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Why Chairman Volcker remains so self-confident

by Richard Cohen, Washington Bureau Chief

The anti-Volcker shock delivered to congressmen and senators spending the August recess in their home districts has, as of Sept. 17, generated the proposal of at least 20 separate congressional bills or resolutions aimed at legislating a confrontation between the Federal Reserve Board and the President or Congress. Further, according to sources close to the Senate leadership, at least 15 proposals are now circulating on Capitol Hill focusing on even more radical calls for reorganization of the monetary system, with special emphasis on the re-entry of gold.

Sources close to the White House add that President Reagan's important Sept. 14 meeting with conservative House Democrats, and his Sept. 15 summit with the congressional Republican leadership, both aimed at fixing a winning consensus around the President's upcoming "second round" of budget cuts, included intense and extensive exchanges on the question of "excessively high interest rates." On Capitol Hill, one veteran senator asserted that the popular avalanche there against high interest rates is "like something he has never seen before."

While official Washington creaked under this new national pressure, Paul Volcker, announced, to the horror of Brazilian businessmen gathered at the São Paulo Club Sept. 4, that U.S. interest rates would not come down for at least the next two years. Importantly, Volcker's confident proclamation in Brazil, put forth well beyond the earshot of Congress, drastically exceeded the prediction he had made a month and a half ago before the Senate and House Banking Committees of what was at that time broadly considered intolerable—six more months of high interest rates.

Volcker was no less confident when he appeared before the Senate Banking Committee Sept. 16, reporting that Congress will have to either make further drastic cuts in the budget or consider new taxes in order to restore "confidence in the market." He waved aside popular and congressional sentiment, responding that he would not budge under such pressure. Volcker's condescending challenges to Congress, amplified by a continuous deluge of editorial budget and tax demands from the *New York Times, Washington Post,* and the *Wall Street Journal*, thus persisted through a week's worth of congressional and executive huff and puff against high interest rates and "Wall Street."

While the uncertainty over the 1982 elections that was begun during the August recess increasingly haunts Washington's elected officals, most who have come back to Washington over the past week and a half have already sought to buy time by finding an economic equation that can satisfy both their irate constituents and Wall Street.

And, alongside this moral weaseling, Volcker and his friends believe that Congress, the President, and the American people do not possess the required levels of *intellectual* courage to develop a solution to the current economic crisis and to simultaneously assume the responsibilities for setting priorities for the nation's economy.

Nowhere has this profile of Washington's elected officials been more justified than at the White House

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over the course of the second two weeks in September. According to an informed Senate source, the Sept. 16 White House summit with Republican congressional leaders revealed that the President and his closest advisers are now desperate to lower interest rates but do not see the conjuncture as an "eleventh-hour crisis." This source reports that the President believes "we are only at the tenth hour," and has asked the Republican leadership on the Hill for 90 days within which to bring the rates down substantially. The President's time-buying plea, aimed at creating breathing room until his State of the Union address, could have devastating consequences, with no guarantee that the U.S. economy will not enter the widely predicted serious collapse phase in October. The President and his most intimate advisers have set upon a fresh attempt at pleasing Wall Street, while at the same time attempting to retain enough constituent support to survive. In a "stick to your guns" message, President Reagan announced on Sept. 13 his decision to ask for only marginal cuts in the defense budget amounting to $2 billion in 1982, $5 billion in 1983, and $6 billion in 1984. This decision, aimed at holding together the President's conservative ranks, ran contrary to proposals offered by OMB Director David Stockman to cut the defense budget by well over $30 billion in the span of the next three fiscal years.

However, pursuing its cuts elsewhere, the White House leaked late Sept. 16 that it intends to renege on a series of pledges not to demand further reductions in Social Security outlays. In a disgusting assault on all entitlement programs including Social Security, the administration has indicated that it is prepared to push for a rollback in the cost-of-living timetable. Indications are that this late move against sensitive programs was aimed at covering up what would essentially have been a forced official White House announcement that the budget deficit for fiscal 1982 would be vastly above $42.5 billion.

The panicked decision to go after Social Security and other entitlement programs—reflecting the real size of the deficit Volcker has caused, and setting a precedent for more and more betrayals of political pledges—was made against the strong opposition voiced earlier this month by the House subcommittee on Social Security, chaired by J. J. Pickle of Texas, where Democrats brought further evidence that cuts so far enacted in Social Security would already cut out one-half million poor people. The President's political advisers had seemed aware that any further cuts in Social Security would mean political disaster. This week David Stockman's much-awaited appearance before the Senate Budget Committee, where he was to lay out the programs that were to be cut in the second round, has been postponed twice.

