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Sen. Sasser kicks off debate on the Federal Reserve and 'dual rate' plan

by Vin Berg

Well-organized opposition to Federal Reserve Chairman Paul Volcker's usurious interest rates has emerged on the floor of the U.S. Senate. James Sasser (D-Tenn.) and his cosponsors provoked a May 13 debate and vote on a resolution calling for the Federal Reserve to lower interest rates, and for Congress to review the Federal Reserve's presumed "independence," and study the possibility of introducing a "two-tiered" credit system to ensure credit for those most in need.

The debate—blacked out by the U.S. news media—came only one week after a growing constituency organization, the National Coalition to Reduce Interest Rates, announced that it would bring farmers, businessmen, labor leaders and others to Washington June 22 to demand lower rates and Volcker's ouster. Although the Sasser resolution was defeated, such pressure makes it probable that the resolution is only the first battle of a war against the Federal Reserve that will continue.

"This bill makes a very simple statement," said Sasser of his Senate Resolution 132. "It urges the Federal Reserve Board, with the support of Congress, to restrain the current level of interest rates and seek a long-term policy of providing lower interest rates which will ensure our economic recovery."

He and other spokesmen, in the course of a frequently raucous debate, gave a graphic picture of Federal Reserve policy "decimating" sector after sector of the productive U.S. economy. Opponents, including Utah's Jake Garn and Virginia's Harry Byrd, insisted that Congress, not Paul Volcker, was responsible for inflation, citing government spending and other supply-side shibboleths.

Senator Garn, speaking in favor of the "free market," said, "We need less, not more, government intervention in the credit markets. Allocation of credit . . . is completely unsatisfactory when compared to allowing the marketplace to make these decisions. . . . Credit allocation has never worked, and it will not work now."

Yet, from the days of Treasury Secretary Alexander Hamilton, through President Lincoln's term in the Civil War, to Franklin Roosevelt's presidency, the government has taken direct control of credit in order to mobilize the nation's productive resources for maximum deployment, at a time when anything less would have been national disaster.

Further, the "free market" cited by Garn is in fact a market totally controlled by Volcker's interest-rate policy. Sasser's "two-tiered" credit system proposal is in essence a recommendation that the market be controlled in favor of producers. Volcker's interest rates, by contrast, have totally stacked the markets in favor of destructive, speculative ventures of all sorts, while leaving industry and agriculture starved of credit. Under these conditions, Garn's argument for a "free market" would leave the market totally controlled—but by Volcker.

Garn also declared: "I'll be darned . . . if I want to take away the Fed's independence and make monetary policy a political decision of this body or of the President."

In point of fact, the Federal Reserve was set up by major New York and London commercial banks to take control of U.S. credit policy. Garn is therefore subscribing to a flatly unconstitutional doctrine. Under the Constitution, Congress and the President—and no one else—are empowered to direct the economy. Congress created the Fed *as its designated agent*. Congress has the power to abolish it immediately, or to reform it immediately as it sees fit. The Fed has no independent authority, but only the authority designated to—or withdrawn from—the Federal Reserve.

But the Sasser resolution was defeated by an almost solid party-line vote of 57-37. Many Republicans who oppose the interest-rate policy voted against it for fear that a "yes" vote would be seen as an attack on the Reagan administration as a whole. Nevertheless, the debate marks the first time that any significant number of senators has stepped forward to confront Volcker's method of wrecking the nation's industrial base.

Sasser won support from virtually every moderate Democrat in the chamber. Only William Proxmire, of Wisconsin and the Rockefeller family; Paul Tsongas, the Massachusetts ultraliberal environmentalist; and Southern conservatives David Nixon, Ernest Hollings, and John Stennis voted against S.R. 132. The degree of

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Democratic consensus could foreshadow the party's platform plank on interest rates for the 1982 congressional campaigns. And as one Capitol Hill aide commented when expressing disbelief that the resolution had been defeated, Volcker's champions were certainly "risking the wrath of the American voter."

