

Cash comes in from Liechtenstein or the Cayman Islands to buy properties at auction. Hundreds of millions of dollars in hard currency change hands annually, a volume barely matched by the Las Vegas casinos.

It was the Florida pattern that Charles Kimball had revealed before the Senate Permanent Investigations Subcommittee in the testimony we quoted earlier. Kimball had warned us that the same Caribbean-based narcotics money that had shaken down the Florida real estate industry was moving into New York. But this was not the steady stream of dope money, the \$200 million or so annually that the Floridians had tracked.

In New York, it was like standing in front of a burst dam. Funds were pouring in through the Caribbean channels, buying apartment buildings in the Riverdale section of the Bronx and condemned slum properties in Queens, but even more money was coming in through the Montreal channels we traced down earlier.

New York City is not only the country's biggest property market, but also the biggest center for retail dope distribution. Every year, \$15 billion in narcotics are sold on its streets, a disproportionate share of the \$100 billion annual sales in the United States.

And, as we learned from the Florida investigations, real estate deals are a brilliantly successful means of hiding dope profits. No one knows where the funds come from to purchase property. A dope dealer who successfully gets his profits out to a bank in Liechtenstein is in the catbird seat. Ordinarily, his big problem would be the Internal Revenue Service. Even if he managed to avoid reporting his income, how will he explain a \$200,000 house, a couple of Cadillacs, and a vacation home on the Riviera? Real estate makes this simple-mindedly easy.

If he wishes, the narcotics operator can avoid the expenses of maintaining offshore corporate fronts, well-informed real estate sources say. By handing out a 90 percent tax credit for "rehabbing" beat-up properties, the Koch administration has given the narcotics traffic an exceptionally convenient means of turning illegal cash into "respectable" real estate profits.

All the physical construction work is done for cash payment. Much of it could be paid for with dope revenues, to contractors who know how to keep their mouths shut, turning dump properties into valuable assets, and all of it tax-free, thanks to Mayor Koch.

The pieces of the puzzle now fell into place with an awful kind of certainty. The Canadian invasion, which happily gobbled up older, local operators like Trump and Zeckendorf, needed a big change in the political map in New York City, including revision of tax and zoning laws from the ground up. The Canadians' incredible access to cash depended on their relationship to the dirtiest banks in the world. *The profits from the sale of illegal narcotics in New York City are being used to buy control of the city itself.*

URBAN POLICY

'Hong Kong' model for housing and jobs

by Lonnie Wolfe

Three weeks ago, San Diego Mayor Pete Wilson, chairman of the Reagan transition team urban policy task force, held a press conference in Washington, D.C. to announce proposals for a "sweeping redirection of urban policy."

Wilson rattled off a list of proposals, the most important of which were the following:

1) The elimination of local rent control programs. The new administration, the task force recommended, should withhold any federal grant money from cities that refused to agree to phase out their rent control programs.

2) Introduction of a rent voucher system. The task force proposes to substitute this program for all current federal low-income housing subsidies. The details of the program have not yet been worked out but the dominant view among Reagan task force advisers calls for handing out rent subsidy checks to poor families; these checks would only be redeemable by a landlord. A tenant would be free to augment this check with funds out of his own pocket, said a source close to the task force.

3) The creation of urban free-enterprise zones. This proposal, which was submitted in preliminary legislative form last session, calls for the creation of "free" zones in the worst ghettos of the country, where government regulations would be relaxed and tax shelters built to encourage small business. Wages would be encouraged to seek their own, low, levels, say its proponents.

Wilson's hastily called press conference neglected to announce that the proposals had only been passed on the day before and had not been discussed with top Reagan advisers.

Reagan urban transition aide John McClaughry said on Dec. 2 that no urban policies have been decided upon since the campaign. Proposals from the urban task force have not been adopted, McClaughry stated.

Why then the rush, especially since the controversial proposals provoked a immediate firestorm of protests from angry politicians and community leaders? The rent control proposal in particular was greeted with alarm by mayors and others in the Northeast and Midwest.

According to well-placed sources in Washington, the proposals represent part of an attempted policy coup by the Heritage Foundation, a think tank moving to take over key policy-formulating channels in the incoming administration.

In private discussions, Heritage policy planners describe their urban plan from two interrelated perspectives. It is not an urban policy at all, but an effort to create a massive speculative boondoggle around urban real estate.

