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 Associaton 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 knowledgeables 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

is there really any difference?

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 appointment 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