

Debt Is Moral Issue On Which Carter Will Be Judged

The following is excerpted from "The World's problems keep flying to Carter" by Washington correspondent Mark Frankland, appearing in The Observer of London, Feb. 27:

...But on the other great international moral issue, aid to the poor countries, the new Administration's approach is fairly conventional. There is little sympathy for some of the new ideas about how to help the poor which will be discussed in a number of United Nations and other forums in the coming months. One hears nothing but scepticism about a common commodity fund which could

help the world's commodity producers increase their earnings. No one wants to talk about relieving the growing debts of many developing countries.

This is not surprising, for American banks, chiefly a handful of the very biggest, have lent as much as \$50 billion to the developing world....Instead the Carter people are thinking of traditional aid-giving either directly or through organizations like the World Bank. At the moment America gives only 0.27 per cent of its gross national product in development aid, which is a far smaller proportion than most West European governments.

What is more, half of America's aid goes to comparatively well-off countries, like Israel....

The Ford Administration did not seem to give a hang about this. But it is surely what the poor people of the world will judge the moral pretensions of Jimmy Carter's foreign policy by."

International Faction Fight Over T-Ruble

Mr. Janos Fekete, vice president of the Hungarian National Bank and a leading economic theoretician for the entire Council for Mutual Economic Assistance (CMEA), has publicly proposed the creation of a new world monetary system based on "a new international standard of value (which) would fulfill the role of a key currency," according to the Feb. 28 *Financial Times*. The standard of value Mr. Fekete is referring to is the CMEA's transfer ruble, backed by gold. In a recent article in the Hungarian weekly *Figyelo*, Mr. Fekete emphasized his international call by noting that "the election of a new U.S. President provides the opportunity for a revival of the Bretton Woods spirit," out of which the now-defunct dollar system was created.

Mr. Fekete's remarks are exemplary of the commitment which has been made, not only in the CMEA, but also in Western Europe's Common Market (EEC) to review in detail during the month of March the outstanding political and monetary questions which need to be solved in order to implement usage of the transfer ruble in long-term trade transactions. In a recent issue of the Czechoslovakian party daily *Rude Pravo*, Deputy Finance Minister Mirko Svoboda reported that the CMEA Currency and Monetary Commission will reach concrete decisions on the t-ruble's parity relations with other currencies, explicitly aimed to extend its usage.

Speaking for the EEC, a senior official at the West German Federal Development Ministry reported March 4 that global usage of the t-ruble will be a leading agenda item during the series of March conference of the EEC's finance and foreign ministers. A key component of the EEC's deliberations he noted will also be working out a compromise on the issue of debt moratorium with Western Europe's trading partners in the Third World, an issue which has provoked intense controversy in all member states.

Italian industrialists are in the forefront of all European forces pushing for a rapid finalization of nego-

tiations both with the Third World and the Soviet bloc, and to that end have just concluded an extended series of negotiations in Moscow in which no less than 180 top-level Italian industry spokesmen participated. On March 4, Vitangeli, correspondent for Italy's financial daily *Il Fiorino*, documented what is presently known to western observers about the heated debate within the CMEA as to how soon the t-ruble should be introduced internationally. Vitangeli himself agreed with the estimation that the present period is indeed comparable to the crisis which lead to the Bretton Woods conventions. Admitting that "There is an extreme difficulty in getting clarifications from official (Soviet) sources," on the time scale they are discussing, he summed up the underlying conflict in the CMEA as "two primary attitudes... one which would like to undertake the road of transferability... without hesitation, and the other which is instead conscious that by doing so the Communist countries would be directly hitting the most exposed raw nerve of the United States, and fear the consequences of such a frontal attack."

Il Fiorino, March 4:

There is a political desire to extend the use of the transfer ruble to enable it to play a greater role in international monetary affairs. What is now being sought is the best road for reaching such a goal. This was confided to me by an authoritative Russian economic journalist... There is an extreme difficulty in getting clarifications from official sources, while among experts and bankers there are very contradictory views. ... The *Financial Times* has raised the issue anew, stressing the interested ferment in the City (of London) and signalling rumors of an intensification of gold mining activities on the part of the Russians as a means of creating a stock of (gold) reserves which could make more credible an extension of the role of the Euroruble in international trade.

