

# Connally's economics or Kennedy's:

## Sen. Kennedy: austerity ... maybe technology

"One of the leading problems in the country at present is inflation. The steps the Fed has taken are not steps that I would differ with," a prominent U.S. presidential candidate told *Business Week* Oct. 22, speaking of U.S. Federal Reserve Chairman Paul Volcker's current severe cutoff of credit to the nation's industry and consumers. That same well-known face, said Wall Street's leading investment bank Morgan Stanley in a confidential report to clients last week, will be able to "lead the country to the right" with these policies.

Was this Ronald Reagan, George Bush, or even Gerry Ford? No, the presidential frontrunner in question is that friend of labor and the consumer, Edward Kennedy. Of course Kennedy will not admit to much of this in public, where aides say, he will soon come out with a populist call for wage/price controls.

But before business audiences, Kennedy, under the influence of behind the scene advisors from the Georgetown Center for Strategic and International Studies (CSIS) and the Johns Hopkins School for Advanced International Studies (SAIS) is also pushing a "new birth of industry in America and a new flowering of technology," as he told the Investment Association of New York on Oct. 4. Kennedy's backers in the Senate are also planning a "major public relations campaign for an expanded U.S. export drive, on which the administration has failed," CSIS sources add.

Kennedy, not famous for his economic competence, has not yet managed to explain to the U.S. corporate sector and the voters generally how he would finance these ambitious programs either under his public monetary policy of wage/price controls or his private one of credit crunch.

Even more privately, his advisors explain that neither Kennedy's technological investment program nor his trade push really need be implemented at all. "It's not a question of his policies or what he says in substance," said one SAIS source, "It's a question of how he's perceived in *Europe*, as a strong president." It turns out that the CSIS crowd is most concerned with the strategic decline of the U.S. in the Atlantic alliance,

and would like to see a presidential candidate who can convince West Germany and France that the U.S. can retake world economic leadership.

Presidential campaign knowledgeable have also noted that Kennedy's strongest rival in the New Hampshire Democratic primary, the favorite son Lyndon H. LaRouche, Jr., is widely known in Europe as the intellectual author of the Franco-German European Monetary Fund and its associated policies of dollar stabilization and U.S. trade expansion.

### 'Cut credit volume'

Where monetary policy is concerned, Kennedy's latest idea of Camelot seems to include large unemployment lines around the castle, to hear his advisors privately explain Kennedy's *Business Week* interview. "The best thing the Fed has done is to cut back on the volume of credit issuance," said Jack Albertine today. Albertine is one of Kennedy's top economic advisors on the staff of the Joint Economic Committee of Congress and executive aide to Senator Lloyd Bentsen, Democrat from Texas, who is widely touted as Kennedy's running mate. Putting an absolute ceiling on credit volume is in fact the most novel, most destructive part of Volcker's draconian measures. It will cause large-scale shutdowns in industry. It means that only a certain small percentage section of the economy receives credit, while the rest does not—no matter how high interest rates go. "The Federal Reserve really had no choice, in fact we thought they should have switched to looking at this excess creation of (credit) reserves long ago," Albertine said.

"I support Volcker. Raising interest rates will certainly hurt the economy but Volcker had to do something," agreed Joseph Pechman, a senior Kennedy family advisor and head of Economic Studies at Washington's Brookings Institution.

Barton Biggs, Director of Research at Wall Street's radically "fiscal conservative" Morgan Stanley, is meanwhile telling his pro-Volcker clientele in the banking industry to swing for Kennedy now because only he, with his liberal face, can implement deep austerity. "It may be," he wrote in the firm's high-priced newsletter, "that we must have a leader with impeccable liberal credentials to lead the country to the right ... just as we needed a hardline anti-communist to lead us into a relationship with China. ... Ted Kennedy, as a rational politician who wants to win, must move to the right.

Privately, however, Kennedy's closest Washington

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# is there really any difference?

