Momentum grows against Volcker's credit policy

by Barbara Dreyfuss

Public outcry against Federal Reserve Board Chairman Paul Volcker has mounted since *EIR*'s last exclusive report two weeks ago. Trade-union leaders, farmers, business executives and elected officials are all demanding Volcker's ouster or a total reversal of his policies.

Lambasting the Federal Reserve's high-interest-rate policy as "outrageous," UAW President Doug Fraser blamed the Fed in a Dec. 20 press conference for collapsing the auto industry and demanded that Volcker be replaced by someone with "economic sanity."

With auto production down almost 30 percent from last year's already grim levels, Fraser warned that the United States will not have an auto industry if current credit policy continues. "Our nation faces the total collapse of crucial industries unless immediate action is taken," the UAW chief declared in a telegram to President-elect Ronald Reagan. "The U.S. cannot have a viable auto industry if interest rates continue at the current outrageous levels. . . . Unless the Reagan administration acts affirmatively to establish an auto policy for this country, the devastation affecting hundreds of auto-based communities will spread to thousands of other towns and cities as this crisis ripples through the economy."

Fraser urged Reagan to convene an emergency economic summit, including representatives of the administration, Congress, the Federal Reseve and the auto industry, to devise solutions for the auto crisis.

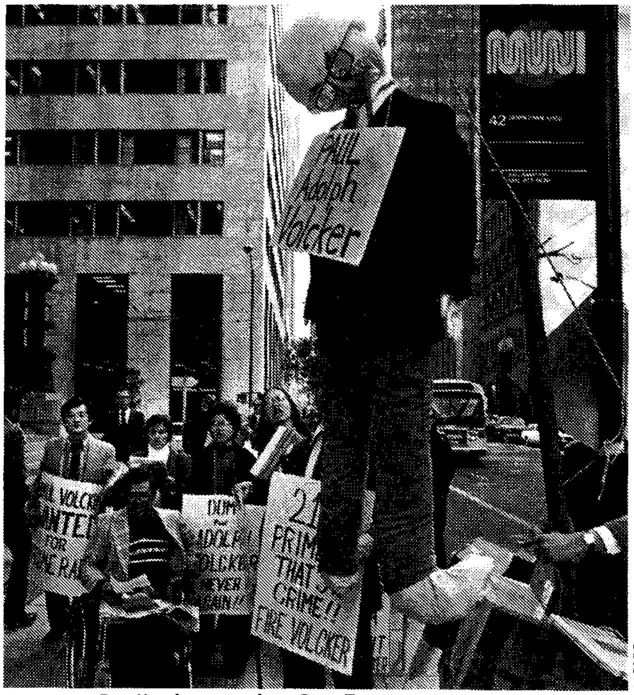
Auto fights back

With 350,000 autoworkers, more than one-third of the entire union, already unemployed thanks to the Fed's monetary policies, Fraser has been getting a lot of pressure from his membership. On Dec. 11, United Autoworkers Subcouncil 9, representing 475,000 employees of the General Motors Corporation, directed a motion to the union's international leadership demanding Volcker's ouster, a one-day shutdown of auto plants, and a picket line in Washington, D.C. to demand a change in Federal Reserve Board policy.

The resolution's sponsor, John McCarrell, president of UAW Local 544, has received telegrams of support from numerous trade-union leaders. And in the first two days after Doug Fraser made his own statement, over 30 trade-union officials sent telegrams of support to Fraser, urging that the UAW back national demonstrations against Paul Volcker.

The mutual self-interest between union leaders and industry executives in the fight to reverse the Federal Reserve policies is becoming evident. In a letter to the *Wall Street Journal* Dec. 26, Chrysler Chairman Lee Iacocca declared, "Contrary to your statements I did not blame the Federal Reserve for the madness of fighting inflation with monetary policy. I blamed it for the madness of jerking the prime rate up from 10 to 20 percent, to 11 percent and then back to 21 percent again. That is madness."

