North-South Negotiations And Soviet-Third World Relations

The Mid-July, high level meeting of the Conference on International Economic Cooperation (North-South talks) in Paris ended with a complete deadlock as the group of nineteen developing countries and the eight industrial countries failed to reach an agreement on the work agenda for the next six months leading to the December ministerial conference.

The central issue of the disagreement was the matter of the developing sector's indebtedness, with the developing nations demanding a commitment for at least official debt relief and an work agenda leading at least to that result. The U.S., West Germany and France insisted on the "Kissinger line": open-ended, fruitless negotiations while "problematic" countries are dealt with on a "case by case" basis. The Scandinavian countries sided with the Third World at least as far as the official development assistance is concerned.

The fact that the other main demand of the developing sector — a Brookings Institution-instigated, generalized commodities agreement — has taken the back seat was made evident when that subject was relegated to an UNCTAD committee at the Nairobi meeting (expected to report some time in March of next year) and was underscored by the complaints heard at the London meeting of the copper producers-consumers association (CIPEC). According to its report, CIPEC found that real income from sales of copper fell during the first quarter of 1976 while the producers enjoyed dramatic price increases.

With the commodities hoax thus buried, Swedish Trade Minister Dennis, in a radio speech on July 17, repeated his country's stand on the debt issue, noting that even though progress has not been made, "at least the debt problem is now thought of in the context of transfer of real resources, and that is a significant step."

The toughening of the developing sector's stand on the debt issue and the lack of any concrete proposals from the West was prominently reported by a number of European dailies including Handelsblatt, Le Monde, and Le Figaro, in the beginning of the week. Otto Meyer, the chief editor of the Hamburg World Economy Archives, said July 20 that a generalized debt moratorium for the Third World might indeed be necessary, but at this moment it was politically unfeasible. "The end result of a lack of Western Policy," he concluded, "will be to push the Third World and the Soviets closer together."

This evaluation, also given to the press service by the State Department UNCTAD liaison man, Clay Black, has already begun to materialize. Notable is the Georgetown, Guyana meeting of the Carribean nations which strongly affirmed that Mozambique and Angola are preparing to join the Comecon. The meeting not only advocated a tough Third World negotiating stand vis a vis the industrial nations, but in a position paper on the Nairobi UNCTAD negotiations defended the Soviet Union for not intervening in the Nairobi negotiations since the discussion was not based on its terms.

The last argument, obviously refering to Wall Street's hopes that the Soviet Union will be forced to embrace a number of weak Third World economies or allow developing nations to convert their ruble surpluses into Western hard currencies, runs counter to top Wall Street opinion that the developing sector has nowhere else to turn and will have to take any austerity demanded it it is to have access to necessary credits. Rather, the Carribean document points to the realization on the part of at least some developing nations that a new credit mechanism outside the control of Western financiers is what is called for.

The State Department has confirmed this week that the U.S. policy response to these developments will be more of the same: "I know that they (the developing countries — Ed.) are trying to regroup and are taking a confrontationist approach, but we are not going to retaliate in kind. Our approach is to get them back to Paris and to talk. Otherwise we are handling countries one by one like Peru, Egypt, and Indonesia."

The Transfer Ruble: East-West Economic Lifeline

by David Goldman

July 20 (NSIPS) — Buried under the mountain of garbage that Henry Kissinger and his banking friends are putting out about Soviet indebtedness to the West, is one grain of truth: the international money swindle known as the Eurodollar market can no longer sustain even current low levels of East-West trade. Without a rapid transition to financial arrangements based on the transfer-ruble and gold, East-West trade will disintegrate.

Not that the New York banks who say the Soviets are becoming a credit risk are doing anything but lying their heads off. Loans to the socialist economies of Eastern Europe are the closest thing to viable investments these bankrupt institutions have. Even more stupid is the bankers' (and Jimmy Carter's) fantasy that economic warfare will produce political concessions from the Soviets. The Soviets not only have 60 years' experience in withstanding economic seige from the capitalist sector, but are prepared under such circumstances to start large-scale exports of ICBMs.

But the glut of high-interest, short-term, speculative international money known as the Eurodollar market is the only large credit pool the capitalist countries have to finance exports to the Soviet Union. The maintenance of the Eurodollar monster requires a 30 to 40 per cent rate of decline of world trade, and negative levels of capital investment in the West. To the extent the Soviets and their allies borrow Eurodollars, their economies bear the costs of propping up the bankrupt dollar monetary system.

