Japan launches a two-tier credit market for development

At the Paris OECD meeting this week Japan is proposing a "consolidation plan" to reform the crisis-ridden Eurodollar market through a system of low-interest, long-term dollar loans for capital development. The plan was worked out in coordination with the Germans and will be supported by the French as well.

For over a month, Japan has been unilaterally carrying out a financial policy based on the same principle that it is now proposing globally: the Japan Export-Import Bank, in conjunction with private banks, is now making dollar loans to private Japanese enterprises for overseas resource development projects at astounding 6-7 percent interest rates, half the prevailing Eurodollar rates! These super-cheap loans — predicted by Japanese bankers to amount to several billions of dollars — will be available only for approved projects in such areas of resource development as uranium, petroleum, natural gas, iron ore and nonferrous metals in developing countries, in which Japanese firms participate. The money will be lent by the ExIm bank and the private banks at a 70-30 ratio. The rates will be 0.5 percent above the domestic yen rate for the respective category of loan.

This move is the first institution of the principle that is the hallmark of Japan's global "consolidation plan": Supercheap — by Euromarket standards — loans will be available for real development, while those who wish to invest in commodity speculation or other nonproductive forms must rely on the high-priced competitor, the Euromarket.

There are only two significant limitations to the Japan Export-Import Bank system other than volume: 1) so far the loans do not apply to manufacturing projects because the more cautious Finance Ministry rejected efforts by the International Trade and Industry Ministry to include them as well as resource projects; and 2) the loans are not available to non-Japanese institutions. Both of these limitations are overcome in the global consolidation plan of Japan.

Despite the efforts of U.S. representatives to the OECD to prevent the plan from even reaching the agenda, Japan is being supported by Germany and most likely by France as well. In fact, German sources report that the plan was worked out in consultation with German Chancellor Helmut Schmidt and Central Bank head Otto Emminger. Two weeks ago Maurice Laure, Chairman of the French bank Société Générale, wrote an article in *Le Figaro* espousing the same discriminatory credit policies as the Japanese. Reviewing the French credit situation at home and abroad, Laure complained that one of the major problems comes from the fact that many banks are reducing their quality of investments, restricting themselves to rollover and low risk-low return operations, instead of moving into development loans. He warned, "Without the introduction of a regulation system into the Euromarkets, the non-use (i.e. non-productive use — ed.) of such an amount of money would have catastrophic consequences on the world economy."

Japan's consolidation plan

The essence of the "consolidation plan" is to convert the Euromarket — which the Japan Finance Ministry

Japan's "consolidation plan" for the EMS

At an emergency meeting Oct. 25, Japan's Finance Ministry decided that a consolidation plan to restructure the Eurodollar market was the only way to end international monetary turmoil. The following are excerpts from a report on that decision in the Oct. 31 Japan Economic Journal:

The Japanese Government has decided there is a limit to a single country trying to stabilize its currency, and intends from now on to work earnestly on other nations to cooperate in stabilizing the international monetary situation. . . .

For the moment the Government is thinking of utilizing the meeting of working party three of the Organization for Economic Cooperation and Development, due to get underway in Paris from November-end, to seek international collaboration on such as the following points for stabilizing the international monetary setup.

• Measures should be taken to recycle to the U.S. or to freeze an estimated $500-600 billion in circulation in the world.

• A system of intervening in foreign exchange markets on a multilateral basis could be expanded and strengthened, such as through greater application of swap arrangements.

After continuing such persuasions, the Government hopes to complete final arrangements at the next summit of industrially advanced nations, scheduled in Tokyo next June.

