

away from the anti-Fed Democrats. A Byrd-orchestrated October "Democratic policy meeting" in West Virginia followed by a November press conference produced an "Emergency Democratic Task Force on Interest Rates," under the leadership of credit control advocate Don Reigle. But the Task Force and leadership-backed resolution, a thinly disguised push for credit controls, garnered four fewer votes on the Senate floor than had the "maverick" Melcher resolution five weeks earlier.

Thus sidetracking the drive for lower interest rates, Byrd succeeded in dragging the issue down to its lowest common denominator, as witness the sham debate with Majority Leader Howard Baker on the Senate floor in December over the inconsequential issue of membership on the Fed Board of Directors.

With Byrd's "Task Force" discredited, the moderates who have made high interest rates their central issue during 1981 have a new opportunity to take the fight beyond mere opposition to the Fed and into the realm of serious policy discussion over national credit policy. As one individual involved in the fight from the beginning said, "The issue is no longer budget and taxes—it is credit. We may be the minority, but we are also incumbents, and we have a responsibility to put forward a serious credit alternative. I hope we can show the administration the way out."

## House Democrats in divisive bind

by Ronald Kokinda in Washington

[I hoped] to be able to work with the new President as Mr. Rayburn and Lyndon Johnson had worked with President Eisenhower, not as obstructionists but as constructive helpers, trying to bail him out in the national interest when he got in difficult circumstances.

—From an early 1981 entry in the  
diary of House Majority Leader Jim Wright,  
Democrat of Texas

The failure of that potential working relationship between the Reagan administration and the moderate tendency among House Democrats has been the reason for the dominance of Malthusians in shaping the economic policy of both the administration and the Democratic

Party. The left/right undercutting of the moderate Democrats—those Democrats committed to crucial economic development programs, including NASA and space exploration, nuclear and fusion energy, water development, R&D, and parity for agriculture—has put the administration at the mercy of the Fabian mole David Stockman and the House Democrats under the leadership of House Speaker Tip O'Neill and other "post-industrial society" advocates.

Regardless of the specific effect on the economy a compromise between Reagan and moderate Democrats on tax and budget would have had, the potential for arriving at healthier policy directions could have been, and still might be, key to U.S. economic recovery. The Achilles heel of the administration, its toleration of Paul Volcker and Federal Reserve Board policies, is the best example. These moderate Democrats are attempting to ensure that adequate, long-term, low-interest credit gets into the productive sector of the economy without resort to credit controls or other such destructive devices.

### The process of sabotage

Among the key moderates in this situation are Wright; Ways and Means Committee chairman Dan Rostenkowski (D-Ill.) (whose roots lie in the machine politics of the late Mayor of Chicago, Richard Daley, and who managed Wright's successful 1976 bid for Majority Leader); Budget Committee Chairman Jim Jones (D-Okla.); and Chief Deputy Whip Bill Alexander (D-Ark.). How were they undercut? The answer has to do with the Mont Pelerin-Friedmanite Congressman Phil Gramm (D-Tex.), described by one Southern conservative Democrat as "a good staff person, but untrustworthy." Gramm, who got his position on the Budget Committee with Wright's support on the promise to vote with the Democrats once they had reached a consensus, broke his promise and offered to sponsor the Stockman budget cuts. Pointing to this alternative flank of support, Stockman convinced the President that no compromise should be tolerated, and got his cuts in budget resolutions Gramm-Latta I and II. The "Boll Weevils," a grouping of conservative Democrats whose instincts favor economic growth and who would never tolerate an overtly environmentalist policy, were then rallied to support the Gramm-Stockman approach as a move of support for the President—an approach to budget-cutting that has helped the federal deficit balloon toward \$120 billion for FY1982 alone.

Similarly, a chance for compromise on tax policy was jettisoned, just as supply-siders demanded, once the administration was again convinced it had the votes for Kemp-Roth. Rostenkowski, firmly convinced until the very end that the President's overtures for compromise were genuine, suddenly found himself in a frantic scramble to outbid the administration's tax-cut sweet-

eners, in order to win votes for his own alternative. Any potential was lost for a serious restructuring of the tax code to reverse the speculative and economic overhead categories now getting favorable breaks, in favor of incentives for tangible goods production.

