Eye on Washington by Richard Cohen

'The dragon of chronic high interest rates'

In the days following Ronald Reagan's economic message, bipartisan opposition to Paul Volcker's high interest rate attack on the United States has surfaced in Congress. I gathered a sampling of statements by congressmen and senators—nearly all of which have been blacked out of the media.

House Majority Leader Jim Wright of Texas said on the House floor Feb. 19: "Until we stabilize energy prices—and begin a dramatic downward movement of interest rates—we will not scratch the surface of the basic causes of inflation, no matter how successful we may be on the budget."

Deputy House Whip Bill Alexander of Arkansas on Feb. 19 denounced the "Federal Reserve's cruelly high interest rates. . . . what is needed is strong presidential support for lowering the cost of credit to productive sectors of the economy and continuation of an aggressive export policy. . . . How can we ever expect to stop inflation if we allow the dragon of chronic high interest rates to swallow up the economic gains we achieve by cutting budgets and taxes?"

Representative Byron Dorgan, Democrat of North Dakota, who earlier introduced the "Paul Volcker Retirement Act of 1981," said Feb. 19 that the Reagan program is "just a rough-draft chapter in the inflation-fighting handbook." Dorgan demanded "chapters on energy and interest rates as well."

On Feb. 20, Treasury Secretary Donald Regan testified in defense of the Reagan program before the Senate Budget Committee. Sen. Donald Riegle, Democrat of Michigan, told Regan: "You are finding yourself in a minority. The business needs of investment for productivity increases, re-industrialization—the problem is enormous, but we are way behind. . . . If you came in with half for industry and only half for individuals, you might argue differently, but right now major industries, auto and their suppliers, are operating at a loss. . . . interest rates are killing them, you don't have refundability . . . [We need credit] to rebuild our steel and auto plants, and I don't see how we can be sure that money will go in there. . . ."

Senator Nancy Kassebaum, a Republican, said: "We all want to see taxes cut, and we want to raise productivity, too. Businessmen from my home state have told me down to a man that they would rather not see a tax cut but would rather see interest rates come down."

The other Nebraska senator, Democrat James Exon, asked Regan a series of questions about projections for the prime rate over coming years. Dissatisfied with Mr. Regan's waffling answer, Exon responded: "Certainly, Mr. Regan, the prime rate has a large impact on the budget and the federal debt. You are telling me that you have no estimate on what the prime rate will be? Then I don't see how you can come up with a balanced budget."

Senator Mark Andrews, Republican of North Dakota, told the Treasury Secretary, "What bothers me is the accuracy of your figures. There is no point in treating us like mushrooms and putting manure on us and keeping us in the dark. When are you going to give us the figures . . . so we can actually evaluate your proposals?"

Senator David Boren of Oklahoma, a Democrat, told the Senate Feb. 20 that he was "disappointed that the President did not announce emergency action to deal with the high interest rates."

Henry Reuss, the liberal chairman of the Joint Economic Committee, will hold hearings this month aimed at legislation for a "two-tiered" credit system. Sources indicate that Reuss wants to maintain credit penalties on basic industry, but ease up the situation for "sunrise" sectors.

Push continues for enterprise zones

Jack Kemp has just hired Joe Rodgers to head up the Buffalo congressman's pet project. Rodgers is a former aide to and close friend of David Stockman. Kemp's new project is exporting "free enterprise zones" to Third World countries.

Norman Ture, the former chief economist at the Heritage Foundation, calls himself a supply-side economist. U.S. governors at their conference this week learned that for Ture this appears to mean sidelining supplies of industrial goods. He told the governors' conference that Reagan's proposed accelerated depreciation tax reform will be weighted against "older plants" located in the steel, auto, and rubber sectors. Governor Rhodes of Ohio was particularly appalled. Ture is now assistant secretary of the Treasury for tax policy.

Commerce Secretary Malcolm Baldridge has decided that since the U.S. Export-Import Bank is slated to lose a third of its funds, we should—he told the governors' conference—throw the remainder into what he called "small and medium-sized business." This shift in Exim loans and the proposed elimination of the Economic Development Agency are geared toward promoting free zones, we hear.