

Capitol Hill

Senate sidesteps fight with Fed

by Susan Kokinda in Washington

While the issues of budget and tax cuts dominated newspaper coverage of the first session of the 97th Congress, it will be Congress's inability to thus far break the Federal Reserve Board's policy of usurious interest rates which will in reality write the history of the 97th Congress.

For as the second session of the 97th opens in January 1982, the President's party, though the majority in the Senate, will find itself in increasing disarray as high interest rates balloon the federal deficit and leave Republicans looking at 1982 election races with their promised balanced budget hanging around their necks. Republicans of varying ideological and geographic stripes, and of varying degrees of proximity to their next re-election campaign, are scrambling in totally different directions looking for a "solution" to the economic crisis. Already, the Republican Senators representing the Northeast and Midwest have informed the President that he can no longer count on their heretofore automatic votes for cuts in programs affecting their regions.

Indeed, the President's narrow last-minute Senate victory on the AWACS sale to Saudi Arabia in October merely underscores the fact that the President's majority is by no means automatic. And this majority could disintegrate altogether in the wake of the 1982 elections, as a number of incumbent Republican Senators are in deep trouble because of the economy. Political wisdom on the Hill has it that continued support for the Fed by the administration and by Banking Committee chairman Jake Garn may be the single most important factor in defeating Senate Labor Committee Chairman Orrin Hatch next fall.

The key to a governable second session of the Senate, and to the ultimate survival of the administration, lies in the activities of a small but increasingly important group of moderate and conservative Democrats, similar to the Jim Wright, Bill Alexander and Dan Rostenkowski brand of Democrat in the House. It was in fact this group—John Melcher (Mont.), David Boren (Okla.), James Exon (Neb.), Ed Zorinsky (Neb.), Bennett Johnston (La.), Russell Long (La.), John Stennis (Miss.), and Sam Nunn (Ga.)—which gave the President his margin of victory in the AWACS vote. And it is this grouping

which has endeavored to bring the issue of high interest rates to the center of national economic policy discussion for the past year.

Senate sources report that, after a year of jockeying with the pro-Volcker Senate Democratic leadership, some members of this moderate caucus may be preparing to move early in the next session with a serious credit policy as an alternative to high interest rates. Recognizing that the wing of the Senate controlled by Minority Leader Robert Byrd of West Virginia and the Democratic National Committee is unalterably committed to a suicidal policy of credit controls, these forces hope that a good-faith effort by moderate and conservative Democrats on credit policy may provide the President with the route he needs out of his budget/tax trap.

Potential new leadership emerges

Almost unnoticed amidst the press hullabaloo around the House conservative Democratic caucus (the Boll Weevils), a similar, more informal caucus announced itself in the Senate during February 1981. Avowing its intention to support President Reagan's economic program, leading members of the group, however, began to point to the Federal Reserve Board policies of high interest rates as that program's glaring vulnerability. By mid-summer, several members of the caucus—David Boren and Ed Zorinsky—joined two non-members, John Melcher and Jim Sasser (Tenn.) in sponsoring a series of "public policy forums" on high interest rates. While generating no national press attention, the forums yielded two things: 1) the introduction by Melcher of S.J. Res. 104, a straightforward resolution calling on the President to sit down with the Federal Reserve Board and to bring down interest rates within 90 days; and 2) a face-to-face confrontation with Fed member Lyle Gramley, who declared that interest rates would not come down until wage rates were broken. From that point on, at least some Senators saw through the claim that the Fed was keeping interest rates high only in response to Reagan's budget deficit.

A behind-the-scenes battle then broke out between the anti-Fed Democrats and the pro-Volcker party leadership in the Senate, House, and Democratic National Committee. Despite the bipartisan Congressional outcry over interest rates after the August recess, the Melcher resolution went down to a 32-to-56 defeat on Sept. 29, as Byrd-led Democrats looked only for ways to pin the economic malaise on the administration, and Republicans obeyed orders from the administration not to attack the Fed. Nine monetarist Democrats openly joined the Republicans against the resolution.