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aides admit that the Senator, for public consumption, will soon have to make a purely rhetorical anti-Volcker splash to "Hooverize" President Carter. At the Oct. 29 hearings on the 50th anniversary of the crash of 1929, held by the Kennedy-dominated Joint Economic Committee, "we'll make a stand against too-tight money," said a Kennedy aide. But Kennedy's real end in this, he added, was to press (as the alternative to a mere credit crunch) a full blown wage-price control "national incomes policy" now being secretly drafted by Kennedy's office.

## Productivity and innovation

The lack of a coherent monetary policy notwithstanding, Kennedy has gone on to promise a score of programs he will never implement to recapitalize the U.S. economy. "The top priority on our economic agenda," Ted told the Investment Association of New York, "must be a major new national commitment to the twin goals of productivity and innovation. That means new incentives for savings and investments, for entrepreneurs and business firms." He listed seven initiatives, highlighted by advanced tax depreciation schedules for capital investment in industry, targeted tax incentives for new business ventures in high-technology, and tax breaks to encourage Japanese-style trading companies formed of joint ventures by corporations, banks, and marketers with federal assistance to sell U.S. products abroad. Apparently Kennedy's aides have been studying the LaRouche campaign for some pointers on what Americans view as a competent economic policy. When it was pointed out to one of Kennedy's CSIS advisors that those sweeping reforms would be difficult to implement under wage/price controls, he said, "it doesn't matter, as long as Kennedy appears to have a strong policy." Kennedy's policy will not only include a strong call for a U.S. export program but major U.S. support for the new European Monetary System, which he has already floated in April 16 and July 17 speeches on Europe, a Kennedy aide said recently. "The Senator sees the EMS as an applaudable innovation which will stabilize the dollar while stabilizing European currencies," he said.

President Carter's own campaign advisor Robert Strauss, senior Democratic Senator Adlai Stevenson II, and Texas Senator Lloyd Bentsen are planning a "public relations campaign" on the U.S. export issue for this fall culminating in the conservative Bentsen's appoint-

ment as Kennedy's running mate, another CSIS source revealed. "Kennedy is shifting to the center and Bentsen will help a lot. Once Carter has authorized the new Department of Trade and Industry (DITI), Stevenson, who has been holding trade hearings, Bentsen the head of the Joint Economic Committee, and Senators Roth and Ribicoff who wrote the DITI legislation will come out attacking Carter's 1978 Export Task Force, call it a failure, and get a lot of press," he said.

—Kathy Burdman

## John Connally: austerity ... maybe trade

Big John Connally has been pursuing some big contradictions in his new economic policy statements recently. Connally, as in his Oct. 22 dinner speech to the National Foreign Trade Council in New York, excerpts of which appear below, has a flashy new U.S. export expansion policy which he is using in a strong (and well taken) attack on the Carter administration for having "fumbled the ball" on trade. But at the same time, Connally and especially his advisors, have made the strongest endorsements of Federal Reserve Chairman Paul Adolph Volcker's stringent credit policies.

Connally was asked by *Executive Intelligence Review* at the Trade Council to resolve the contradiction between cutting off credit to the economy and strengthening the economy through exports, for which no credit finance would then be available. "I just disagree with the premise ... that Volcker's policies are hurting the economy," was his nonreply.

Readers may notice a similarity in Mr. Connally's conundrums to those of his supposed opponent Ted Kennedy in the accompanying article. Not accidentally, for Mr. Connally, too, is being closely advised by the Georgetown Center for Strategic and International Studies, whose "U.S. Export Competitiveness Project" director Dr. Michael Samuels shared the Trade Council podium with Connally on the 22nd. "We largely wrote Connally's speech," bragged a CSIS colleague of Samuels the next day. "Don't you think he's just beautiful out there selling it to the businessmen?" The CSIS man

was adamant as well on the formulation of "austerity, then exports." "We can only afford to export resources if we have a corresponding reduction in U.S. consumption here at home," he said, "and to enforce that consumption cut, you need credit cuts."

Further explaining Connally's incoherence is the fact that his "bold program of export expansion" is an attempted answer to the January 1978 Proposal to Expand the U.S. Export-Import Bank of Democratic presidential candidate Lyndon H. LaRouche, Jr. Connally, of course, has rejected the significant plank of LaRouche's proposal, a U.S. remonetization of its potential \$70 billion in gold reserves to create the liquidity to heavily finance a U.S. export blitz. This alone should tip off the corporate executive who might otherwise be attracted to LaRouche that Connally has no real intention of implementing an export program.