House Speaker O'Neill—who has aided and abetted the strategy of the Socialist International, outlined at their December 1980 conference in Washington, D.C., for radicalizing the nation and destroying Reagan under conditions of economic depression—appeared vindicated in his charges that the administration would not compromise, thereby boosting his factional position within the party. Wright and other moderates, having lost any leverage in their repeated attempts to convince President Reagan that his program could not work unless interest rates were dramatically reduced, were overshadowed by a party position increasingly and intentionally bereft of any policy direction or alternative. O'Neill commented, "When the other side is fighting among themselves, I say don't block the view," as he and other party leaders (notably Democratic National Committee Chairman Chuck Manatt) gleefully awaited economic collapse and, they hope, another liberal Democratic surge in the 1982 elections.

As the administration increasingly defended Volcker and Federal Reserve Board policies, Bill Alexander, a House moderate and Chief Deputy Whip (D-Ark.), introduced H.R. 319 to force the President to consult with the Fed and report back to Congress on how interest rates were going to be reduced. Hoping to get House Democratic Caucus backing, Alexander raised the issue in the Steering and Policy Committee. Here the real policy of the O'Neill wing of the party emerged, as O'Neill's protégé among the younger House leadership, Richard Gephardt (D-Mo.) attacked Alexander for taking emphasis off the "fiscal" solutions to the economy, i.e., more tax increases and budget cuts, and defended the Fed's interest-rate policies. In a subsequent interview with this journal, Gephardt confirmed that he works "closely" with the St. Louis Fed, and demanded cuts in the standard of living, including wage cuts, as a solution to inflation.

As we enter 1982 and the election period, O'Neill Democrats in the House are moving to enforce the Global 2000 blueprint for mass murder by introducing bills for hospices, killing water development and advanced nuclear projects, and ensuring that the euthanasia bill, or "Natural Death Act of 1981" (Act 4-115), becomes law for the District of Columbia, as a model for the states to follow. Whether or not the moderates can find the morality and courage to rally traditional Democrats to regain control of the party remains to be seen. As one member of the moderate leadership told me, "This split between the moderates and the liberals is going to get very deep."

## World Finance

# The Eurodollar era banking crises out

by David Goldman, Economics Editor

At its moment of greatest apparent triumph, the unregulated world banking system that emerged from the ruins of the Bretton Woods system 10 years ago faces its greatest crisis. For financial history, the subject of 1981 is the unopposed march of the Eurodollar banking system over the fragile defenses of national banking regulation, through the opening phase of a threatened world economic depression. But as the Polish events show in the most lurid light, the further basis of Eurodollar expansion is slim, and the world financial system has entered a crisis of the sort that the 1971 events merely postponed; and whereas the crisis might have been handled smoothly 10 years ago, now it can be confronted only through the most extraordinary and broad-ranging measures.

On Dec. 3 the gates to the citadel of American banking were opened to the besiegers by its supposed defenders, the Federal Reserve Board of Governors, through the much-heralded introduction of International Banking Facilities (IBFs). American banks are now beginning to conduct the same sort of business once exiled to the Cayman Islands, Bermuda, Panama, London, Singapore, and other offshore centers whose volume of deposits, at about \$1.6 trillion, was double the size of the broadly defined U.S. money supply and half again larger than the U.S. national debt. Combined with tax breaks for American banks and perhaps with "free-trade zones" and "free enterprise zones," which forthcoming legislation would make into mini-Hong Kongs on American soil, the IBFs have brought the uncontrolled Eurodollar expansion in the offshore markets back into the heart of American banking.

The IBFs by themselves would not represent so dramatic a shift if not for the accompanying revolution in commercial banking during the past year, including:

- The wholesale purchase of American banking assets by foreign institutions, including Hongkong and Shanghai Bank's 1980 purchase of Marine Midland, Midland Bank's 1981 purchase of Crocker Bank, Standard Chartered's 1980 buyout of Union Bank of California, and Banca Commerciale Italiana's 1981 takeover of Long Island Trust.
- The spectacular two-year growth of the assets of