

International Credit by Renée Sigerson

Let them have Hong Kongs

The Heritage Foundation delivers some ugly advice on Third World economic policy.

The Heritage Foundation is likely to capture a key U.S. Treasury post for Third World policy in the Reagan administration.

Dr. Wilson E. Schmidt, director of the Economics Department of Virginia Polytechnic Institute, is said by well-informed Washington sources to be the leading choice for assistant secretary for international affairs. Undersecretary for Monetary Affairs Beryl Sprinkel, in whose jurisdiction International Affairs falls, is said to favor Schmidt.

Wilson Schmidt distinguished himself this fall as the author of the international section of the Heritage Foundation's Project Team Report on the U.S. Treasury, which was commissioned by the Reagan transition team at the Treasury. Schmidt, a radical opponent of all government participation in the economy, called for "phasing out the Office of Assistant Secretary for International Affairs (OASIA) altogether" in the classified report, sources on the Heritage team say. "He wrote that Treasury is too concerned with the Third World, and should worry less about it."

"Sure I did," Dr. Schmidt told a journalist this week, "but I might as well take the job, since it will take a while to get rid of the poor old OASIA."

Dr. Schmidt stated that he will be advising the Reagan administration to push the entire Third World toward the free-market economy of

Hong Kong. Instead of U.S. export credits and aid for capital investment and for rapid industrialization, Schmidt proposes that the U.S. totally opt out of the Third World development process, "cut the Third World loose" to fend for itself, and demand that Third World governments "implement the Hong Kong economic model."

The basis for the Hong Kong model, he said, is not heavy industry but "labor-intensive, light cottage industry, at cheap wages."

"I'm a radical free marketeer," Dr. Schmidt said, "and this is the only choice for the Third World if they want to survive. They need to stop the normal Third World government programs, and go for free markets. This means they must get rid of their defensive foreign-exchange controls, get rid of import quota systems, and totally open up their economies for foreign investment. It would help if they waived certain labor laws for free-trade zone areas for foreign investment."

The Third World, Schmidt said, can't afford heavy industrial development, and must be willing to take what international investors will give it—labor-intensive jobs.

Asked how he thinks the U.S. government should move to enforce this, Schmidt said, "We should use foreign aid as a political sledgehammer. The purpose of bilateral aid is not economic development. The U.S. has no mission to develop the Third World. We

should give and withhold aid as countries do our bidding, and tell some of these Third World ambassadors that, point-blank.

"For example, if we think a country is too protectionist in its trade policy, we should cut them off unless they change," he said. "Unfortunately, we don't have much clout with a country like Mexico, because we need their oil. But we can force change elsewhere in Latin America."

Dr. Schmidt is a U.S. member of the semisecret Swiss-based Mont Pelerin Society, which advocates a radical Adam Smith-style free trade approach, no matter what the detrimental effects on industrial development. Dr. Schmidt served as a deputy assistant secretary in OASIA during 1970-1972, when the assistant secretary was John Petty. Mr. Petty is currently chairman of Marine Midland Banks of New York, owned by the Hongkong and Shanghai Banking Corporation, which has turned the city of Hong Kong into a drug and gambling den using the principles of free trade.

In the U.S., Dr. Schmidt advocates as well "removing all trade barriers." "If that means shutting the inefficient [steel] mills, so be it. Same for auto."

Melvyn B. Kraus of the Hoover Institution, a collaborator of Dr. Schmidt's, told a reporter this week that the political model for the Heritage Foundation's Third World policy was the brutal dictatorship of Pinochet in Chile. "Sometimes a dictatorship is the only way to promote a free market economy," Mr. Kraus said. "You need dictatorial force, to have the power to liberalize the laws. A dictatorship assures that it will work."