

## Behind the 'Hong Kong' urban policy proposals

by Lonnie Wolfe

The Heritage Foundation, a right-wing think tank linked to the Thatcher government in Great Britain, is making a big push to take over key policy-formulating positions in the incoming Reagan administration. The foundation, which has prepared more than 3,000 pages of policy proposals, is in the process of conduiting them for repackaging through various transition team task forces, *EIR's* Washington sources say.

This is the real story behind the much-publicized proposals made last week by a Reagan urban policy task force, which called for rent decontrol, youth subminimum wage, and the establishment of urban free-enterprise zones. Individuals familiar with the work of the task force and with the Foundation identified the proposals as "boilerplate Heritage."

This was confirmed by Stuart Butler, a Scottish urban policy specialist at Heritage. Butler was trained at St. Andrews University in Scotland and was formerly executive secretary of the Adam Smith Institute in London. He told a reporter that he and his cothinkers intended to "use the conservative Reagan government to impose some radical left-wing economic proposals—all based on sound liberal economics."

Butler identified the core of the urban program as the "free enterprise zone." These are to be established in the most devastated ghetto areas, like New York's South Bronx. Inside the zones, all government regulations would be relaxed, while tax shelters would be created to encourage low-wage cottage industry and counterculture head and disco shops.

In their public discussions with Reagan supporters,

Butler and his Heritage friends boast that this plan is currently being implemented by the Conservative Party government's Chancellor of the Exchequer Sir Geoffrey Howe. Sir Geoffrey describes the plan as bringing the Hong Kong economic model home to Britain.

The task force proposals—most immediately, the plan to eliminate rent control—has put the incoming administration at odds with various urban constituencies. There have already been loud cries of disapproval from prominent political and community leaders in cities in the Northeast and Midwest. The knowledge that the Heritage Foundation might be saddling the Reagan team with a political albatross has prompted official transition spokesmen to state that the President-elect has not yet endorsed the task force proposals.

Ronald Reagan has, however, on several occasions endorsed the idea of creating urban free enterprise zones. It remains unclear whether the President-elect has endorsed the intent of the proposals put forward by the Foundation, whether he supports the turning of U.S. cities into "free enterprise economies" modeled on Hong Kong.

Perhaps unknown to most of those Reagan supporters—except those who have suffered through Butler's prolific writings on the subject—is the fact that the Tory Sir Geoffrey borrowed the idea from Professor Peter Hall, the former chairman of the socialist Fabian Society and an adviser to the Labour Party. Hall continues to back the program, despite opposition from Labour.

Reagan supporters may also find Mr. Butler's private explanation of this collaboration between the Tory-

linked Heritage Foundation and the Fabians quite illuminating. "There really isn't all that much difference between the Heritage Foundation and the Fabian Society on many issues," he says. "We really overlap right in the middle of things in our mutual support for local control. We are in favor of encouraging people to do their own thing."

Butler is certain that the Heritage Foundation will be able to sell Reagan some "free market" solutions—as long as they keep their Fabian origins downplayed.

### The real estate gambit

The overall objective of the Heritage Foundation's plan for U.S. cities is to channel tens of billions of dollars into the urban real estate market. Without this new infusion of speculative cash, the already overblown market is ripe for a "blowout . . . a real collapse," Butler said. He pointed out that "billions of dollars in both foreign and domestic capital" can easily be channeled into the real estate market—and channeled away from investment in the industrial productive base of the economy. Federal Reserve Chairman Paul Volcker's tight money policies forcing up interest rates is helping make capital available, Butler said. The Fed's proposal last week to create "International Banking Facilities," which will bring hundreds of millions of dollars in the offshore Eurodollar markets back home to the U.S., represents another pool of cash that could be sopped up by urban real estate speculation, Butler reported.

"There is going to be an almost unlimited supply of dollars looking for something to do," he stated. "We are going to provide a direction for them to go." Heritage is drafting proposals to rewrite urban real-estate law to facilitate this. Meanwhile, Reagan is being urged to move quickly on the enterprise zone proposal.

The speculative investment is to be backed by the establishment of a Hong Kong "workhouse" economy in selected urban areas. Butler is a vehement opponent of the minimum wage. Butler presented this vision of his ideal free enterprise zone to a reporter: wherever possible, existing dilapidated housing would be utilized. In the basements, there would be small sewing shops, labor intensive assembly shops that have become the hallmark of Hong Kong, and perhaps some service related businesses like Chinese laundries. On the ground floor an assortment of head shops, record shops and discos, bars often catered to by "ethnic clientele." On the floors above, apartments with rents decontrolled.

In vacant lots, small temporary workhouse type living quarters can be built; in larger open areas, a small labor-intensive factory. Wages would be relatively low, said Butler, but community spirit would be high.

"We have not been getting any real use out of poor people," Butler complained. "We can't afford this anymore. If we don't simply decide to eliminate them or

ship them somewhere, then we have to put them to work and get some use out of them."

Columbia University professor Emmanuel Savas, a member of the Reagan transition task force that incorporated the Heritage-linked urban proposals, said that such ideas have been tested in Hong Kong and can turn U.S. cities into "Third World-style boom towns."

Butler was instrumental in selling the free enterprise zone concept to Republican Congressman Jack Kemp of New York, its most outspoken proponent in the Congress and the Reagan camp. "Butler is our contact with the British," an aide to Kemp reported.

Kemp's office is currently redrafting legislation on the enterprise zones for the next session of Congress.

Butler sees broad support developing for the proposal from groups who will be attracted to its local control philosophy. "If the Socialist Workers Party or some other group wants to set up shop in the enterprise zone—that's great. That's what local control is all about."

An article by Butler in the April 1980 issue of the periodical *Reason* references Britain's Sir Geoffrey Howe in a similar vein. "As Sir Geoffrey points out, there would be no reason why various groups such as anarchists, communists, libertarians or religious sects should not put their philosophies into practice in areas within the enterprise zones."

### Harder to sell

Butler described the other proposals in the package, in particular rent decontrol and the voucher system to subsidize rents, as not saleable—for the time being.

Columbia University's Savas said they were included—quite consciously—in the public proposal to "provide an intellectual shock . . . the key thing is the gradual permeation of new ideas into people's consciousness . . . gradually society will start to adopt them."

According to Butler, rent decontrol and the voucher for rent proposal are handouts to urban slumlords. The voucher proposal is simply a check handed out to a poor family, redeemable only by a landlord.

Reagan, said Butler, shares the public's suspicion of such schemes, but he must be "forced to sanction—whether he likes it or not—massive handouts to landlords, one way or another."

Butler, the Fabian Peter Hall, and Sir Geoffrey Howe all agree that their programs represent a bridge to what they term a "post-industrial future." Reagan, however, is reportedly not yet prepared to accept the idea that industrial nations must structure their economic policy to phase out a heavy industry-based urban economy, Butler lamented. "His people see this as too radical, but we are working on them. The enterprise zone is a step in the right direction."