Minority Leader Wright poses challenge to Volcker

by Graham Lowry, U.S. Editor

While Congress continues its idiotic wrangling over proposals for further budget cuts and tax increases, a distinct note of sanity has emerged alongside the Wall Street-orchestrated chorus of lamentation over federal budget deficits. House Democratic Majority Leader Jim Wright of Texas, in a special presentation before the House Banking Committee March 30, launched a well-buttressed attack on the primary cause of growing depression conditions and the deficits that result from them, the high interest-rate policy of Federal Reserve Chairman Paul Volcker.

Wright denounced the continuing clamor over the size of the federal deficit and charged that the issue was being "used as an excuse" by those who "deliberately want to keep interest rates high." And, in answer to those Congressmen who piously bemoan the ruinous effects of high interest rates and urge further budget cuts as the sacrifice that will bring them down, Wright documented the folly of imagining that Congress could strike a deal on Volcker's terms. He reminded the committee how he and other committee chairmen met with Volcker in 1980 and asked him "If we were to cut $21 billion from the budget, would you bring down interest rates?" Volcker said, "That sounds right." "Well, we did, and he didn't." was Wright's conclusion.

'Interest rates cause inflation'

In his testimony, Wright also demolished the claim that high interest rates were the necessary response to inflation, demonstrating instead that hiking interest rates *causes* inflation as well as increased unemployment. Displaying a set of charts covering the period from 1970 to 1981, Wright showed how both the inflation and unemployment rates increased following rises in the prime rate of interest.

Wright's dramatic refutation of the Fed's most cherished fraud—that mounting deficits and continuing inflation justify high interest rates—is the first sign of a deliberate effort within Congress to break up the current pact with Volcker and his international banking friends who are dictating the dismantling of the U.S. economy.

Wright's intervention before the Banking Committee, blacked out in the press nationally, came one month after his call for an economic summit meeting of congressional leaders, President Reagan, and Paul Volcker—a meeting which Wright termed crucial for avoiding a depression, and at which he hoped to obtain a pledge from Volcker to lower interest rates. The administration has taken no concrete steps toward convening such a summit, and House Speaker Tip O'Neill was quick to reject the plan unless Reagan would first indicate that he would compromise with Congress on the budget.

While Reagan continues to hold the line on his proposals, especially against demands that he back major tax increases and defense cuts, over the last week of March virtually the entire Senate Republican leadership demanded that he give in, and both Budget Com-

Rep. Jim Wright (l) with House Speaker Tip O'Neill and House Budget Committee Chairman Jim Jones (r) last summer.

mittee Chairman Pete Domenici (R-N.M.) and Finance Committee Chairman Bob Dole (R-Kan.) have begun redrafting the President's budget in the name of Volcker's demands for reduced deficits.

The need for recovery policy

Any success in cutting through this lunacy, made the more palpable by the ongoing bankruptcy of the revenue base due to Volcker's high interest rates, depends on a competent economic-recovery policy to replace Volcker's policy of enforced depression. Lyndon LaRouche, Advisory Board Chairman of the National Democratic Policy Committee, responded to Wright's earlier call for an emergency economic summit by proposing that he and Wright meet with President Reagan to discuss the needed measures for recovery. LaRouche's four-point program for ending the depression calls for remonetizing the gold reserves of the U.S. Treasury at $500 an ounce, and establishing low-interest, gold-backed credit flows for the nation's industries and farms, and as well as large-scale government-backed projects to build up America's nuclear energy capacity and vital infrastructure.

NDPC chapters across the country, now numbering over 400, have been active in generating letters and petitions to Majority Leader Wright supporting the LaRouche program and the proposed meeting with the President. LaRouche and the NDPC have urged the Congress to end its months of maneuvering for "alternatives" to Reagan's budget, especially since most proposals on Capitol Hill would inflict far more damage on the economy than what the President has proposed. Instead, LaRouche has emphasized, Congress must get on with the most urgent business before the nation: that of dumping Volcker and ensuring real economic recovery. When this is accomplished, then the budget could be reconsidered.

During Wright's presentation to the House Banking Committee, he raised the necessity for a direct political solution to high interest rates. Emphasizing that Volcker "serves at the will of the President," Wright declared that "the President is the one that can remove Volcker," with the proper political support. Wright proceeded to underscore the power of the Presidency by recalling that when interest rates jumped from 5.5 to 6 percent during President Truman's administration, Truman "called the Federal Reserve Board members into his office and told them that the American people weren't going to tolerate this . . . and the Federal Reserve Board dropped them."

Popular outrage over today's high interest rates, which at the beginning of April were at 15.5 percent and rising, has a growing impact as the time for November's reckoning at the polls draws nearer. Hardly a speech is made in Washington today without some rhetorical complaint about the high cost of credit, followed almost invariably by demands to cut the deficit. Even Wright argued for rescinding part of the tax cuts enacted last year as a means of reducing the deficit, and there has been a chorus of demands for their outright repeal by other Democratic and Republican leaders alike.

End of the game?

But as long as Reagan continues to firmly reject any tampering with the tax cuts and any major cuts in defense, Congress is left only with the option of initiating major cuts in domestic programs in an election year—or abandoning the deficit-cutting game altogether. Should they abandon Volcker's game, the danger in the eyes of his international financial backers is that Congress *and* the President might gang up on Volcker, clearing the decks for measures such as LaRouche has proposed.

It is widely conceded on Capitol Hill and on Wall Street that the longer the budget stalemate continues without concessions from Reagan, the less willing Congress will be to take upon itself the onus for implementing Volcker's deeper austerity. At the end of March, Volcker backers in the Senate Republican leadership like Domenici and Dole sounded the alarm of "time is running out" as they rushed to draw up budget proposals based on even greater deficit projections to be dealt with.

And in his first appearance on Washington's political stage since 1980, John Connally emerged to address the Commodity Club March 30, the day before the President's first televised press conference in prime time. Connally threatened Reagan with a full-scale economic collapse unless he "compromises" within 30 to 60 days with congressional demands to cut the deficit.

Underscoring his longstanding collaboration with the Federal Reserve Chairman—it was Connally and then Treasury Undersecretary Volcker who conspired to sever the dollar's last links to gold in 1971—Connally rejected any idea of reining in the Fed, despite predicting that if interest rates remain high, "there will be no recovery."

Rumored in Washington to be waiting to take a post in the administration if the onslaught against Reagan succeeds in forcing a cabinet reshuffle, Connally added the threat that without slashing the deficit, interest rates will remain high, produce economic and political chaos, and cost the Republicans up to 50 seats in the House and a loss of control of the Senate in November. The longtime fellow-traveler of Italy's Propaganda-2 financial networks added that "if Reagan loses his bid for fiscal restraint," the country will move "further to the left," not as "what Americans want," but as "what America gets."

Down in Texas itself, where Jim Wright's attacks on the Federal Reserve went unreported in the news media, Connally's speech was covered under banner headlines.