OECD, Blumenthal demand 'sacrifice'

But Europe may cofinance petrodollar credits for Third World instead

The past week's array of public statements confirms that the Carter administration and the IMF are bent on using the energy shortage to shut down the economies of the advanced sector and underdeveloped sector alike. It is by no means certain, however, that they will be able to subtract the $30 billion-plus 1979 petrodollar surplus from world credit availability, short of war.

Not surprisingly, Arab financial policymakers are reluctant to turn over their oil receipts to either the IMF or the U.S. banks who have recently endorsed

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IMF control of international lending. According to Arab banking sources, Arab OPEC members are expanding their aid to the Third World through their own financial institutions and commiting large proportions of their remaining cash flow to European banks (see interview). While the Gulf states remain more oriented to sterling purchases at the dollar's expense, and deposits with London-affiliated Swiss banks, certain Saudi and other Arab forces are reportedly looking toward the financial correlative of the energy producer-consumer cooperation ... by France and West Germany.

IMF policy in the open

"There isn't any escape from the reduction of real incomes caused by higher prices for imported oil. Claims for compensatory increases ... in incomes will only make matters worse." This was the core of the final communiqué endorsed June 14 by the finance ministers—led by U.S. Treasury Secretary Blumenthal—of the Organization for Economic Cooperation and Development (OECD), the Western industrialized nation's forum. The communiqué embodies what the IMF and Washington have dubbed the "unlocomotive" theory—austerity for the entire advanced sector, with all the consequences that implies for Third World trade and credit.

Along with prescriptions for quickly jacking up the industrial nations' domestic oil prices to world levels, cutting oil imports over 5 percent (an oblique reference to Washington's bust-OPEC policy), and imposing drastic "conservation," the ministerial plan mandates "a cooling-off period" for the United States and "adjustment policies" for the advanced sector as a whole: "phaseout of uneconomic industries," "increasing the play of market forces," and "free trade."

The OECD meeting was billed by the press as a dress rehearsal for the June 26 Tokyo summit conference of seven Western leaders, and the outcome (except for the inclusion of nuclear power among the "alternative energies" urged by the ministers) was an impeccable duplication of Carter administration policy positions for the summit. Worked out with the International Monetary Fund (IMF), the plan specifies that (1) the U.S. deliberately "deflate," with IMF surveillance to ensure a sufficiently deep recession; (2) the $30 billion-plus petrodollar surplus and other international capital flows be diverted away from LDC investment and deficit financing, and into funding high-cost synthetic hydrocarbon projects in North America; and (3) Europe and Japan adopt austerity and "self-sufficiency" goals, abandoning the European Monetary Fund and its potential for channeling multibillion-dollar industrial development credits to the Third World.

The administration's perseverance in the synthetic fuels priority and its close consultation with the IMF in plotting a U.S. credit cutoff were first publicized by this journal. Treasury Secretary Michael Blumenthal, however, has made no secret of either his general policy direction or the degree to which it will override all remnants of the traditional American commitment to growth, advanced energy development, and the responsibility to disseminate them globally.

After some "tough months," Blumenthal told the London Internatinal Monetary Conference June 13, en route to the OECD conference, "an economic slowdown accompanied by an abatement of inflation" will reward his efforts. "Echoing the U.K. budget speech of Sir Geoffrey Howe, Britain's Chancellor of the Exchequer, with whom he conferred shortly afterwards," according to the *Financial Times* of London, Blumenthal said that the advanced sector must "change our fundamental approach to economic management," "emphasize the supply side" while holding down demand, and "liberate the U.S. economy from constraints bred of short-term expediency," such as the maintenance of living standards. Blumenthal's anti-Keynesian, free-market perorations on lagging productivity were followed by insistence on "conservation" measures that will send productivity into a secular tailspin.

Blumenthal then announced that the same policies must be applied to cut back international lending to the underdeveloped nations. Commercial banks cannot recycle petrodollars to the Third World without a banking collapse: "We must make sure these flows do not overburden individual institutions or we threaten the system generally," he said; the IMF and the central banks must "exercise adequate surveillance."

In one of what to date appear to be unanimous endorsements of this policy by the leading New York bankers, David Rockefeller June 13 revived Henry Kissinger's proposal for a $25 billion "safety net" kitty of funds to centralize conditional lending to industrialized nations in payments deficit. He also told the London-American Chamber of Commerce that private bankers should be forbidden to extend further LDC loans unless the IMF and its lending conditions are included in each consortium.

At the same time, the Third World is to be hit with slashes in the volume of U.S. import demand. In London and New York speeches, Blumenthal said that despite the 1979 increase in oil import costs, the U.S. trade deficit will decline by $6 billion—presupposing that swift, intense austerity and autarky measures will substantially shift U.S. trade patterns.

West German Chancellor Helmut Schmidt's right-hand man, Hans-Jurgen Wischnewski, tackled the issues in a June 15 speech to a Social Democratic Party meeting in Munich on "The Federal Republic's Responsibility in the World Economy." "International peace and security depend on stable economies," he said, bringing to mind the havoc inflicted by the IMF; "the worldwide division of labor also provides peace ... development aid must be given multilaterally and private industry should join in too."

Wischnewski, who is state secretary for the Chancellery, most directly challenged the IMF by stating that "Bretton Woods was necessary in former times but now it is no longer valuable. We need something like the Marshall Plan, which allowed the financing of German exports and gave cheap credits with low interest. ... That's what we need now too to develop the Third World. The developing countries need cheap credits to finance their imports and they need low interest rates."

For Arab authorities thinking along the same lines, the potential is clear enough. It is also clear that the ultimate Anglo-American veto of this policy is instigation of war. The financial and military breathing space that existed in 1967 and 1973 will not exist this time.

—*Susan Johnson*

'They will support the Third World....'

From a June 21 interview with an official of a leading Arab bank with French links:

Q: *Supposedly the dollar's weakness comes from Arab sales....*
A: After the three to four month gap in payments, the OPEC banks are pulling in extra oil funds. The Gulf states in particular want to diversify, they've bought lots of sterling, they see a negative effect on the U.S. economy from the oil prices.

Q: *This didn't use to be true of the Saudis; is it now?*
A: No, it's Qatar, Kuwait and so forth....

Q: *What's the propect for petrodollar recycling this time? The word is that private banks must be cut out and the IMF will handle Third World lending. Are the Arab members of OPEC willing to go along with that?*
A: No. On the contrary, they will make more use of their own institutions. They will subsidize the Third World and give it political support. The Islamic Development Bank is set for long-term lending; The Arab Monetary Fund is growing, it has a billion dollar capitalization now; the Kuwaiti Fund is involved in building up the Sudan, not to mention the Saudis' funds. They will have a low-interest policy.

Q: *Will Euromarket channels still be used for petrodollars too? Do you think Euromarket controls will go through?*
A: On the second question, they are impractical....

Q: *What if lending limits are imposed domestically in the U.S. and Europe on consolidated balances?*
A: Look, the Arab institutions can't handle the whole volume of funds. They are putting them through German and Swiss banks, in Eurodollar deposits, and a lot of money is going into France. Funds are being pulled out of the U.S., and put into gold. This is going to increase.

Q: *If there is this level of European and Arab coordination, and you think it has enough clout to hold off Eurodollar controls, doesn't it have something to do with the French and German support for a producer-consumer energy alliance, as opposed to the U.S. stand against OPEC?*
A: I can't comment on that, but I am very much aware of what you are talking about.