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 ghettoes 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 openly state, they are committed to a new round of speculation on ground rent—and therefore are committed, no matter what they say, to a further collapse of the urban housing construction market.

Speculative incentive

In fact, the purpose behind the proposal to lift rent control is to enhance the attractiveness of new speculative investment with the promise of sky-high rents. A Heritage Foundation spokesman boasted that rent decontrol and the complementary rent-voucher payment systems "are multibillion-dollar handouts to landlords" that will "create a new rush to get a piece of the housing action" in sales of secondary mortgages and other property titles.

Rent control has come under consistent attack from various landlord-linked groups. Key among these is the National Multi-Housing Council (NM-HC), whose president, Richard Fore, is on the Reagan urban policy task force. According to a spokesman, NM-HC was formed in March 1978 by "developers, landlords, and those in the real-estate market to get rid of rent control/rent stabilization." One of the most prominent local groups within the Council is the New York-based Community Housing Improvement Project (CHIP), controlled by the Donald Trump Organization. The lawyer for CHIP is Roy Cohn, the 1950s counsel to Sen. Joseph McCarthy and habitual defense attorney for accused underworld figures and drug traffickers. In 1969, with Cohn handling the argument, CHIP launched a legal action to end rent controls in New York on the basis that the wartime emergency measures under which the program was created had long since expired. The case is now before the U.S. Supreme Court.

Spokesmen for CHIP and NM-HC admit that the elimination of rent control will send rents soaring. "That's okay. . . . that's what we want," said NM-HC Executive Director Richard Francis. Decontrol will encourage the trend toward "gentrification"—replacement of low-income families with the well-to-do in certain areas, because the poor will be priced out of the market, said Francis. This too is to be welcomed. Rents would also go up in ghetto areas—including the proposed enterprise zones—but there, government subsidies like the proposed rent vouchers would benefit the landlords.

Controlled debate

Both Heritage and its cothinkers like the NM-HC recognize that rent control is a "red flag" issue, promoting maximum political controversy. They plan to secure its elimination by stages.

The inclusion of the rent decontrol proposal in the Wilson Urban Policy task force recommendations was

New York State ends usury ceilings

The New York State Legislature has passed a sweeping amendment to the State Banking Code, signed by Gov. Hugh Carey on Nov. 21, which lifts all usury ceilings on consumer credit and mortgage rates. It will double the costs of consumer loans and send the price of home buying out of sight for most New Yorkers.

The measure could cost consumers over $3 billion in interest payments, and raise the average mortgage from 13 percent to 20 percent and up.

Walter Wriston, chairman of Citibank and mooted Reagan treasury secretary, and Chase Manhattan chairman David Rockefeller, rammed the measure through the State Legislature by threatening to move over 8,500 bank jobs out of the state.

Wriston, a prominent supporter of Federal Reserve Board chairman Paul Volcker's high interest rate policy, intends to make New York a national example. "This New York decision is of national importance, because it sets a precedent for full deregulation of banking and housing prices," William Warfield of the Senate Banking Committee staff told *EIR*.

"We supported the elimination of usury ceilings and deregulation of the savings banks" which make most home and apartment mortgage loans, Ellis T. Gravett, Jr., president of the giant $5.2 billion Bowery Savings Bank, told *EIR*. "Rent control should have been eliminated a long time ago." Gravett pointed out that while a direct attack on rent control is now politically unpopular, allowing home and apartment building mortgage rates to soar would in time bolster landlords' arguments that rents, too, must increase. Landlords won't be able to pay 25 percent a year on mortgages for buildings, while rents can only be raised 7 percent a year, goes the argument.

People who cannot afford usurious mortgages and decontrolled rents can either leave the city or move to the Bowery, Gravett stated.

On consumer loans and credit cards, the new State Banking Code amendment lifts usury ceilings, currently around 12 to 13 percent altogether. The only ceiling now remaining, the *New York Times* noted Nov. 22, is "the criminal statutory limit prohibiting the loan shark business, which makes illegal rates over 25 percent."

The projected New York Exposition and Convention Center.

a signal to re-activate the rent control debate on a national level. This has been augmented by editorial support from key Eastern Establishment papers.

Professor Emmanuel Savas of Columbia University termed this phase of the operation "intellectual shock therapy." By proposing the most extreme form of the proposal—full rent decontrol, backed by federal sanctions—the Wilson task force sets the boundaries of the conflict. From there, compromise is planned until Heritage achieves its political objective—phased rent decontrol.

One way of accomplishing this program is through congressional action. Last year, the House voted by a wide margin to deny funds to cities which allowed rent control on new apartments; the Senate didn't act on the measure. Rent decontrol advocates are encouraged by the make-up of the new Congress but remain doubtful about prospects for action.

The next phase of operations will begin in the next session of Congress. "The way I see it happening," NM-HC director Francis told *EIR*, "is that rent decontrol won't go all at once. First we'll get rent decontrol on new apartments. This will be a huge step toward the total elimination of rent control/rent stabilization. Then we will get vacancy decontrol, that is, the apartment rent will be deregulated as a tenant moves out. Then I see a descending process in which, first, luxury apartments are deregulated, next middle income, then lower income." Heritage sources further point out that the enterprise zone proposal, if passed, could spur decontrol of many lower income units.

Reagan has the power to get the ball rolling, as his policy task force recommends. By executive order, the President could hold up federal money to cities that refuse to commit themselves to phase out rent control. Or he might take a more limited step in holding up federal housing grants to projects under rent control.

According to Heritage and other allied spokesmen, Reagan is not yet willing to commit himself to rent decontrol. "We are going to have to give billions of dollars to landlords, whether we hate them or not. Reagan must learn this," said the Heritage spokesman.