

Democratic senators in open challenge to Volcker

by Graham Lowry

An open battle over the high interest-rate policy of the U.S. Federal Reserve has erupted in Washington, and its outcome may well determine whether the United States can avert a full-scale economic blowout looming for the month of October. The danger of that blowout is increased by the fact that the Reagan administration is not merely tolerating Fed Chairman Paul Volcker's usury policy, but, especially since the Ottawa summit, is actively supporting it.

While President Reagan and the heads of government of the other leading industrial nations met in orchestrated "sensitivity" sessions, agents of the IMF, the OECD, and the Bank for International Settlements convened the actual Ottawa summit to complete their plans for the economies of the advanced sector. A primary instrument of those plans has been and continues to be the 20 percent interest-rate regime overseen by Paul Volcker on behalf of the stated intentions of the international oligarchy and its British royal family to eliminate the nation-state—most particularly, the constitutional republic of the United States.

The signs that President Reagan was becoming locked into a position of support for the policies of the central bankers became publicly visible at Ottawa, in his widely reported adulation of Prime Minister Margaret Thatcher, who presides over that devastated plot of real estate known as Great Britain. A further indication was provided by Reagan's eager embrace of French President François Mitterrand, who, in his brief tenure of office

has already begun to obliterate the political and economic institutions of the Fifth Republic. Finally, and most emphatically, President Reagan flatly rejected the forceful appeals of West German Chancellor Helmut Schmidt to take action to bring down interest rates, despite Schmidt's longstanding and repeated warnings that Volcker's policy threatened the economic survival of Western Europe and the military security of the NATO alliance.

Spurred by tremendous constituency pressure, congressional opposition to the Fed's high interest rates has been building steadily, despite a significant diversion of legislative and public attention by the protracted fights over the President's budget and tax programs. But in the aftermath of Ottawa, even as the tax bill moved onto the floor of the Senate and House for adoption, the dam broke on the interest-rate question. On July 28, Sen. Lawton Chiles, a Florida Democrat, introduced an amendment to the tax bill condemning high interest rates which, though later dropped by the conference committee, passed the Senate 100-0, with the Republican leadership seeing to it that no Republicans went on record in support of Volcker by voting against the Chiles initiative.

Then on July 30, Sen. John Melcher, farm spokesman and Democrat of Montana, introduced a joint House-Senate resolution that, if passed, would force immediate White House action to bring down interest rates. The teeth in Melcher's bill, which as a joint resolution would have the force of law, are provisions directing President

Reagan to establish a consultative board that would ensure that the Federal Reserve lowers interest rates within 90 days, and mandating that credit be made available to the nation's ailing productive industries and farms.

Further evidence of the growing demand for action, especially among conservative Democratic senators, came from another proposal made during debate on the tax bill by John Stennis of Mississippi. Stennis presented a bill to establish a National Commission on Interest Rates, joining together government officials and representatives of the private sector, to determine administrative and legislative means of achieving "moderate and stable rates of interest." Under pressure from Sen. Robert Dole, the Kansas Republican who is close to the White House, Stennis withdrew the bill in return for a promise of hearings in the Finance and Banking Committees after the August recess.

Senate Democrats in particular have mapped out an ongoing campaign of committee hearings and public forums to shape a policy fight against high interest rates. But the party's congressional forces, especially on the House side, are suffering from a lack of leadership and from successive defeats by the administration. Lyndon H. LaRouche, Jr., chairman of the advisory board of the influential National Democratic Policy Committee, announced in a July 30 news release that the time has come for a Democratic Party "war council" against Volcker's policies and their supporters. LaRouche called on representatives of the party's political action committees to join with him in accomplishing what California banker and Democratic National Committee Chairman Charles Manatt has failed to do to protect the nation from Volcker's usury.

Both Democrats and Republicans in Washington are fully aware that President Reagan has been sold on maintaining high interest rates, and since the Ottawa summit especially, the President has made his support known. One source close to the White House's inner circle reports that "a heavy commitment" has come down from the President for Volcker's policy. On the Hill, a key staffer for a conservative Democrat who supported the President's economic program, reported the congressman's chagrin that the President was "adamant" in his backing for the Fed chairman.

Playing to the President's "all-American" profile, key administration officials, as well as Paul Volcker himself, have gilded the high interest-rate policy in such a way to convince Reagan that it is indispensable to his program for "economic recovery." According to *EIR*'s sources, Volcker has persuaded the President that high interest rates will help repatriate dollars currently in the Eurodollar market by attracting them back to higher returns in the United States, while one of Reagan's economic advisers has described the same process as

providing more "liquidity" for America. Topping these "newsspeak" designations for Volcker's operation are arguments made by CIA and State Department officials that high interest rates are an important weapon against the Soviet Union, since by drawing money into the United States, they will restrict the amount of credit available to the Soviets.

No matter how persuasive such casuistry may be to President Reagan, the reality is that the world's economic and political stability is rapidly disappearing in the wake of the central bankers' blitz against production and industrial investment, a blitz that has intensified since Ottawa. Helmut Schmidt brought that reality home to a press conference in Bonn on July 30. "We're suffering from high American interest rates," the West German chancellor said. "I told President Reagan that unless the United States brings its interest rates down, then we will have to cut public spending everywhere in Europe." The resultant budget for Germany announced by Schmidt for next year includes a real cut in the defense budget of nearly 2 percent when adjusted for only a 6 percent rate of inflation. Schmidt's warning on the threat to Western security posed by Volcker's policy took on added significance this week with the news that the U.S. Department of Defense has been ordered to prepare a 5 percent cut in military spending for fiscal 1983.

