Volcker. Senators Hart, Proxmire, and Nunn, who voted against the Melcher resolution, and Gephardt and his friends in the House, all accede to Volcker's demand that only cutting the budget or raising taxes can reduce the federal deficit, and hence reduce interest rates. And behind that stands Volcker's hidden agenda of wage gouging, as the accompanying interview with Gephardt makes chillingly clear.

But as Teamster president Roy Williams's letter of support to Senator Melcher shows, the moderate Democrats enjoy the support of a base that is becoming increasingly economically aware. With that behind them, the moderate Democrats stand poised to make high interest rates not only "their" issue, but the dominant issue of economic debate. As one participant remarked, upon hearing the content of the Gephardt interview, "I'd like to see him *run* on a platform of wage controls, tight money and recession!"

Melcher is confident that he can pick up more votes with each new effort to raise his amendment. Several senators, probably including Russell Long (D-La.), Lloyd Bentsen (D-Tx.), John Glenn (D-Oh.), and Mark Andrews (R-N.D.), voted against the amendment on the first round because of technicalities of the debt ceiling extension to which it was attached; they are expected to back Melcher in the next go-round. More importantly, constituency groups now have a target list based on the first call and can now go about the business of ensuring that their senators vote for lower interest rates on the next vote.

Rep. Gephardt applauds the Federal Reserve

EIR*'s Barbara Dreyfuss conducted this interview with Rep. Gephardt on Sept. 28:*

Dreyfuss: Congressman, I understand that you favor the tight-money policy now followed by the Federal Reserve as the way to solve the economic crisis.

Rep. Gephardt: The problem that manifests itself with this economy is that of too high inflation and too high unemployment. The basic problem is too high inflation. There are only a few ways to get rid of it. Given the loose fiscal policy of the last eight years, only an incomes policy, wage and price controls, or tight-money policy can deal with the situation, and since we haven't had an incomes policy, only a tight-money policy can deal with it. I see no reason to withdraw from that. To go to a loose monetary policy would lead to inflation. Unless we can get the fiscal policy tight, which the President indicated last night he wants to, there is no alternative.

Dreyfuss: Do you agree, though, that tight-money policies lead to higher interest rates?

Rep. Gephardt: Yes, but we can't avoid that, unless tight money results in a recession and there is no demand for money. But we are not in a recession, so therefore it leads to higher interest rates.

Dreyfuss: A number of people believe that Paul Volcker and the Federal Reserve Board could actually lower interest rates if they wanted to.

Rep. Gephardt: There is no question that [Volcker] and his board could lower interest rates by letting up on the money supply. The problem with that is that it would result in more inflation, higher interest rates, and a deep recession. Sure, he could do it and we would go into a round of hyperinflation. It's like a patient who is having chemotherapy for cancer, and his hair is falling out and he is nauseous, and asks the doctor to stop it. The doctor says, yes, he can, but the patient will die. . . .

Dreyfuss: Then you disagree with the legislation proposed by Senator Melcher to require the President and the Fed chairmn to lower interest rates in 90 days?

Rep. Gephardt: I think it's a copout and would lead to greater economic problems. It wouldn't cure the basic disease. It is what we have always done in the past; we put the blame on the Fed, say they are causing the problem. It is not the case. We have tried to paper over our declining standard of living caused by oil-price hikes, price hikes, by increased government spending. We can cure it by a recession, by slowly bleeding it out, or by wage and price controls.

Dreyfuss: Do you think wage and price controls would work?

Rep. Gephardt: They are a theoretical alternative, not a practical one. People would gin up the economy under it. They would be hard to administer. Wage and price controls aggravate shortages.

Dreyfuss: You said that it is necessary to bleed the economy—

Rep. Gephardt: I would have preferred, in the situation that Reagan was in, to have a tighter fiscal policy, less of a tax reduction and therefore less of spending cuts. We have to slowly bleed inflation out of the economy. We have to have slow growth. What happened in Britain is what is happening here. It led to 11 percent unemployment in Britain. We can't deal with the inflation which is due to the oil shocks, food shocks, tight money, and loose fiscal policy. There is no painless way out.

