The lineup in the House and Senate

by Susan Kokinda

Congress returns from its summer recess on Sept. 9, politically singed by the outrage of constituents over Paul Volcker's usurious interest-rate policy. A grass-roots movement, based on a fundamental point of economic policy, is stirring in a way not seen since the Great Depression; throughout the country, groups of small businessmen, trade unionists, and farmers are taking it upon themselves to force national action against the Fed's economy-crushing policies. In Paducah, Kentucky, the Board of Realtors has announced a full mobilization to make Sept. 8 "Save Our Society" (SOS) Day and to organize 1 million telegrams into Congress with the message: interest rates must be lowered to the single-digit range. In the Midwest, local home builders, trade unionists, and farm organizations have declared their intention to march on the Michigan State Capitol on Oct. 6, designating it "Black Tuesday," the second anniversary of Volcker's 1979 credit squeeze. Even the staid National Association of Home Builders put out a legislative alert on high interest rates in early August, and has indicated its intention to form a "labor-management coalition" for lower interest rates with the National Farmers Union, Lone Star Industries, the Industrial Union Department of the AFL-CIO and other trade unions.

This political firestorm has had its effect on legislators at home for the August recess. Even such liberals as Maryland Democrat Sen. Paul Sarbanes (who six months ago was stony-faced and silent as constituents trooped into his office demanding action on interest rates) have discovered the political wisdom of addressing the issue. Sarbanes convened three days of hearings across the state on interest rates, and exulted as his probable Republican opponent in the 1982 election, Rep. Marjorie Holt, attacked him for questioning Volcker's policies.

Republicans who are little more conscious of economic and political reality than Mrs. Holt, are beginning to concede that the issue could defeat a number of GOP senators in the elections next year. At least on their home turf, Republicans ranging from Senate Majority Leader Howard Baker of Tennessee on down are talking tough about the Fed's policies.

Immediately on the agenda as Congress returns will be the legislative fallout from 20 percent interest rates. President Reagan will have to ask for an additional $20 billion in cuts for the 1982 budget to compensate for the unexpected (at least to the administration) added cost of debt service on the federal debt. Rather than drawing the obvious conclusions—that is, lower interest rates and reduce the deficit by $20 billion—indications are that Congress will grit its teeth and continue to slash away at the federal budget in the "Catch-22" belief that the deficit causes high interest rates!

At least on the Senate side, some Democrats have promised to force the question of Fed policy and interest rates into the budget debate. Senator Melcher can be expected to raise his proposed S. J. Res. 104—which calls for the President to consult with the Federal Reserve Board and bring down interest rates within 90 days—as an amendment on the floor every chance that he gets. Similarly, the respected Mississippi Democrat Sen. John Stennis may once again raise his proposal to create a Commission on Interest Rates which would be charged with examining ways to reform the Federal Reserve Board. Brought up by Stennis during the tax debate, the proposal provoked a frantic dash by Treasury Secretary Donald Regan and others to a Capitol Hill back room to convince Stennis to withdraw the amendment. Stennis did withdraw it temporarily, but on the condition that appropriate Senate committees examine the interest rate/Federal Reserve Board issue in September—a condition Stennis intends to enforce.

Possible targets for these or other interest-rate amendments include votes on the second concurrent budget resolution and on the extension of the federal debt ceiling. Under the legislative budget process, the second concurrent budget resolution is to be passed by Congress by Sept. 15—a deadline that will be missed. Instead, OMB Director David Stockman will come before the Senate Budget Committee on that date with details of the new round of budget cuts for the FY82 budget. Senate Budget Committee mark-up should be over by September's end and a floor vote—rife with opportunity for amendments on interest rates—can be expected in early October.

Congress must also approve each "temporary" extension of the total limit of federal borrowing. The extension comes up at the end of this quarter, Sept. 30, when the debt ceiling will top $1 trillion. Democrats may take two approaches—some may vote no on the extension—both for the perverse pleasure and for the political expedience of forcing their budget- and debt-conscious Republican colleagues to vote for a $1 trillion-plus ceiling. A more useful approach may be further amendments dealing with the impact of high interest rates on the federal debt load.

