House Majority leader: Volcker bankrupting U.S.

by Barbara Dreyfuss

A revolt against the policies of Federal Reserve Chairman Paul Volcker broke out in the House of Representatives on Dec. 1. The story of this revolt, blacked out of the nation's press, is an *EIR* exclusive. The congressmen who have declared their determination to reverse the depression policies of the Federal Reserve include House Majority Leader Jim Wright of Texas and deputy Democratic whip Bill Alexander of Arkansas.

More than nine congressmen representing districts from the Mississippi delta to the Midwest industrial heartland have assailed Volcker in daily attacks. In addition to Wright and Alexander, these congressmen include six other Democrats—Tony Coelho (Calif.), Paul Simon (Ill.), Carroll Hubbard (Ky.), Ron Mottl (Ohio), Bill Nelson (Fla.), and James Oberstar (Minn.), and one Republican, Timm Lee Carter (Ky.).

The statement characterizing the mood of the revolt was Jim Wright's declaration, who charged Volcker with increasing inflation, not abating it.

Bipartisan potential

These congressmen have felt increasing pressure from their constituents, outraged over the Fed's cutback in credit to critical industries including auto, housing and construction. The Federal Reserve has forced interest rates up by 4 percentage points since Election Day alone.

Pressure on these congressmen increased when they returned to their districts during the Thanksgiving recess at the end of November. "Be assured that this past Thanksgiving holiday season, while in Kentucky in my own district," declared Representative Hubbard, "I did hear from hundreds of people concerned about high interest rates and their inability to borrow money and about their inability to make payments on money they may have borrowed in the past."

This fight to oust Paul Volcker and ensure adequate credit for industrial expansion provides a basis for the working relationship between the Democratic House and the Republican administration, as Jim Wright indicated when he stated: "If the new President can gain control of the Federal Reserve Board and let it understand who has been chosen to run this country as Harry Truman did, he will be a hero and deservedly so."

Former Democratic Party presidential candidate Lyndon LaRouche, Jr. has asserted that the fight to reverse Federal Reserve policy must become the basis for bipartisan collaboration. In a pamphlet titled "Action Policy for Rebuilding the Democratic National Committee Around Bi-Partisan Economic Policy," being circulated to the DNC and leading Democrats, LaRouche calls on Democrats to shape the economic program of the Reagan administration and prevent the Republicans from launching an economic austerity program à la British Prime Minister Margaret Thatcher. President-elect Reagan "has placed greater emphasis on seeking bipartisanship than any recent President-elect. If we properly respond to that extended hand, we can have an important influence on the first 100 days."

A number of conservative Democrats are seeking to

Majority leader Jim Wright.

use the fight against Volcker as the basis for orienting the Democratic Party away from the discredited economic programs of the Carter administration which resulted in the Republican landslide in November.

Bill Alexander, who has helped lead the attacks on Volcker, is a spokesman for a group of moderate Democrats in the Congress. The deputy whip is attempting to forestall the election of a new Democratic Party chairman by the Democratic National Committee (DNC) until the House Democratic Caucus can review the credentials and policies of all prospective candidates.

In a resolution to the House Democratic Caucus calling on the DNC to wait before choosing a new chairman, Alexander declared that the "elected members of the United States House of Representatives have expressed a profound concern for the future of the Democratic Party . . . and have expressed a significant concern for participating more directly in the policy formulation function of the Democratic National Committee." Capitol Hill sources say that he wants to prevent the badly defeated liberal wing from controlling the party because of inaction by conservatives and moderates.

NDPC proposals

Lyndon LaRouche, now chairman of the advisory board of the National Democratic Policy Committee, declared in his Action Program that the way to rebuild the defeated Democratic Party would be around development of a "bipartisan national economic policy."

"The most efficient pathway for rebuilding the presently dismayed national Democratic Party as an effective force and that quickly, is to reshape the image and activities of the Democratic National Committee, such that that body serves in fact as an efficient policy-formulating forum for the national and state party organizations as well as the constituency forces of the party more generally."

"If we muster an appropriate set of proposals for bipartisan national economic policy, Mr. Reagan will certainly take such offers of cooperation into account in shaping what he proposes to set into motion during that crucial initial period of his administration. . . . If we provide the national institutions of the Democratic Party with such an efficient role as I have suggested here, that fact by itself will quickly rally the constituency forces of the Democratic Party back to the Party's national as well as state organizations."

