
# Paul Volcker unveils his warfare agenda for 1982

by Richard Freeman

After months of a steady, if slow and marginal, decline, Federal Reserve Board chairman Paul Volcker has sharply jerked the federal funds rate upward, setting a floor under all interest rates. While Volcker's action is unlikely to send interest rates soaring, as long as the economy is plunging into recession, what he is doing is preventing interest rates from following their natural path downward—forcing a tightness that will be felt throughout the economy.

By taking this action, Volcker, joined by allies in the Wall Street as well as academic economists, is putting into effect a program specially designed for the battered economy as it enters 1982: crushing the labor movement, attempting to force additional budget cuts and tax increases, and moving toward imposition of credit and wage-price controls.

In doing this, Volcker is carrying out the marching orders delivered him by the Bank for International Settlements, the central bank for central banks, and the headquarters for international finance for the European oligarchy. Jelle Zijlstra, the outgoing head of the BIS, in a major speech delivered during the International Monetary Fund meeting in Washington, D.C. in late September, called for the imposition of both credit and wage-price controls in order to implement a program of world deflationary austerity.

## Credit-market manipulation

The suddenness with which Volcker moved startled many of the market participants. On Jan. 1, federal funds were trading in a range around 12.5 percent. By mid-afternoon Jan. 5, federal funds were up to 13.5 percent, a sharp increase when it is considered that federal funds had fallen from nearly 17 percent since September, a 4.5 percentage point drop. But this action had been well prepared for. Henry Kaufmann, the chief economist of Salomon Brothers investment bank, and, some would swear, the alter-ego of Volcker, released a yearly capital market review Jan. 4.

In this review, Kaufman stated that the task of funding a projected $100 billion-plus federal government deficit in fiscal years 1982 and 1983 would cause "interest rates [to] start to trend irregularly upward again before mid-year," and that "long-term interest rates will probably be threatening their 1981 highs."

After making this dire prediction, Kaufman solemnly noted that, "high interest rates particularly hamper the financial rehabilitation of business corporations, and state and local governments." As for the housing industry, Kaufman said, "scarce credit means that the housing industry is at an end of an era."

The credit markets reacted to the combination of Volcker's moves and Kaufman's statements predictably: the long-term U.S. Treasury bond market fell by 4.5 points by mid-afternoon Jan. 5, and the Dow Jones industrial stock average shed more than 20 points by the end of Jan. 6.

With the credit markets thus foundering, Volcker and his underlings at the Fed unleashed an armamentarium of plans to further permanently transform the U.S. economy into a shrunken, depleted shell of its former self.

In this regard, much of what the Fed wants to see done was unveiled at the annual conference of the American Economics Association in Washington, D.C. Dec. 28-31. There the leading wizards and prostitutes of the American economics profession gathered.

## AEA formulas

At the meeting, Anthony Solomon, the head of the New York Federal Reserve Bank, dropped a bombshell. Solomon, a member of the Fed's exclusive Open Market Committee, which sets Fed monetary policy, revealed in one of the AEA panel discussions that the Fed no longer feels competent to define what money is, nor what relationship money supply has to the actual amount of credit extended. While many of the conference participants scratched their heads, a Federal Reserve Board official explained Jan. 6 the devious issue.

"We are saying at the Fed that neither monetarism's management of the amount of money, nor setting the federal funds rate to set monetary policy, works. We are trying to focus people on a third way." The Fed spokesman would not specify what this third way is, although he said, "we are trying to get the financial community discussing this."

However, other statements make it clear that the Fed is duplicitously laying the ground-work for introducing a permanent form of credit controls, which would replace the episodic venture of credit controls that Volcker undertook in March through July 1980. (Even that form of credit controls sent industrial production falling by 9.0 percent during that period.)

Salomon's Henry Kaufman told the press Jan. 6 that a form of loose capital controls is needed. Often called the "Swiss method of credit rationing," this means that banks are assigned upper limits to lending based on their capital levels. Adding weight to this view is the fact that the Federal Reserve Board has released a new directive which is designed to "stop the rate of asset growth and eventually turn around the capital-to-asset ratio," by *reducing* banks' total loans, according to a Federal Reserve official interviewed Dec. 29. Although the guidelines do not specify a specific capital-to-assets ratio for large commercial banks, the Federal Reserve spokesman made clear that the intent is to reduce bank lending, period.

At the same time, various spokesmen at the AEA conference also renewed a pitch for a thinly disguised form of wage-price controls, called the Tax-based Incomes Program (TIP). As explained at the AEA conference by Charles Schultze, the former head of the Council of Economic Advisers under President Carter, the TIP program rewards employers who hold wages down with tax breaks, while increasing taxes for employers who give workers wages above a nationally set average level.

## Implications of controls

Were both credit controls and wage-price controls to be simultaneously instituted, Volcker would have a tremendous amount of power to use against both labor and industry, and a capacity for wreaking havoc against the economy far greater than anything he has done so far. Already, through his high interest rates, Volcker has forced a rate of industrial collapse between July and November of 1981 of 15 percent on an annualized basis, the steepest level of decline since the 1929-32 period.

While it is known that President Reagan opposes both credit and wage-price controls on strict ideological grounds, and that the President's approval is necessary to institute either of these programs in full, Volcker is creating a situation in which the President will face sheer chaos on the credit markets for the first six months of 1982.

Every attempt by the President to get the economy started again will be countermanded by the actions of Volcker. He will repeatedly harp on the problems of greater-than-$100 billion federal budget deficits. At the very least, Volcker will get greater tax increases and steeper budget cuts, including cutting defense spending, from Reagan. The latter is a point that Reagan is known to oppose.

But it is possible, that with the right combination of disloyal advisers around Reagan, Volcker could succeed in blackmailing Reagan into a controls policy.

## Plans for breaking labor

But this is not all. Volcker has his eyes firmly set on breaking labor unions, using his created depression to crush the contracts of the Teamsters, rubber, and auto workers, and many smaller labor contracts that come up in 1982. "Volcker has been saying, and writing in the Federal Open Market Committee minutes that he is using credit policy to affect labor contracts," stated Gert von der Linde, chief economist of Donaldson, Lufkin, Jenrette investment firm, on Jan. 6. "Look at what Volcker's policy has already done in the trucking industry," von der Linde continued. "The recession and the deregulation of trucking have put the Teamsters and the trucking industry in disarray. Truck haulage is down, and many Teamsters have lost their jobs. The Teamsters will have to make enormous concessions of work rules and give up concessions on wages." Von der Linde predicts that the Teamsters will get a three year contract with only 15 percent wage increase over 3 years, versus the 40 percent increase negotiated the last contract. He also pointed to the outright wage cuts that have been taken by the airlines industry, as well in selected cases in the rubber, steel, and auto industries.

This wage-gouging offensive will mean the elimination of one last obstacle—trade-union resistance—to Volcker's restructuring of the economy into a post-industrial economy, as well as cutting the earning power and labor productivity available to the economy. Initially, the Volcker move might appear smart to businessmen, who, deluged by devastating recession, but unwilling to take on Volcker, directly see wage gouging as a way out of their current cash squeeze.

But ultimately, such a sacrifice of the living standards of the labor movement will not appease Volcker, nor will it end inflation, which, in the 30 months he has been in office, is at the highest level in the last 35 years. Rather, this is one more part of the Volcker agenda, including, finally, wage-price and credit controls, in which the economy will be laid to rest permanently in 1982.