Fear wartime credit controls in the U.S.

At the urging of Sen. Jesse Helms of North Carolina, the Senate Banking Committee announced April 18 that it will hold hearings in late May on whether to repeal the President's existing authority to impose selective credit controls on the economy.

This authority dates from the 1969 Credit Control Act, inspired by the congressional joint Committee on Defense Production, which gives the U.S. President standby powers to direct the Federal Reserve to cut off credit selectively for the purpose of combating inflation and, if necessary, of gearing up the economy for war. The act, in fact, grew out of plans drafted by the Office of Emergency Planning for standby controls on consumer credit and other mechanisms for ensuring the defense production capabilities of the economy in the event of conventional or nuclear war.

Helms's concern that the Administration's next bungling move in its professed fight against inflation could be the imposition of wartime credit controls is well-taken. In recent weeks, the President's economic advisors—Secretary of the Treasury Werner Blumenthal, inflation "czar" Alfred Kahn, and Council of Economic Advisors head Charles Schultz—have said repeatedly that a deep recession would be preferable to the current double-digit ascent of the consumer price index and the "overheating" of the economy. If Capitol Hill fears pan out, and the economics team goes for a shutoff of the five-year auto loans that have been the main prop holding up the U.S. economy for the last three years, the Administration will indeed succeed in triggering a recession. (See interview.)

Domestic auto sales skidded a steep 17 percent in mid-April from the year-earlier pace. Sales of the wobbling Chrysler and near-bankrupt American Motors Corp. were off 38 and 25 percent, respectively. Ford Motor, whose troubles are only a shade less severe, announced last week that it is putting the 1,400 employees at one of its assembly plants on indefinite furlough in mid-May because of excess inventories. The drop in auto sales comes at a time when the entire Midwest corridor is being crippled by the continuing strike by Teamster steel haulers and is threatened by the likely possibility of upcoming strikes in the rubber, electrical equipment, and, come September, the auto industries—strikes which are being provoked by the Administration's unworkable seven percent guidelines. Any further destabilizing move—such as a restriction on auto loans—would be a calculated effort to trigger a new recession.

But this is not the worst of the credit controls story. For the "utopian" planners in the Joint Committee on Defense Production who instigated the Credit Control Act, credit controls are part of an insane "limited nuclear war" strategy. The more recent activities of the committee have included the consolidation of all Federal defense preparedness agencies into the Federal Emergency Management Agency (FEMA), and the commissioning of a March 1979 report entitled, "Economic and Social Consequences of Nuclear Attacks on the United States." The subject of that 60-page study, which was published complete with aerial strategic bombing maps of Massachusetts, the test case for the study, is the need to have in place a complete infrastructure for running the U.S. economy after a nuclear strike.

In congressional hearings in 1966 on extending the emergency economic provisions of the Defense Production Act of 1950, Rep. Leonora Sullivan of Missouri, a key member of the Joint Committee on Defense Production, questioned an official from the Office of Emergency Planning on the OEP's progress on drafting emergency economic plans. The OEP's Mr. Belsey responded: "This has been done. It is a continuing job. The plans have been made not only for conventional or limited war situations but also for nuclear war situations."

Economic side

The Credit Control Act was originally pushed through Congress in the inflationary climate which was touched off by nonproductive defense spending for the Vietnam war and aggravated by the tight money policies adopted by the Federal Reserve under then Chairman William McChesney Martin, allegedly to fight inflation. While much was made at the time of the need to have a mechanism for curbing credit extension for nonproductive uses, such as the big conglomerate wave of the 1960s, the clear intent of credit controls was—and continues to be—to offset the inflationary spiral due to military and other nonproductive spending through cutting off credit to and collapsing the consumer sector and industry.

In an infamous early 1970s interview in *Business Week*, the then chairman of Textron went on record as favoring selective credit controls as an important tool of monetary policy, thus distinguishing himself from the contrary view of most U.S. businessmen. Then at the November 1976 meeting of the Northeast Governors Conference in Saratoga Springs, N.Y.—the conclave which created the corporatist ENCONO—Miller told an interviewer matter-of-factly that he supported the decentralization of the nation's defense industry to insure continued defense capability after an A-bomb strike.

—*Lydia Schulman*