Eye on Washington by D. Stephen Pepper

James Baker: worse than the Gramm bill?

The Gramm-Rudman-Hollings amendment calling for a balanced budget for the United States by 1991 has passed the Senate by an overwhelming 74-25 vote. It has now gone to committee, since the House had already passed the extension of the debt ceiling to which it was attached. The House-Senate conference consisting of 57 members began its consultation the week of Oct. 14.

Considerable opposition has formed from the Democratic House conferees. Speaker Tip O'Neill has designated three areas for attacking the proposal: It exempts all debt service; it exempts Social Security; and it exempts previously negotiated contracts. This hardly leaves much to cut but social services and the discretionary portions of the military budget.

On this point O'Neill and Treasury secretary James Baker agree. In a nationally televised interview, Baker said that the budget could be balanced without raising taxes, "but not if you exempt half the budget." Baker went on to list budget cuts that could be made voluntarily by Congress immediately, including revenue-sharing, which is the main source of federal monies given to the states. In short, Baker agrees with the thrust of the budget-balancing proposal, but finds it too restrictive in its exemptions.

Well he might, since budget-balancing is a code term for the application of Interntional Monetary Fund austerities to the U.S. national sector, and no one has been more dedicated to achieving this than Baker. It would be impolitic for the international banking fraternity to demand openly such measures against the United States as they demand regularly and openly against the Third World. So, the same goals are introduced by more subtle means, and Jim Baker has distinguished himself in the eyes of his backers for being a lot slicker than his predecessor, Don Regan, in slipping in the necessary austerity measures. It would not be an exaggeration to call him "the best little Secretary of the Treasury the IMF ever had."

From the day Baker was appointed to Treasury he had his eye on the presidency. He decided that his constituency was the Trilateral Commission, and that what would please these gentlemen the most would be to force the U.S. economy through the IMF wringer, just as if it were a Third World country. The part of the budget that would be the most devastated would be defense. Among his first proclamations at the Senate hearings reviewing his appointment was that he would seek a greater role for the IMF in monitoring U.S. economic policy.

Baker may not have authored the Gramm proposal, but he is tied to the same circles who have done so, the Hoover Institute, and the American Enterprise Institute. And he is not expressing any opposition to it, in contrast to Secretary Weinberger, who has warned that the mandated cuts under the Gramm proposal would lead to a national security crisis. One Budget Committee aide ventured the view that the amendment would require perhaps $25 billion in defense cuts for fiscal 1987. Since the amendment as drawn would exempt military contracts, these cuts would almost entirely come from reductions of as much as 250,000 in personnel.

Baker's political "genius" is that if the amendment passes he will have Congress do the dirty work for him. Now that opposition is beginning to develop toward it, even within the administration, if it is defeated he will come out untouched, and his advocacy of voluntary budget cuts will have to be adopted by a chastened Congress.

What is overlooked in this "heads I win, tails you lose" choice, is that an alternative to the entire austerity package has been clearly outlined by presidential candidate Lyndon LaRouche in his National Emergency Defense Act. Instead of looking for ever new ways to cut the industrial and agricultural production capabilities of the country, LaRouche proposes to use the federal government's credit-generating capabilities to drive forward a new industrial revolution spun off from the applications of plasma physics and related energy-dense processes.

Baker is vigilant to see that no productivity-oriented solutions emerge as policy. He instead is promising a new speculative binge. As one market analyst recently wrote (*Grant's Rate Observer*), "a rift is widening between the administration and the Fed. The World Bank's balance sheet will be mobilized to support more commercial lending by commercial banks to insolvent governments. The dollar it is promised will be devalued. Credit risk will be shifted to the public sector from the private." By this script Baker would emerge as "the top financial genius in the Republican Party," accept the nomination in 1988, and go on to win—that is, if the Trilateral Commission were a sufficient consitutuency to elect a President.

But even Fed chairman Volcker has warned that driving down the dollar risks having it plunge precipitously. Commercial banks have responded negatively to Baker's initiative, and the austerity levels involved in a balanced budget would make the current depression irreversible. Baker may be gambling for the presidency, but he risks joining Andrew Mellon as the worst Treasury Secretary the U.S. ever had.