At the same time, Stan Hoynitski, the executive director of the Pennsylvania Independent Auto Dealers Association, demanded Paul Volcker's resignation in his latest newsletter, which was sent to auto dealers in every part of the state. Citing Iacocca's statement, Hoynitski strongly condemned the Fed's policies for crippling not only the auto industry, but the homebuild-



NSIPS

An NDPC rally this month in San Francisco.

ing industry and agriculture. He also declared his support for John McCarrell's call for demonstrations against Volcker.

The fight is beginning to open a farmer-labor alliance of a kind last seen during the Great Depression. The director of the AFL-CIO's Industrial Union Department, Harold McIver, addressed a meeting Dec. 20 of the Georgia state chapter of the American Agriculture Movement, which unanimously endorsed a call for the resignation of Paul Volcker. McIver and Georgia AAM leader Kersey both stressed the need to unite the efforts of farmers and labor. Louisiana AAM President Roger Beale, attending the meeting, told McIver, "We came very close in 1977 to getting parity and growth for the country. With labor's support now, we can win the fight." Kersey declared: "We have to get labor on our side or we farmers will soon wind up working in Southern plants at cheap wages, just like what is happening to workers who come down from the North."

Ronald Reagan responded quickly to Fraser's plea for an economic policy conference. Reagan told reporters the day after Fraser's press conferences that he was definitely willing to sit down with the UAW's leader and was seriously considering the economic summit proposal.

At the same time Edwin Meese, who will be the next President's chief White House counselor, told reporters just before Christmas that Reagan will hold a session with his cabinet in early January and then possibly meet with Volcker. "We will urge Volcker to act in line with the overall economic strategy that Reagan works out with his cabinet," he said. Wall Street responded by speculating that the new administration may move quickly to rein in Volcker.

National demonstrations grow

Whether the Reagan administration actually carries out a program of economic growth with adequate credit for productive industry and agriculture, or imposes austerity programs similar to those of British Prime Minister Margaret Thatcher, as some of his advisers are urging, will depend largely on the national pressure put on the incoming administration from constituency groups. In the last two weeks, the New Jersey League of Municipalities and the South Jersey chapter of the National Association of Homebuilders added their call for Volcker's ouster to those by farm groups, local trade-union leaders and legislative bodies. The homebuilders' resolution will be considered at their national convention in January.

The National Democratic Policy Committee, a multi-candidate political action committee and policy formulating group, has called for a series of demonstrations around the country on Jan. 14 to ensure that the Reagan administration ousts Volcker and restores economic prosperity. In preparation for this, the NDPC held a series of uproarious rallies during the week before Christmas in front of Federal Reserve offices in New York, Washington, D.C., Seattle, Chicago, San Francisco and Los Angeles. Demonstrators ripped into Volcker for shutting down the U.S. economy and hung him in effigy. While passersby leaned out car windows to yell "string him up," the demonstrators sang "Twenty percent prime is a crime" and a special rendition of "John Brown's Body" titled "Hang Paul Volcker from a Sour Apple Tree." The New York rally was endorsed by eight area trade-union officials.

No longer able to ignore the enormous rage in the population against Volcker, more than a dozen television and radio stations, including the Voice of America, covered these rallies. The *New York Times* and *New York Post* interviewed the featured speaker at the Manhattan rally, *EIR* Economics Editor David Goldman. NBC-TV national news ran a story on the Washington, D.C. event and the *Detroit News, San Francisco Examiner* and *Los Angeles Times*, among others, carried a UPI wire photo of the same demonstration.

"This is only the start of a much broader action," declared Warren Hamerman, chairman of the NDPC. "Now is the time for every American farmer, trade unionist, businessman, banker, and average citizen to publicly demonstrate against the policies of Paul Volcker." Lyndon LaRouche, chairman of the Advisory Board of the NDPC, has declared in a nationally circulated pamphlet that the fight to revive America's economic power must become the basis for bipartisan collaboration.

