Capitol Hill Close-Up

Committee blames Fed for business failures

The House Committee on Small Business issued a report on Federal Reserve policies Sept. 30, blaming the Fed for the large number of small business bankruptcies that occurred during fiscal year 1980. The report, *Federal Monetary Policy and its Effect on Small Business,* was the result of six hearings held by the Subcommittee on Access to Equity Capital and Business Opportunities that began on Oct. 30, 1979. The hearings studied the effects of monetary policy on small business, especially the actions announced by the Federal Reserve Oct. 6, 1979 to curb credit growth.

The report concluded that "the most dramatic result of tight money policy and subsequent recession is the corresponding increase in the number of business bankruptcies. From fiscal 1980, ending June 30, business bankruptcies reached 36,003, an increase of almost 23 percent over the prior fiscal year. With joint petitions included, the 1980 fiscal year showed a 55 percent increase over the last year and the total number of individual business bankruptcies rose an incredible 88 percent.

"The subcommittee finds that the Federal Reserve Board's shift in monetary policy, announced Oct. 6, 1979 and March 14, 1980, had the effect of greatly increasing interest rates on loans to smaller businesses. This especially impacted small firms because they depend on bank credit to a great degree, are highly leveraged, and require frequent financings. . . .

"The subcommittee finds the acceleration in the prime rate and the recession were major factors contributing to the increase in business bankruptcies, and that the rapid increases in rates are partially due to the Federal Reserve Board's policy changes initiated on Oct. 6, 1979 and March 14, 1980."

The Small Business Committee recommended that the Federal Reserve Board "conduct monetary policy in a manner which minimizes the negative effects such policies may have on small business." They also proposed that banks be encouraged to tie small business loans to rates other than the prime rate, that the Federal Reserve formally initiate a dual prime lending program, and that the Small Business Administration lower the cost of their money to smaller firms during tight money periods. It is not certain whether the committee will act legislatively when they return from their recess to ensure an adequate supply of funds to small businesses.

Credit Control Act to be phased out

After receiving a panicked phone call from Treasury Secretary Miller and White House adviser Stu Eizenstat, House Speaker Tip O'Neill (D-Mass.) hurriedly acted Oct. 2 to prevent the House from voting up final passage to a measure which would phase out the Credit Control Act of 1969. The Credit Control Act gives the White House full control over all credit allocations. The White House acted when the Senate, just before they recessed for the election, gave approval to the authorization of the Council on Wage and Price Stability (H.R. 6777), which included an amendment to phase out the controversial Credit Control Act in two years. The Senate action was mere formality as the bill had already been reviewed by a conference committee.

Nevertheless, the White House exerted all its muscle to prevent final passage of the measure before the election, because it represents a stinging rebuke for Carter administration monetary policies. The Credit Control Act of 1969 has only been invoked once in its history—in March by President Carter, who exercised his power under the Credit Control Act to invoke compulsory regulation of credit by the Federal Reserve Board.

Sen. William Armstrong (R-Colo.), the leading Senate opponent of the Credit Control Act, lambasted the White House action as "extraordinary and uncalled for."

Two months after the Federal Reserve used the measure to invoke the disastrously contractive credit controls, Armstrong attached an amendment in the Senate Banking Committee to the Council on Wage and Price Stability authorization to phase out the credit act, but lost on a party line vote. After discussions between Armstrong and Banking Committee chairman William Proxmire, they agreed on a proposal to phase out the bill over one year and laid out a plan to bring it up on the floor of the Senate as an amendment to the same bill. It passed the full Senate on June 2 by a vote of 43 to 40.

Armstrong's fight against the credit control bill was supported by a group of 30 major business groups including the American Bankers Association, the Independent Bankers Association, the American Retail Association, the National Automobile Dealers Association, the Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable. At hearings held by Armstrong in 1979 on the measure, these and other groups had warned that the act would "destroy the fabric of American society."

A leading opponent of the Credit Control Act demise effort was the powerful chairman of the House Banking Committee, Henry Reuss (D-Wisc.), who coauthored the act in 1969. Reuss was backed up by the AFL-CIO, one of the major lobbyists for returning the credit control measure, which sees it as a means of controlling prices.

Administration mole investigated by Congress

Charges are flying on Capitol Hill that there is a KGB "mole" inside the top echelons of the Carter administration, charges that trace back to former CIA counterintelligence chief James J. Angleton and a circle of former intelligence officials close to him. Former CIA arms control analyst David Sullivan, who until very recently was an aide to Sen. Gordon Humphrey (R-N.H.), has charged that someone in the administration was responsible for exposing a top U.S. intelligence agent in the Soviet Union, a clerk in the Soviet Foreign Ministry code-named Trigon. Under Sullivan's prodding, Humphrey asked CIA director Stansfield Turner to investigate the matter.