The major purpose behind the floating of the Wilson task force proposals was "to create the kind of climate needed to stabilize the real-estate market," a Heritage Foundation spokesman said. What was motivating key people on the Reagan task force was the knowledge that "without at least talking about drastic action, the real-estate market was headed for a blowout in the near term." The only way to save the market is to channel "tens of billions of dollars of new money into it," said the Heritage spokesman, who was familiar with the task force deliberations. The Wilson program doesn't come out and say it, said the spokesman, but it is grounded on the assumption that "we will commit a huge portion of our capital to pass through the real-estate market. We can then generate new capital off the mortgage market."

By removing rent control, making direct payout to landlords, and creating in "free-enterprise zones" new

outlets for real-estate investment, Heritage proposes to create a new speculative bubble on top of the one already ready to burst.

Heritage planners say that the creation of so-called International Banking Facilities as proposed by the Federal Reserve will create an unlimited tap for speculative funds for this purpose. New tax incentives are also planned. And, as the accompanying article on mortgage indexation details, Heritage proposes to rewrite U.S. mortgage laws to encourage all new and existing mortgages on both private homes and urban apartments to be cut loose from their presently fixed interest rates, averaging 13 percent today for a 30-year mortgage. Instead, mortgages will be freely indexed to Federal Reserve interest rates, rising to as much as 20 or 25 percent in the medium term.

To be precise, they propose to reward speculative investment in real-estate ground rent and penalize investment in what produces real wealth.

To back this speculative investment, the Heritage people also propose a drastic shift of urban human "capital" into labor-intensive, low-wage jobs. That is the policy behind the "free-enterprise zone"—a policy specifically modeled on the sweatshop economy of the British crown colony of Hong Kong.

It is summed up by the following statement to a reporter by a Heritage urban policy expert: "We have

How Heritage sells the enterprise zone plan

The following is excerpted from the concluded section of the fall 1980 Heritage Foundation "critical issues" pamphlet entitled "Enterprise Zones—Pioneering in the Inner City."

The Enterprise Zones concept marks a radical departure in thinking on the inner city problem. But unlike most radical ideas, enthusiasm for it is not limited to one narrow political group or lobby. . . .

Fiscal conservatives appreciate that the enterprise zone approach is not just another bureaucratic program designed to throw tax dollars at the inner cities. The idea is fundamentally antibureaucratic; it clears away guidelines rather than creating them. Furthermore, it does not involve the expenditure of billions of dollars in grants and loans in the hope that something may spring from the rubble. . . .

But the enterprise zone also appeals to those who

have been directly involved for many years in the central city projects—the urban liberals and the minorities. Many such people have grown frustrated, disillusioned and tired of the ineffectiveness of large government projects which never seem able to deal with local conditions. . . .

Unexpected local problems and crises have been generally dealt with at the local level [in the United States] by a combination of individual initiative and community resolve. This apparently haphazard approach has allowed unconventional but effective solutions to be applied to problems. . . .

The enterprise zone is strongly within this tradition. It is a recognition both that at least part of the urban crisis is due to government and that success is more likely if residents of a community are given a real chance to rebuild commerce and housing of their neighborhood with a minimum of taxes and red tape. The enterprise zone imposes no blueprint and stifles no local idea. What it does do is declare the blighted inner cities open neighborhoods, devoid of as many regulations and tax costs as possible, and invite what may be called urban pioneering. . . .

been handing out money to keep the poor alive without getting any real use from them. We can't afford this any more. If we don't decide to simply eliminate these people or ship them somewhere, then we have to put them to work and get some use value out of them."

Heritage spokesmen say that they oppose planned shrinkage—the policy of deliberately deciding to triage certain areas of the city by making austerity budget cuts in services predominantly in those areas. In reality, Heritage proposals such as the enterprise zone are the end-game of the "planned shrinkage" process.

As an action plan, the Heritage urban policy breaks down into two sets of proposals: those on the immediate agenda and those which must be put off for political reasons. At this moment, the enterprise zone is on the front burner; scrapping rent control, and related proposals, will take longer to effect.

The workhouse zone

The enterprise zone concept is thus the foot in the door for the entire Heritage urban package. The proposal was incorporated into the 1980 GOP platform, and the concept received Ronald Reagan's public endorsement several times on the campaign trail.

The originator of the proposal now being proffered by Heritage is Peter Hall, a leading British urban policy

expert and the former chairman of the socialist Fabian Society. Hall has dubbed his proposal a "free-port concept." In a 1977 speech, he elaborated on it as "an essay in non-plan. Small selected areas of inner cities would be simply thrown open to all kinds of initiative, with minimum control. In other words, we would aim to recreate the Hong Kong of the 1950s and the 1960s inside inner Liverpool or Glasgow." The specified areas would be free of national exchange and customs control and foreign business and capital would be welcomed. All goods could be imported and sold duty free.

