DOMESTIC CREDIT

Record rates feeding, not fighting inflation

Another boost in the nation's prime lending rate to a record-breaking 12.5 percent was imminent at deadline Sept. 6. Two days earlier the Federal Reserve let it be known that its new target rate for Federal funds—overnight interbank loans—was $11\frac{3}{8}$ percent. And on Sept. 5 Fed Chairman Paul Volcker announced that the Fed intends to squeeze money supply growth, pushing interest rates higher still—a statement which helped to abruptly reverse the vaunted "Volcker rally" on the stock markets.

Most money market economists agree that the present level of interest rates has yet to dampen business borrowing, which has been growing at a more than 20 percent annual rate since late last year. With the real rate of interest still negative—below the current 13 percent inflation rate—the prevailing corporate attitude is better borrow now than later.

This analysis begs the most important point about the record levels of U.S. interest rates. The Miller-Volcker high interest rate policy has been the chief catalyst fueling double-digit inflation in the U.S. economy. At 4 percent interest the yearly interest on a $1 million loan is $40,000; at the current 12.25 percent prime rate the interest charge is $122,500. These financing costs are, of course, passed on and multiplied throughout the economy. More credit-dependent small and medium-sized corporations are paying between 13 and 15 percent; a corporate treasurer feels he has little option but to engage in inflation-creating arbitrage or other speculative activities.

The problem of high financing costs is all the more serious for sections of the economy, such as retail trade, which are especially dependent on short-term bank loans for carrying their large inventories. The high financing costs come straight out of the consumer's billfold.

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The mortgage bond battle

A bogus debate has erupted over the continued issuance of tax-exempt mortgage bonds by state and local housing authorities. State and, beginning in July 1978, local government agencies have been issuing these tax-exempt bonds in record

BANKING

EIR to market special report on dirty money

The *Executive Intelligence Review* is now preparing a special report on illegal financial transactions, including the laundering of money from the illegal narcotics trade. The report, scheduled for publication in late September and prepared under the direction of economics editor David Goldman and counterintelligence editor Jeffrey Steinberg, will reveal for the first time the role of the United States government in facilitating these illegal banking transactions.

Last year, the book *Dope, Inc.* (New York: Benjamin Franklin House, 1978) documented the centralized control of the international narcotics traffic through the British Crown Colony of Hong Kong and British and British-linked financial houses into the United States. That book, written under the direction of *EIR* editors Konstandinos Kalimtgis, David Goldman, and Jeffrey Steinberg, is now a trade-paperback bestseller.

The new special report will show in depth how the takeover of sections of the American intelligence establishment during World War II protected the criminal economy. A detailed analysis of the use of wire transfers and electronic funds transfer (EDT) to "launder" roughly $100 billion a year that is extracted from the U.S. economy through narcotics trafficking and other illegal activities will be a special feature of the report.

The documentation will include:

- The "Airborne Freight" and Midwest Air Charter involvement in the physical distribution of narcotics.
- Which quasi-legitimate corporations and dummy corporations act as major conduits of narcotics money.
- How British intelligence infiltration of a major U.S. commercial bank set it up for a role in illegal money transfers.
- How the National Security Agency protects narcotics' traffic over commercial bank wires.
- How the post-Meyer Lansky generation of dirty money laundering techniques have evolved.
- How sections of the mob got

amounts and using the proceeds to buy mortgages from savings and loan institutions and other mortgage lenders; the state and local housing agencies have become another arm of the proliferating secondary mortgage market.

This October the House Ways and Means Committee will take up a controversial bill sponsored by its chairman, Al Ullman (D-Ore.). The bill would limit the yearly amount of these bonds to 5 percent of the aggregate amount of mortgages issued in a given state per year. Ullman, who originally wanted to ban further issue of such bonds, argues that they are an inefficient means of getting money for housing into the hands of the low- and middle-income families which need it the most, and they represent a bottomless drain on government tax revenues. According to his committee's estimates, by 1984 the continued unrestricted issue of these tax-exempt bonds would cost the government tax revenues, whereas the 5 percent plan would cost only $950 million.

Issue of the tax-exempt bonds has burgeoned from $59 million in 1977 to $3.3 billion in the first four months of 1979. And it is conservatively estimated that $10 billion will be floated by the end of the year.

Proponents of the bonds argue that they have become an important mainstay of the nation's mortgage and housing markets. It is questionable whether the main beneficiaries are potential home buyers, but for reasons ignored by Ullman. Like the bonds issued by federal mortgage agencies, the existence of the state and local mortgage bonds has underpinned the real estate speculation which has pushed the price of the average single-family home above $60,000.

The single biggest issuer of the tax-exempt state and local housing bonds has been California, site of the hottest real estate bubble in the country. According to California officials, the sharp drop-off in government revenues since Proposition 13 was passed has meant that ongoing state and local housing rehabilitation programs have had to be financed via these secondary mortgage instruments.

Significantly, the most vocal advocates of the bonds have been the investment-banking houses which collect the underwriting and other substantial financial fees on the bonds, and benefit from the tax shelter provided by the bonds they buy for their own accounts.

In editorials over the past several months the *New York Times* has called for the banning or severe limitation of the bonds. The *Times* objects to the fact that the bonds are channeling liquidity into the building of some new single-family homes, whereas the *Times* prefers "urban rehabilitation."

—Lydia Schulman

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into high-technology contracts with the U.S. military.

Readers of this report will learn:

• How billions of dollars can move virtually without trace through the American banking system.

• How British intelligence implanted agents in American commmercial banks to launder illegal funds directly through the New York Clearing House—including details of a Hambro's Bank plan to infiltrate a Naval Intelligence officer into the executive suite of Chase Manhattan Bank.

• How the National Security Agency interchanged top personnel with some of the dirtiest entities in the corporate world, including Intertel—the security firm wholly owned by Resorts International.

• How National Security Agency veterans at National City Bank of Cleveland arranged a Federal Reserve contract for an organized crime controlled air charter firm—enabling the charterer to divide its business between Federal Reserve checks through the Interdistrict Transfer System and Asian heroin.

The report will detail some of the secret subhistory of the American intelligence community, including the use of American intelligence facilities for the benefit of British intelligence dirty tricks. The Anglo-American wartime collaboration provided the context for individuals like Major Louis Bloomfield, the lawyer for bootlegger Sam Bronfman, to become chief agent-handler for the FBI's counterintelligence division (Division Five) and to use FBI facilities to protect mob narcotics operations.

The report will include—for the first time—a detailed history of Permindex, the bureau which French and Italian authorities have accused of complicity in high-level political assassinations and which New Orleans District Attorney Garrison accused of responsibility for the Kennedy assassination. Permindex's operations inside the American intelligence community—through the Defense Industrial Security Command (DISC), the Pentagon organization reesponsible for monitoring defense contractors—will come under close scrutiny.

The report will bear a price of $100—$75 for subscribers—and may be ordered through the *Executive Intelligence Review.*

—David Goldman