

Editorial

The Herbert Hoover trap

When President Ronald Reagan delivered his message to Congress on the budget, he announced his unconditional surrender to Federal Reserve Chairman Paul A. Volcker. Now, after Reagan has vacillated dangerously for weeks, he dismissed both the growing anti-Volcker movement in this country, and strong criticism from our European allies of the Fed's skyrocketing interest policies, and pledged himself not to interfere in the "independence" of the Federal Reserve System.

According to leading European financial circles, the new Reagan administration had not more than 50 days to rein in Volcker, or face a slide into a depression probably worse than that of the 1930s.

Our evaluation is that, after his Feb. 18 message, President Reagan is closer to catastrophe than his predecessor Herbert Hoover was at the point of his March 1929 inauguration.

Reagan had to choose between turning himself into a new, hated Herbert Hoover, or dumping Paul Volcker.

The issue of the independence of the Fed, which someone has deviously sold to the new President, is not bogus. It is unconstitutional.

The Federal Reserve System may not enjoy independence from the government of the United States in matters affecting the general welfare of the nation. Article 8, Section 1, of the Constitution awards to Congress both the power and the duty to: "Regulate commerce with foreign nations and among the several states" and "promote the progress of science and useful arts."

The Federal Reserve System exists by sufferance of an act of Congress, and may be altered, directed, or summarily dissolved the same way.

The results of the kind of budget-slashing Reagan has proposed along with Volcker-style interest rates can be spelled out in a few simple facts: Every 1 percent unemployment adds between \$20 and \$25 billion to the federal deficit. Every 1 percent increase in the interest rate adds cumulatively about

\$5 billion to the federal debt-service costs.

The President made things even worse by capitulating to the threatened political blackmail of Jack Kemp. Cutting the top brackets of federal income tax will not increase job-creating investment in goods-producing industries; it will increase investments in bordellos, gambling houses, pornography ventures, and related real-estate speculation, as Representative Kemp has in effect proposed by backing the British Fabian Society's demand to turn New York City into a new Sodom, euphemistically called a "free enterprise zone."

The President's budget-cutting proposal will neither reduce the federal deficit; nor, barring a deep depression, will it have any effect on inflation but to accelerate it. Overall, *Stockman's whole budget-cutting proposal is a Friedmanite hoax*. Every month Volcker's usurious interest rates persist, the multibillion-dollar rise in debt-service costs of the federal government grows.

This is the same Friedmanite policy which Milton Friedman copied consciously from Nazi Germany—as Friedman states quite frankly. This is the same Friedmanite policy which did not work—and could not work—in Mrs. Thatcher's Britain.

President Reagan must either dump Volcker (and the Friedmanites) or become quickly more hated than Herbert Hoover—who was quite justly hated in his time.

At present, to the extent that the Congress tangles itself in debating each item of the proposed budget cuts, we are going through a process resembling the Carter administration's negotiations of the hostages issues with Ayatollah Khomeini—this time with "Ayatollah" Volcker.

After suffering through Carter, we hate to see a decent man such as President Ronald Reagan destroy himself in such a disgraceful surrender to Volcker. There is a deeper concern: our nation itself is being placed in jeopardy by the—we trust—temporary folly of the new President in this matter.