Volcker issue forced to a vote in Senate

by Susan Kokinda

Nine Senate Democrats joined nearly every Republican in attendance on Sept. 28 to defeat an amendment to the extension of the federal debt ceiling which called for the President to consult with the Federal Reserve Board and bring down interest rates within 90 days. Despite the 56 to 32 vote, the measure's sponsor, Senator John Melcher (D.-Mont.) announced on Sept. 29 that the previous day's vote was only "round one," and that he intends to bring the same amendment to the floor at every opportunity, until it passes. Given an agenda jammed with appropriations bills, that strategy could translate into a weekly referendum on the issue of the Federal Reserve Board's usurious interest-rate policy.

The political and economic significance of the vote and the ensuing strategy lies not so much in the continued ritual suicide of the administration, whose spokesmen took the Senate floor to defend Paul Volcker, but in the potentiality that the moderate Democrats who have fought to break the insanity of the controlled "budget/tax" debate by bringing the issue of interest rates to the economic forefront, are beginning to crack through. Efforts by the monetarist wing of the Democratic Party—led in the Senate by individuals such as William Proxmire (Wis.), Paul Tsongas (Mass.), Gary Hart (Colo.), and Bill Bradley (N.J.) and in the House by Tip O'Neill (Mass.) and Richard Gephardt (Mo.) and in the Democratic Party by Democratic National Committee chairman Charles Manatt—to prevent Melcher and his allies from bringing the Fed issue to the floor have been set back. The Senate Democratic leadership of Robert Byrd (W.Va.) and Alan Cranston (Calif.), who one week ago were firmly in the camp of the "Paul Volcker protection squad," was forced by the intensity of political pressure to vote with Melcher and give him at least nominal backing in his continuing strategy.

That intensity was indicated by the base of support Melcher mustered from constituency groups, including open endorsement from the National Association of Home builders (NAHB), the Grain Terminal Association, the National Farmers Union, the International Brotherhood of Teamsters, the AFL-CIO, and the American Public Power Association. Melcher and his allies, particularly Senators David Boren (D-Okla.), James Sasser (D-Tenn.) and Paul Sarbanes (D-Md.), took the floor in the debate to underscore the urgency of the economic crisis and the necessity for action on interest rates now. Said Melcher, "We cannot wait any longer to begin getting interest rates back to reasonable levels. We need action now, and this is the right bill to take it on. High interest rate payments on government borrowing are the major reasons we are forced to once again increase the temporary debt limit. As a matter of a fact, we are increasing the temporary debt limit now so that the Federal Government can borrow more money. It is for that reason that we should address a basic problem that causes the need to borrow more money. That is quite simply because interest rates are high." Melcher and his colleagues warned that the President's economic recovery program could never take effect as long as recessionary interest rates were in effect.

But despite those obvious arguments, and despite the clear evidence of President Reagan's own political base demanding action on interest rates—such as the small businessmen represented by the NAHB and the 2-million-member Teamsters Union, which supported the President's candidacy, Senate Republicans continued their lemming-like support of the President's deadly embrace of Paul Volcker. Senate Banking Committee Chairman Jake Garn fulminated: "It [the amendment] is show business, an attempt to convince our constituents that we are trying to do something about interest rates. . . . It won't work . . . there is a more important principle. . . . That is the independence of the Fed." Garn was joined by Finance Committee Chairman Robert Dole, who also defended the sanctity of the Fed and who declared Congress unable to legislate a reduction in interest rates.

The hidden agenda

What angered the Democratic sponsors of the bill was the opposition of a section of the Democrats. The Banking Committee's ranking Democrat, William Proxmire, infuriated his party colleagues by joining Garn and Dole in openly attacking the Melcher amendment. Proxmire distinguished himself by conducting a 14-day filibuster against the extension of the debt ceiling and invoking the virtues of Milton Friedman.

