Opposition mounts to Federal Reserve credit crunch

by Graham Lowry

Democratic and Republican leaders of the New Jersey State Assembly have formally backed and presented to the clerk an emergency resolution demanding the removal of Paul Volcker from his office as chairman of the Federal Reserve Board.

The New Jersey legislative move, part of a growing pattern of national opposition to Volcker's continuing policy of driving up interest rates, comes at a point when the U.S. economy is in a race against time to avert a full-scale blowout.

The urgency of mobilizing sufficient political muscle to oust Volcker has increased this week, with clear signals that Britain is ready to proceed with triggering a major crisis for the dollar, with the objective of forcing the incoming Reagan administration to impose the policies of Milton Friedman on the remains of the U.S. economy.

Reflecting this threat, Reagan economic advisers Jack Kemp and David Stockman issued the following warning to the President-elect in a staff memorandum: "the momentum of short-run economic, financial, and budget forces is creating the condition for an economic Dunkirk during the first 24 hours of the Reagan administration."

Countermoves against Volcker

Resolutions demanding Volcker's resignation have been passed during the last week by a number of organizations around the country, including the Democratic Party of Genessee County, Michigan, and the American Agricultural Movement of Huntsville County, Alabama.

The New Jersey State Assembly resolution, sponsored by Banking and Insurance Committee Chairman James Bornheimer, has been endorsed by the majority and minority leaderships, as well as by Assemblyman Joseph Patero, chairman of the body's Labor Committee.

The measure is set to be read by the clerk for adoption at the Assembly's next session on Dec. 8, and is expected to be approved overwhelmingly.

The proposed New Jersey resolution quotes from another, passed unanimously by the Assembly a year ago, demanding that Volcker "immediately lower the interest rate levels and loosen his tight money policy" or resign.

The new resolution directs the New Jersey congressional delegation to work for "the removal of Paul A. Volcker as chairman of the Federal Reserve System, and shifting the policies of the Federal Reserve to fostering plentiful cheap credit for manufacturing, farming and related *productive* enterprises, thereby fostering a continually expanding tax base as well as stability in the bond markets, so that municipalities are enabled to provide the services necessary to a healthy American population."

Fed 'goes for broke'

New York investment houses are predicting further hikes in the prime rate. The chief operating officer for Lehman Brothers, Kuhn, Loeb told Reuters Nov. 24 that is is "conceivable" that prime rates could exceed the record 20 percent level set earlier this year. David Jones, economist for another Wall Street firm, succinctly noted, "The Fed is willing to go for broke."

What Volcker is counting on is that his continuing credit squeeze will collapse the U.S. economy's remaining productive base to the point that the only recourse for American industry will be to shut down production. Then, with no one borrowing money, interest rates will drop, and the only thing left of the dollar—speculative funds—will be pulled out to burst the bubble. With continued high interest rates now, a crash will hit by the first quarter of next year.

Labor role critical

Amid the growing political opposition to the Volcker policy, the role of organized labor is perhaps the most critical. The forces which gave Ronald Reagan his victory in the presidential election are a coalition consisting of both Friedmanite austerity advocates and constituencies committed to economic growth. Which policy course governs the incoming administration will be largely determined by the outcome of the fight to dump Volcker.

American trade unions, which tended to sit back and nurse their wounds in the wake of election losses to the Democratic Party, more recently are moving into active opposition to Volcker's policies. Much of the pressure behind the New Jersey resolution has come from labor, and over a dozen local union leaders in the state have called publicly for Volcker's resignation.

In Pennsylvania, United Auto Workers leader John McCarrell has called for a national demonstration against Volcker. So far, 15 Piitsburgh area Steelworker union leaders have sent him telegrams of support demanding Volcker's ouster.