At the same time, Senators Daniel Moynihan (D-N.Y.) and Malcolm Wallop (R-Wyo.), asked the Senate Intelligence Committee to investigate who the government official was who "may have contributed to a major intelligence failure." Moynihan declared that "if an agent was betrayed, it is despicable and very possibly criminal." The Intelligence Committee has begun closed hearings on the matter. Although no one is admitting whom they have in mind, the word is all over Washington that the administration suspect is David Aaron, deputy to Zbigniew Brzezinski in the National Security Council and former aide to then Sen. Walter Mondale during the early-1970s Senate investigation of the CIA and FBI.

Aaron has also been fingered by former Admiral Elmo Zumwalt as having leaked information to the press on the fact that the United States is developing the Stealth technology that allows airplanes to fly unobserved by radar. Aaron was called before the House Armed Services Subcommittee on Investigations last week to testify on this, but President Carter invoked executive privilege, refusing to allow him to appear.

James Angleton, who is heavily linked to British intelligence, has been cultivating the myth of a KGB mole in upper echelons for many years.

Unemployment extension awaits Congress' return

In the early morning hours of Oct. 1, just before the Senate recessed for the election, they added amendments designed to cut up to 25 states out of unemployment benefits to the Federal Supplement for Unemployment Compensation (H.R. 8146). The Supplemental bill, passed in the House the day before by a vote of 336 to 71, was a simple extension of unemployment benefits by 10 weeks. However, a bipartisan group of senators tacked on a series of amendments for the sake of "cost cutting."

The senators, who included Republicans Robert Dole (Kans.), John Heinz (Pa.) and John Chaffee (R.I.) and the powerful chairman of the Senate Finance Committee Russell Long (D-La.), added amendments which would;

- require any person who applies for benefits to accept "suitable employment" at their unemployment compensation level, a proposal that would force the wholesale reorganization of the labor force at lower wages.
- replace the national trigger for starting the unemployment benefits with a state trigger. This means that instead of all workers receiving unemployment insurance benefits after the 26 weeks of state insurance, if a national unemployment figure is reached, each state would get the additional benefits

based on its own state unemployment figure. Between 25 and 30 states would now be cut out of these additional unemployment benefits if state triggers are used.

House staffers, trekking bleary-eyed into their offices early on the morning of Oct. 1, were stunned that the Senate would suddenly add these far-reaching amendments to a simple unemployment extension act. The House voted to send the entire measure to a conference committee. Action will take place on the bill during the lame duck session.

Gold standard fight brewing?

Conservative Senate Republicans appear to be making a move to bolster their leverage in a new Reagan administration with the introduction on Oct. 2, 1980 of the Gold Standard Act of 1980. Introduced by Senators Jesse Helms (R.-N.C.), James McClure (R.-Idaho) and Barry Goldwater (R-Ariz.), the legislation would reestablish a classical 19th century British-style gold standard with an approximate ratio of currency to gold reserves of 40 to 1. In his introductory statement, Helms stated that his legislation was based on a February 1980 economic study by Arthur Laffer.

Nonetheless, in all their years of voluble support for a return to a gold standard, such goldbugs as Helms and Goldwater have never introduced legislation. Capitol Hill observers speculated that Helms and the traditional conservatives in the Senate will use the gold standard legislation to build up support in Reagan's conservative economic base for their views, and hence leverage in a Reagan administration. Helms has announced that, after soliciting opinions and comments, he will reintroduce the legislation on the first day of the 97th Congress.

But the debate over the legislation has already started. On the same day Helms introduced the bill, Rep. James Santini (D.-Nev.), chairman of the Subcommittee on Mines and Mining of the House Interior Committee held hearings on "The Feasibility of a Return to the Gold Standard," where Laffer himself squared off against Robert Solomon of the Brookings Institution, and Edward Bernstein, a former director of research of the International Monetary Fund. Cong. Ron Paul (R-Tex.), the leading gold bug in the House, and Thomas W. Wolfe, a former Treasury Department official backed Laffer up.

Missing entirely from the hearing was any discussion of returning to the form of "gold exchange" system that the United States and the rest of the world adhered to prior to 1971, where countries held enough gold reserves to cover their trade deficits. Such a system, while tying the dollar to gold, does not place a rigid lid on the expansion of credit as a strict dollar-gold ratio does. Laffer was unable to explain how his proposal would not cause a complete deflationary collapse of the world economy.