Heavy lobbying had gone on the week before the vote to prevent the Melcher amendment from being raised, by the "monetarist Democratic faction." In the House, the companion to the Melcher proposals was put forward to the House Democratic Steering and Policy Committee by Bill Alexander (D-Ark.) to gain party backing, and was argued down by Tip O'Neill's ally Richard Gephardt. O'Neill's faction argues that the Democrats should merely let the Reagan economic program and the Republican party suffer the consequences of its own economic imbecility. Such crass political opportunism translates into open support for

Volcker. Senators Hart, Proxmire, and Nunn, who voted against the Melcher resolution, and Gephardt and his friends in the House, all accede to Volcker's demand that only cutting the budget or raising taxes can reduce the federal deficit, and hence reduce interest rates. And behind that stands Volcker's hidden agenda of wage gouging, as the accompanying interview with Gephardt makes chillingly clear.

But as Teamster president Roy Williams's letter of support to Senator Melcher shows, the moderate Democrats enjoy the support of a base that is becoming increasingly economically aware. With that behind them, the moderate Democrats stand poised to make high interest rates not only "their" issue, but the dominant issue of economic debate. As one participant remarked, upon hearing the content of the Gephardt interview, "I'd like to see him *run* on a platform of wage controls, tight money and recession!"

Melcher is confident that he can pick up more votes with each new effort to raise his amendment. Several senators, probably including Russell Long (D-La.), Lloyd Bentsen (D-Tx.), John Glenn (D-Oh.), and Mark Andrews (R-N.D.), voted against the amendment on the first round because of technicalities of the debt ceiling extension to which it was attached; they are expected to back Melcher in the next go-round. More importantly, constituency groups now have a target list based on the first call and can now go about the business of ensuring that their senators vote for lower interest rates on the next vote.

Rep. Gephardt applauds the Federal Reserve

EIR*'s Barbara Dreyfuss conducted this interview with Rep. Gephardt on Sept. 28:*

Dreyfuss: Congressman, I understand that you favor the tight-money policy now followed by the Federal Reserve as the way to solve the economic crisis.

Rep. Gephardt: The problem that manifests itself with this economy is that of too high inflation and too high unemployment. The basic problem is too high inflation. There are only a few ways to get rid of it. Given the loose fiscal policy of the last eight years, only an incomes policy, wage and price controls, or tight-money policy can deal with the situation, and since we haven't had an incomes policy, only a tight-money policy can deal with it. I see no reason to withdraw from that. To go to a loose monetary policy would lead to inflation. Unless we can get the fiscal policy tight, which the President indicated last night he wants to, there is no alternative.

Dreyfuss: Do you agree, though, that tight-money policies lead to higher interest rates?

Rep. Gephardt: Yes, but we can't avoid that, unless tight money results in a recession and there is no demand for money. But we are not in a recession, so therefore it leads to higher interest rates.

Dreyfuss: A number of people believe that Paul Volcker and the Federal Reserve Board could actually lower interest rates if they wanted to.

Rep. Gephardt: There is no question that [Volcker] and his board could lower interest rates by letting up on the money supply. The problem with that is that it would result in more inflation, higher interest rates, and a deep recession. Sure, he could do it and we would go into a round of hyperinflation. It's like a patient who is having chemotherapy for cancer, and his hair is falling out and he is nauseous, and asks the doctor to stop it. The doctor says, yes, he can, but the patient will die. . . .

Dreyfuss: Then you disagree with the legislation proposed by Senator Melcher to require the President and the Fed chairmn to lower interest rates in 90 days?

Rep. Gephardt: I think it's a copout and would lead to greater economic problems. It wouldn't cure the basic disease. It is what we have always done in the past; we put the blame on the Fed, say they are causing the problem. It is not the case. We have tried to paper over our declining standard of living caused by oil-price hikes, price hikes, by increased government spending. We can cure it by a recession, by slowly bleeding it out, or by wage and price controls.

Dreyfuss: Do you think wage and price controls would work?