LaRouche's bipartisan call was echoed this week by Sen. Howell Heflin (D-Ala.). "I have called on Reagan and Carter to appoint a joint team to see what can be done on the interest rates and inflation," Heflin told *EIR* on Dec. 19. "We can't wait until January twentieth. We need a joint economic study now, a bipartisan team. There is no question that everybody in America wants to halt inflation and to have better interest rates. Bipartanship is the way to do it."

In his letter to the President and President-elect, Heflin stressed that "Partisan political considerations must not stand in the way of action to bring about a drastic and immediate lowering of interest rates."

Under pressure from their constituents, other congressmen are also denouncing the credit squeeze. On Dec. 16, Rep. Norman Dicks, a Democrat from Washington, where the lumber industry has been hard hit by the high interest rates, introduced a resolution, H.R. 830, cosigned by 21 other congressmen. The resolution declares that "high interest rates will continue severe unemployment, erode national productivity, and prolong our dependence on foreign oil. . . . We call on the Federal Reserve to immediately take steps to reduce current high interest rates." Dicks intends to make the resolution a first order of business for the new Congress, warning that if the Fed does not act, "Congress will."

Representative Fernand St. Germain (D-R.I.), incoming chairman of the House Banking Committee, told an angry constituent that he will not wait until Volcker's term expires to act. "We're going to haul him before the banking committee."

State legislators are feeling the same pressure. Following the passage of anti-Volcker resolutions earlier this month in the New Jersey State Assembly, a similar statement was introduced this week into the California legislators. And Alabama State Sen. Bobby Denton told reporters that he had telegramed both Volcker and the President-elect demanding that Volcker resign. "I fear that high interest rate policy of Paul Volcker will finish off farmers, small businessmen and homebuilders if this policy continues," Denton said. "It is becoming more and more ripe for a dictatorship to take over, and our freedom is in jeopardy."

The situation in Alabama exemplifies how mobilized constituents are forcing action from their elected officials. Both Denton and Heflin are very close to Alabama's farm leaders, and last week the Alabama Farm Bureau passed a resolution demanding Volcker's ouster. The Alabama Farm Bureau, with over 230,000 family members, is the fourth largest in the country. One farm leader declared, "Much of this motion began after a meeting the NDPC held in Huntsville, Alabama, in November. We then got out a pamphlet on Volcker's policies. One state legislator told me, 'As I read this I got madder and madder.' "

Documentation

Senator Heflin calls for bipartisan countermove

Senator Howell Heflin (D-Ala.) sent letters to President-elect Reagan and President Carter demanding that they immediately establish a bipartisan committee to plan how to lower interest rates and curb inflation.

From a Dec. 23 interview:

EIR: Do you see a problem with the interest rates?

Sen. Heflin: Of course, it has reached the stage where it is having a disastrous effect. Farmers in Alabama, which is mainly a farm state, will have to borrow to plant their crops. Last year the interest rates were 15 to 18 percent and farmers had to borrow; they had a bad year. They had a drought and will have to borrow to plant this year. In the construction industry, with auto dealers and those industries with large inventories, the high interest rates practically put them out of business. High interest rates are counterproductive. They are inflationary.

EIR: What do you think about Paul Volcker?

Sen. Heflin: I am disappointed with his idea of tight money. The conception we are working from is one that has been followed for several decades. Now interest rates are climbing to 21 percent in five months, and inflation hasn't stopped.

EIR: Do you see the fight against high interest rates and the fight to stop inflation as the basis for forming a bipartisan alliance in this country?

Sen. Heflin: There is no question that everybody in America wants to halt inflation and better interest rates. It seems to me that during the transition period, well the old administration is cautious about doing anything and the new one is waiting until January. But we could have a bipartisan approach now to do something. Why not do it on a bipartisan basis. The concept of the Federal Reserve when it was set up was to be bipartisan but obviously its policies are not working. So we have to look to different things. Bipartisanship is the way to do it.

EIR: What can be done about the economic crisis we are facing?