At the same time as Byrd was trying to knife the administration on the AWACS vote (and Melcher, Boren, et al. were bailing out the White House), Byrd was also maneuvering to take the interest-rate fight

away from the anti-Fed Democrats. A Byrd-orchestrated October "Democratic policy meeting" in West Virginia followed by a November press conference produced an "Emergency Democratic Task Force on Interest Rates," under the leadership of credit control advocate Don Reigle. But the Task Force and leadership-backed resolution, a thinly disguised push for credit controls, garnered four fewer votes on the Senate floor than had the "maverick" Melcher resolution five weeks earlier.

Thus sidetracking the drive for lower interest rates, Byrd succeeded in dragging the issue down to its lowest common denominator, as witness the sham debate with Majority Leader Howard Baker on the Senate floor in December over the inconsequential issue of membership on the Fed Board of Directors.

With Byrd's "Task Force" discredited, the moderates who have made high interest rates their central issue during 1981 have a new opportunity to take the fight beyond mere opposition to the Fed and into the realm of serious policy discussion over national credit policy. As one individual involved in the fight from the beginning said, "The issue is no longer budget and taxes—it is credit. We may be the minority, but we are also incumbents, and we have a responsibility to put forward a serious credit alternative. I hope we can show the administration the way out."

House Democrats in divisive bind

by Ronald Kokinda in Washington

[I hoped] to be able to work with the new President as Mr. Rayburn and Lyndon Johnson had worked with President Eisenhower, not as obstructionists but as constructive helpers, trying to bail him out in the national interest when he got in difficult circumstances.

—From an early 1981 entry in the
diary of House Majority Leader Jim Wright,
Democrat of Texas

The failure of that potential working relationship between the Reagan administration and the moderate tendency among House Democrats has been the reason for the dominance of Malthusians in shaping the economic policy of both the administration and the Democratic

Party. The left/right undercutting of the moderate Democrats—those Democrats committed to crucial economic development programs, including NASA and space exploration, nuclear and fusion energy, water development, R&D, and parity for agriculture—has put the administration at the mercy of the Fabian mole David Stockman and the House Democrats under the leadership of House Speaker Tip O'Neill and other "post-industrial society" advocates.

Regardless of the specific effect on the economy a compromise between Reagan and moderate Democrats on tax and budget would have had, the potential for arriving at healthier policy directions could have been, and still might be, key to U.S. economic recovery. The Achilles heel of the administration, its toleration of Paul Volcker and Federal Reserve Board policies, is the best example. These moderate Democrats are attempting to ensure that adequate, long-term, low-interest credit gets into the productive sector of the economy without resort to credit controls or other such destructive devices.

The process of sabotage

Among the key moderates in this situation are Wright; Ways and Means Committee chairman Dan Rostenkowski (D-Ill.) (whose roots lie in the machine politics of the late Mayor of Chicago, Richard Daley, and who managed Wright's successful 1976 bid for Majority Leader); Budget Committee Chairman Jim Jones (D-Okla.); and Chief Deputy Whip Bill Alexander (D-Ark.). How were they undercut? The answer has to do with the Mont Pelerin-Friedmanite Congressman Phil Gramm (D-Tex.), described by one Southern conservative Democrat as "a good staff person, but untrustworthy." Gramm, who got his position on the Budget Committee with Wright's support on the promise to vote with the Democrats once they had reached a consensus, broke his promise and offered to sponsor the Stockman budget cuts. Pointing to this alternative flank of support, Stockman convinced the President that no compromise should be tolerated, and got his cuts in budget resolutions Gramm-Latta I and II. The "Boll Weevils," a grouping of conservative Democrats whose instincts favor economic growth and who would never tolerate an overtly environmentalist policy, were then rallied to support the Gramm-Stockman approach as a move of support for the President—an approach to budget-cutting that has helped the federal deficit balloon toward \$120 billion for FY1982 alone.

Similarly, a chance for compromise on tax policy was jettisoned, just as supply-siders demanded, once the administration was again convinced it had the votes for Kemp-Roth. Rostenkowski, firmly convinced until the very end that the President's overtures for compromise were genuine, suddenly found himself in a frantic scramble to outbid the administration's tax-cut sweet-