EIR Economics

Europe's new export push: a challenge to U.S. policy

by Renee Sigerson

Continental European leaders have seized upon the opportunity opened up by the removal of the ugly and hostile Carter administration to pave the way for a capital-intensive export boom not seen since massive 1974-76 "triangular trade" deals with the Third World and Mideast saved Europe's economy in the first phase of the oil crisis.

The export drive now going into implementation phase in Europe poses a challenge to the Reagan administration and American industry to restore the United States' own historic commitment to high-technology capital-goods exports to world markets.

On Jan. 27 and 28, German and Soviet officials meeting in Düsseldorf put the final touches on the largest East-West trade deal in history, a $500 billion Soviet natural gas export deal which will be launched this year by a $5 billion trade credit issued by Germany's leading commercial banks. The arrangement, which was harshly attacked by Carter administration officials as a "strategic threat," overlaps current French-German-Saudi Arabian-Iraqi negotiations for no less than $60 billion in equipment exports and long-term capital investment.

The $60 billion package, cited in a regional German newspaper, the *Neue Ruhr Zeitung*, on Jan. 27, is a stepping stone to reversing the record unemployment, inflation and industrial downturn rates that have struck France and Germany since the October 1979 U.S. credit squeeze aggravated the impact of the oil-price explosion. The financial terms of the Soviet natural gas deal, furthermore, underline Europe's desire to get world credit flows back into useful industrial goods financing: the final item settled between German and Soviet officials was to peg the interest rate cost on the $5 billion launching loan at 7.75 percent, 2 percent below the current domestic German interest rate floor.

The challenge posed by these announcements to the new U.S. administration is to reject lock, stock and barrel what one leading U.S. businessman described this week as the advice of the "economic libertarians" who are calling upon President Reagan to de-emphasize or shut down the U.S. Export-Import Bank on "free-market" grounds.

It is indisputable that if Reagan moves in behalf of gearing up exports, the country will back him. Some of the largest U.S. industrial firms, including Dresser Industries, Honeywell, and Armco steel are now moving to link up with the Soviet natural gas deal. Their efforts include applications for export credit lines from the French government official export credit agency, which is making loans to French subsidiaries of American firms after a few months' application. The same firms wait years to get comparable loans at home.

In an interview with *EIR* Jan. 28, John Pierce, treasurer of Boeing Aircraft—which with more than $4 billion in foreign sales was the largest U.S. exporter in 1980—underlined why the U.S. through institutions like Eximbank must become competitive with European trade financing facilities.

Pierce stated: "The economic libertarians ... who say they don't need government support, who want to get rid of government financing for Eximbank, don't know what they are talking about. . . . If we let Eximbank and our export policy go, we are practicing unilateral disarmament. . . . Reagan has said that he would not disarm the U.S. militarily without getting a quid pro quo from the Soviet Union. Well, if we get rid of Eximbank, if we let our export policy go, that is like total disarmament. Our allies in Europe will take advantage of the entire situation. They will export full force after watching us shoot ourselves in the foot. . . . That will devastate this country."

Pierce indicated that he would support capitalization of Eximbank on the scale of about $25 billion in the near term. He reports that Boeing is working on a recommendation to bolster Eximbank through the private capital markets, which could "hypothecate" Eximbank bonds on a long-term basis.

Currently, the leading Eximbank supporters in the U.S. Congress around Sen. Jake Garn's office are pushing for Eximbank capitalization on the order of only $9 billion for its next fiscal year. This contrasts with Eximbank's own official evaluation that if it were capitalized simply to be competitive with current French government export-financing programs, Eximbank would need a $36 billion capitalization base.

Friendly or adverse competition

Garn and others have been pulling their punches in going for more Eximbank financing because a climate has been created around Capitol Hill by "economic libertarians" who claim variously that Eximbank is either a drain on the federal Treasury or a "handout to big business." Cross-checks with several Washington offices reveal that one source of this anti-Eximbank, anti-government outlook is the Heritage Foundation, the pseudo-conservative think tank which is documented to harbor foreign intellience networks.

In a typical probe, a U.S. trade official who dates back to the Carter administration launched into a tirade against European export programs.

The Carter appointee confirmed that France and Germany "are indeed going on an unbridled export drive, and I would say [the estimate of] $50 billion is conservative in terms of the subsidized exports they are planning. The French in particular are totally unreasonable," the spokesman added. "We are furious with them."

The trade official then went on to explain how last November—just as Europe was catching wind that the American population just might not tolerate Carter another four years—a big flareup broke out at a Paris meeting of the Organization for Economic Cooperation and Development (OECD).

Carter officials failed at that meeting to get European government agreement for raising minimum interest costs on government-backed export credits to a level commensurate with domestic U.S. rates. At the meeting, Treasury Undersecretary C. Fred Bergsten reportedly argued without success, "Europe will have to adjust to U.S. interest rates. . . . If U.S. rates are 20 percent, . . . we can't make any [Eximbank] loans unless the Third World is willing" to pay up. "If Europe insists on making 8 percent loans, this is a trade war situation." Heritage's role in continuing to promote such Carter era policies is documented by the interview with Henry Reuss's aide Ben Crane below.

