

and has drawn 30 percent of its earnings from such loans. Although Citicorp officials argue somewhat plausibly that their loans are of "high quality" relative to some other banks, the risks are undeniable.

As one bank analyst remarked: "Unless world trade picks up, both in the LDC's and especially the OECD countries, the New York banks can't go anywhere. Increasing retail trade won't work. It will just mean trying to take the business away from regional banks, and the regionals are better suited to hold onto their customers."

What *Business Week* failed to mention, however, is the composition of Citibank's foreign loan portfolio. Fifty percent of all Citibank foreign loans are denominated in foreign currencies, and a much greater portion are lent to relatively viable corporate or government entities within the borrowing countries, rather than to the government or central bank of the borrowing country itself. This compares to a figure of about 20 percent for Chase Manhattan, or 40 percent for Bank of America.

Unlike Chase, Citibank has entrenched its operations within the internal economies of borrowing countries. The risk of its portfolio is therefore associated to a greater extent than other banks with the ultimate viability of LDC economies than their near-term balance of payments status. Citibank officials also assert that their lending is strictly geared towards income-earnings projects rather than general balance of payments needs. There is no way to document the assertion, but the currency-composition of its foreign portfolio suggests there is some truth to it. Speaking privately, one banking official qualified the *Business Week* report as "the kind of garbage that ought to be handed out on street corners, not printed in a respectable publication."

The French employers' association publication *Energies* went to the heart of the matter. Citing an hitherto unknown "White House study", *Energies* stated that in the event of Third World defaults a major banking crisis could hit literally "overnight", leading to a run on

U.S. banks. The only solution would then lie in a new "tri-polar system (in which) the Western nations define a policy of cooperation with the Third World as they recently did with the East."

#### *Triaging the "Brazils"*

So far this year, Citicorp and other New York banks have attempted to cut back on their lending to those Third World countries which already have high debt ratios. Brazil, for example, with \$30 billion in foreign debt, has been told that it cannot get medium-term loans for less than 2 percent over LIBOR (the London Interbank Overnight Rate) even though India recently received a Euroloan at 1 percent. Morgan's figures show that medium-term syndications for the non-OPEC LDC's as a whole have risen only 10 percent during 1977 compared to 20 percent for the market as a whole.

Nevertheless, the squeezing out of the "Brazils" cannot go on indefinitely. Although Brazil's reserves were buoyed this year by the run-up in coffee prices, wholesale coffee prices have now collapsed. Following weeks of effort to "bull" the market by withholding coffee from the market, Brazil finally relented and sold 150,000 bags at \$1.70 per pound, 45 percent off its "official" export price. Ironically, Brazil's sale came just as other coffee producers were close to agreement on Brazil's high-price strategy. According to *Business Week*, the Brazilian government's haste to sell came as "shocked" authorities discovered that the country had run a cumulative trade deficit of \$50 million through August, rather than the expected \$250 million surplus. Brazil must add \$500 million to \$600 million to its 1977 coffee exports to "avoid finishing the year with a sizeable trade deficit."

Brazil will likely require hefty refinancing by early 1978, and if the funds are not forthcoming, even "respectable" Brazil could be forced into default.

## Soviets Equivocate On T-Ruble

In a speech delivered at the Oct. 16-20 Budapest "Workshop on East-West European Economic Interaction," National Bank of Hungary Deputy Chairman Janos Fekete discarded the feasibility of a gold-pegged transfer ruble system as the basis for hard-currency credit issuance. Although the declaration represents a spectacular setback from Fekete's own previous terms, it does not mean that the transfer ruble option has been dropped by the Soviet sector. On the contrary, there are signs showing that the "t-ruble" alternative is still alive east of the river Oder, and backed by banking and industrial forces in France and West Germany.

#### *Crass Stupidity*

The Fekete speech is significant for three reasons. First, Fekete had been until now a leading proponent of the transfer-ruble system, and his statements usually reflect the thinking of the dominant economic and

political faction within Eastern Europe's Council for Mutual Economic Assistance (CMEA). Second, the speech was delivered to an East-West audience on a problem seldom tackled by East bloc spokesmen in official conferences. Third, the speech comes at a decisive juncture in the world strategic situation and was purposely intended to be published at this point; it was written on Aug. 31 and kept confidential until the Budapest conference.

On those grounds, and keeping in mind that Fekete is no freshman in international finances, his speech can only be characterized as crass stupidity concerning the objective interests of the East bloc and the world economy. Fekete's line amounts to endorsing the proposals of Italian Central Bank official and City of London agent Giovanni Magnifico, originally peddled last summer at the Siena group's meeting of economists, a monetarist swamp used for the flotation of

trial balloons by such financial houses as Lazard, Lehman and Hambros.

