

GAIL FOSSLER & PETE DAVIS

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I stopped by the budget office and ran into Gail.

She asked if I was going to follow them again. "This is not a year to be missed... It's the denouncement. There's a political minefield ahead."

She said, "We took him up to New York last week to meet quietly with some Wall Street financiers (Sam Wakagama & _____ Wojenauer for 3 1/2 hours) and I was amazed that he is light years ahead of the best thinking in the financial community. They think the Reagan revolution is here to stay. He views it as an experiment. He thinks that unless it is viewed as being fair, as helping all the people, it will fail. He's thought of questions that haven't even entered their heads."

"A friend of mine on the House Budget Committee (Shaunessy) asked me, 'When is Domenici going to get out front with the Domenici Plan?' I told him that the Domenici plan was put forth in a set of circumstances where the President had presented no program--trying to create the basis for a second budget resolution. But now we have a new situation where the President has a program. And Domenici is loyal. If only the President would stay neutral--Dole said that the other day, too. If only he'd remain neutral, and let us work it out. But he isn't neutral now; and he didn't stay neutral on the second budget resolution. He has sent down a program that is unacceptable to Congress. But we can't do anything without his support or neutrality.

Domenici is keepin a low profile... My friend in N.Y. who arranged the meeting last week sent me a fable afterward--about the praying mantis. It has remarkable powers, and in the world of insects it is one of the dominant forces. But when it tried to take on a chariot, it failed."

I commented on how the president stands athwart the entire process. And I talked of Specter's bill problem, without naming him. And she said yes, but that the admin is just as hard on Republicans almost as it is on Democrats.

She said that administration is divided internally. I had described Specter's problem as getting all the legs of the table in place. And we picked it up saying that Ludlow of OMB tells them that if they plunge ahead, he'll support them. And she said "Maybe he will but that's only one leg of the table. And if we've learned one thing through all this it is that until one man speaks, nothing else counts."

The general picture is that PD is thinking but not sticking his neck out to oppose the President.

"It's nice to have someone on our side," she said to me.

Pete Davis, whom I went to talk to next, described Pete as "hunkering down". "I talk to Martha Buddeke, and she says 'People out here can't turn around on a dime like that.' So what happens is these guys hunker down and wait for the storm to pass. If someone out in the state says 'This thing isn't going to work, let's go in another direction' then these guys will pop up and say 'Here we go. We're going in this direction now. I guess you can't blame them.'"

I asked him about blocs on the committee in terms of economic philosophy. And I asked, are there distinct groupings according to economics or is it all politics or what. And he said "all of the above." And the main thrust was that you have to look at them one by one by one.

"There are some guys who will not vote for a deficit--period. Armstrong, for instance. There are some guys who will no way vote for a tax increase. But that's not all of it. I don't think Quayle has any economic philosophy; he'll bend with the current situation. Domenici and Gorton have an economic philosophy. Armstrong is strong. But this idea that all the Republicans marched in lock step with the administration is nonsense. Sure, as long as everything's going

well, they sign on. But just let things go bad and they'll be all over the place. Each one will look out for himself. We're going to have trouble getting anything out of the committee this year."

That seemed to be the bottom line. Every man for himself.

"Things are in a mess. You're going to start seeing bankruptcies and financial institutions going under. People can't hang on much longer. I've never known interest rates to be going up at the bottom of a recession. That's unheard of, but that's what's happening."

He said there are two reasons for high interest rates and they tied into one another. First is that people who lend money think inflation is coming back and won't lend money for more than 30 days. Second is that people who lend money want a high "risk premium" (Eckstein says it is 4%). The point is that interest rate is made up of 3 factors "real rate", inflation and risk premium. Real rate is at 2% or so; inflation is 11% more; but rates that banks charge are 17 and up. The extra factor is what lenders tack on to insure that they don't lose money. They want a big safety margin. But that factor is so high that people can't borrow. So they don't. And there's no investment, etc. It seems to boil down to the expectations of financing, i.e., "the financial markets."