If the evaluations among Western sources appear

contradictory, positions among the Communist countries themselves do not appear to be harmonious. A recent example? In Rome the other day the Deputy Prime Minister of Hungary Ferenc Havasi responded to a question from journalists by stressing the fact that "it would be good to create an international monetary system. Fekete has been dealing with this issue for many years and often writes about it. But these are problems which are too big for him and for the rest of us. We will still have to wait a very long time..." This is an attitude... which clearly pours water on the fire. But in *Rude Pravo*, the organ of the Czechoslovak party, Deputy Finance Minister Mirko Svoboda had written an article a few days previously in which he instead said that the international monetary system of the capitalist countries has completely collapsed, and that any plans for developing a new monetary system based on those same principles, — i.e. (principles) slanted toward the capitalist countries, and in particular the United States — are utopian. In the socialist countries, Svoboda continued, there exists a multilateral system of transfer ruble arrangements which comprehends (i.e., subsumes) within itself all other commercial payments and a part of non-commercial payments. This year, the Czech Minister emphasized, the Permanent Currency and Monetary Commission will be deciding some issues of great importance. Laying out some of these issues, Svoboda concluded, particular importance will be given to the strengthening of the role of the collective currency — that is, the transfer ruble — and the extension of its use. Furthermore, an analysis will be carried out on the real correspondence between (ruble) quotations and its gold content, taking into consideration among other things contractual prices between the years 1976-1980 and the dynamic of prices on the world markets. ... Svoboda's statements are a preannouncement of the imminent realization of decisions already taken, at least at a general level.

There are a labyrinth of hypotheses, and it is difficult to orient oneself without a political compass. During the course of my recent sojourn in Moscow I attempted to penetrate as much as possible the curtain of official reserve. I talked at length with political observers, political spokesmen and with economic experts, and with dozens of persons involved in exchanges between the capitalist and socialist areas.

(Here he explains the differences between transferability and convertibility, then goes on to talk about how the present situation is not unlike the period in which the Bretton Woods system was drawn up. The problem since that time, he says, is the massive progressive inflation of the dollar which was masked for a time, but which is now obvious to everyone).

At this point, the monetary problem poses itself for the Russians at a number of levels. On the one side there is the issue of safeguarding themselves as much as possible from inflationary contagion... (and) the aspiration to create a credit structure which would allow for the multiplication of trade with the outside.

The extension of the use of the transfer ruble would only be a first step. The second would be the creation of a vaster credit system based on this currency and managed presumably by the already-existing Comecon

bank. But the allusion to gold made by Svoboda himself and the rumors of intensified gold-mining activity would imply that the third step would be the convertibility of the Euro-ruble...

It must be added that there are two primary attitudes which confront one another among the Communist countries: one which would like to undertake the road of transferability and convertibility of the Euro-ruble without hesitation, and the other which is instead conscious that by doing so the Communist countries would be directly hitting the most exposed raw nerve of the United States, and fear the consequences of such a frontal attack.

In conclusion: to talk about a larger role for the Euro-ruble is perhaps premature. But, however, to say that the question cannot even be posed is to want to close one's eyes to a reality which is undergoing evolution.

La Stampa, Feb. 25

Interview with Niccolò Gioia, member of the FIAT executive committee and president of the Italo-Soviet Chamber of Commerce. The interview was given immediately on his return from Moscow where he accompanied a group of approximately 200 Italian industrialists "in search of trade with the Soviet Union." Asked for his views on the subject of East-West trade, and in particular the means for financing such trade, Gioia responds: "... Another way of carrying out trade with Russia could be through the use of ruble convertibility within the Comecon area. We could sell goods in the USSR, obtain payment in rubles, then go to the other Comecon countries and buy whichever of their products we are interested in with these rubles. ... Cases of such activity already exist, in particular with small producers.