Melcher is reportedly looking for a serious House cosponsor. But some House Democrats close to Tip

O'Neill indicate that, while they think it is acceptable for Senate Democrats to wage guerrilla warfare on interest rates since they are the *minority* in that chamber, it would be "irresponsible" for the House Democratic *majority* leadership to "impede" the legislative process with such tactics. Behind that rather incredible reasoning stands the House liberals' hope to keep the party focused on the divisive budget issue and to provide further grounds for alienating and eventually censuring or expelling the conservative House Democrats.

Documentation

Clamor against Paul Volcker

The following are excerpts from testimony on the "Effect of High Interest Rates on Maryland Communities," delivered at hearings of the Joint Economic Committee's Subcommittee on Investment, Jobs and Prices in Annapolis, Maryland Aug. 31 and Sept. 1. The hearings were chaired by Maryland Democrat Sen. Paul Sarbanes.

From the statement of Hugh H. Gambrill, president, Anne Arundel County Chapter, Home Builders Association of Maryland:

I am here today to protest the high interest-rate policy of the Federal Reserve Board and to urge the administration and Congress to take whatever action is necessary to change their cruel and senseless policy.

Because of the policies of the Federal Reserve Board, in Anne Arundel County, building permits through July of this year are down as much as 50 percent from previous years and getting worse. In a county such as Anne Arundel. . . . The full economic impact can be calculated to be at least $500 million. This means that with building activity off by more than 50 percent from where it should be, the loss to the county [using a standard multiplier] is more than a quarter billion dollars.

In human terms it is worse. . . . For Anne Arundel County . . . the current drop in building means the loss of more than 3,000 jobs.

In conclusion, I feel that if this does not get the attention of elected officials now, I think that elected officials will be dealing with it this time next year.

From the statement of Henry A. Spies, Jr., Cordova, Maryland farmer:

Agriculture is the nation's largest industry. . . . The American farmer is the most efficient producer on earth. . . . The future of agriculture and the foundation of the American farm family is in serious jeopardy. . . .

Machinery ownership costs are primarily determined by prices of machinery and by interest rates. Increases in both of these items caused machinery ownership costs to rise by more than 20 percent in 1980 with an additional projected increase of 14 percent in 1981. . . . Farmers electing to store cash grains will find that interest costs will nearly equal the storage and insurance costs. . . . Farmers are reporting that their annual interest-rate payments exceed the amount paid on the principal. . . .

Many have asked the question, "Is the American farmer secretly going broke?" The response by the farmer: "Heck, no; the whole town knows I'm going broke."

From the statement of Joel A. Boren, general manager and chief executive officer of Marva Production Credit Association and The Federal Land Bank Association of Salisbury, Maryland:

The Delmarva farmer, as well as other farmers throughout the country, over the past five years, have seen interest rates soar from short-term operating-type loans in January 1976 of 8½ percent to the present level of 16½ percent. . . . Many farmers in our area have fought back in many ways: 1) Reduced amount of fertilizer and chemicals used. This can be done for a year or so, but detrimental effects will be noted if this practice is continued for an extended period; 2) The ideal of being debt-free, not owing anyone, is now a thing of the past. Farmers must now schedule payments they can meet, which means longer-term loans; 3) The selling off of timber and applying proceeds to debt. Timber does not grow at a rate that will offset interest rates.

Excerpts of testimony by Alan Thomas Fell, commissioner of consumer credit in Maryland's Department of Licensing and Regulation:

Record-high interest rates have affected Maryland consumers in the following ways: 1) These record rates have raised the cost of consumer goods to both cash and credit customers. Merchants and manufacturers have had to raise the cost of goods since their cost of carrying inventories has become almost prohibitive. In addition, most merchants are . . . forced to raise their retail prices, in effect, subsidizing the credit purchasers; 2) Installment sellers are finding it difficult to sell their financing contracts or hold their own paper. These merchants have been calling our office in record numbers.

From the statement by Sen. Paul Sarbanes:

The problems created by continuing high interest rates are approaching crisis proportions. . . . The damage thus far is serious; and, if conditions are not soon improved, will be irreparable. Enterprises which have been an important asset to their respective communities, an important economic resource, will be lost.