According to Hall, the areas would be based on "fairly shameless free enterprise" and would be "free of taxes, social services, industrial and other regulations. Bureaucracy would be kept to an absolute minimum. So would personal and corporate taxation. Trade unions would be allowed, as in Hong Kong, but there would be no closed shops. Wages would find their own level."

In 1978, Hall's proposal was embraced and modified by then Conservative opposition economic spokesman Sir Geoffrey Howe. Now Chancellor of the Exchequer in Margaret Thatcher's government, Howe announced in his March 1980 budget message that he would support a limited version of the Hall proposal, shying away from the "free trade zone" component. In July



Photo: NSIPS

New York's South Bronx.

Columbia's Savas on 'the free market'

The following is an interview with Emmanuel Savas, an adviser on President-elect Reagan's Urban Task Force. Savas is director of the Center for Government Studies, Graduate School of Business, Columbia University. One of New York City's largest landlords, the university stands to gain enormously if rent control and building and fire safety codes are repealed.

EIR: Professor Savas, you attended the meeting which wrote the set of recommendations for the Urban Task Force. Do you agree with those recommendations, and was there much divergence in views?

Savas: The views of those at the meeting were basically unanimous. I myself do question one of the recommendations, which will subsidize mortgage bonds for housing construction. I oppose this because it will divert capital from industrial investment.

EIR: Why not subsidize both housing construction

1980, seven targeted areas were selected as enterprise zones to be opened by the end of this year.

The enterprise zone idea was introduced to the United States by the Heritage Foundation in early 1979. It followed discussion of the concept at a September 1978 meeting of the Mont Pelerin Society in Hong Kong attended by Heritage president Ed Feulner.

A fall 1980 Heritage publication identifies the three interrelated points behind the proposal:

1) The belief that federal government programs have created the urban crisis and that any large-scale federal effort to redress those problems is doomed to failure. Documentation of various mismanaged federal programs is offered; no mention whatsoever is made of the looting of urban America through real-estate speculation or its related destruction of urban life.

2) The belief that the key to reviving inner cities is small "innovative and creative business." Without stating so explicitly (though it is done so in other presentations on this theme), the Heritage Foundation endorses the postindustrial society idea, which states that an urban, industrial-based society is no longer possible. There can be no revival of American cities based on an industrial renaissance, the pamphlet states. The small assembly shops and ethnic- and counterculture-oriented service industries (disco, head shops, etc.) are the way

of the future.

3) The belief that a locally controlled program allocating "limited resources" and focusing on "self-help" is the way to salvation. Heritage Foundation policy planners sound remarkably similar to "community control" proponents from such Ford Foundation groups as the old Students for a Democratic Society in the late 1960s.

The Heritage enterprise zone borrows liberally from both Hall and Sir Geoffrey. They stress that an American enterprise zone must eventually lower the minimum wage—at least for youth—and eliminate rent control, while creating a tax shelter for real-estate investment. These issues stir political controversy and may have to be initially compromised, Heritage says, to "get the ball rolling."

In public discussion, a conscious effort is made to portray the enterprise zones as a vehicle for creating "meaningful jobs." This is especially true in efforts to sell the idea to black and other leaders. In private discussion, the view presented is quite different.

"We are talking about the Hong Kong model and we mean it quite literally," said a Heritage spokesman. "The jobs in Hong Kong may not be great, but at least they are jobs. That is what counts."

According to a spokesman, in an "ideal" enterprise

and industrial investment?

Savas: That might excessively benefit those two sectors at the expense of others. I favor a free capital market. I find many of Milton Friedman's ideas appealing, though I try to approach these issues in a pragmatic, nonideological way.

EIR: Why do you oppose rent control?

Savas: It is a myth that rent control keeps rents down. Rent control causes a decrease in the availability of affordable housing, and we should not give housing aid to cities which are destroying their housing through rent control. . . . Of course we wouldn't require them to end it all at once. If they make a real commitment to end it over time, that would suffice.

EIR: And food stamps. Isn't it the case that if we replace food stamps with cash handouts, as you suggest, that the money will probably just be wasted, instead of going to ensure nutrition?

Savas: Food stamps were never meant to ensure nutrition. They were designed as a handout to farmers. If we want to engage in income transfers, let's do it openly and honestly, without subsidizing the Agriculture Department.

EIR: I'm sure you realize that these ideas of yours are going to face a lot of opposition. How do you expect to ever get them passed?

Savas: Immediate passage doesn't matter. But intellectual shock is the key. The key thing is the gradual permeation of new ideas into peoples' consciousness. Gradually society will start to adopt them.

