

Callaghan Takes Political Control After IMF Loan Negotiations

In the wake of his successful loan negotiations with the International Monetary Fund, British Prime Minister James Callaghan appears to have squashed all resignation and "early election" rumors by consolidating the active support of the trade unions, the bulk of the Parliamentary Labour Party, and sections of the Conservative Party behind him.

Callaghan's determination to pursue medium to long-term economic goals — as opposed to the austerity measures being demanded by the International Monetary Fund and such unofficial sources as Milton Friedman — won him respect from trade-union and industrial circles in Britain who had threatened to oppose any attempts to sabotage the country's industrial recovery through massive government spending cuts.

Speaking for the Callaghan government, Chancellor of the Exchequer Denis Healey made the government's position extremely clear during the final debate on the IMF budget package in the House of Commons Dec. 21. Healey was clearly repudiating Friedman whose predictions that Britain's "soft" Welfare State would bring totalitarianism had sparked bitter comment throughout Britain the previous week. Healey said: "We have never taken the view that there is some predetermined level of public spending at which democracy collapses and gives way to totalitarian dictatorship....These cuts are necessary for one reason only — to give the economy the best chance of attaining a higher sustainable level of output and employment as fast as possible." He stressed that there was "not now and never had been any economic case for massive deflation on the scale that some critics had demanded."

The IMF loan, which will be given in tranches starting in January 1977 and extend over the next two years, was granted on the understanding that the British government would undertake to monitor the economy's performance, but Healey made clear that any further cuts in government spending would depend on the state of the world's economy and the extent to which British export performance had recovered. During Parliamentary debate on Dec. 17, Healey said flatly that IMF interference would not be welcome during this monitoring process, warning "we are not on this occasion inviting the Fund to monitor (the economy) by visiting every quarter."

The Fund itself is in no shape to argue. The \$3.9 billion for the British loan was raised through the OECD Group of Ten meeting on Dec. 22 only with a Swiss promise (Switzerland is not even a member of the IMF) to kick in \$347.7 million. The *Wall Street Journal*, as well as the *Daily Telegraph*, hinted that Arab support might be

needed if the IMF intended to undertake any further loans.

Conservatives Divided

Callaghan has suffered only token opposition from the Conservative Party — largely due to the fact that Margaret Thatcher, leader of the Opposition is herself facing open mutiny from the ranks of the so-called Heath faction, made up of a large number of Tory backbenchers grouped around former Prime Minister Edward Heath.

The official body of this faction is the Tory Reform Group (TRG), whose chairman is Peter Walker, Heath's Minister of Trade and Industry during the 1970-74 Conservative government. Under Walker's authorship, the TRG issued a "discussion" paper Dec. 19 laying out an "alternate strategy" for the Tory party incorporating repudiation of draconian public spending cuts which Thatcher's Shadow Cabinet has been pushing, as well as stressing the need for close cooperation with the unions to revitalize British industrial performance. Most important, however, was the paper's attack on monetarism — the cornerstone of the official Tory economic policy. Only a week previously, former Heath Minister Reginald Maudling (who himself was dumped as Shadow Foreign Secretary in Thatcher's recent shake-up allegedly for his opposition to their monetarist views) warned in an op-ed in the mass-circulation *Sunday Express* that "above all" the Callaghan government's IMF loan package must be supported.

Hardly coincidentally, the Conservative leadership backed off from any open confrontation over the Dec. 15 IMF "mini-budget," abstaining on the vote and mouthing only token opposition to the measures during the Parliamentary debate.

Thatcher has been similarly thwarted in her attempt to challenge Callaghan over devolution (local government for Scotland and Wales), which is the government's major piece of legislation this session. Announcing her intention to make last week's vote on devolution a test of strength, Thatcher invoked a "three-line-whip," the most stringent voting control for party members in the House, only to have to announce days before the vote that every MP should vote according to "conscience" after Heath had organized a large part of the party to vote with the Labour government.

Although Callaghan has only a one vote majority in the House, which could be lost in an up-coming by-election, he has so far dismissed calls from the Conservative opposition to form a coalition government, claiming he "was not quite sure which Conservative Party (he) was supposed to form a coalition from."

Britain Takes Italian Lead in Comecon-Arab Trade

In a series of major diplomatic initiatives, British Prime Minister James Callaghan has been creating the climate for a rapid expansion of trade and cooperation with the Comecon sector and Arab countries which complements the activities of Italian Prime Minister Andreotti.

