Editorial

Congress must control the Fed

Since the Carter election defeat, which was recognized as a mandate against the economic policies that have collapsed the nation's industry and sent interest rates and inflation through the roof, Fed Chairman Paul Volcker has acted as though he received a vote of confidence. Volcker has raised interest rates over four points since the election, consolidating the aim he set in October 1979 when he stated that "the American living standard has got to decline."

Volcker got his decline: a 10 percent decline in workers' consumption, a 50 percent decline in auto and construction, and a more than 8 percent decline in industrial production overall.

Now, thanks to Volcker's policies, interest rates have reached their highest mark since last spring and Volcker has admitted "the likelihood of a squeeze." The Fed chairman told the Securities Industry Association recently that fighting inflation will be a "painful process . . . unless inflation yields sooner than later, you're in for a rough time."

These policies, which will ensure a devastated economy by Inauguration Day, must be stopped before Reagan takes over the White House.

President-elect Reagan has made it clear that his economic goals do not cohere with a 20 percent inflation chasing a 20 percent interest rate.

The battle to turn around the Federal Reserve's dictatorship over the American economy now depends on a strong bipartisan effort to end tight credit policies and put America back to work.

The constituencies of the nation have made it known to their elected officials that they will not stand for the wholesale dismantling of the economy. Anti-Volcker warfare has broken out in the Congress, launched particularly by House Democrats after they returned from the Thanksgiving recess, where the mood of the electorate was clearly voiced.

House Majority Leader James Wright threw his weight against Volcker, saying that "Members of the Federal Reserve Board have taken it on themselves to plunge this country into recession."

Later in the week, as anti-Volcker motion gained momentum throughout the nation, Wright went even further: "It is said that a guillotine will cure a headache; by that logic, perhaps the Federal Reserve knows what it is doing. . . . What will it take for the Federal Reserve to realize that high interest rates are not the cure for inflation but the cause of inflation? . . .

"Our analysts on the budget committee estimate that each percentage point rise in interest-rates increases federal spending by about $2 billion for debt service. So the rise between June . . . and today . . . could cost the federal government roughly $12 billion.

"Now let us add another factor. Today's rates are killing the auto industry, the housing industry, and they are killing business activity. Does anyone here doubt that the result will be at least a 1 percent rise in unemployment? And what does a 1 percent rise in unemployment cost the government, $20 to $25 billion?. . . If interest rates had remained at the lower level, we might have had a balanced budget."

Representative Bill Alexander, an Arkansas Democrat, went on to hit the Fed for obliterating the distinction between credit for productive and non-productive purposes, between "inflationary and non-inflationary credit."

This is in fact the key to assuring the economic recovery of the nation. Congress has the constitutional responsibility to retake control over credit generation, and tie it explicitly to the expansion of real production in hard-commodity areas such as steel, auto, transportation, and agriculture.

These are the proven policies of the American System of economic growth, and the key to assuring that Reagan's election mandate is carried out.