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U.S. allies vote against Carter policy

by Renée Sigerson

It was not just the American population which turned out this week to overwhelmingly reject James Earl Carter's economic policies. In the days leading up to Carter's landslide defeat, European, Asian, Latin American, and Middle Eastern leaders wrapped up a series of economic contracts which jeopardize the major foreign economic policy goals of the outgoing administration and its allies at the Federal Reserve: to increase the powers and funding of the International Monetary Fund (IMF) as the vehicle for implementing zero growth worldwide.

Japan, Brazil, and Mexico

The most important move against Carter's pro-IMF policies came from Tokyo on Oct. 30. Following intensive negotiations with Japanese bankers and industrialists, Brazilian planning minister Delfim Netto made public that day that Japan would provide Brazil with $1.78 billion in trade and development investments.

With this announcement, two important components of Carter's foreign economic policies were torn up: Washington's 18-month behind-the-scenes deal with the Japanese government to cut lending to Third World debtor nations, and a U.S. commitment to force Brazil to go to the IMF for debt-refinancing loans.

As the Brazil deal was being worked out, Japanese banks also announced a $150 million loan to Mexico to finance Gulf port development. Two weeks ago, when Mexican oil industry head Díaz Serrano went to Tokyo to negotiate a broad oil for technology deal, his proposals were rejected. Up to that time, Japan's business leaders were still acting out of deference to the Carter administration.

Across the board, U.S. financial analysts had predicted that Delfim Netto would also be rejected by the Japanese and sent home empty-handed. Now the over $1 billion financing from Japan guarantees that Brazil will meet its financing needs for this year, making a Brazil-IMF deal unnecessary.

As Brazil was finalizing the last details of the credits from Tokyo, Delfim also took off the gloves and issued a harsh denunciation of the New York-London financial networks. At a press conference on Oct. 29, he stated: "Japanese banks don't let themselves be contaminated by the cowardice which has overtaken a part of the international financial community in the face of the difficulties of the oil-importing countries."

Saudi Arabia and Japan

As underlined by New York Federal Reserve chairman Anthony Solomon at the Oct. 20 National Foreign Trade Council convention, if the Carter administration had prevailed on international monetary policy, the IMF's powers would be increased by the placing of large oil-country "petrodollar" loans with the IMF. The European, Third World and Asian industry leaders who reached this week's financing agreements are com-

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mitted to "recycling" the petrodollar surplus through institutions representing sovereign governments.

This September, the IMF negotiated with Saudi Arabia for $10 billion in loans for 1981. The Saudis rejected the IMF's request, demanding instead that the IMF reassess its policy of attaching loans to debtor countries to austerity "conditionalities" which make Third World economic development virtually impossible. As reported by the Brazilian press, at his press conference in Tokyo Delfim also urged that the IMF stop trying to compete with private banks in taking petrodollar deposits. If lent by the IMF, Delfim noted, petrodollar loans would be attached to IMF "economic stabilization programs" which undercut economic growth.

While the Brazil-Japan deals were being signed, the Saudi Arabian Monetary Agency (SAMA) announced that it plans to purchase $200 million per month of Japanese bond issues, until the end of 1980. The SAMA commitment to investment in government securities, following several months of heavy Kuwaiti and Saudi capital inflows into Tokyo corporate stocks, allowed the Japanese central bank to ease up on domestic credit issuance this week.

In an oil-for-technology 15-year agreement with Saudi Arabia, Japanese firms led by Mitsubishi plus the government will now expand their financing of a 600,000-ton methanol facility at Al Jubayl in exchange for 4,000 barrels of oil per day extra, to be raised to 20,000 barrels a day in five years. This ongoing project includes 30 percent Japanese government funding, 20 percent private Japanese funding and 50 percent Saudi funding, and has been underway for many years.

On Nov. 6, the Bank of Japan lowers its discount rate charged on funds to Japanese banks by 1 percent to 7.25 percent. In December, the central banks will revise all interest rates—from home loans to trade credits—downward. This easing of credit will permit a continuation through 1981 of petrodollar recycling loans to developing Asian countries, which under Carter administration pressure had dropped to half a billion dollars in 1979. This week the Japanese government also announced nearly $1 billion in loans to Malaysia and Indonesia, both for projects which had been previously stalled under Carter administration and IMF pressure.

Iraq and France

France and Iraq also participated in the recent round of "anti-Carter" agreements. Two weeks ago, France paved the way for the consummation of a Brazil-Japan deal, by giving government guarantees to $900 million in credits to Brazil. French leaders were also instrumental in finalizing an emergency oil supply deal last week aimed at protecting consumer nations from the cutoff of Iraqi oil supplies due to the Iraq-Iran war.

Last week, Saudi Arabia's oil firm Petromin, along with Kuwait, Abu Dhabi and Qatar formally agreed to deliver to France, Brazil, and Japan any oil supplies lost from Iraq halting production. Brazil reciprocated by promising that as soon as the war ends, Iraq can make use of Brazilian oil refineries to process resumed oil output, while repairs are done on Iraqi refineries.

France has also played an important diplomatic role in negotiations which could launch India into the forefront of nations working on petrodollar deals for Third World development. The Indian government has just passed new investment regulations aimed at soliciting direct petrodollar investments for the first time.

On Nov. 18-19, West German chancellor Helmut Schmidt, who coordinates all foreign policy initiatives with French president Valéry Giscard d'Estaing, arrives in the United States for formal discussions with President-elect Ronald Reagan. It is impossible to predict how Reagan will react to Schmidt.

At the same time, however, there is no question that if Reagan decides, to any degree, to either support or at least not to obstruct, European-Arab-Third World efforts to restore world economic stability, the chances for an American economic recovery some time during 1981-82 will have been greatly enhanced.

On matters of foreign economic policy, Reagan has a great deal to learn. His advisers are a completely mixed bag. Those like George Shultz who came from the Nixon administration showed little willpower during that period to stand up to IMF and British manipulations.

Nixon himself in fact is reported to have recently observed: watch out for George Shultz (his former treasury secretary), he's too enamored of international bureaucrats.

One of the facts which Reagan's administration will have to face is that, for many of America's traditional allies, one of the lasting "achievements" of the Carter years has been that the U.S. experiment in monetarism has only served to prove to them that the policies of Milton Friedman don't work.

This was stated clearly this week in a public speech by Mexican President José López Portillo. In remarks aimed at silencing Friedman's friends in the Mexican branch of the Mont Pelerin Society, who have been attacking Portillo's defense of Mexico's nationalized industry sector, Portillo stated: "Production is the only fundamental path to end inflation. . . . We refuse to put the brakes on the economy to reduce demand in the Mexican population. The answer is in the other direction: there is no other road to fight inflation and correct the structure of the country, than productivity."

These remarks could just as easily have been addressed to U.S. Federal Reserve chief Paul Volcker.