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administration posts with a group of holdovers from the 1969-76 Nixon and Ford administrations, the source close to Volcker said, who will follow the Friedman doctrine with the same disastrous results Nixon had. "The people coming in are just a rehash of the Nixon administration," said the Fed source, "the same individuals—and with weaker leadership on top. Reagan is completely inexperienced; at least Nixon was a Vice-President. And the Nixon group didn't do a very good job of running economic policy the last time. Inflation went wild."

The holdovers are, almost to a man, Friedmanites. Milton Friedman himself, of the Nixon Council of Economic Advisers, and his professor and collaborator Arthur Burns, who ran the Nixon-Ford Federal Reserve by Friedmanite principles, will be senior advisers to the new government. The Friedman group seeks the top cabinet posts of secretary of state, secretary of the treasury, and chairman of the Council of Economic Advisers for three self-professed Friedman partisans from the Nixon years. They are George Shultz, Nixon's treasury secretary, William Simon, Ford's treasury secretary, and Alan Greenspan, Nixon's CEA chief. We document their dismal record in this issue (see page 30).

The current squeeze

Volcker, meanwhile, is proceeding to put the United States into the type of recession British Chancellor of the Exchequer Sir Geoffrey Howe recently described as "painful but necessary," from which the Anglo-Americans hope Reagan will be unable to recover.

Since the presidential election, Volcker has acted to force the average federal funds rate at which banks lend their excess reserves at the Fed to each other from 12 percent to over 15½ percent at this writing, a short-term tightening of the basic cost of funds unparalleled since Volcker's original early 1980 credit control measures which sent the U.S. economy into its first quarter tailspin. This has produced a prime lending rate of 16¼ percent, but money market analysts say that if fed funds settle at 17 percent, an 18 percent prime rate will soon follow.

Questioned closely by an angry House Banking Committee Domestic Monetary Policy subcommittee chairman Parren Mitchell on Capitol Hill this week as to why he persists in his credit squeeze, Volcker cited the Friedman doctrine. "The deceleration of inflation requires that excessive monetary expansion must be avoided," he said flatly. "That basic tenet of monetary policy, on which all economists can agree, is reflected in the broad concepts of monetary targeting," the fixed targets for monetary aggregates first defined for modern practice by Milton Friedman in the 1950s, which Volcker has been using as a deflationary guide.

"Let us recognize that slowing of growth of money and credit in an inflation-prone economy is not a simple painless job," Volcker stated. "Let us also recognize that it must be done. And it will be done."

Asked about his future plans for U.S. interest rates, Volcker indicated that he will continue to raise them. The broadly defined U.S. money supply measure M1-B is now growing at a fast pace, in spite of Volcker's tightening, as U.S. corporations borrow to refinance short-term debts incurred in the continuing recession

Opposition to Volcker

In a statement published in the Nov. 14 Congressional Record, Ohio Congressman Ronald Mottl called on President-elect Reagan to "seek Volcker's resignation unless the chairman commits himself to bring down the exorbitant level of interest rates." Mottl is a conservative Democrat who hails from Ohio's 23rd CD, the heavily auto-industry area of Parma. Mottl's full statement from the record follows: "Mr. Speaker, outrageously high interest rates are crushing the nation's hopes of pulling out of the recession and putting the unemployed back to work. After peaking at 20 percent last spring, interest rates declined to lower but still intolerable levels. Now, interest rates have again crept above 15 percent. The result is that our economic recovery is being unmercifully choked at a tremendous human expense.

"Auto workers cannot work because people do not buy cars when they cannot afford the financing.

"Young families can only dream of buying the home they could have afforded before skyrocketing interest rates ballooned their monthly mortgage payment.

"While big corporations can weather financial market ups and downs, the small businessman who needs to borrow is swept away in a tide of red ink.

"It is well known that the Federal Reserve Board policy is to wring inflation from the economy by tightening the money supply. But we must spread the burden of fighting inflation beyond monetary policy, or risk more economic devastation and human misery.

"Therefore I urge President-elect Reagan to seek the resignation of Fed Chairman Volcker unless the chairman commits himself to bringing down the exorbitant level of interest rates."

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