Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

Volcker is causing an 'economic Waterloo'

Federal Reserve Chairman Paul Volcker was denounced for his high interest-rate policies July 21 when he appeared before the House Banking Committee, to announce that he was going to tighten the money supply even further.

The strongest attack came from Rep. Henry Gonzalez (D-Tex.), who has been warning that the United States faces an "economic Waterloo" because of the high interest rates. At the hearings Gonzalez accused the Fed chairman of "legalizing usury" and announced that he is preparing a bill of impeachment covering Volcker and a majority of the Fed's seven-member board of governors.

In addition to Gonzalez, a bipartisan group of congressmen including George Hansen (R-Idaho), Norman Shumway (R-Calif.), and Frank Annunzio (D-Ill.) all denounced Volcker's policies. Hansen charged that Volcker's credit squeeze is "destroying the small businessman . . . destroying middle America . . . destroying the American dream." Criticisms by the other congressmen were also sharp, with Annunzio pounding the table and shouting.

In response, at these and hearings the following day in the Senate Banking Committee, the Federal Reserve chairman denied that high interest rates were the real source of the problem, and blamed the American wage levels instead. Volcker declared that the series of labor-union contracts coming up in January could lock the U.S. into three years of inflation. "We cannot have price stability and 12 percent increases in wages," he told the Senate Banking Committee.

Behind the scenes, a number of liberal Democrats who favor Volcker's demands for a wage ceiling are mooting implementation of some form of wage and price controls.

At the Senate Banking Committee hearings, Volcker also got backup from Committee Chairman Jake Garn (R-Utah). Referring to the attacks on Volcker's policies by House members the day before, Garn declared, "I feel very strongly that we are experiencing a tremendous amount of demagoguery. I'm referring in part to what happened yesterday in the House Banking Committee. The Federal Reserve is not the cause of high interest rates, it's the Congress."

House supports minimum Social Security level

The House voted overwhelmingly July 21 to back a resolution that calls for preserving the minimum Social Security benefit for those now receiving it. Earlier in the day the Senate had voted down the same resolution 52 to 46. The House vote was 405 to 13, with the Republicans joining the Democrats against the proposals of the President.

The Republicans acted on the advice of House Minority Leader Robert Michel (R-Ill.), who, obviously aware that the resolution would pass, did not want the Republicans on record against the minimum benefit.

The resolution was introduced by House Majority Leader Jim Wright (D-Tex.), who declared that although he hoped the resolution would influence the budget reconciliation conference, his real concern was that the resolution would be a moral commitment for future legislation.

Both the House and Senate budgets eliminate the minimum Social Security benefit, the only difference being the date this is done. Thus the conference will not actually take up the issue unless there are special rules changes. (The Republican defenders of the move say that its victims can go on the welfare rolls!)

However, the Congress will be taking up a number of Social Security financing issues almost immediately. The House Social Security Subcommittee has been holding hearings on H.R. 3207, sponsored by Rep. J. J. Pickle (D-Tex.), which makes a number of proposals for Social Security financing, including lifting the retirement age for full benefits to 68 from 65. Markup on the bill could begin possibly as early as July 24. Sen. William Armstrong chairman of the Senate Social Security Subcommittee, at a breakfast meeting with reporters July 16 endorsed the proposal on the retirement age. The Senate Subcommittee will be taking up the financing issues, including proposals made by the Department of Health and Human Services in a May press release. Among these proposals are reducing the benefits given to those who retire at age 62 from 80 percent to

55 percent. Legislation to restore the minimum benefits, at least for those now receiving them, is expected to be introduced in the context of the House and Senate debate on these various proposals.

Administration declares war against foreign trade

At July 19 hearings of the Senate Banking Committee's International Finance Subcommittee, two administration officials testified in opposition to the Competitive Export Financing Act, S. 868, while maintaining a singularity of purpose with its principal author, Subcommittee Chairman John Heinz (R-Pa.). Newly installed Export-Import Bank Chairman William Draper III and Robert Cornell, Assistant Secretary of the Treasury for Trade and Investment, indicated that they preferred not to pass S. 868, which will give Exim an additional $1 billion credit line to "combat predatory export financing by other countries," but would prefer to leave it "on the table" as a bargaining chip in negotiations with Europe and Japan.

Cornell bluntly stated that "we oppose official export credit subsidies," and launched into a tirade against European and Japanese trade policies. Cornell, who is a U.S. trade negotiator, stated in quite undiplomatic language that "many have what I would consider an irrational conviction that there is some 'proper' or 'natural' level for interest rates, unreflected in week-to-week, month-to-month, or even year-to-year market fluctuations. These countries argue that stable and fixed export credit rates reflect this underlying 'proper' level of interest rates."

Adding that the U.S. "disagrees with and disbelieves" such assumptions, Cornell announced that the administration will "target Eximbank's resources against those countries" which maintain a commitment to export credit subsidies. Draper announced a shift in Eximbank financing away from the traditional financing patterns which have benefited U.S. industrial exports and toward criteria based solely on the need to combat other countries' export subsidies practices.

Heinz expressed no disagreement with the administration's underlying approach, but felt that administration rejection of his $1 billion credit line represented "unilateral disarmament" in negotiations with our trading partners.

Stockman defends waterway user fees

Testifying before the Senate Environment and Public Works Water Resources Subcommittee on July 14, Office of Managment and Budget Director David Stockman defended the administration's proposal to collect "user fees" on federally constructed and maintained inland waterways and ports. Reversing a 200-year-old policy of the appropriateness and necessity of a national role in internal improvements development, Stockman declared, "When the federal government renders a service directly to economic enterprises at less than cost, the service amounts to a subsidy. Subsidies not only increase the size of the federal budget, but almost inevitably distort the workings of our free market economy. Such distortions decrease economic efficiency."

Amidst the budget-balancing frenzy of Capitol Hill, subcommittee members did not challenge Stockman's allegations as they accepted as necessary cutbacks in federal expenditures. Nor did anyone raise Stockman's historical antipathy to internal improvements, not for fiscal reasons, but because he is an advocate of the "postindustrial society," and believes that internal improvements breed economic development and population; hence, they should be curtailed. This was evident in his testimony: "I believe that not requiring users to bear the full cost of the activities encourages overdevelopment of high-cost ports because dredging becomes a free good."

Several senators *did* take issue with Stockman's proposals from a more chauvinistic standpoint. Sen. Max Baucus (D-Mont.) pointed out that the institution of user charges could price inland navigation out of reach for Montana grain shippers and force them, as "captive shippers,'" into the hands of Burlington Northern Railroad, which would then charge monopoly rates. Stockman shrugged this off as an inevitable result of reducing existing "distortions" in the market. Observes noted that the railroads and environmentalists have long been implacable foes of inland waterway development.