Dreyfuss: Your aide told me that you are very close to the Federal Reserve Bank of St. Louis, that you meet with them often and agree with their policies.

Rep. Gephardt: Right. The St. Louis bank has a traditional monetarist view and is one of the strong advocates of tight-money supply. It is safe to say their view is expressed in the Fed chasing the money supply and not interest rates. I think it's correct.

Dreyfuss: Volcker and Frederick Schultz of the Federal Reserve have stressed in recent congressional testimony that it is vital to curb wage increases. Do you agree?
Rep. Gephardt: Sure. The underlying inflation rate is 10 percent . . . caused by wage demands not done on basis of increased productivity. The question is how to keep wages down. There are essentially four ways—wage and price controls that are mandatory, jawboning and a social contract, a recession, and fourth, a slow, moderate recession, which is what I am advocating. . . .

There is a lot of discussion and disagreement in the party. We have members railing against Paul Volcker and the Fed. We are split on this. I think that those who feel that the fiscal policy is central predominate, though.

DOCUMENTATION

What senators said about interest rates

From statements on the Senate floor Sept. 28:

Sen. Melcher

Throughout the August recess, I held a series of interest rate hearings across my home State of Montana.

Always, it has been the same sad economic story:

First. Farmers and ranchers tell me that high interest rates will cost us an entire generation of young farmers and ranchers, and the damage they are wreaking will soon begin to show up on grocery store shelves in higher food prices;

Second. Housing, timber, wood products, and construction representatives have testified that current interest rates are literally breaking the backs of their industries;

Third. Economists have pointed out that . . . there can be no growth whatsoever in the economy;

Fourth. Utilities and other industries are unable to raise capital; and

Fifth. Workers once again find themselves on the unemployment lines. . . .

At one of the high interest-rates hearings I held last month in Montana a farmer said that the Volcker approach reminded him of one of his neighbor's attempts to save money by teaching his dog to go without food. When I saw him a couple of months later, I asked him how his dog was getting along with his training. He replied that his dog had almost learned to go without food, but, for some reason, the dog had up and died first.

Sen. Sarbanes

Current interest rates have created an absolute disincentive to investment. Businessmen and women . . . now ask whether it makes good financial sense to do so when they can earn an immediate, greater return simply by investing their capital in money market funds.

This striking disincentive to investment runs precisely counter to efforts to strengthen the national economy by promoting investment. . . .

High interest rates are undermining the ability and willingness of businessmen to make investments that will improve their efficiency and productivity. . . .

At just the time when state and local government jurisdictions face sharp reductions in financial support from the Federal Government, they also face serious obstacles in the bond market. . . . Important capital improvements are being deferred, to the detriment of the economic infrastructure of local communities. . . .

I want particularly to underscore—a disturbing trend toward a two-tiered economy . . . where there are virtually no homes being built for lower- or middle-income people. . . . We risk a situation in which home-owning becomes the prerogative of those at the very upper end of the income scale rather than a goal to which most Americans can aspire.

Sen. Boren

I refuse to accept the idea that nothing can be done to bring down interest rates in the short term. There are mechanisms available to help those people who are now facing personal and corporate ruin because of high interest rates. This joint resolution is one of them.

The President of the United States has available to him the power to direct the Federal Reserve to bring down interest rates through the Credit Control Act. . . .

Sen. Sasser

I was the first Senator to offer a resolution to the U.S. Senate to have appropriate congressional committees and the Federal Reserve Board look into the feasibility of having a "dual prime rate" that would provide lower cost credit to those sectors of the economy that have been devastated with high interest rates. . . .

Sen. Garn

Believe me, there are other years I would have preferred to become chairman of the Banking Committee than in a year when the prime rate reached 21.5