The trial balloon on the new White House target of $50 billion in deficit was floated Sept. 14 by Commerce Secretary Malcolm Baldrige. After the Sept. 16 White House summit with congressional Republicans, both Senators Laxalt and Domenici resurfaced the new $50 billion figure. Now, the White House is prepared—though it may waffle once more—to move onto that destructive political ground in order to cover a deficit that would be harmless if it were pursuing industrial growth policies.

Party repercussions

While these new dramatic cuts were proposed, the President was already suffering dramatic splits in his own party on the basis of previous budget cuts. Such a split was already in evidence in the Senate Agriculture Committee debate on the administration's farm bill, when Senator Boschwitz and Senator Jepsen tangled on opposite sides of the fence in committee this week.

In additon, on the only other vote of significance to take place this week, two ultraconservative senators, Symms of Idaho and Grassley of Iowa, voted in the Senate against the President's desire to lift the federal debt ceiling above $1 trillion. But even more dramatic than these early defections was the Sept. 16 announcement by New York's Rep. Jack Kemp that he would resist presidential budget cuts across the board (probably with the motivation of forcing the deflationary gold option).

Reagan's attempt to find a middle ground *where none exists* was in further evidence in a Sept. 14 meeting at the White House with conservative House Democrats. According to sources close to the attending congressmen, presidential advisers urged them not to endorse the resolution sponsored by Sen. John Melcher (D-Mont.) aimed at forcing the President to confront the Federal Reserve Board and its interest-rate policy. These congressmeen were told that it would be "politically embarrassing" for the President to be put in such a position. These sources futher reported that the line coming out of the meeting was to "talk tough against Wall Street," but find further budget cuts.

Former chairman of the board of Merrill Lynch, Donald Regan, was unconvincingly trotted out to the Midwest to attack Wall Street and initiate a "nudge campaign" aimed at working several percentage points off the Fed's high interest rates. White House economic mouthpiece Murray Weidenbaum also urged that money supply and rates could be marginally relaxed. White House politicos hope that by chopping a few points off the prime rate they can buy time.

Shockingly, the Fed and Wall Street also picked up the vocal support of substantial sections of Democrats on the Hill. The move to reassert Wall Street control over congressional Democrats was escalated last week when Alice Rivlin, staff director of the Democratic-controlled Congressional Budget Office, testified before

the House Budget Committee. Rivlin, a graduate of the liberal monetarist Brookings Institution, home of Jimmy Carter's key economic advisers, dramatically asserted that the budget deficit for pre-cut fiscal 1982 would not be the $55 to $60 billion the Reagan administration had tacitly projected, but would be a whopping $80 billion. She also projected that President Reagan, to meet projected targets for 1983 and 1984, would have to cut an additional $100 billion, not the $74 billion projected by the White House.

The Rivlin testimony has fed an increasingly vocal move by the House and Senate Democrats to rescind the tax cuts already voted into law. Senators Bradley (D-N.J.), Hollings (D-S.C.), and Hart (D-Col.) have led an early charge for a whopping tax increase on the American people, a tax increase endorsed Sept. 16 by Volcker and incessantly pushed by the *New York Times, Washington Post* and Wall Street.

In addition, the recent signals from the White House on increased entitlement cuts quickly elicited a response from the Democratic National Committee executive committee meeting in Washington Sept. 17, chaired by Charles Manatt. The executive committee officially declared the Social Security issue to be at the forefront of its attacks on the Reagan economic program. And another move to set up Reagan as the fall guy for Volcker was further highlighted by the Socialist International-connected leadership of the DNC. When the state chairmen from the West put up a resolution demanding lower interest rates and blaming the Fed, DNC chairman Charles Manatt reworded the resolution before adoption to remove the criticism of the Federal Reserve and lay the blame for high interest rates directly on Reagan. Further, early rumbles are surfacing among House Democrats aimed at targeting larger cuts in the U.S. defense budget, a policy also endorsed by the *New York Times* and *Washington Post.*

While in none of the some 20-odd bills and resolutions related to the problem of high interest rates now circulating on the Hill is there any legislative solution to the economic problems presented by high interest rates and inflation, the momentum generated from constituencies is forcing the Melcher Resolution, now introduced on the House side by Rep. Bill Alexander (D-Ark.), to the forefront, and a vote is expected soon on the Senate side. However, it should be noted that in no instance over the course of the past week has the President or Congress challenged the basic economic principles of "Wall Street."

However, behind the clamor on both sides of Capitol Hill and the White House around the question of interest rates, there are some important signals. Noteworthy is the fact that within the congressional Republican leadership there are stirrings of serious discussion of escalating the current "jawboning" campaign against Wall Street. Senate Majority Whip Ted Stevens, in Senate floor debate last week, suggested that Wall Street and the Fed's failure to bring down interest rates soon would suggest a conspiracy. The Stevens remark, uttered privately by other congressional Republicans, shattered the myth that budget cutting and other "painful" measures are the only road to lower interest rates, as Volcker and the *New York Times* have continuously suggested.