The most vicious point in Fekete's speech is that he describes the gold-based transfer-ruble as a highly desirable basis for a new international monetary system, only to add that there is no possibility for such a new world monetary system in the near future! Having thus covered his position from the standpoint of "utopian" principles, Fekete comments à la Kissinger that "progress can only be made step by step." He then lays out "intermediate" or "transitory" proposals that are in fact the best way to ultimately kill the transfer-ruble conception.

First, he describes the transfer-ruble system as presently inadequate for the needs of East bloc trade — which it is. But he goes on to advocate an immediate type of opening which amounts to a *convertibility* of the ruble with such Western currencies as the pound and dollar. Starting from the fact that today's transfer-ruble balances held by one Comecon country cannot be transformed into goods, he proposes "a system that would make part of the t-ruble claims and debts convertible. . . . The application of such a system would entail the advantage for the creditor country that, if it cannot obtain commodities at an adequate price and quality for its claims in a predetermined time, *it would get at determined intervals convertible currency from the IBEC* (the Comecon bank) up to a certain percentage of its claims, *for which it could buy the necessary commodities anywhere,*" (emphasis added—ed.). This would mean that the presently huge t-ruble balances held by Comecon countries would be de facto convertible into Western currencies to purchase goods in the West. Moreover, any importing Comecon country unable to settle its debt to another Comecon country by above-quota deliveries to any other Comecon countries, "either for lack of adequate commodities or because no buyer can be found," would "have to pay a definite part of its deficit in convertible currency." In other words, the Comecon would be fully integrated into the Western financial crisis!

Second, Fekete advocates a "world gold-currency standard" to be reached through arrangements within "regional monetary systems" such as a dollar zone (the Americas), the Common Market and associated countries, the yen zone, the OPEC countries, the non-oil producing developing countries, and the socialist countries. This division of the world in admitted "monetary blocs" is nothing but the pluralism advocated by the City of London. As for Western Europe, it coheres perfectly with the plans pushed for by European Community Commission head Roy Jenkins, agent of the London investment houses and Fabian Society operative, who calls for an "European Monetary Unit" — or "Europa" — involving pooling a part of European gold and currency reserves under the control of London.

Fekete is therefore not only calling to dismantle Comecon, but for the British to control the European Community against the prodevelopment Franco-West German axis — and all this for no more than the proverbial thirty pieces of silver. As a trade-off, he demands more Western credit for Comecon and most favored nation treatment from the U.S. Congress. But

these proposed measures to increase Comecon production and exports to the West would be of no use in a situation of general industrial and trade collapse. Since Comecon would be included, no purchases would be made!

The most alarming aspect of the Fekete speech was reported by Wall Street sources present at the meeting who declared themselves very satisfied with its results. It was supported by the three Soviet representatives, including Fomin, from the Oleg Bogomolov's Institute of the Economy of the World Socialist System.

#### *T-Ruble Option Still Alive*

Despite the *official* horrors of the Budapest meeting, there are various signs that the Soviet leadership is in fact split on the issue of the t-ruble, and that the faction for the transfer ruble is backed by banking and industrial forces in France and West Germany.

In the aftermath of the Fekete speech, the official daily of the Portuguese Communist Party (PCP) *O Diário* published a centerfold in its Oct. 28 issue advocating the t-ruble as an *immediate* alternative to the world monetary system available to any capitalist country that wishes to extricate itself from the ravages of the past. The articles stress the advantages of Portugal's integration into Comecon for large development deals as an alternative to the dictates of the International Monetary Fund and integration into a British-controlled EEC.

Observers see in the PCP reaction, the direct influence of the Soviet t-ruble faction, and indicate that the USSR representatives present at Budapest were "mere junior officials."

At the same time, representatives of a major French state-owned commercial bank told NSIPS that they were discussing with their Soviet counterparts the creation of a Franco-Soviet banking institution based on a common gold-pegged monetary unit and issuing credit for development projects in the Third World. Officials of the top French private investment bank, IndoSuez, welcomed the float of sterling and its following plunge as a major disaster for the City of London. They stressed that a Franco-Soviet monetary alternative to the present world monetary system is in the works and is definitely related to French Prime Minister Raymond Barre's recent trip to Moscow.

Observers commented that Barre is a monetary disciple of de Gaulle's economic advisor Jacques Rueff, staunchly committed to gold as the basis for a new world financial order, and that Rueff has a "number of admirers in the Soviet Union."

This convergence of Soviet hard-liners and French officials has already deeply upset the Lazard-controlled British financial press and the French Fabian press as well, which scream that the authoritarian "Stalinists" and "Gaullists" are working together again.

Not only is the electoral campaign support for science and development of the French Gaullists and Communists similar, but it has apparently extended to the Iberian peninsula. The Oct. 30 London *Sunday Times*, referring to President Eanes proindustry moves and persistent contacts with the French and West German governments, worriedly asks, "Does Lisbon need a de Gaulle?"