Connally's first priority in fact is (as he brags about having done it in August 1971 when he collapsed the U.S. dollar) to get top down control over the entire economy, including trade policy, and to squeeze it dry of credit. "I am proud of the dramatic and necessary action we took" then, he says. "International trade functions ... should be centralized ... directly into the National Security Council."

Then, with continuing tight credit, we might have some trade—to be wielded primarily as a weapon against our European and Japanese allies, says the Republican candidate. Connally proposes a North American Common Market of the U.S., Mexico, and Canada to exploit Mexican oil resources for "a new game plan designed to capture a larger market share in Asia," i.e., trade war against Japan.

#### 'Credit crunch'

Connally may have complained in his \$30,000 campaign spot on CBS-TV on Oct. 31 about suggestions that Americans "lower our standard of living," the famous demand of Fed chairman Volcker before Congress the week before. But Connally has, in fact, backed Volcker all the way, starting with his Oct. 11 campaign kickoff speech to the Washington Press Club, where he endorsed Volcker's then fresh monetary cuts wholeheartedly, "provided that there also be fiscal restraints," that is, concomitant cuts in government spending. Connally told *Business Week* on Oct. 22 that he supports Milton Friedman's proposal for a constitutional amendment requiring a balanced budget and a legislated lid on federal spending. In Connally's terms, that translates into across the board cuts in vital government programs.

"Connally sees inflation as the nation's number one problem," Julian Reed told a journalist recently. "We need a credit crunch and cuts in spending. Unemployment is necessary. We must knock the waste out of the economy."

## Foreign trade is a national security matter

*What follows are excerpts from John Connally's speech to the National Foreign Trade Council meeting held in New York City Oct. 22:*

A few years ago, it was believed that the major changes seen in the world economy during the prolonged crisis between 1968 and 1975 resulted from what an OECD report called "an unusual bunching of unfortunate disturbances, unlikely to be repeated on the same scale..."

Today, we know better. It is now clear that these crises are not passing phenomena. There is no going back automatically to the prosperity of the past, and the policies of the past will not bring us a bright future.

The U.S. has now dropped from having the highest per capita income in the world, to having only the seventh highest. ... In light manufacturing and in certain industrial goods, the U.S. no longer has a trade balance in our favor. We are failing to compete successfully with manufacturers in West Germany, France and in (a number of) newly industrialized countries. ...

The erosion of the dollar has been the result of aimless drifting in our international economic policy. ... Instead of a vigorous export policy, new disincentives to exports piled up. When the administration was ultimately forced to come up with an export statement, it consisted of little more than promises to study the issue.

In 1971, I advised President Nixon that the post-war era was over. We could no longer give away international markets as well as our own industries to Europe and Japan on the premise that they were still recovering from a war which ended a generation before.

As Secretary of the Treasury, I participated in the basic decisions which led to the devaluation of the dollar, and I am proud of that dramatic and necessary action we took. It is now universally recognized that the dollar, pegged to a fixed exchange rate for more than 20 years, was over-valued, and that devaluation was badly needed.

Today, our dollar is weak in part because we have not mounted an aggressive trade program to support it on the world market. ...

If we are to compete in this world, we have to mend our ways. Trade must be a very high governmental priority. Our President needs to be a person who understands the domestic and world economy and who is willing to devote his time to economic issues. ...

One of the greatest single changes which has occurred in American trade has been the growth for U.S. products in this hemisphere. If we add our \$20 billion of trade with Latin America, our total trade in this hemi-

sphere will total over \$107 billion, making the hemisphere, as a whole, our largest trading market.

I have proposed a North American Common Market that could unite the economic resources of Canada, Mexico and the U.S. This economic union would be a formidable trading bloc, with a combined GNP of \$3 trillion. ...