Despite the Reagan administration's "rearm America" pledge, its support for Paul Volcker and the Federal Reserve throws America's defense capabilities—and those of our allies as well—into the shredder. Backed by support from the President, the Fed has responded to congressional demands for lower interest rates by saying it will "ignore them." An official of the New York Fed said last week, "Congress isn't serious about wanting interest rates down. They have just acted in the most irresponsible manner in passing a tax cut and a big defense budget. That makes it impossible to lower interest rates."

To add weight to this blackmail, the New York Fed has prepared a report, written by Morgan Bank and Goldman, Sachs investment house, claiming that the only way to bring down interest rates is to cut the defense budget. Scheduled to be released shortly, the study reportedly has already been endorsed by Defense Secretary Caspar Weinberger.

At the same time that Secretary of State Alexander Haig drives the United States toward a full-scale confrontation with the Soviet Union, America's strategic military capabilities are collapsing with its industrial base and technological resources. Without freeing the economy from the control of Paul Volcker and his backers, the administration's bankrupt but dangerous foreign policy, supported only by a nearly bankrupt economy, leads the United States not toward a "new beginning" but toward World War III.

How the fight emerged

While national media attention has focused predominantly on the group of conservative Democratic congressmen known as the Boll Weevils, who delivered the decisive margin in President Reagan's budget and tax victories, a parallel Senate caucus, operating almost unnoticed for the past seven months, suddenly redefined the terms of economic debate in recent days as they forced the issue of usurious interest rates to the floor of the Senate. With allies such as Sen. John Melcher (D-Mont.) and the venerable Sen. John Stennis (D-Miss.), these conservatives intend to make President Reagan's suicidal embrace of Paul Volcker's policies the single economic issue upon Congress's return in September.

An important political lesson emerges from the differing approaches adopted by Senate and House conservative Democrats. In the Senate, many Democratic traditionalists quietly voted for the President's budget and tax programs but increasingly pointed to high interest rates as the "Achilles heel" of the President's program. A crescendo of activity around this issue led to Senate passage of the Chiles amendment on July 28 by the astounding vote of 100 to 0.

The Chiles amendment blasts high interest rates, and recommends that the Federal Reserve Board act to ensure adequate credit for productive purposes. But on the House side, the "Boll Weevils" left the interest-rate issue publicly untouched, as they were forced by Tip O'Neill's confrontationist stance against the President to expend much of their own political capital in the fiery budget and tax battles. As a result, also on July 28, when a resolution on high interest rates reached the floor of the House, the resolution was the product of Volcker ally Rep. Henry Reuss (D-Wisc.). Reuss's resolution condemned continued budget deficits as the cause of stratospheric interest rates—not his friends at the Federal Reserve Board.

The defeat of ultra-liberals such as George McGovern and Frank Church last November left Senate Democrats, now in the minority, largely bereft of national spokesmen. Remaining liberals such as Ted Kennedy have surfaced only sporadically. So, at the outset of the 97th Congress, a group of 10 conservative Democrats formed an informal caucus composed of Sens. David Boren (Okla.), Sam Nunn (Ga.), Lawton Chiles (Fla.), Ernest Hollings (S.C.), Dennis DeConcini (Ariz.), Howell Heflin (Ala.), Edward Zorinsky (Neb.), Bennett Johnston (La.), James

Exon (Neb.) and David Pryor (Ark.). This group of primarily newer senators was soon joined by Russell Long (La.), the still powerful former chairman of the Senate Finance Committee.

Early activity of the caucus centered around how and in what form to support the President's programs and issues, such as reduction of violent crime. While some caucus members, such as Boren, and other mainstream Democrats, such as Melcher, began to raise the interest-rate issue in private discussion, there was a tentativeness and a feeling of "let the experts on the Banking Committee or in the various policy groups take the lead."

But by July, it was clear that interest rates were not coming down and that whoever those "experts" might have been, they were not going to take the lead. Boren began to make daily speeches on the Senate floor on the devastation caused by interest rates. Three caucus members, Boren, Zorinsky, and Pryor, joined Melcher and James Sasser (D-Tenn.) in a series of "public forums" to hear from constituencies hit hard by interest rates. Boren, Nunn, Chiles, Exon, and Johnston shot off a letter to President Reagan calling for a domestic economic summit shortly before the Chiles amendment passed and the Melcher resolution was introduced. Economic debate in September will be dominated by this group.

In contrast, the House Democrats are in disarray following Tip O'Neill's tax and budget debacles. The Boll Weevils' Conservative Democratic Forum (CDF) never broke open on the issue of interest rates. Perhaps, unlike their Senate colleagues, they continued to listen to their "economic experts"—people like Mont Pelerin Society asset Phil Gramm of Texas, who calls Senator Melcher's resolution "baloney," and banking committee and CDF member Doug Barnard of Georgia, who used to work for the Federal Reserve in Atlanta. For whatever reason, their abrogation on this issue has left it to the likes of Henry Reuss to misdirect.

While Tip O'Neill is everybody's bad joke, moderates such as Majority Leader Jim Wright (D-Tex.) and Deputy Chief Whip Bill Alexander (D-Ark.) have not yet been able to catalyze effective action on interest rates. They will probably remain in political limbo until the Boll Weevils follow the lead of their Senate counterparts and make Paul Volcker and high interest rates the focus of economic debate.