Rep. Gephardt: They are a theoretical alternative, not a practical one. People would gin up the economy under it. They would be hard to administer. Wage and price controls aggravate shortages.

Dreyfuss: You said that it is necessary to bleed the economy—

Rep. Gephardt: I would have preferred, in the situation that Reagan was in, to have a tighter fiscal policy, less of a tax reduction and therefore less of spending cuts. We have to slowly bleed inflation out of the economy. We have to have slow growth. What happened in Britain is what is happening here. It led to 11 percent unemployment in Britain. We can't deal with the inflation which is due to the oil shocks, food shocks, tight money, and loose fiscal policy. There is no painless way out.

Dreyfuss: Your aide told me that you are very close to the Federal Reserve Bank of St. Louis, that you meet with them often and agree with their policies.

Rep. Gephardt: Right. The St. Louis bank has a traditional monetarist view and is one of the strong advocates of tight-money supply. It is safe to say their view is expressed in the Fed chasing the money supply and not interest rates. I think it's correct.

Dreyfuss: Volcker and Frederick Schultz of the Federal Reserve have stressed in recent congressional testimony that it is vital to curb wage increases. Do you agree?
Rep. Gephardt: Sure. The underlying inflation rate is 10 percent . . . caused by wage demands not done on basis of increased productivity. The question is how to keep wages down. There are essentially four ways—wage and price controls that are mandatory, jawboning and a social contract, a recession, and fourth, a slow, moderate recession, which is what I am advocating. . . .

There is a lot of discussion and disagreement in the party. We have members railing against Paul Volcker and the Fed. We are split on this. I think that those who feel that the fiscal policy is central predominate, though.

DOCUMENTATION

What senators said about interest rates

From statements on the Senate floor Sept. 28:

Sen. Melcher

Throughout the August recess, I held a series of interest rate hearings across my home State of Montana.

Always, it has been the same sad economic story:

First. Farmers and ranchers tell me that high interest rates will cost us an entire generation of young farmers and ranchers, and the damage they are wreaking will soon begin to show up on grocery store shelves in higher food prices;

Second. Housing, timber, wood products, and construction representatives have testified that current interest rates are literally breaking the backs of their industries;

Third. Economists have pointed out that . . . there can be no growth whatsoever in the economy;

Fourth. Utilities and other industries are unable to raise capital; and

Fifth. Workers once again find themselves on the unemployment lines. . . .

At one of the high interest-rates hearings I held last month in Montana a farmer said that the Volcker approach reminded him of one of his neighbor's attempts to save money by teaching his dog to go without food. When I saw him a couple of months later, I asked him how his dog was getting along with his training. He replied that his dog had almost learned to go without food, but, for some reason, the dog had up and died first.

Sen. Sarbanes

Current interest rates have created an absolute disincentive to investment. Businessmen and women . . . now ask whether it makes good financial sense to do so when they can earn an immediate, greater return simply by investing their capital in money market funds.

This striking disincentive to investment runs precisely counter to efforts to strengthen the national economy by promoting investment. . . .

High interest rates are undermining the ability and willingness of businessmen to make investments that will improve their efficiency and productivity. . . .

At just the time when state and local government jurisdictions face sharp reductions in financial support from the Federal Government, they also face serious obstacles in the bond market. . . . Important capital improvements are being deferred, to the detriment of the economic infrastructure of local communities. . . .

I want particularly to underscore—a disturbing trend toward a two-tiered economy . . . where there are virtually no homes being built for lower- or middle-income people. . . . We risk a situation in which home-owning becomes the prerogative of those at the very upper end of the income scale rather than a goal to which most Americans can aspire.

Sen. Boren

I refuse to accept the idea that nothing can be done to bring down interest rates in the short term. There are mechanisms available to help those people who are now facing personal and corporate ruin because of high interest rates. This joint resolution is one of them.

The President of the United States has available to him the power to direct the Federal Reserve to bring down interest rates through the Credit Control Act. . . .

