Volcker is fighting supposed "pro-Reagan supply-sider" Preston Martin, the Fed's vice chairman, over whether to print money in the face of an economic downslide. *Both* sides of *both* fights are incompetent; they assume that the United States must respond to the crisis as the satrapy of European financial interests who control the margin of funding of the U.S. budget deficit.

Treasury Secretary Donald Regan is refusing to rule out cuts in defense and Medicare or a tax increase. "Well, what we're saying is tax increases only as a last resort," Regan said in an interview Nov. 11 on "The Business Program" of Britain's Channel 4. Asked whether the cuts would include defense, Regan replied: "As far as the Defense Department is concerned, no." But he noted that Congress had limited the real rate of growth in defense spending in 1983 and 1984: "I would suggest that that's an area that should be looked at." Regan's spokesman, Alfred Kingon, said Regan believes defense is a "legitimate area to be looked at [for cuts]."

In a related development, the Treasury Department leaked to the press that it had virtually ruled out a plan invented by Reagan hardliners to slap on a national sales tax of some kind in order to raise additional revenue to cover the budget deficit while maintaining a large volume of defense spending. The officials quoted by the wire services today "stressed that final decisions on their proposal have yet to be made, and they noted that the whole plan could be changed to include some sort of sales tax after it's delivered to the White House next month," i.e., that they were stating a Treasury factional position.

White House hardliners, who devised the plan for a national sales tax as a straightforward austerity measure to pay for defense spending increases by reducing consumption, have had to accede to Treasury leadership on this subject.

In a related development, the Federal Reserve released minutes of its Open Market Committee meetings for Aug. 21 and Oct. 2, showing that Fed chairman Volcker had squared off against Vice-Chairman Preston Martin, usually portrayed as the "Reagan supply-sider" in the Fed board, over the issue of loosening money supply. The Fed permitted a marginal easing during September, but the majority of the Fed board backed Volcker's refusal to continue in October. Preston Martin and two other directors called for a "somewhat lesser degree of reserve restraint and faster monetary growth in the fourth quarter," warning of "strains now being experienced by some financial institutions."

But the majority warned—echoing threats published after the Nov. 6 election in the London *Financial Times* and the *Economist*—that looser credit might result in "a sharp decline in market interest rates."