Volcker shoving America over the recession threshold

Federal Reserve Chairman-designate Paul Volcker's statements on monetary policy during his Senate confirmation hearings on July 29 bear one interpretation: the U.S. economy is headed into a deep rather than "mild" recession in the months ahead.

In his testimony before Senator William Proxmire's Banking Committee, Volcker recited the central monetarist doctrine that excessive monetary growth is the source of inflation, and he strongly suggested that as head of the U.S. Federal Reserve he will step on the monetary breaks harder and faster than outgoing chairman Miller did.

U.S. ECONOMY

Won't this policy deepen the U.S. recession and increase unemployment? the Senators asked Mr. Volcker. Volcker maintained that "monetary discipline" is the only antidote to double-digit inflation and is therefore in the best interests of the economy and the dollar. Mr. Volcker recalled that in 1971 when the Europeans wanted a strong dollar, he devalued the dollar, and now when the Europeans want a weak dollar to soften the blow of higher oil prices, he intends to deliver a strong dollar.

The irony in this statement is that Mr. Volcker continues to adhere to his 1971 view that the dollar must remain decoupled from gold and its value be determined by "market forces"—a policy whose ultimate consequence is to terminate the dollar's role as the world's principal reserve currency: it is a weak dollar policy. Moreover, Volcker's tight money medicine will decidedly cripple the U.S. economy, whose productive potential is the sole basis of the long-range "investment value" of the dollar.

Whether the omnipresent signs of economic unraveling turn into a deep depression in the months ahead is an entirely political question. The situation of the West German economy provides an illustrative counterpoint to the U.S. in this regard. While the U.S. slides into recession, West Germany is experiencing a modest boom based on rising exports, which were up 12 percent in volume in March and April over last year's levels, and associated strong growth in domestic capital investment, which was up by 14 percent in those months. As the latest monthly report of the French Banque de Parisbas implies, the West German investment boom hinges on the confidence of West German industry that enough of the OPEC petrodollar surplus will be recylced into Third World industrialization projects to keep West German exports expanding.

Volcker and his colleagues on the Federal Reserve Board like Governor Henry Wallich, on the other hand, have in recent months repeatedly cautioned about "overlending" by West German and Japanese banks to the developing sector at concessionary rates, a trend which potentially could spark a full-fledged economic recovery in the developing and advanced sectors. This stance of keeping the U.S. out of European Monetary Fund-related developments in international lending and trade leaves the U.S. economy in a box, caught between the apparent sole alternatives of inflation and recession.

What course lies ahead for the U.S. economy under Paul Volcker? As is widely recognized by now, in recent months Volcker has been fighting for a tighter monetary policy as vice chairman of the Federal Open Market Committee. The likelihood that Volcker's replacement as president of the New York Fed will also favor a tighter policy will bolster the Volcker position on the FOMC.

Short-term borrowing by U.S. business has expanded by $32 billion so far this year, dwarfing 1978's $18.4 billion. Over the last three months M2, the broad measure of the money supply which includes commercial bank time deposits other than c
has climbed at a 12.5 percent annual rate. Only two times before in the postwar period has the Fed squeezed monetary growth and boosted interest rates once a recession was underway. The results were 1957-58 and 1973-75.

Even as Mr. Volcker called for "monetary discipline" during his confirmation hearings, news of the

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first casualties of William Miller's high interest rate regime and this year's stage-managed energy crisis was hitting the nation's media.

The most serious piece of economic news was the report by Chrysler Corporation that it experienced its largest quarterly loss ever in the second quarter of this year—$207.1 million on sales of $3.15 billion—and was asking the Federal government for $1 billion in cash over the next 18 months in the form of accelerated tax deferrals—clearly to stave off bankruptcy. As the employer of 250,000 auto workers in 13 states, Chrysler's plight has implications far beyond the future of one corporation.

Last week, Moody's Investor Service withdrew its credit rating from Chrysler Financial Corp.'s commercial paper, and reportedly the Federal Reserve Bank of New York has begun to monitor closely the entire, rapidly expanding $101 billion commercial paper market for repercussions of Chrysler's troubles, as well as Chrysler's own financing needs.

Industry insiders say that Chrysler—which has Henry Kisssinger's new home, Goldman Sachs, as its investment banker—is under increasing pressure to drop its unprofitable commercial car operations and reorient entirely toward military production.

As the recent announcement by General Motors that it was placing 12,630 production workers at ten assembly plants on "indefinite" furlough, 45,000 U.S. auto workers have been indefinitely laid off. That figure represents about one-fifth of U.S. auto workers.

A long UAW strike would help send the economy into a tailspin and, according to a source at the Council on Wage and Price Stability, it would also set the tone for disruptive labor-industry confrontations throughout the economy.

Construction follows auto on the list of worst off industries at the present time. The value of new construction contracts rose by 5 percent in June. However, the F. W. Dodge division of McGraw-Hill, which monitors construction activity, noted that the rise in total construction contracts was attributable to inflation, which is running around 10 percent per annum in construction. Even in inflated dollar value terms, contracting for residential construction fell 8 percent from June 1978—the victim of historically high mortgage rates. Contracting for nonresidential construction—manufacturing and office buildings—was up 22 percent in value from a year earlier. Economists are predicting that the gains in manufacturing construction will reverse as soon as capital spending plans are brought in line with recent employment and production cutbacks throughout the durable goods industries.

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USDA's Energy Office:

In preliminary investigations into the goals and activities of the so-called Energy Office of the Department of Agriculture, an office created by administrative fiat approximately one year ago, this news service has uncovered the outlines of a plan, which, if allowed to proceed, will reduce the most advanced agricultural sector in the world to a parody of a backward, third world economy.

AGRICULTURE

The Carter Administration proposes to gear up American farm exports to aid the nation's balance of payments, and simultaneously slash energy throughput and capital input levels into the farm sector.

The key to the scheme is the Carter energy policy—as Secretary Bergland put it more than a year ago in testimony to Congress, the plan is to establish "net energy self-sufficiency in agriculture by 1990" with the substitution of gasohol and biomass fuels for gas and oil (nuclear energy, it should be noted, is conspicuous in this equation only by its absence).

This is precisely the type of quick-buck scheme advocated originally for the U.S. by Adam Smith. It is a scheme that violates every fundamental tenet of scientific and technical progress that made American agriculture the greatest and most productive in the world.

The FEMA link

With the onset of the new Schlesinger oil hoax in recent months, the Carter-Bergland "Energy Office" in the USDA went into high gear, its director, Weldon Barton, appearing prominently in the speakers lists of a myriad of congressional hearings and other public engagements. No ordinary bureaucrat, Mr. Barton functions as the liaison officer, via an Energy Coordinating Committee, to the Federal Emergency Management Agency (FEMA), the government in the wings empowered as of last month to rule by emergency decree.

The USDA Energy Office's new high profile is aimed at using the emergench hoax to leapfrog implementation of the plan for "energy self-sufficiency" on the farm—or, as Secretary Bergland demanded some