Specifically, LaRouche proposes that these programs include tax reductions to stimulate industrial expansion, a two-tier credit system, promotion of high-techology capital-goods exports and development of improved industrial technologies.

Three prominent New Jersey Democrats, including a former congressman and members of the 1980 Democratic Rules Committee and Platform Committee, have signed a telegram to the DNC urging support for a "bipartisan economic and monetary policy package" and declaring that "toward this end we see a good deal of merit in the policy proposals put forth by former presidential candidate Lyndon LaRouche."

What Democrats say

The following are excerpts from statements made Dec. 1 on the floor of the U.S. House of Representatives.

House Majority Leader Jim Wright (D-Texas)

The nation's economy has been staggered by high interest rates. During the month of November the prime rate has jumped four times. . . . With each jump more small businesses have closed their doors. With little apparent reason the Federal Reserve Board has deliberately encouraged this upward spiral of interest rates. This not only has choked off economic growth, it seriously endangers many businesses of long succeessful standing. Because of record-high interest rates, business failures are up 64 percent from the relatively high level of failures suffered in 1971 according to Dun and Bradstreet. High interest rates have just made it harder to get into debt. They have made it practically impossible to get out of debt. They have crippled home-building industry, auto industry, small businesses and consumers everywhere. Even First Pennsylvania Bank has fallen victim to high interest rates. Otherwise healthy companies like White Motor, Korvettes, and Braniff are suffering because of the interest rates. The highest profit return in healthy industry is 24 percent. If the prime rate goes to 20 percent, most businesses simply cannot stay in business. Certainly they cannot expand to employ more people. Completely on their own and without any recourse to peoples' elected representatives in Congress or to the administration, members of the Federal Reserve Board have taken it on themselves to plunge this country into a recession. It is not fair to the incoming administration, it is not fair to the outgoing administration. Most of all it's not fair to the country. The Federal Reserve is not elected by anybody, apparently its members feel they are not answerable to anybody. If the new President can gain control of the Federal Reserve Board and let it understand who has been chosen to run this country, as Harry Truman did, he will be a hero and deservedly so. If he cannot, heaven help us all.

Rep. Bill Alexander (D-Ark.)

The voters on Nov. 4 sent a clear and unmistakable message that the economy and inflation are the preeminent concern of most Americans. One of the principal causes of inflation is the criminally high interest rate policy now being imposed by the Federal Reserve. This policy does not reduce demand by producers, by farmers, and by manufacturers across the country. Farmers, for example, must borrow to produce regardless of the cost of credit.

Our economy depends to a large extent on its ability to grow. Growth depends on capital investment and consumer demand. With our present inflationary environment it

and business will gladly pay higher rates of interest in order to acquire goods and services today which they perceive will cost even more tomorrow. If individuals and businesses come to accept the notion that the price of money is an open-ended cost of doing business, which can be passed along to the consumer, then we can expect mounting pressure for increased income to meet the burgeoning costs of living. That, Mr. Speaker, is the essence of the inflationary wage-price spiral. . . . I believe it is time to reassess the Federal Reserve's policies of raising interest rates to restrict the supply of money. The evidence is becoming overwhelming that inflation is in fact increased, rather than dampened with each new elevation of the federal discount rate.

It is time also, Mr. Speaker, for the Federal Reserve to distinguish between producer credit and consumer credit. In a credit-deprived economic environment, industrial growth is inhibited and the productive components of our economy are disadvantaged. This leads to contraction of our industrial and agricultural output with all the attendant ills of unemployment, diminished income, decreased revenue for governments at all levels, and the necessity for increased federal outlays for income support.

Rep. Ronald Mottl (D-Ohio)

Mr. Speaker, for nearly 14 months the Federal Reserve Board had pursued a policy of ignoring steep interest rate increases as it tries to dampen inflation through control of the money supply. Yet today we still have double-digit inflation, while the prime lending rate is again edging toward that record-shattering level of 20 percent that we endured last spring. The economy needs most what the Fed has failed to deliver—reasonably low and predictable interest rates, so businessmen and consumers alike can borrow and spend.

I have therefore written to Federal Reserve chairman Volcker, asking that he resign. Hopefully the new administration will learn from the disastrous experiments of the old.

Rep. Tony Coehlo (D-Calif.)

Actions by the Federal Reserve to restrict the money supply and supposedly curb inflation seem instead to be contributing to inflation. Higher interest rates are passed along as a cost of doing business so that consumers pay more for products and services instead of doing without. The housing industry and auto industries are being devastated by high interest rates, just at a time when both were beginning to recover from the last round of high rates. . . .