EIR: Won't your idea of free enterprise zones without minimum wage laws just lead to dead-end jobs?

Savas: There's no such thing as a dead-end job. Is a dishwasher a dead-end job? One can go from being a dishwasher to a counterman, a counterman to a restaurant manager, from manager to owner, and then to the owner of a chain of restaurants. Foreigners are glad to take even the most menial jobs in our economy. For them it's a step up, in the next generation they climb the social ladder.

These urban enterprise zones are a way of duplicating here in the U.S. the boom-town phenomenon in Third World countries. You get rid of all the minimum wage laws, zoning codes, building codes, fire-safety codes, environmental codes, and investment will come in. If we don't do that, we are going to have to turn the South Bronx into a reservation.

zone, there will be only very limited new construction. The shells of existing slum buildings would be used. On the basement floors, small labor-intensive assembly shops and cottage industry would be set up. On the ground floor, a disco, or a head shop, or a small store. On the floors above, rent-decontrolled apartments. In a vacant lot, temporary workhouse-like facilities would be built. In larger open areas, small labor-intensive factories are to be constructed. Wages would be low, community spirit very high. Construction would be handled by "neighborhood work gangs" run by various local contractors. Police would be augmented by community patrols, garbage collected by low-wage workers.

"We are talking about putting a lot of kids to work at low wages and let them learn about holding a steady job," said the spokesman.

Relaxation of local ordinances would be handled through community councils. The zones, said the spokesman, would be like little autonomous regions, in some ways "like the ghettos used to be in Europe."

Once the federal government enacts enabling legislation, it will stay out of the affairs of the enterprise zone. It will provide only start-up money through channels such as the Small Business Administration, since the capital needs of the zone are to be handled by the private market.

The real-estate boondoggle component of all this is obvious. Right now, the value of property titles in bombed-out areas such as the South Bronx is zero. Such properties are nonetheless carried at inflated values on the tax books of the cities and relevant mortgage holding companies and banks. The announcement of an area as targeted for enterprise zone development will trigger a new round of speculation on these property titles, pushing up their values well beyond the already inflated book values.

The Heritage Foundation openly welcomes this speculation, a spokesman indicated. "It's good for the real-estate market."

A form of the enterprise zone was introduced into Congress (H.R. 7240) last May by Rep. Jack Kemp, a Republican from Buffalo and an adviser to Ronald Reagan. The newly redrafted Kemp bill, which has picked up several cosponsors, does not go as far as some Heritage planners would like. For example, it does not exempt the zone from federal legislation such as the minimum wage of the Davis-Bacon Act. It does create tax shelters and a free trade zone.

Heritage people feel that this is about as far as Congress can be expected to go at the present moment and may be as far as Reagan is willing to go. "It is a good start," said a spokesman. "Once we get our foot in the door, we can open it the rest of the way."

They see enterprise zones in operation in the U.S. by possibly as early as late 1981.

Indexing mortgages to end rent control

The single most controversial component of the urban policy package is the proposal to eliminate rent control.

Rent control is a state or locally authorized program dating back to World War II, when the influx of people to the cities created a tremendous housing shortage. "Emergency" controls were slapped on rents to prevent landlords from taking advantage of the market and charging exorbitant rates. To the chagrin of the landlords, the programs were continued after the war. Later the program was amended to allow for some rents to rise by limited amounts fixed by a local "rent stabilization" board. (Under rent control, rents are permanently fixed.) In some places like New York City, if a tenant vacates a rent-controlled apartment, the new lease is then handled under the "rent stabilization" program.

At this point, it is estimated that several million units are under rent control or rent stabilization in areas of New York State (more than 1 million units in New York City alone), New Jersey, Boston, Washington, D.C., Los Angeles, and California, as well as other urban areas.

The standard complaint repeated by landlords and their bankers, and supported by the Heritage Foundation, is that rent control and rent stabilization prevent landlords from getting a fair return on their investment and are thus a disincentive for private urban housing development at all income levels. By their logic, lifting rent controls will improve landlords' ability to maintain their buildings, and, since it promises greater return on investment, will spur new housing construction.

But even Heritage spokesmen are forced to admit that most rental income is siphoned off to pay interest and principal payments on property titles. The major portion of any rent increases will thus flow back to the landlords' creditors.

As for new housing construction, the major impediment is neither the cost of labor nor the prospect of low rental income levels. The impediments are twofold—the high cost of capital, caused by the Federal Reserve's hiking of interest rates, and the bloated cost of urban property titles caused by massive speculation on ground rent.

As the Heritage Foundation and its cothinkers open-