The North American Common Market that I foresee would be unique—not comparable to the Europeans. It would incorporate bold new methods for economic growth. We would integrate trade, investment, technological assistance and labor to mobilize our collective economic resources. This union would allow infant industries a measure of protection by developing sector-by-sector, region-by-region at a rate that is beneficial to all parties. If a North American Common Market is to work, it must work for all members.

President Lopez Portillo of Mexico put it best when he stated that the problem of energy cannot be isolated from questions of economic development, industrialization, migration, and a respect for the sovereignty and dignity of our neighbors. For this reason, such an approach must take into account not only Mexican oil and natural gas, but also a complete commitment by the U.S. to tailor its programs so as to further develop our markets for exports and encourage the reciprocal exchange of goods with our North American neighbors.

... The U.S. can no longer afford to be paternalistic. This hemisphere is our largest market. We need that market, we need to grow in that market and we need to assist these nations to develop more rapidly, in order to secure our own growth.

We must also take a new look at Asia. ... American trade has shifted from the Atlantic to the Pacific. ... We cannot afford to run the same tired old offense, but must develop a new game plan designed to capture a larger market share in Asia. ...

In a practical sense, this means we must quit designing products exclusively for Europe, and begin to out-Japanese the Japanese, and design products for the Asian markets. It also means that government, business and labor must cooperate to develop special programs and products to capture Asian markets. ...

We must field a team of Yankee traders composed of trading companies, finance and insurance groups, technical and logistic specialists; and be willing to launch any other activity that is required to capture these new markets. We must also back up our products with the new means of credit at a rate comparable, or better than, our competition. We should *never* lose a sale because of second-rate financing. ...

### **Recommendations**

I propose that industries which invest in capital equipment to increase productivity should be allowed an accelerated depreciation write-off. ...

I propose a special investment credit be given to companies which reinvest profits in research and equipment to improve productivity or the quality of their products. ...

We must overhaul our trade law and agreements pertaining to technology transfer. ...

First, we need to remove the disincentives to exports which are only serving to divert sales from American companies to foreigners. Many of these disincentives, designed to achieve very noble objectives in such areas as human rights, environmental improvement, and tax equity, are not accomplishing the objectives for which they were designed and are depressing unnecessarily our foreign trade.

I also support legislation to make it possible for the U.S., like Japan, to have large trading companies at the forefront of our export drive. ...

To do this, we must increase both the funds available to the Export-Import Bank, as well as improve the efficiency of their operation. ...

We should expand our insurance protection for exporters comparable to the insurance coverage offered by Lloyd's of London. This expanded insurance program should be incorporated into the Exim Bank. ...

Serious consideration should be given to integrating the investment insurance program of the Overseas Private Investment Corporation (OPIC) and the development loan operation of the Agency for International Development into the Exim Bank to provide a comprehensive "one-stop" financing and insurance program better than those offered by other major trading nations.

To keep world trade a two-way street, we should insist upon strong enforcement of the new trade agreements. The next president should aggressively enforce U.S. laws to protect our industries and workers against unfair foreign competition. ... Better access to foreign markets must be a central part of our export growth strategy. I am for telling our trading partners that the U.S. expects the same access to their markets as they enjoy in our market. ...

The Carter administration has just fumbled the ball on trade reorganization. Bold directions were proposed by members of Congress and the business community who were fed up with the absence of a coordinated and ineffective trade policy. They fell on deaf ears in the administration.

We need to organize our efforts and talents to the task of promoting foreign trade. I would propose that the international trade functions within the federal bureaucracy should be centralized.

I propose that international economic policy should be integrated directly into the National Security Council system.

I propose that the Secretary of the Treasury, as the government's top economic policymaker, should become a full member of the NSC. ...

# Jumping on to a sinking ship?

Ted Kennedy will formally declare his intention to seek the Democratic Party presidential nomination at a Boston press conference on Nov. 7. Stephen Smith, Ted's multimillionaire brother-in-law and campaign manager, announced Oct. 29. Democratic Party insiders were quick to note that Kennedy's already crumbling popular image was responsible for pushing up the announcement, originally scheduled for December, by five weeks.