Rep. Carroll Hubbard (D-Ky.)

We have not had the cooperation we should have had from the Federal Reserve Board. I question the policies of the Federal Reserve Board and the need to continue to increase interest rates.

Rep. Timm Lee Carter (R-Ky.)

Mr. Volcker, there is no doubt about it, is a good man; he believes in the brotherhood of man, the fatherhood of God, the neighborhood of New York City, and 20 percent interest rates.

The following telegram was sent to the Democratic National Committee by Helen Riley, Democratic Party Platform Committee member, 1980; Emory Zold, Democratic Party Rules Committee, 1980; and former Rep. Henry Helstoski:

Our party must develop and be able to present to the Reagan transition team a draft bipartisan economic and monetary policy package which is consistent with the vital national interest that Mr. Reagan has declared himself committed to satisfying and which corrects the potentially disastrous policy errors within the Reagan camp, mostly identified with "Friedmanism." We must learn from the administration's toleration of Paul Volcker's "Friedmanite" policies—and we must do so and assure that Reagan does so, before our national economy and the welfare of our party's constituencies are wrecked.

Toward this end, we see a good deal of merit in the policy proposals put forth by former presidential candidate Lyndon LaRouche. Such controversy on issues of policy as LaRouche proposes, is critical to the strength of the party and the nation.

Below is an excerpt from the newly released document, "Action Policy: Rebuilding the Democratic National Committee Around a Keystone Posture of Proposing A Bi-Partisan Economic Policy" by Lyndon H. LaRouche, Jr., chairman, Advisory Committee, National Democratic Policy Committee:

Resolved: There are four most prominent areas in which the Democratic Party seeks bipartisan agreement on economic and related matters of national policy with the incoming administration of President-elect Ronald Reagan. These four areas of policy making are:

1. Taxation policies
2. Credit, banking, interest-rate policies
3. Promotion of expanded world trade
4. High-technology retooling of basic industry and agriculture. . . .

1. Taxation Policy

Tax reduction should occur in three categories, as follows:

1. Substantial increases in the per capita exemption for members of households.

2. Substantial increases in tax credits for depreciation, amortization, and depletion of capital improvements of productive capacities of industry and agriculture and generous policies for encouraging capital gains from research and development.

3. An ingenious and long-overdue added tax incentive to savers.

2. Interest-Rate Policy

Establish a two-tier credit system.

1. Enlarge the capacity and operations of the Export-Import Bank, providing large volumes of low-cost credit to exporters.

2. Open
to act as lender of last resort.

3. Promotion of World Trade

The possibility of a sustained economic recovery in the United States and other OECD nations depends upon increasing the volumes of high-technology capital-goods exports imported by so-called developing nations.

4. Promotion of Technological Progress

We emphasize that in the last analysis advances in the productive powers of labor require increasing the ratio of energy usefully transmitted by productive capital to the muscle-energy of workmen. It is improved technologies for energy production and distribution, combined with improved productive technologies for deploying that energy, which enable national productivity to rise.

Rep. Bill Alexander *told the House Dec. 3:*

As the total money supply is expanded, the value of our currency is diminished accordingly, unless there is commensurate expansion of tangible wealth. In recent years the growth of the money supply has outstripped the growth of tangible wealth as represented in the productivity indices.

The Federal Reserve high cost of credit policy makes no distinction between credit for productive and non-productive purposes. Credit used for productive purposes—manufacturing, agriculture, mining, utilities, transportation—aids the formation of capital and facilitates the expansion of tangible wealth, resulting in economic growth. High credit for no productive purposes—the examples are well known to all who have spent money we do not have by using a credit card—is clearly inflationary.

I suggest that the Congress has not only the authority but the responsibility to set guidelines for the Federal Reserve to modify its policies in a way which recognizes the essential differences between inflationary and non-inflationary credit.

Jim Wright *elaborated to the House Dec. 3:*

The Federal Reserve, in its perverse wisdom, has proved that a 20 percent interest rate will not halt inflation. Perhaps they believe that some still-higher interest rate will do so. Indeed, it is said that a guillotine will cure a headache; by that logic perhaps the Federal Reserve knows what it is doing. . . . In October 1979 the prime rate was 14.5 percent. By April 1980 the prime rate had jumped to 19.5 percent, just about the level we are approaching today. Between those dates, and during the rise in rates, business failures increased by 40 percent and business bankruptcies climbed 50 percent. 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?

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