

## Domestic Credit by Richard Freeman

### Reuss proposes selective credit controls

*The House Banking chairman wants the Fed to cut back lending to 'useless credit users.'*

**H**ouse Banking Committee chief Henry Reuss and Federal Reserve chairman Paul Volcker are planning to use the Fed's monetary powers to cut back bank loans to "useless users of credit," Reuss's office said yesterday.

Reuss and Volcker plan to define "useless users" as the traditional basic heavy industrial sectors of the U.S.—housing, steel, auto, and similar industries. Reuss first advocated the rationalization or scaling down of these so-called sunset industries in a March 10 congressional speech.

Reuss and Volcker may try as soon as January to implement the credit squeeze without congressional authorization, under the new powers granted the Fed by the March 1980 Depository Institutions Deregulation Bill. This so-called Omnibus Banking bill removed some banking regulations, but granted the Fed vast control over the use of others.

Reuss's program for U.S. industrial cutbacks was described in March by his office as "Economic Restructuring for the 1980s." "The program would be very deflationary," said one aide. "We'd pick out the major sectors to be restructured, cut back some of their operations, and direct investment into other areas."

Reuss called then for such a structural reform of "the auto industry, the steel industry, mass transit including rationalization of the railroads, food distribution," and so on. In a March 10 speech he

proposed the creation of "a Department of Industry and Trade to Improve Our Economic Structure." The new DIT, as it is known, would have centralized all U.S. economic planning and credit allocation "just like in a Third World country," aides said. It would have "drawn upon the expertise of the Federal Reserve," Reuss proposed, to "implement structural reform" by allocating credit.

Such a dictatorial Department of Trade was again recently advocated this week by the Senate Democratic Task Force on the Economy Subcommittee on International Trade and Finance. Subcommittee Chairman Senator Abraham Ribicoff of Connecticut in a just-published report demands the "establishment of a Department of Trade incorporating the trade activities of the Departments of State, Commerce, and Treasury," as well as the Export-Import Bank and a dozen other government agencies. Although Ribicoff claims he wants to expand international trade, Reuss's office stated that the real point of the proposal is to restructure "internal U.S. trade," i.e., the entire U.S. economy.

President Carter has embodied Reuss's principle of restructuring basic industry in his Economic Revitalization Board, announced in his major economic policy speech Aug. 28, according to Reuss's office. But neither Carter nor Congress are moving fast enough to make these current proposals a leg-

islative reality which can actually shift the economy, they complain. Reuss, in consultation with the Volcker Fed, wants to try to move ahead without the President or Congress, using the Fed's regulatory powers.

The main way Reuss and Volcker plan to cut off credit to "useless users" is Federal Reserve Regulation D governing reserve requirements. Reg D gives the Fed the power to stipulate how much money private banks must place with the Fed as a "reserve" against bad loans. Money placed with the Fed costs the bank money, because it is sterile and they cannot use it to make loans or earn interest.

Reuss plans an "Asset Reserve System" imposed on the banks to make it more expensive for banks to loan to industries that Reuss and Volcker want scaled back. "Simply, the Fed will give lower reserve requirements for the more desirable loans, and higher reserve requirements for non-productive loans" as the Fed defines it, Reuss's office said.

Reuss's people refer to this plan as "selective credit controls. We have to get a more secure grip on the banks," they say, "to see to it that they don't cause this kind of unproductive lending to disturb the money supply."

When asked if steel, auto, and the other so-called sunset industries would be in the "useless" category, one aide replied: "Perfect example. If the government is going to get into the business of making capital cheap to these industries, as in the Chrysler bailout and the breaks for steel Carter is working out, then we should also do what the Germans have done to their steel industry: *enforce strict rationalization.*"