The argument that European trade preferences undercut the U.S. ability to export is incompetent fraud. From recent experience, from 1971 to 1974, President Nixon doubled Eximbank financing, allowing for annual growth rates in U.S. exports, in real terms, during those years on the order of 12 percent. This development, which has made one out of every five U.S. manufacturing jobs dependent on export goods,. occurred simultaneous with equivalent export growth patterns in continental Europe and Japan.

As important as Heritage in obscuring the real issues on exports is the Georgetown University Center for Strategic and International Studies (CSIS), which is represented in the Reagan cabinet by its protégé, Secretary of State Alexander Haig.

We also append below our interview with CSIS director and Lehman Brothers adviser Nathaniel Samuels. While Samuels gives the impression of being in full agreement with the outlook voiced by Boeing's Pierce, in fact the key to his remarks is his emphasis on Haig's acquisition of vast power over foreign economic policy as being the door-opener to exports. Samuels's report that Reagan will "confront" Third World "solidarity," in addition, is a direct threat from CSIS that the U.S. will deploy against the Indian-Mexican diplomacy consummated this week, which holds out the promise of bringing large sections of the developing sector into the modern industrial world.

Haig's plan to turn Eximbank into a tool of military confrontation is corroborated by the fact that CSIS is lobbying for former naval officer J. William Middendorf to be made Eximbank president. Middendorf is a carbon copy synthetic officer, and just like Haig, a product not of real combat experience, but of the Jesuit think-tank networks committed to aborting European and American heavy-industry revitalization.

Two Washington views of American trade

Ben Crane, chief economist of the House Banking Committee during the Carter years and a close associate of liberal congressman Henry Reuss, explained opposition to Eximbank in an interview with EIR*'s Kathy Burdman.*

EIR: What is your staff doing on Eximbank financing?
Crane: We have hearings in February, soon after those held by Garn. The pro-Eximbank group in Congress and in the cabinet are tools of big business. They're pushing Eximbank expansion as a subsidy for big business, and they have the President's ear, so unlike John Moore with Jimmy Carter, they will prevail. . . .

America doesn't need exports. If a particular exporter here and there loses money, that's tough. Exim is a subsidy to big business out of the taxpayers' pocket. It should be shut down. We're supposed to be a free-market economy where goods and services shift through free-market principles into those sectors that make money, and out of those sectors that don't.

If exporters can't make money on their own, let them lose business, lose jobs. The best option would be for the U.S. to cease subsidizing foreign consumers through credits, and to welcome any permanent subsidies that other foreign governments are willing to provide. . . . If the French want to make their exports cheaper for us, fine, we buy French goods too. We'll benefit.

Heritage [Foundation] wants to shut down the Eximbank and that's my position too.

The ideologues from Heritage won the election and are taking over the Treasury.

On our side, we have Norman Ture, undersecretary, and Beryl Sprinkle, undersecretary. They are very unsympathetic to Eximbank. Sprinkle in particular is trying to get [former Treasury undersecretary] Wilson Schmidt, who wrote the Heritage report's international section, into C. Fred Bergsten's post as Sprinkle's assistant secretary for international. . . . We are the people who won the election, the ideologues.

EIR*'s Renée Sigerson interviewed Nathaniel Samuels, of Georgetown University's Center for Strategic and International Studies, on Jan. 27. Excerpts follow.*

EIR: What do you think the new administration's trade policy will be, especially regarding the newly industrialized countries [NICs]?
Samuels: Bill Brock is going to be very active, and an interagency trade commission has been activated, made up of cabinet members; the staff has not been selected yet. The only one who has been selected is [Robert] Hormats—he understands these issues well.

Government trade policy toward the NICs is a *bilateral* question for this administration. The point is that the designation "NICs" may be a useful analytical grouping, but politically it doesn't mean anything. On the issue of imports, there is some pressure on the Hill to eliminate the NICs from GSP preferences.

EIR: What is the outlook for Brazil and its debt?
Samuels: The administration will not come out in coming months on such issues as Brazil's debt. This issue will come up in the context of budgetary support for multilateral institutions. The IMF, for example, has a positive role to play in dealing with this question. . . . Keep in mind that this administration is not particularly close to the banking community. The banking community is seen by many in this administration as "Eastern Establishment," and this is not an Eastern Establishment administration. . . .

EIR: Will the Eximbank be capitalized on the order of $25 billion?
Samuels: There is not enough of a realization that capitalizing Eximbank is not a drain on the Treasury, but an addition to Treasury. Our belief is that Exim is a very important national tool. To not make available to industry trade financing comparable to our major competitors is equivalent to unilateral disarmament. . . . The problem is political. It's hard to make an argument for lower credit rates for exporters than those rates paid by buyers of housing. [Office of Management and Budget Director David] Stockman is on record as opposing government-backed credit schemes.

EIR: Who will be open to your policies?
Samuels: The secretary of commerce, the U.S. Trade Representative, and the secretary of state. Haig will be a secretary who will have a stronger impact on these questions. [Myer] Rashish, Hormats, they are very interested in the NICs. Hormats worked on the NICs when he was an academic, before he came into government. He testified several times on the role of the NICs, how to bring them into the system. If the administration wants to break up so-called Third World solidarity—it might be a little hard to go at this directly, but [Jeane] Kirkpatrick has talked about getting this done. . . . The Reagan administration will try to figure out ways to get U.S. *private* capital into developing countries. You'll see new ideas, on a bilateral level, with a bilateral guarantees. These haven't been worked out yet, they are not a first item.