In addition, Russell Long (D-La.), associated with a number of Southern and Southwestern moderate Democratic senators who, several months ago, advanced the initial salvos against the Federal Reserve and high interest rates, told the Senate that "the chairman of the Federal Reserve Board is using his influence to keep interest rates high, and the chairman is keeping money supply as tight as possible. If one wants to cooperate with the Manhattan bankers' making interest rates as high as they can go, that is the way to do it." Long went on to suggest that the federal government assume control over credit creation through the reinstitution of something "like a Reconstruction Finance Corporation," which could be made to "use the people's credit to the benefit of the majority of the people, not the money lenders."

While these comments
way add up to serious response. Only a movement of size and seriousness can shape an admittedly highly maleable Congress and President around necessary measures.

What Congress said about interest rates

Federal Reserve Chairman Paul Volcker, testifying Sept. 16 before the Senate Budget Committee, announced that cuts in federal spending "are only a down payment" on what is required to "bring expenditures in line with receipts," and called for deeper budget cuts. In cross-examination, Volcker went so far as to state that rates will remain high no matter what Congress does. Excerpts from the cross-examination, transmitted by Washington correspondent Susan Kokinda, follow.

Peter Domenici (R-N.M.), committee chairman, asked when rates might come down. Volcker said: "Well, short-term rates are down, not long-term, but it is really a question of the market's judgment on how successful

you, we, the government is in developing programs that are convincing to the markets. If the programs are not convincing, the response won't be favorable. . . . You have to realize that wages are two-thirds of all business costs, and if we are to have fundamental progress in [the fight against] inflation, then we have to see wage settlements beginning to come down."

Told by Ernest Hollings (D-S.C.) that he "had better sober up" if he thinks Congress will pass $100 billion in budget cuts, Volcker replied, "Well, if you find it impossible to balance the budget on the basis of spending cuts, and I am not convinced that is the case, then at some point, but not now, you would have to look at raising revenues."

Senator Bill Armstrong (R-Colo.) spoke about how high interest rates are "causing widespread human tragedy," but added, "There is an astonishingly widespread feeling that you [Volcker] wake up every morning and decide what the interest rates will be, that you could lower them if you want to. I think that the actual impact that you have is quite limited...."

The Fed chairman smilingly replied, "You are exactly right. Even if we increase the money supply, interest rates won't come down. I don't set interest rates."

Senator Mark Andrews (R-N.D.), a cattle farmer, asked, "If you don't control interest rates, who does?" "We just set reserves," said Volcker. Andrews rejoined, "I have to tell you that you are high on the hit parade for a lot of lynch mobs out there in the country right now. I just left the Appropriations Committee, where I told our chairman, Mark Hatfield, that I was going to hear Paul Volcker, and I asked him if he wanted to ask you anything about what should be done to restore the economy. He said, 'I sure do, tell him to resign at noon.' . . . Unless interest rates come down, there is no way to fight inflation."
general correlation."

Andrews: "What if we did everything you wanted, cut the deficit, budget cuts, tax increases, whatever. Would that have an immediate effect on interest rates?" Volcker: "There is no quick fix. This inflation spiral has been built into the economy for 30 years. . . ." Andrews: "What if we rescind the tax cut. Would that have an immediate effect?" Volcker: "It won't cure inflation, not if the spending side isn't in place."

Lawton Chiles (D-Fla.) stated that the magnitude of cuts being demanded is impossible for Congress to carry out. He added, "I'll tell you what's going on out there. People are ready to cut the head off the Fed. I suspect that is going to happen. I hope you are thinking about a voluntary dual prime . . . because unless you find some way to get credit to small businesses and farmers, there will build up pressure which may have an unwarranted effect."

Dan Quayle (R-Ind.) then asked Volcker whether, if inflation were held below 10 percent, that would lower interest rates. Volcker's response: "I think that you have to look at a lower target."

Sen. James Sasser (D-Tenn.) declared: "You know, in 1931 we carried out a similar policy, and the result was a ruined economy. I see the seeds of that kind of economic downturn, and it scares me."

Excerpts from Senate Majority Leader Howard Baker's statements Sept. 9:

I'm saying now that those rates have to come down. I'm saying interest rates are a cause of inflation. I'm saying they're doing drastic damage to the economy of the nation, to individual citizens, and to the government of the United States, and that we need now a contribution from the business community on how to get those rates down, and "now" to me does not mean months or years in the future. I am talking about days and weeks from now.

From statements by Sen. David Boren (D-Okla.) on Sept. 9:

As many of my colleagues did, I spent a good deal of the [August] recess talking to the people of my state. Those discussions included a cross-section of the people of Oklahoma, and it reaffirmed my belief that the most pressing problem facing this country today is high interest rates. . . . The distinguished Majority Leader said yesterday that something must be done to relieve the high interest-rate burden, not months from now, or even weeks from now, but in days from now.

