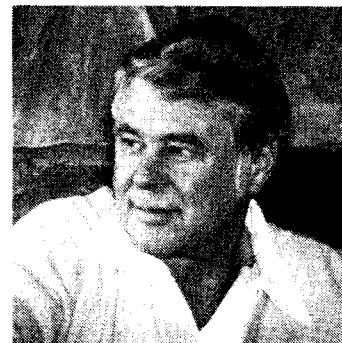

Interview



Senator John Melcher on the U.S. interest-rate fight

U.S. Senator John Melcher, Democrat of Montana, gave the following interview to Anita Gallagher on Aug. 3 in Montana as he was preparing to hold three "town meetings" on interest rates in his home state during the August recess. Sen. Melcher introduced Senate Joint Resolution (SJR) 104 on July 30, a binding resolution that calls on President Reagan "to immediately begin consultation with the Board of Governors of the Federal Reserve for the purpose of modifying the Board of Governors' monetary policy." Melcher and four other Democratic senators staged two previous hearings in Washington on the impact of high interest rates. Now that the tax and budget packages are finished, many observers think interest rates will be the number-one item before Congress in September.

Gallagher: Senator, what is your Senate Joint Resolution 104 and what led you to introduce it?

Melcher: Obviously, the high interest-rate policy that we have going on in this country under [Federal Reserve Chairman] Volcker is a very tough policy. It's hard on small business and agriculture and a whole lot of other people and it's going to wring the economy out to where we have a sharp recession unless we change the policy. And that's why I think it's apparent why we better start by asking this administration to reverse Volcker's policy, or at least to consult with him about reversing his policy. That's what the intent of the resolution is: to bring the President directly into play with the Federal Reserve Board to discuss lowering the discount rate, lowering the reserves required of banks, and bringing interest rates down promptly.

Gallagher: Many congressmen cited Lyle Gramley's testimony that interest rates would only go down when wages went down as a factor in their taking action. What did you think of Gramley's statement?

Melcher: I think that Governor Gramley's statement is unrealistic, impractical, unworkable and totally out of step with what is happening in inflation-ridden countries such as America or any other country in the world today. It isn't going to happen that wage rates are going to drop as the cost of living goes up. I don't know where Gover-

nor Gramley gets those ideas, but they are nothing that contribute to a policy that is workable in this country.

Gallagher: What is the plan for SJR 104 when Congress reconvenes in September? Will it be voted upon?

Melcher: Well, I would hope that it's voted upon. In the meantime, I would hope that we don't even have to wait for President Reagan and Secretary of the Treasury Regan to realize that this type of policy that we're under is so far down the road toward a serious economic recession that they'll want to start jawboning with Volcker even before we come back after Labor Day. But nevertheless, I'll push very hard after Labor Day after we reconvene for consideration of the resolution, and also to get cosponsors in the Senate, and I hope that it can be introduced as a companion resolution in the House also, to get prompt action on both sides.

Gallagher: This is one of a series of initiatives that has been going on over interest rates for some time, such as your own hearings.

Melcher: Well, that's right, but what we are trying to do is to focus the public's attention on the problem and get them to realize that this is a rather deliberate policy by the Federal Reserve Board. Volcker *used* to say that we needed to have high interest rates to keep ahead of the inflation rate. Now that we've got the inflation rate coming down, and I think everybody agrees that it's around 8½ percent right now, we haven't seen a corresponding decrease in monetary policy by Volcker. He's still kept the interest rates very high, and he hasn't allowed them to come down at all, and considering that they haven't come down, as nearly as we can read his statements made in various speeches and the statements of the governors of the Federal Reserve Board, such as Gramley.

Gallagher: If your resolution is not acted on, or if the President does not respond to it, will you introduce legislation to reform the Federal Reserve?

Melcher: Well, you have to understand that the resolution, in a very mild form, is legislation. It directs the President to make a consultation. It is not very tough

legislation at all. But it's a way to start, and if the President doesn't want to respond, I think we should face the responsibility in Congress to check the powers of the Federal Reserve Board by introducing and passing tougher legislation checking the Board's powers.