Sen. Sasser

I was the first Senator to offer a resolution to the U.S. Senate to have appropriate congressional committees and the Federal Reserve Board look into the feasibility of having a "dual prime rate" that would provide lower cost credit to those sectors of the economy that have been devastated with high interest rates. . . .

Sen. Garn

Believe me, there are other years I would have preferred to become chairman of the Banking Committee than in a year when the prime rate reached 21.5

percent. Before I pray for my wife and children at night, I pray for lower interest rates so I can have a day of peace as chairman of the committee without getting calls from automobile dealers, homebuilders, all down the line.

I am simply saying this Senator does not disagree with the Senator from Montana as to the nature of the problem and how serious it is. . . . But prairie populism has been coming out of this Congress since we came back from the August recess. . . .

That is my major criticism of Congress . . . that we respond to emergency situations. . . . So we hold hearings on high interest rates that make us look good. We are going to have road shows across the country. Most of all, we are going to blame the Federal Reserve. . . .

You just cannot arbitrarily order interest rates in this country. It does not work. You do not have to have a Ph.D. in economics to understand that. . . .

Sen. Proxmire

There is no way that Chairman Volcker can act as Chairman of the Federal Reserve Board now under present circumstances that will not in the long run either increase interest rates or result in a terrific inflationary effect. . . .

So if there is any remedy for high interest rates, that remedy should come from a saner fiscal policy. . . .

Recently Walter Heller appeared before the joint Economic Committee and . . . recommended a consumption tax that would be progressive. . . . It may be too complicated, but it is a challenge that I hope the Finance Committee and Congress will consider. . . .

If we really mean business about having an anti-inflation policy, an anti-high-interest rate policy, the way to do it is to cut Government spending. The way to do it is to balance the budget, if necessary, by taking on some painful tax increases in the consumptive area. . . .

Teamsters demand action on Melcher resolution

Senator Melcher read the following letter from International Brotherhood of Teamsters president Roy L. Williams into the record during the Senate debate on Melcher's amendment. This summer the 2.2-million-member union passed a resolution against Paul Volcker's policies at the Teamsters' national convention.

Washington, D.C., September 11, 1981
Hon. John Melcher, U.S. Senate, Washington, D.C.
Dear Senator Melcher:
On July 30, Senator Melcher introduced S.J. Res. 104, a proposal directing the President to begin immediate consultations with the Federal Reserve Board in order to reduce, substantially, interest rates within 90 days after its adoption.

It is our understanding [that] Senator Melcher, together with Senators Andrews, Pressler and others, will offer this measure as an amendment to S. 884, the Omnibus Farm Bill, and that bill is expected to be taken up next week.

We urge your active support for S.J. Res. 104 because it will provide a concrete vehicle for swift resolution of a very serious problem.

Under the Federal Reserve Board's current policy of so-called tight money, there are precious few beneficiaries other than those who are cash rich.

Moreover, high interest rates are having a devastating effect on our members, both in terms of jobs and as individuals. Without reasonable credit, employers in industries like construction and automobiles will make fewer sales, thereby making less work for many of our members.

Our organization represents over two million members, and virtually all of these people depend on credit in their daily living and the current interest rates make it virtually impossible for workers to purchase homes and other goods.

Beyond that, we find it shocking that a member of the Board of Governors of the Federal Reserve System now considers a decline in wages as one of the conditions for loosening the nation's money supply.

Originally, tight money was supposed to strengthen the dollar in international markets and reduce inflation at home.

Both of those objectives are, to a certain extent, being realized.

Now, we hear from Mr. Lyle Gramley, the board member advocating wage cuts, that we must earn less in order for interest rates to come down.

We consider that beyond the bounds of reasonableness and reality.

In sum, we urge you to support Senator Melcher's effort to begin a program that will reduce interest rates.

Thank you for your consideration in this matter.
Sincerely yours,
Roy L. Williams
General President