Pressure from the "American voter" is in fact bound to intensify. Last March, the National Coalition to Reduce Interest Rates brought 150 labor leaders, businessmen, and farmers to Washington to lobby against high interest rates. This June 22, after months of lobbying in legislators' home districts throughout the country, the strengthened coalition will be sending busloads of workers, auto dealers, homebuilders, farmers and others to Capitol Hill.

The coalition's broadened support was emphasized by the early-May announcement that its steering committee had been joined by Lloyd McBride, president of the 1.4 million member United Steelworkers of America (USWA). The effect of high interest rates on the auto industry has led to layoffs of more than 100,000 steelworkers.

Sasser: 'a national problem'

The following are excerpts from Sen. James Sasser's statement May 13 on the Senate floor.

The resolution makes a very simple statement. It urges the Federal Reserve Board, with the support of the Congress, to restrain the current level of interest rates and seek a long-term policy of providing lower interest rates that will ensure our economic recovery. This is a goal which is sought by this administration.

Indeed, in their economic projections provided with their budget submissions, the administration expects that the interest rates on 90-day Treasury bills, which were averaging 11.5 percent in 1980, will drop to 7 percent by 1984 and then decline to 5.6 percent in 1986.

Curiously enough, . . . when it became obvious that the first phase of the administration's economic recovery proposal would pass in the House of Representatives, interest rates went up, instead of going down. . . .

We have had extremely high and volatile interest rates ever since the Federal Reserve Board adopted their new monetary policies in October of 1979, and it is these high and volatile interest-rate swings that can hurt any economic recovery in 1981, just as they precipitated an economic recession in 1980. These high interest rates will just as surely stop the economic recovery hoped for by the Reagan administration.

High interest rates, I say to my colleagues, is not a Republican problem, and it is not a Democratic problem. High interest rates are a national problem.

What have high interest rates done to this country since October 1979? They have decimated the housing industry. They have crippled the domestic automobile industry. . . . They have virtually wiped out the ability of American business to have sound long-range capital financing plans, just at a time when we are attempting to modernize the means of production in this country to make American industry more competitive. . . .

So, who is really hurt by high interest rates? It is homebuilders and home buyers. It is realtors. It is people who produce, sell, and buy automobiles. It is small business people. . . . It is farmers when they have to borrow the money to try to put their crops in the ground. . . . It is the consumer who foots the bill. . . .

We have this situation because the Federal Reserve Board has felt that it could control high inflation through high interest rates, but this policy has simply not worked.

Byrd: 'don't interfere with the Fed'

The following is excerpted from the May 13 statement of Virginia's Sen. Harry Byrd, defending the Federal Reserve against Senator Sasser's resolution seeking lower interest rates.

This is a very unwise and unsound piece of legislation. Everyone . . . agrees that interest rates . . . are having very bad effect on the economy of our nation. I do not know of anyone who takes a view different from that. I agree with the first part of this resolution, which states that high interest rates, sustained as they have been since October 1979, are having a disastrous impact on the investment which is needed for future, noninflationary growth. . . .

The problem with this resolution comes when you get beyond the first part of it. This resolution directs the Committee on Banking and the Joint Economic Committee to study the advisability of seeking institutional reforms in the structure and operation of the Federal Reserve System. It further calls for an investigation as to the feasibility of implementing a dual prime rate. It further mandates a study of the advisability of increased congressional supervision of policies affecting the nation's monetary system. . . .

This could further destabilize the financial markets. The problem is not with the Federal Reserve System. The problem is with . . . the accumulated and accelerated deficits of the federal government.

The Federal Reserve Board—and I am not an apologist for the Federal Reserve Board—but the Federal Reserve Board has been fighting the battle of inflation up to this point, at least, single-handedly. . . .

If we let 535 members of the Congress become involved in the operations and deliberations and formulation of policy by the Federal Reserve Board, then if you think this country is in bad shape today, you just wait and see what happens at that point.