Sen. Heflin: The cyclical approach we have followed in the past has not worked. We have to start with the government balancing the budget. This could be a symbol for spending discipline in business and family lives. We must increase productivity. There are many plants with outdated equipment. We need accelerated depreciation allowances for this. We have to encourage savings.

EIR: If the Fed does not lower interest rates, what will Congress do?
Sen. Heflin: There are drastic measures, which I don't advocate, but that are beginning to be talked about, which include a usury ceiling. I don't want to have to see this, but it is being talked about inside Congress and outside. I don't want to see federal controls on interest rates but there is a growing movement on this. Interest rates now are rising and there is a relationship to inflation. People want something done about this.

EIR: The Alabama Farm Bureau, among a number of groups, has called for lower interest rates.
Sen. Heflin: The Farm Bureau also called for Volcker's ouster. I have called on President-elect Reagan and President Carter to appoint a joint team to see what can be done on the interest-rate problem and inflation. We can't wait until Jan. 20 to act. We need a joint economic study now. It has to be a bipartisan team. Interest rates are continuing to grow. Both Presidents could put the treasury secretary and secretary-designee, senators, congressmen and certainly economists on it.

Here is a situation where we are going through a transition period, and we could have a bipartisan effort to reach a consensus on what to do.

Interview by Barbara Dreyfuss with Stan Hoynitski, executive director of the Pennsylvania Independent Autodealers Association:

EIR: I understand that in your latest newsletter you called for Paul Volcker's resignation. Why?
Hoynitski: Well, it's a proven fact that Paul Volcker's theory doesn't work. He has had a few years to turn inflation around but inflation has gotten higher. Inflation is higher than ever before. More businesses are going out of business than before.

EIR: You mean Volcker's policy of tight money?
Hoynitski: Yes, that's right.

EIR: What has happened to the auto industry?
Hoynitski: The auto industry, well around 30 percent of the dealers went out of businss in the last 18 months to two years. And now 20 percent to 30 percent are in trouble. I believe it's all tied in with the interest rates and the tight money. Dealers can't make 5 percent on an item and pay 20 percent interest to buy it.

EIR: What do you hope to accomplish with your statement?
Hoynitski: I hope to get enough of our dealers in Pennsylvania to write to the new President, write to Congress and the Senate, to see if they can't get someone in Washington to change the policy of the Federal Reserve. I represent used car dealers and I have friends in housing and agriculture and their problems are the same. It's worsening, not getting better. I truly believe that there is not much time left before we go into a tailspin. Everyone knows the Crash of '29. We can have the same thing now.

EIR: I understand that you endorsed the call by UAW Local 544 President John McCarrell for a day of demonstrations against Volcker?
Hoynitski: My idea would be to give the new President a few weeks to get into office and meet with him and a small business group, and make our needs known. If it didn't work, dealers from all over the U.S. should meet in Washington or their state capitals and demonstrate against what is happening.

EIR: Have you been in touch with other people on this?
Hoynitski: The newsletter I sent out resulted in some calls of support to me. Many endorsed my ideas and are looking for guidance on what we can do.

In the first two or three weeks in January I will work with dealers and others to see if we can come up with a plan of action.

EIR: Have you talked with union leaders?
Hoynitski: Yes, in the UAW and some of the homebuilding unions. Everything will come together depending on the policy of the new administration. I hope Reagan lives up to his political campaign, and does it in a hurry.

I know how hard it is for businesses. There is no way a dealer in Pennsylvania can survive when there is a 12.8 percent cap on the charge he can make on loans to people while he pays 20 percent and more interest. With this tight money policy, banks now require 50 to 60 percent down payment, where before they required 25 percent. People can't get loans. It is the same in the house-buying area. I'm scared that what I see is that soon only the super-rich will be able to afford homes and cars.