The Financial Times, Feb. 28

"Hungarian Currency Proposals," by David Lascelles:

A leading Comecon banker has called for a new world money system based on gold in which both Communist and non-Communist countries could participate. He believes it would bring order to the international monetary system and help stimulate the world economy.

The call is made by Mr. Janos Fekete, vice-president of the Hungarian National Bank, one of East Europe's best known bankers and a man widely respected in Western banking circles.

Writing in the Hungarian weekly *Figyelo*, Fekete says that the election of a new U.S. President provides the opportunity for a revival of the Bretton Woods spirit which led to the creation of an international monetary system.

He proposes that East and West get together to create a new international standard which would fulfil the role of a key currency in the international monetary system.

The Financial Times, Feb. 25

"Transferable Roubles: Soviet Optimism for the Future":

IBEC was established in Moscow 13 years ago, mainly to help finance Comecon members' trade on the basis of transferable roubles (TR), the grouping's unit of account. But according to figures supplied by the bank, its

convertible currency operations are growing fast, bank officials even say "spectacularly."

Half of the bank's paid-up capital is in hard currency (the rest is in TRs); the bank has also developed a special department to deal in these currencies...

IBEC also accepts hard currency deposits. This side of its operations has also been growing fast, by 16 percent in 1974 and 30 percent in 1975. This has enabled the bank to make placements, whose volume rose some 22 percent in 1975.

Just who benefits from these placements is determined to some extent, the bank admits, by political considerations. Some go to other banks in Comecon, but a volume also goes outside. Recent beneficiaries include the African Development Bank, Banque Nationale d'Algérie and the Banque Extérieure d'Algérie...

And though IBEC's loans so far have been in dollars, it is open to other currencies like DM. However its officials rule out the possibility of a Eurobond issue. The bank also says it has no set ideas on who should manage its loans. It corresponds with most western banks, and can therefore pick and choose; but it also welcomes approaches by other banks.

Alongside its hard currency operations, IBEC has also been charged with the task of encouraging the non-Comecon members to use the TR... It is still too early to say for sure how these measures will affect East-West financial relations. IBEC admits that no trade deal has yet been negotiated in TRs. But it points out that one of the TR's advantages is that it is quite cheap. Interest rates are only 3-5 per cent on term credits, reflecting the comparative price stability of Comecon markets.

Il Fiorino, February 25:

Until now, there is no agreement on full cooperation between IBEC and western credit institutions. What is thought about, however, is using the TR in accounts for limited contracts — a "clearing" currency which could be used for commercial transactions, i.e., in TR instead of dollars, including the possibility of transferring possible surpluses to third parties.

Giovanni Magnifico, top official at the Banca d'Italia
Address at meeting of the Institute for Relations with Africa, Mideast and Latin America (IPALMO), Feb. 25:

... It might be possible to recycle petrodollars, possibly through the necessary creation of a new bank, there the oil producing countries could play a major role. It will then be necessary to introduce an element of multilaterality into East-West relations.

Eugenio Grannelli, spokesman for the Democristiana
Christiana

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New instruments are needed to handle raw materials and indebtedness. Europe and Italy have the same interests. Raw materials and debt recycling are no longer sufficient... Some countries can develop themselves only if they are financed, and debt moratoria can not be limited to interest payments. The developing countries not only have to freeze their debt, but also develop themselves. Italy's voice fully supports these requests. The EEC meeting to be held at Rome on March 25 can serve to make this into a common voice of European support. There are two other problems which must not be overlooked: (1) reform of the international monetary system... cooperation must be launched from a different monetary system; (2) transfer of technology... (The development of the Third-World) is an interesting problem which concerns the East-West dialogue. The EEC has very often held back from cooperating more openly, at the North-South talks, for example. It is here that one must talk about "partnership" with the USA, since this is now excellent testing ground. Italy has an excellent opportunity for helping to transform the New World Economic Order from words into reality... We would be in a position to take further steps if we passed from the idea of a general debt moratorium to a more analytical examination of the debt problem... I think creditors are interested in being more realistic. Is it better to finance chronic debt or to finance development? This is the same problem which we have with the East. A consolidation would be useful here. The debt will not be paid just because somebody demands it be paid.