Gallagher: If that is necessary, what direction would your legislation take? What about the abuses of the Fed's Open Market Committee?

Melcher: Well, the Open Market Committee is often criticized, and we are wondering just exactly what their function in the monetary policy is and if it helps anybody that's in business. But I am not prepared at this time to say how tough of legislation Congress would be willing to pass.

In my own view, I would want to restrict the powers of the Board in their monetary policy so that interest rates could never be anywhere near the level they are now. I'd want to see some sort of a cap installed that interest rates could not exceed. But that's my view, very strong. Not too many people in Congress share that kind of view at this time and that type of restraint on the Federal Reserve Board, so I don't want to predict what type of legislation we would be thinking of should the President not act and should we not be able to pass the mild type of resolution that I have introduced.

Gallagher: Senator, what is your view of a two-tier credit system, with one interest rate for productive activities like farming and manufacturing and a higher interest rate for more speculative activities?

Melcher: I think it's a difficult type of law or policy to enforce. You never know where you're at with it. I hope that we don't have to come to that. I want to return to decent interest rates, and I don't want to have to jiggle around between deciding who would go on one tier and who would go on another tier, and which category fits a particular type of endeavor.

Gallagher: What has been the response to your interest rates hearings in Montana and in Washington?

Melcher: We are just starting on the first one in Montana on Aug. 4, and we are getting some feedback already that there is a great deal of interest in it and a feeling that it's timely. The two forums that we've held in Washington [on agriculture and housing] have been constructive in that they have drawn the attention of a great number of people across the country to the fact that at least some of us in Washington seem to be waking up to the fact that the policy is so damaging to the country that we are courting economic disaster.

I feel very strongly on the subject myself; I notice several senators seem to share my concern. We hope that we're a growing number. We hope that we'll be able to alert the public and the Congress and hopefully also the

Reagan administration that we are indeed going down the wrong path, that it's a very dangerous path we're pursuing, and that there is still time to turn back and correct the situation before we have economic collapse.

Gallagher: Do you think a lot of Republican congressmen are going to get messages from their constituents on interest rates during this recess?

Melcher: Well, I don't see how they can help but get the message if they spend any time with the home folks. I don't care what group of small business people you're talking to now. They all bring up the interest rate problem. Agriculture is having a particularly tough time with it, but it's clear across the spectrum. It is involving everybody that is in business in an ordinary way that I find here in Montana, and I think other states must be the same way too.

Gallagher: Do you think Republicans will find it easy to support your bill? After all, Volcker is Carter's appointee, not Reagan's.

Melcher: Well, I don't think Republican people in Congress, either in the House or the Senate, should be reluctant to speak up for the interests of their constituents. And if their constituents are telling them what my constituents are telling me, and it doesn't make any difference which party they belong to or whether they're completely independent of either major party or even the so-called Libertarian Party or one of the other parties. They are all telling me the same thing: that this high interest-rate policy is very harmful and they want it changed. And they don't care two cents about what Mr. Volcker thinks about it. They're tired of his theory and they want to see some action reversing his policy very quickly.

Gallagher: Are you going to be forming an interest rate caucus or is there already such a group in the Senate?

Melcher: We already have such a group, I would say, in the Senate that's pretty broad. I don't know that we think we're a very formal group, but we certainly think we are a pretty broad cross-section of the Senate, and particularly strong on the Democratic side. Volcker, after all, you're right, is an appointee of Carter, and I don't think that bothers us a nickel's worth, that he was appointed by a President that was a Democrat.

Gallagher: Do you think it would help the United States with its allies to reduce interest rates?

Melcher: Oh sure, I think it would. I don't believe it would weaken the dollar to see interest rates come down, though that is one of the arguments Gramley made. There are other things we need to do that will keep the dollar strong, like keeping the American economy ticking. And you can't do that with high interest rates.