With some alarm, the Kennedy campaign has begun a rushed drive to pick up as many deserters from the Carter camp—preferably with big names—as possible, by asserting that it's now or never for jumping on the Kennedy bandwagon. The most dramatic reversal came from Chicago Mayor Jane Byrne. Byrne had given President Carter her "wholehearted support" when he addressed a fundraising dinner to retire the Mayor's 1979 campaign debts on Oct. 15.

## Always the gentleman

"I'm tired of screwing around with this," Ted had told a somewhat taken aback Washington press corps on Oct. 26, "I want to get going." Indeed, all the events around Mr. Smith's subsequent announcement show that the driving force behind it was the rapidly fading bloom on Mr. Kennedy's populist campaign. "It's not as if we're running scared," said one of the senator's "Draft Kennedy" workers this week, "but things have changed. People are beginning to ask 'where's the candidate,' and worse, 'what's his position on X?' And we have nothing to tell them."

Kennedy's lack of a believable position on anything has in particular made him "upset over the embarrassment caused him" by the defeat of the "Draft Kennedy" slate of delegates in the Oct. 13 Florida Democratic caucuses. Kennedy's lead over President Carter in the national polls has since then begun to erode steadily, leading to comments that his campaign is "peaking."

"The Kennedy for President Committee is now officially underway," said Smith in his announcement. "This is a campaign, not an exploratory committee."

Heading up the Kennedy Committee with Smith are Paul Kirk and Carl Wagner, two Kennedy family campaign veterans. Marvin Katz, who will be Kennedy's finance coordinator, was borrowed from friendly New York State Senator Pat Moynihan's office.

The plans for the candidacy were finalized at a Kennedy "war council" in Boston over the weekend of Oct. 21, insiders say, which included Robert McNamara, head of the World Bank and former secretary of defense

under John Kennedy; McGeorge Bundy of the Council on Foreign Relations and Kennedy's National Security advisor; W. Averill Harriman, Kennedy's foreign policy advisor; John Kenneth Galbraith, Kennedy's economic advisor; and others.

At the meeting, the family counsel told Ted to get on the phone and get himself some national support ... fast. Kennedy did so, with a round of calls to major Democratic leaders nationally. "Join the campaign now, or you'll be left out," was his message, according to sources who said Kennedy was "stampeding" supporters.

## Committed

The results of this pressure surfaced as the week began, with the most unprincipled sections of the Democratic Party the first to jump onto the leaky Kennedy ship. "In looking for alternatives, we Democrats are fortunate to have the bright star of the Democratic Party, Senator Edward Kennedy," said Chicago Mayor Jane Byrne in her surprise announcement. "He has already demonstrated his courage by being willing to challenge an incumbent," she added somewhat lamely.

Byrne broke a 30 year tradition of the Cook County (Chicago) Democratic machine when she and George W. Dunne, chairman of the Cook County Democratic Committee, urged that the county's delegates "should go committed to Senator Kennedy" to the 1980 Democratic National Convention. The Cook County delegation, following the tradition of the late Mayor Richard Daley, has gone to the convention uncommitted or behind a favorite son to better play for Chicago's interests in the final moments of the presidential nominating convention.

A similar splash into the Kennedy camp was made by Carter's leading Southern direct-mail fundraiser Morris Dees of Alabama, who defected to the Kennedy campaign on Oct. 26. Mr. Dees has no qualms, he told the *Baltimore Sun* that day. "You know me, I'm a liberal. I think Carter will be out of it in March anyway, after the Illinois primary."

Prominent Carter Administration names quickly picked up by Kennedy over the last 24 hours include Ambassador-at-large Dick Clark, the former Democratic senator from Iowa and Ambassador to Mexico Patrick Lucey, the former governor and Democratic kingpin in Wisconsin.

Clark and Lucey are supposed by the Kennedy camp to be major potential factors in picking up large voting blocks for Ted in the crucial early Iowa caucus and Wisconsin primary. But they will have to run hard just to keep from losing Kennedy's current weak standings in the polls there. A Wisconsin commentator recently referred to the voters of that state, for example, as "too moral" for Kennedy.

—Kathy Burdman