Federal Reserve

Volcker rides herd over the Congress

by Susan Kokinda in Washington

In his appearances before the House and Senate Banking Committees during the week of Feb. 8, Federal Reserve Board Chairman Paul Volcker had Congress eating out of his hand, despite a few, significant new attacks on Fed policy. Most notable, in the latter respect, was a letter circulated to fellow Senators by Montana Democrat John Melcher. But apart from Melcher's statements, which motivated a reintroduction of his resolution to cause the President and the Federal Reserve Board to consult and bring down interest rates, the other expressions of alarm over Volcker's high interest rates were accompanied by calls for further austerity.

In his first round of testimony on Feb. 10, before the House Banking Committee, Volcker escaped essentially unscathed, although Rep. Henry Gonzalez (D-Tex.) announced that he would pursue his resolution of impeachment against Volcker on the floor of the House, and Rep. Stan Parris (R-Va.) reflected that the morning's testimony bore a striking resemblance to horse excrement. Those sentiments were overshadowed by near-universal Democratic and Republican acquiescence to Volcker's claim that high deficits, and hence, Reagan's budget, are the cause of continuing high interest rates. Monetarist Parren Mitchell (D-Md.) serenely commented, "If unemployment is what it takes to bring down inflation . . . I guess it will be my people [blacks] who suffer, and that's that."

Volcker met with a few surprises in the Senate Banking Committee the next day, as both Committee Chairman Jake Garn (R-Utah), Richard Lugar (R-Ind.) and Don Riegle (D-Mich.). Garn, who has been defending Volcker religiously for the past year, gave his usual sermon about Congress's ultimate responsibility for high deficits and high interest rates, but concluded his opening statement by cautioning, "What if we get inflation down to 4 percent and what if there is no business community left? Where is the industrial base? Are you looking at real-world consequences? The time has come for the Fed to reassess what you are doing with your monetary targets." Lugar proposed that interest rates be formally pegged to a point 3 percent above inflation, citing the abnormally high interest rates as a threat to any economy recovery. Riegle, whose home state has been laid waste by high interest rates, said that "we are facing a disaster that rivals the 1930s . . . I think we run the threat of depression."

Despite these opening salvos, however, each Senator was content to discuss with Volcker alternate approaches to austerity.

Indeed, Democratic complacency about Reagan's projected $92 billion deficit, and the party leadership's policy of scapegoating Reagan for high interest rates, has left John Melcher in relative solitude in his renewed attempt to lower interest rates. His no-holds-barred letter Feb. 5 to his colleagues regarding Volcker has apparently frightened some of his Fed-loving colleagues away. One week after circulating the letter, Melcher has no cosponsors, despite the fact that it garnered over a dozen cosponsors last year and received over 30 votes on the Senate floor.

Below are excerpts from Senator Melcher's Feb. 5 letter.

Dear colleague:

I will be offering, at the first opportunity on the floor, an amendment requiring that the President begin immediate consultations with the Chairman of the Federal Reserve Board on monetary policy changes that will bring about a reduction in real interest rates.

These discussions are to include potential changes in the areas of:

1) Easing reserve requirements to member banks;

2) Controlling Federal Open Market Committee activities which reduce the money supply and push up real interest rates; and

3) Lowering the Federal Reserve discount rate to member banks.

The President will also be required to report back to Congress within 30 days on the results of these consultations.

Neither can high interest rates be blamed entirely on the current budget deficit. The Congressional Budget Office estimates that $60 billion of the predicted 1982 budget deficit has been caused by the two million lost jobs and thousands of business failures over the last several months. And we know that these lost jobs and businesses are the result of prolonged high interest rates.

We need to increase savings to reduce federal deficits, but we are going in the wrong direction. It is no use to continue debating which comes first, the chicken or the egg. Inflation has dropped, and so should interest rates [emphasis in original].

Today's high-interest rates are the direct result of conscious policy choices by the Federal Reserve Board. Chairman Volcker admits the Board has manipulated the money supply to dampen business activity and surpress the economy. High unemployment is the "bullet" that Paul Volcker thinks we have to "bite" in the fight against inflation.