Justice pressuring Senate witness?

Senators Dennis DeConcini (D-Ariz.) and Orrin Hatch (R-Utah) continued their investigation of possible administration coverup in a reported influence-buying attempt by Robert Vesco, Hamilton Jordan and other close White House advisers. On Oct. 2, DeConcini's Judicial Improvements Subcommittee heard Spencer Lee, an old Hamilton Jordan drinking buddy, deny repeatedly that he had been the go-between for Vesco and Jordan. Lee has repeatedly flunked lie detector tests when asked similar questions by grand jury investigators. At one point the hearing erupted into a shouting match between Lee and Senator Hatch, with Hatch branding Lee an "out-and-out liar."

While the subcommittee intends to receive testimony from Robert Vesco, probably in the Bahamas, since the Justice Department refused to grant Vesco immunity to come back into the United States to testify, committee sources report that Vesco's contradiction of Lee's denials will not be enough. The other key witness, R. L. Herring, who was the other go-between along with Spencer Lee, has just been indicted on a murder charge.

Sources report that the basis for the indictment is very flimsy and may be an attempt by the administration to discredit or blackmail Herring. Herring was indicted in a three-year-old murder case six days after the DeConcini subcommittee announced its intention to call him as a witness. The indictment was based on the testimony of an unnamed witness who is currently under the Federal Witness Protection Plan.

Further, the man accused of the actual murder, allegedly under contract from Herring, claims that he has never heard of Herring. Sources note that it is the Justice Department, itself a focus of the Subcommittee investigation, which developed the information leading to the indictment.

House conservative Dems hurt by Bauman scandal

Washington's latest sex scandal, involving charges that Cong. Bob Bauman (R-Md.) had illicit sexual relations with a 16-year-old boy, has a group of conservative Democrats worried about the scandal's implications for Bauman's continued effectiveness on the Hill.

Bauman, a Republican, has served as the conservatives' premier parliamentary infighter in the House for both parties for some time, and has been indispensable in conservative efforts to block the legislative maneuverings of House Speaker Tip O'Neill (O-Mass.), a close ally of the Carter administration.

Bauman has provided indispensable assistance to conservatives seeking to block certain legislation or to challenge procedural motions of the House leadership. Close to 60 Democrats have consistently blocked wih Bauman and the Republicans on procedural votes.

Even if Bauman wins reelection this November, his effectiveness will be seriously impaired. "It took him 20 years since his days as a Capitol Hill page to develop this knowledge," declared one Capitol Hill staffer. "There is no one to take his place. He has set the conservative cause back irreparably."

In August, Tip O'Neill sent a sharp note to 44 House Democrats who deserted him on an important procedural issue regarding the IRS withdrawal of tax-exempt status from private schools found to have discriminated against minorities. O'Neill warned Congressmen not to go against the administration. Despite this warning, the conservative grouping continued to support Bauman in procedural skirmishes against the Speaker.

New wheat reserve formed

On Oct. 1, 1980, the Senate passed the House version of legislation establishing a new 4 million metric ton wheat reserve, and sent it to the President for signing. The legislation also included provisions for new price support loan levels, and was broadly viewed as part of the Carter administration's attempt to ameliorate, in a piecemeal way, many of the disruptions caused by the Soviet grain embargo.

Despite attempts by drafters of the legislation to ensure that establishment of a new 4 million ton reserve could not be used by the government to dump grain on the domestic market and use it to drive down prices, Sen. Henry Bellmon (R-Okla.) expressed concern during floor discussion of final passage that such might be the case. Under the legislation, the reserve is to be used for international famine relief efforts as a backup to PL-480, and hence should have no impact on domestic markets. Citing the provision in the legislation which allows the reserve to sell off wheat on the verge of spoilage and "promptly" replace it, Bellmon asked, "Is there any provision in this act that says that even if this grain is thought to be going out of condition, it cannot be dumped on the domestic market? That is the device that was used repeatedly in the 1950s and the 1960s."

Sen. Walter Huddleston (D-Ky.) responded that the new reserve had been set up in such a way as to ensure strict congressional oversight and that if the Secretary of Agriculture attempted such market manipulation, "it would be a deliberate circumvention of what is called for in the statute."

The wheat reserve was included as Title III of an amendment to the Olives and Walnuts Marketing Act (H.R. 3765) along with Title II establishing the new price support loan levels for wheat, corn and soybeans. Titles II and III had been enmired in a conference dispute over Farm Labor Contract provisions, and were separated from that and attached to H.R. 3765 in a successful effort to speed passage.