Mr. President, I wholeheartedly agree, and I renew now the call I made before the August recess began, that the President and his advisers should sit down with the Federal Reserve Board, and other financial leaders around the country. . . .

If the President does not receive voluntary cooperation and immediate action, the results of which should be seen by the general public immediately, then he should prepare an emergency plan to reduce interest rates and submit that plan to Congress for approval. . . . [A] long-term solution is no good if the patient dies in the emergency room—and the U.S. economy is now in the emergency room.

From statements by Rep. Bill Alexander (D-Ark.) on the floor of the House Sept. 10:

Yesterday I introduced House Joint Resolution 319, which will put the President on notice that the high interest rates resulting from his huge inflationary deficit and the Fed's incompatible policy of inhibiting the growth of the money supply to fight inflation are unacceptable to Congress. The resolution directs the Presi-

dent to undertake immediate consultations with the Fed in four principal areas: First, easing reserve requirements on member institutions to make more funds available to capital-hungry markets. Second, changing [Federal Reserve] Open Market Committee practices which cause unwarranted reductions in the money supply, driving the interest rates up. Third, modifying the criteria for setting the discount rate. Fourth, prevention of the diversion and reservation of substantial amounts of available credit and capital for financing corporate mergers and acquisitions to ensure that borrowers from the productive sector have sufficient financing for needed expansion and productivity-growth improvements.

Finally, the resolution calls for effecting substantial reductions in interest rates within 90 days and directs the President to report the results of the consultations to the Congress within 30 days after adoption. . . .

From a Sept. 11 statement on the floor of the Senate by Russell Long, Democrat of Louisiana:

The ability to protect the economy from further high interest rates is in the power of the Congress. It is in the law-making process, which is Congress and the President. Previous Congresses created the Federal Reserve Board. That is an act of the Congress. It is not a part of the Constitution. That act can be amended or repealed entirely. . . . If anybody is going to do anything about high interest rates it should be this government acting on behalf of the people of the country. . . . I do not believe we are going to solve this problem merely by making conditions attractive for the Wall Street bankers and big-money interests. . . . In my judgment, to bring down interest rates, you will have to look at the kinds of things Presidents Franklin D. Roosevelt and Harry Truman did when they used the powers that were given the federal government by the Constitution to create money and regulate the value of it. . . . Many things were done to lower interest rates under Presidents who had the will to act. . . .

We may have to recreate the Reconstruction Finance Corporation to make some of these loans that money-lenders do not want to make, except at 25 percent. . . .

One of the principal reasons we do not have a balanced budget and have no hope of having one is high interest rates. . . . The federal books will never balance with interest rates so high. . . .

[Economic conditions] are serious enough that emergency measures of some kind are warranted. [My concern is with] a serious inadequacy of our financial system. . . . If we continue to fight inflation with recessions induced by high interest rates, the greatest loss to the economy will be the loss of confidence of the American people in the economic system and in their government.

'This administration must wake up'

by Lyndon H. LaRouche, Jr., EIR Founder

The following statement was issued by Mr. LaRouche in his capacity as chairman of the advisory board of the National Democratic Policy Committee.

In a time of food shortages, a farmer may increase his income by selling his seed-corn to millers and his entire herd to the slaughterhouse. What, then, will the nation—and the farmer himself—eat next year?

That describes the sheer idiocy of the British "free enterprise" economic policy now misguiding the Reagan administration.

My associates and I have warned constantly, since October 1979, that the usurious policies of Federal Reserve Chairman Paul A. Volcker and the Carter administration would increase the rate of inflation up to the point that the contraction of the economy brought the United States into a slide towards a new Hoover collpase.

From the beginning of the Reagan administration, we have warned repeatedly that the Kemp-Roth tax bill was idiocy, and that the toleration of Volckerism meant an annual federal deficit increase in the order of between $100 and $150 billion.

On both points, we have been correct, and all of those who opposed our warnings are now proven to have been totally wrong, disastrously wrong. The evidence of the proposed new, more savage round of budget cuts is irrefutable on this point.

The test of wisdom of an administration and a Congress is its ability to learn quickly from evidence of its own major policy blunders. Have the administration and the Congress the courage, honesty and sanity to admit that the Reagan administration's continuation of the Carter-Volcker monetarist policies has led us to a disaster potentially greater than that caused by the Coolidge and Hoover administrations of the 1920s? Have the citizens of this nation the intelligence, courage, and instinct for self-preservation to compel the administration and Congress to force through the rejection of the British "free enterprise" lunacy now pushing us toward incalculable calamities?

The military danger

To those of us old enough to remember World War