. . . The Ministry of Finance, feeling that the latest soaring of the yen has an added speculative character, considers that its "hotbed" is the presence in the world of "loose dollars" ranging from $500-600 billion.

now deems a "hotbed of international monetary turmoil" — into a source of productive, long-term, low-interest loans. Banking sources report it will work in the following way: Together, the Bank of Japan and the members of the newly formed European Monetary System will have total available reserves of almost $200 billion without even counting expected OPEC participation (assuming, as Otmar Emminger, head of the West German central bank said recently, all upvalue their gold to $180 an ounce). For the Japanese and European central banks, the cost of lending dollars to the private banks of their countries is not the high Eurodollar market rate called LIBOR (London Interbank Rate) at 12 percent but their own domestic interest rates at 5-7 percent. Therefore, participating central banks will lend to their own private banks at a margin above their domestic rates on two conditions: 1) the banks use the funds only for approved capital development or hard commodity trade purposes, not for buying Treasury bills at 10 percent and whatnot; and 2) that the developing country recipients of such cheap loans invest the funds in development projects, and not redeposit them in the Eurodollar market or similar speculative outlets. Up until last month's inauguration of the Export-Import Bank plan, the Bank of Japan had already been lending dollars at less than Euromarket rates, but only at 0.5 or 1.0 percent differential. Now Japan is cutting the rate in half.

The plan cannot work unless the Japanese-German-French central bank complex provides American banks with the same access to cheap dollars as their own banks. The U.S. banks cannot look to the U.S. Federal Reserve which is steadily lifting the U.S. interest rates to the Euromarket level, aiming for a 14 percent prime rate. Nor can they look for succor from the Treasury and the latter's agents in the State Department, since Treasury Undersecretary Anthony Solomon and State Monetary Affairs bureau chief Michael Ely are both committed to preventing the "consolidation plan" from even being aired publicly — to say nothing of their efforts to keep it off the agenda of the OECD meeting. Outside of this news service, no U.S. press has even reported on the "consolidation plan."

Aid for U.S. banks

Japan and the Europeans are already moving to circumvent the London-engineered containment surrounding the U.S. banks. On Oct. 6 the Japan Ministry of Finance asked
include American banks in the consortia in which the Japanese were lending at slightly less than normal margins above LIBOR. According to Japanese banking sources, some Midwest banks as well as Bank of America and Chase Manhattan participate in certain of these syndicates on a case-by-case basis. In contrast, Citibank — under pressure of a Morgan Grenfell-organized scandal — has steadfastly refused to undercut the high interest-rate regime of the Euromarket. A Citibank officer confirmed this policy in an interview with *Executive Intelligence Review*. Realistically, Japan cannot expect much U.S. bank participation in such syndicates unless they provide U.S. banks access to cheap dollars, that is, unless they undercut Fed Chief William Miller.

There are indications that Japan and the Europeans are directly attacking the high-interest rate policy within the U.S. itself. On Nov. 17, Japanese and European purchases of U.S. Treasury bills pushed the interest rate on them down to 7 percent, compared to the previously prevailing 9 percent — indicating massive purchases. Assuming that this level of intervention continues and that its effects spread to general interest rates, this domestic intervention combined with the two-tier system on international loans will amount to the successful takeover of the international monetary system by the forces for development.

— *Richard Katz*

'Take a courageous initiative'

Ireland's EC Commissioner speaks about the EMS in Chicago

EXCLUSIVE INTERVIEW

In its first official public effort to bring U.S. political and business support behind the emerging new monetary system, the European supporters of the EMS today sent European Community Commissioner Richard Burke of Ireland to address a major business conference in Chicago. Speaking on "The new European Monetary System and the Dollar," Mr. Burke addressed over 80 business and diplomatic representatives Nov. 20 at Chicago's Water Tower Hyatt House, in a meeting sponsored jointly by the Chicago Association of Commerce and Industry and the Belgian-American Chamber of Commerce. Representatives of Chicago's leading banking, industrial and trading firms attended, as did all the major consuls general from European nations, with the notable exception of Great Britain.

Excerpts from his address follow:

It is a pleasure to be here in Chicago, the heart of the Midwest, and to have this opporunity of exchanging views and ideas with its business leaders. Given the subject of my remarks today, I would add that it is a