Immediately following the completion of the International Monetary Fund loan negotiations, Callaghan personally has undertaken to improve relations between Britain and these sectors through top-level meetings. Most notable are Callaghan's own meetings with Polish Prime Minister Jaroszewicz and the Soviet Ambassador Lunkov and Callaghan's deployment of top British diplomat Lord Caradon to the Middle East to organize for immediate Geneva peace talks with the Soviet Union.

Public interest in the possibility of the use of the transferable ruble in international trade, as well as the conclusion of major East bloc and Arab trade deals in recent weeks, indicates that Callaghan's initiatives have wide support in British industrial circles struggling to maintain production and export levels.

Concluding his three-day visit to the United Kingdom, the first by a Polish Prime Minister since World War II, Jaroszewicz signed a five-year trade agreement with Callaghan which includes cooperation in ship-building, chemicals and construction. The core of the agreement is the undertaking by the Polish Steamship company to purchase 22 bulk carriers worth £136 million (\$280 million) from British yards, most of which are in a state of total collapse given the state of world shipbuilding. Further agreements include chemical deals between the Polish government and Royal Dutch Shell and ICI; Britain has undertaken to place orders totalling \$110 million with Polish companies during the next five years. Addressing a luncheon in London Jaroszewicz stressed that "there exists extensive possibilities for a further growth in Polish-British trade exchanges, economic cooperation including particularly cooperation in industry as well as scientific exchanges."

Within days of Jaroszewicz's departure, Callaghan called the Soviet Ambassador to London to 10 Downing Street for a special meeting to discuss expansion of Anglo-Soviet trade, in particular how best to utilize the £950 million credit extended to the Soviets by former Prime Minister Harold Wilson in 1974. As the London Times of Dec. 23 pointed out, "There is no political obstacle, so far as can be seen, and the Soviet delay is, therefore, assumed to be a bureaucratic problem. But with two years of the five-year credit already almost gone, Mr. Callaghan asked Mr. Lunkov to inform Moscow that it is essential now for haste to be made."

Callaghan's overtures to the Comecon countries have been taking place in the midst of growing interest over the transferable ruble and Soviet trade intentions. In one of the first reports in the Western press, David Lascelles of the Financial Times reported on the IBEC ruling on the acceptability of the use of the transferable-ruble in

East-West trade in a Dec. 17 article. Lascelles writes that the "significance of the scheme will probably depend on the extent to which Comecon countries decide to award contracts only to companies willing to accept transferable roubles," which will in turn create a second monetary system in competition with the dollar. "Western exporters," he warns, "may end up with a large revolving pool of transferable roubles which could lead to the emergence of a parallel roublemarket."

Such an outcome no doubt formed a large part of the discussions between Bank of England chairman Gordon Richardson and V.S. Alkhimov, chairman of the Gosbank (Soviet State Bank) and A.R. Makeev, deputy chairman of the Soviet Bank for Foreign Trade. The Soviet officials were in London Dec. 22 to announce the trebling of the capitalization of the Moscow Narodny Bank to \$64 million.

Complementing the British government's open drive to consolidate relations with the Comecon is the determination to defuse the crisis atmosphere in the Mideast. Lord Caradon, brother of Cabinet Minister Michael Foot, and long-time British diplomat for various countries in the area, has been undertaking a "personal" tour of Mideast capitals — including Israel and Arab countries to push for the Geneva talks as well as the creation of a Palestinian state.

The government's peace initiatives have been reinforced by several major trade deals with oil-producing countries in the last few weeks, the most recent being a contract between British tractor producer Massey Ferguson and the Egyptian government to expand Egypt's tractor and engine producing capability by two or three times current output, making Egypt a net exporter of these goods to neighboring countries. Massey-Ferguson is currently involved in similar deals with Poland, Iran and Libya.

British Trade Deals Nov.-Dec.,

(Sources: *Financial Times*, unless otherwise noted)

- 11-9 Saudi Arabia and United Kingdom sign trade deal totaling \$4.4 billion over four years for Saudi capital development projects as well as defense contracts following a visit by Saudi Defense and Aviation Minister.
- 11-11 Sgr. Ratti, "foreign minister" of Italy's Montedison in United Kingdom to discuss joint ventures between the Italian chemical company and Imperial Chemical Industries.
- 11-12 United Kingdom's Massey-Ferguson tractor company to set up tractor factory in Libya with an assembly capacity of 3000 tractors per year.
- 11-25 Venezuelan President Carlos Andres Perez concludes four-day visit to United Kingdom pledging support for British government. Industrial cooperation for projects in steel, petro-chemical, agriculture, and social services agreed upon.