In the case of at least one Council of Mutual Economic Assistance (Comecon) member, Poland, the debt problem could reach emergency proportions this year. The country is $7 billion in the hole to the Eurodollar banks, On top of a projected $2.5 billion trade deficit projected for 1975, the European-wide drought has reached Poland. Agriculture Depart-price increases. Protest riots broke out immediately, and the rainfall by September, half the country's potato crop (as large as the rest of Europe's) will be wiped out, destroying the Polish livestock export industry. In this most-probable case Poland will be in extreme financial trouble by the end of 1976.

No Choice

Although Central Intelligence Agency officials and related Soviet specialists here point out that the volatile Polish situation does not threaten the Comecon as a whole, since the organization's resources can "stretch" to cover Poland, the lesson has not been lost on the Soviet leadership. They have no choice but to junk the dollar credit system.

In mid-June, the Soviets' single experiment in taking the advice of their creditors to introduce austerity measures into the Comecon as the condition for more credits came to an abrupt end, with the civil disturbance in Poland. Following a week-long visit to West Germany aimed at securing trade credits, Polish premier Eduard Gierek announced major food and consumer price increases. Protest riots broke out immediately, and the entire plan was scrapped.

The Soviets responded with public offers to use the Comecon's transfer ruble as a means to finance international trade, and a strong commitment to the new world economic order from the Executive of the Comecon, which met in Berlin earlier this month. They have not yet taken the type of action which would force these proposals onto the negotiating table of industrial capitalists in the West — such as granting Egypt a debt moratorium to start a wave of moratoria throughout the Third World.

For their part, the Atlanticist financiers are stepping up their demands that the Soviets "cut back imports, accept tougher credit terms, and disclose more information about their economies," in the concise summary of a Morgan Guaranty Trust official. This is a straightforward provocation, not financial policy, in line with Henry Kissinger's publicly stated intention to destabilize the socialist sector.

The Inflation Problem

But even those capitalist factions who are bitterly opposing Kissinger's and Lower Manhattan's policy, such as the Chicago industrial grouping on this side of the Atlantic and certain of the Western Europeans, still have to deal with the underlying problem that makes Kissinger's psywar possible in the first place. This problem has been expressed in two principal ways:

In West Germany, Ruhr-based industrial interests who depend heavily on exports to the East have grudgingly accepted Kissinger's directives, for reasons expressed in a recent commentary in Deutsche Zeitung. DZ, the Ruhr's weekly house organ, complained that "the West ships goods to the East and also pays for it." This is ironically true: since the Soviets have successfully wrung concessions from their West German suppliers on prices or interest rates, the West Germans' profits on deliveries to Comecon have been close to zero for close to a year. The Soviets, justifiably, have refused to accept inflated prices and inflated "market" interest rates, but West German capitalists have to pay these just the same.

Secondly, a leading Chicago-based economist expressed the dilemma of the Chicago machine-tool and farm-implements exporters: more trade credits are necessary to keep up East-West trade, but such unlimited expansion of trade is inflationary. The comment is embarrassingly naive, but true: the Eurodollar chain-letter game uses trade-financing as collateral for much larger expansion of inflationary speculative activities.

What irks these industrialists is that most new loans to the Soviets since 1974 have gone either to cover price increases on an existing volume of exports, or to cover repayment of previous short-duration Eurodollar credits.

Between 1973 and 1974, the price the Soviets paid for steel, their largest import, rose by 41 per cent; for plastics, by 171 per cent; for chemicals, by 139 per cent; for rubber by 62 per cent; and for grain by 45 per cent, according to C.I.A. estimates ("Soviet Hard Currency Trade," C.I.A., January 1976). Overwhelmingly, the Soviets import investment goods. The Comecon sector is the only industrialized economy in the world to undertake industrial investments which even match industrial replacement costs. The cited price rises since 1973 have extinguished industrial investments which even match replacement costs. The cited price rises since 1973 have extinguished industrial investments throughout the capitalist sector. The mere fact that the Soviet investment program, which depends partially on imports, has continued, is an extraordinary tribute to Comecon's economic strength.

Secondly, Eurodollar credits which the Soviets began drawing most heavily in 1971 and 1972 are beginning to mature in huge lumps. Soviet debt service alone almost doubled from an estimated $815 million in 1973 to $1.5 billion in 1975, or one-fifth total Soviet exports, the C.I.A. estimates. AT this point, the $8 billion which Western bankers estimate Comecon will borrow this year will probably not even cover debt-repayments and price rises!

A New Monetary System

Western industrialists, if they want to survive, are going to have to junk the Eurodollar swindle and strike a bargain with Comecon over the transfer-ruble. Strictly speaking, the transfer-ruble (unlike the Soviet ruble) is not a currency. **it is a transferable government-to-government credit for long-term, low-interest trade financing,** now in use within the Comecon. Once two members of Comecon have agreed on a year's trade flow, that is, matched their export capacities to their import needs, the central bank of Comecon creates transfer-ruble credits to cover the **imbalance** in trade between the two countries.