Eight New York area trade union leaders sent a message of endorsement on Dec. 18 for the National Democratic Policy Committee's call for action to dump Volcker:

We, the undersigned labor and community leaders, heartily endorse the national call by the National Democratic Policy Committee for the immediate resignation of Paul A. Volcker, chairman of the Federal Reserve. We further endorse the public demonstration to publicize this call scheduled for . . . New York City.

As evidenced by the growing number of public resolutions by business, labor and legislative bodies, there is in our nation a groundswell demanding a reversal of the Volcker dictatorship of austerity; a dictatorship which is plunging America into a deeper recession.

We call on our members and all citizens of good will to rally behind our call until such time as the Paul Volcker resignation is achieved.

George Boncoraglio, president, CSEA Local 466, AFSCME 1000, Brooklyn, N.Y.

Carmine Marotta, Plasterers Local 202, Brooklyn, N.Y.

William Caramo, executive assistant to the president, United Paperworkers International, Flushing, N.Y.

Pete Pavlisak, business manager, Laborers Local 7, Binghamton, N.Y.

Richard Lewicki, president, Petroleum Trades Employees Union, ILA 419, Long Island City, N.Y.

Julio Mojica, vice-president, United Autoworkers District 65.

Fred Rossi, vice-president, United Autoworkers Local 664, Tarrytown, N.Y.

Santiago Torres, president, International Union of Electrical Workers Local 485, Brooklyn, N.Y.

(Organizational affiliation for identification purposes only).

From a press release issued Dec. 20 by the UAW regarding UAW President Doug Fraser's telegram to President-elect Ronald Reagan:

"Our nation faces the total collapse of a crucial industry unless immediate action is taken. . . . The U.S. cannot have a viable auto industry if interest rates continue at the current outrageous levels," the telegram said.

Fraser said that the union was hopeful that Mr. Reagan would act quickly upon assuming office to convene a summit meeting involving representatives from his administration, the Federal Reserve Board, the auto and auto-related industry, other labor unions, the Congress, and the consuming public. We would hope the Reagan auto summit would result in a definitive set of policy approaches for the next two years. . . . The telegram asks "What will overall Reagan economic policy do to assure that critical industries such as auto can recover from the current deep downturn?

"What will U.S. policy be on the question of capital formation in the auto industry, which must raise nearly $80 billion to restructure?

"What will our policy be on the question of interest rates, which at 21.5 percent have virtually shut down the auto industry?

"What will national policy be on the crucial question of trade and imports?

"What will our policy be on the key question of how the auto industry will restructure and modernize and what will happen to the workers and communities affected?

"The time factor in this crisis is absolutely crucial because failure to act means the auto industry in North America goes down the drain. . . . The impact of that collapse would affect the whole world economy."

. . . Fraser said that the problem of the auto industry cannot be solved at the bargaining table because that's not where they originate. Labor costs in the auto industry represent about the same percentage of overhead they did 20 years ago. The place to solve the auto industry's problems is in the salesrooms across North America. But that can't occur when our government drives interest rates to nearly 22 percent.

The following is the text of H.R. 830, introduced Dec. 16 in the House of Representatives by Norman D. Dicks, Democrat of Washington:

Whereas the Board of Governors of the Federal Reserve System has taken actions which caused interest rates to rise and raised the Consumer Price Index; and

Whereas the Board's recent decision to raise the discount rate from 12 percent to 13 percent annually has caused the prime interest rate to rise to 20 percent annually; and

Whereas this action by the Board threatens to cause the prime interest rate to rise even higher; and

Whereas the Board's policy of higher interest rates has increased unemployment and inflation by increasing prices; particularly for housing and other capital improvements; and

Whereas increased prices for housing and other capital improvements threaten to continue to cause substantial declines in housing construction and other capital improvements and will continue severe unemployment, further erode national productivity, and prolong national dependence on foreign oil; and

Whereas the Board of Governors is restraining, and can further restrain as necessary, short-term commercial credit through other measures including selective credit controls even if interest rates are reduced; now therefore, be it

Resolved that the Board of Governors of the Federal Reserve System should immediately take all necessary steps to reduce the current high interest rates.