- 11-25 Italian Foreign Minister Arnaldo Forlani meets with Callaghan and others, proposes "global approach" to economic problems.
- 11-27 Delegation from Egypt including Under-Secretary for Economic Cooperation Gamal el Nazer in London for meeting of United Kingdom-Egypt trade commission; discussion of United Kingdom contract to provide rural electrification equipment for Egypt. Joint ventures in communications, food processing and packaging also under discussion.
- 12-3 Mexico's national oil corporation PEMEX looking to Britain for "specialized know-how" in offshore oil technology to develop Mexico's West Coast oil fields (Source: *Daily Telegraph*).
- 12-9 United Kingdom delegation to Iran to clarify Iran's demands that British accept oil instead of cash as payment for construction of an ordnance factory in Iran.
- 12-10 Soviet-Rolls Royce deal: (largest deal in history of Anglo-Soviet trade) A consortium led by Rolls Royce will provide engines for pumping gas along Siberian
- 12-17 United Kingdom and Poland sign \$33 million trade deal, the core of which is a joint shipbuilding company. A£5 million contract for a joint United Kingdom-Polish company to supply equipment for a chemical plant in Czechoslovakia is also signed, in the context of a new five-year economic cooperation agreement between the two countries. The deal is concluded following the visit to the United Kingdom, by Polish Prime Minister Jaroszewicz.
- 12-18 £600 million contract for British Aircraft Corp. to supply Saudi Arabia with "software" defense facilities (Source: *Daily Telegraph*).
- 12-21 Massey-Ferguson to form joint company with Egypt to manufacture tractor and diesel engines. Massey-Ferguson will own 40 per cent. Plant will produce 5000 tractor and 6000 engines per year, many for export to other Mideast countries.
- 12-21 Imperial Chemical Industries and Montedison to undertake joint development of a dyestuffs factory in Scotland.
- 12-21 British trade mission in Romania concludes that "it is one of the most promising countries in Eastern Europe" in terms of opportunities for industrial investment.
- 12-22 Moscow Narodny Bank holds "extraordinary general meeting" in London to triple bank's capital.
- 12-22 British Government's Export Credit Guarantee Dept. (ECGD) guarantees a £12 million loan to Turkey to finance contracts placed in the United Kingdom for construction of an ammonia plant in Turkey.
- 12-23 McDermott, a Scottish oil platform construction company, wins order for £8.5 million from the Brazilian state oil company, Petrobras.

Italy, Britain Force Bonn to Soften Line on New Economic Order

The Italians and British have been trying, with considerable success, to get West Germany to give more active and public support to the new world economic order. The argument which they have been pushing in Bonn is that economic growth in the Middle East and North Africa may well be the answer to putting West Germany's mammoth but stagnating industries back on a sound footing.

Early this month, Cesare Romiti, chief negotiator on Italy's behalf in the historic FIAT-Libya deal, went to the Federal Republic to explain to top bankers the terms of the FIAT-Libya arrangement. According to Italy's *L'Espresso*, Romiti arrived with the announcement that Libya is also prepared to invest 15 billion deutschemarks in West German companies. Five billion of this sum would be channeled into the auto industry.

Soon after Romiti's surprise offer, the Volkswagen corporation announced on Dec. 22 its first dividends in several years, sending its stock shares soaring on the

Frankfurt exchange.

In response to such European efforts, with the British taking advantage of its numerous joint corporate ventures in West Germany as a source of influence, the new cabinet of Chancellor Schmidt has dramatically softened its public position on the "North-South dialogue." On Dec. 21, Maria Schlei, just appointed Federal Development Minister after a two-year tenure as Schmidt's personal secretary, delivered a press conference on the North-South talks. In an unusually conciliatory statement, Schlei stressed that West German development policy is "an integral part of our country's peace policy." She pinpointed the "debt dialogue" as the most important question in the European-Third World talks and emphasized that "precious little time is left for new initiatives."

The U.S. is continuously exerting pressure on Schmidt and the Bundesbank (central bank) to support the debt-collecting rights of the International Monetary Fund and