The surplus country in the exchange receives the appropriate amount of transfer-rubles, and can use them to settle its accounts with other members of the Comecon system.

By agreement between the European countries and the Comecon, European central banks could accept trasfer-rubles from the Comecon central bank to cover the West European export surplus in trade with the East. In effect, Western Europe would be granting long-term credits to the Comecon countries by accepting transfer-ruble payments. Western Europe's fundamental incentive to do this is the enormous benefit it would draw from the expansion of the Comecon economy over a time frame of several years. The United States could enter into trasfer-ruble financing arrangements on an identical basis.

As transferable government credits, transfer-rubles could circulate freely between Comecon, the industrial capitalist countries, and the Third World; the West exports capital goods to Comecon; Comecon exports development infrastructure to the Third World; and the Third World exports raw materials to the West. In proposing the international use of the transfer-ruble, the Soviet journal, The Soviet Union, today cited three-way trade between these sectors as the underlying basis of a new world monetary system — which will replace the cancerous bankrupt Eurodollar market.

NSIPS Exclusive Interview With Marshall Goldman

"Grain Is The Ultimate Weapon"

July 24 (NSIPS) — Economist Marshall Goldman, now based at the Harvard University Department of Russian Studies, granted the following interview to a reporter from the U.S. Labor Party's intelligence staff. Goldman, who is said to have the ear of Secretary of State Kissinger, is a leading proponent of the use of U.S. food reserves as political leverage against the socialist and developing sectors. Mr. Goldman is somewhat paranoid about the effects of the U.S. Labor Party's expose of his role in planning economic warfare. Sources report that at a meeting of top Wall Street policy planners at Arden House in New York, Mr. Goldman began his remarks by stating, Let me say everything the U.S. Labor Party says about me in their newspaper, New Solidarity, is a total lie.

USLP: What is your reaction to the Newsweek article proposing economic warfare against the Soviets?

Goldman; I didn't read it. That is, I skimmed it and looked for my name. They didn't quote me so I didn't read it.

USLP: Everyone pretty much assumes Kissinger will use economic warfare, although the Administration denies this. What's your recommendation?

Goldman: Why shouldn't we use it. They will and so will we. We use it against France, Italy, Japan, and they use the oil weapon against us. Are we just going to sit there? Our grain crop is the ultimate weapon.

USLP: No. Prof. Goldman, ICBM's are the ultimate weapon.

Goldman: It's easier to make ICBM's than to grow grain.

USLP: Consider this possible Soviet response: suppose the Soviets repudiate their debts or encourage the Third World to repudiate their debts in retaliation. Isn't this possible?

Goldman: Sure. But the Europeans hold most of their debt. Let them worry.

USLP: And the Third World?

Goldman: Well, we hold most of their debt, but the Third World won't follow the Soviets.

USLP: There was a West German newspaper report that Mozambique will join Comecon.

Goldman: Great, that's the best news I've heard. Let them, let everybody do that. It will drag them down.

USLP: But the Soviets have clear options even in Western Europe, including Italy, where Cefis, who isn't the greatest friend of the U.S., has made oil-for-technology deals with the Soviets and their friends which account for their entire oil needs. And Italy wants a debt moratorium. Can't the Soviets move economically into Western Europe?

Goldman: No chance.

USLP: Please elaborate.

Goldman: They stand to lose more than we do. The Soviets have a better record of repaying debt than practically anyone else since 1952. They are real puritan businessmen.

USLP: Conversely, how do you rate Kissinger's chances of success in splitting East European countries from the Soviets?

Goldman: Great. Just great. I expect great results. Both (State Dept Counselor Helmut) Sonnenfeldt and Kissinger were absolutely right. The Poland thing is going great. (Polish leader) Gierek really got the message. How else do you explain the Berlin meeting? (the recent East Berlin meeting of European Communist parties — ed) They were also repudiating the dictatorship of the proletariat, and the Eastern Europeans were right behind them. Yugoslavia and Rumania did, and the rest of them were right behind them.

USLP: That's ridiculous. Even the reading we get from the CIA is that they don't believe anything so stupid.

Goldman: Aha, you get a reading from the CIA! You have better relations with the CIA than I do. I'm going to use that.

USLP: But we know from talking to a great many people what CIA opinion is.

Goldman: I don't have access to classified CIA data like you say you have — aha, the American (sic) Labor Party and the CIA... Look when I get my monthly call from you, I don't go running into the bathroom, I like to hear what you have to say, it keeps me informed about stuff I never hear about otherwise.