Solving The World Economic Crisis Through An East-West Entente

A Strategy For Expanded Three-Way Trade Flows Among The OECD, CMEA And Developing Nations

This proposal was issued by Warren Hamerman, of the U.S. Labor Party's National Executive Committee on April 8, 1978.

The collapse in trade relations, crises in capital-formation, retarded internal industrial activity, and associated severe monetary disorders in both the West and East

economic development program led by the two largest industrial republics, the USA and USSR, in coordination with the advanced industrial economies of Western Europe and Japan.

It is urgently necessary to completely turn the tables on the artificially fostered antagonisms between the United States and Soviet Union, antagonisms which are against the fundamental interests of each nation and, indeed, the world community in general. Already the fragile structures of U.S.-Soviet interchange on matters of mutual economic and scientific pursuits threaten to be systematically dismantled through the "teamwork" of Zbigniew Brzezinski and Henry Kissinger in the U.S., David Owen in Britain, and an assortment of political forces associated with the interests of City of London merchant banking circles.

We propose to strengthen the rational, stabilizing initiatives centered around Cyrus Vance, Helmut Schmidt, Giscard D'Estaing, Lopez Portillo, and others through the fostering of combined private and governmental policies for expanded scientific and economic cooperation between East and West.

A straightforward general solution to the question of outstanding developing-sector debt obligations can mutually serve the fundamental, common political-economic interests for world peace and economic prosperity of the advanced-sector capitalist nations (grouped in the Organization for Economic Cooperation and Development, the OECD), the Council for Mutual Economic Assistance (CMEA, the economic grouping of the socialist nations of the Warsaw Pact), and the developing sector.

To strengthen the U.S. dollar in the near term, the United States must emphatically pursue a policy of high-technology capital goods exports of an immediate export volume of $200-$300 billion, in the context of an expanding world economic "pie." As an integral feature of American policy, a strategic course of achieving an economic and scientific entente with the Soviet Union is required along three broad avenues of concern:

(1) Rather than the Middle East, Africa, Asia, and Latin America being dangerous theaters for confrontation and imminent war, *cooperative East-West high-technology, capital-intensive regional development projects in the Third World are a viable alternative.* The U.S. Labor Party has proposed a comprehensive economic development package for the Middle East which includes the Arab states of Northern Africa through the Persian Gulf region and down into the Horn of Africa as well as the state of Israel and a separate sovereign state for the Palestinian population. Similarly, the U.S. Labor Party has designed an economic development package encompassing the entirety of sub-Equatorial Africa, which subsumes economic development for Angola, South Africa, Rhodesia, and the front-line states. Concomitant overall economic development programs are urgently desirable for the Southeast Asian, Indian subcontinent, and China region, in addition to a comprehensive large-scale industrial and agricultural development package for Latin America.

(2) *Massive expansion of world production and trading levels define an appropriate context in which U.S.-USSR trade in particular must prosper.* Therefore, the artificial political restrictions imposed on U.S.-USSR trading relations demand immediate rescission. In 1977,

U.S.-USSR Trading Downturn in 1977
(in millions of rubles)

	1975	1976	1976	1977
	12 mos.	Jan.-Sept.	12 mos.	Jan.-Sept.
Trade turnover	1,600	1,786	2,205	1,213
USSR exports	137	153	199	219
USSR imports	1,462	1,633	2,007	994

Source: U.S.-U.S.S.R. Trade & Economic Council while the United States suffered from a $27 billion trade imbalance, Soviet Deputy Foreign Trade Minister Sushkov estimated that Soviet-American contracts under negotiation but blocked by restrictions had a total value of between $6 and $12 billion. U.S. industrial exports to the USSR fell 25 percent in 1977, while agricultural exports to the Soviets fell 40 percent.

The three-point agenda for reversing this mutually disadvantageous trend is (a) repeal of the Jackson-Vanik Amendment to the Trade Act of 1974; (b) repeal of the onerous restrictions placed on the Export-Import Bank of the United States for trade with the Soviet Union, particularly in the vital field of energy production; (c) implementation of the policy recommendation of seasoned professionals in both the U.S. and USSR for the establishment of reciprocal Most Favored Nation (MFN) trading status.

"We therefore affirm as the policy of the U.S.-USSR Trade and Economic Council unqualified support of the Trade Agreement of 1972, with particular emphasis on:

* unconditional reciprocal MFN (Most Favored Nation) tariff treatment;
* availability of reciprocal credits on a normal and customary basis in the financing of exports, including use of the credit facilities of the Export-Import Bank of the United States and the credit facilities of the Soviet foreign trade organizations; and
* expansion of two-way trade between our countries to levels appropriate to the size of the world's two largest economies."

—From the unanimous resolution of the Fifth Annual meeting of the Directors and Members of the U.S.-USSR Trade and Economic Council in Los Angeles, Nov. 14-15, 1977.

(3) *The pursuit of a cooperative effort in joint nuclear energy development focused around advanced technologies in fusion energy, fusion-fission hybrids, and reprocessing and breeder systems is essential,* alongside a high-profile, imaginative space exploration program of the Apollo-Soyuz prototype. In these areas of research and development and basic scientific advancement, already-existing bilateral exchange programs between the Soviet Union, the USA, Japan, and France may be beneficially expanded. The timely policy orientation for international scientific cooperation was eloquently addressed in the *Communiqué of the International Scientific Forum on an Acceptable Nuclear Energy Future of the World* held at Fort Lauderdale, Fla., Nov. 7-11, 1977. Leading scientists of the United States, USSR, Japan, France, and Canada signed a communiqué which read in part:

> Meeting the energy demand of the still rapidly rising world population with legitimate expectations of a higher standard of living calls for large-scale mobilization of labor, materials, capital, and technical and managerial skills. It should be governments' constant preoccupation to accomplish this economically and effectively to avoid overtaking the world's productive capabilities and resources of these necessities. There is an urgency to the world energy problem, which, especially in view of the long lead-times, brooks no delay in determining and executing national programs and in seeking the international cooperation to take up the tasks and share the benefits equally.

Energy and the Developing Sector

The centerpiece for developing-sector industrialization and capital-intensive agriculture is vastly expanded world energy production, vectored toward an international nuclear energy development policy along the model of the Eisenhower Administration's "Atoms for Peace" program. For developing-sector energy needs, the "Nuplex" conception of coupling the intense source of energy to industrial processes and agricultural complexes as "radiating effects" from a nuclear plant provides an optimal combination. The Soviet Union's pioneering mass-production facility of nuclear reactors, called "Atommash," represents a most efficacious approach. Atommash, stationed on the Volga River, could float reactors for export either south, through the Volga-Don Canal to the Black Sea and Mediterranean, or north through the Volga-Baltic Canal, for cheap transport to an appropriate site.

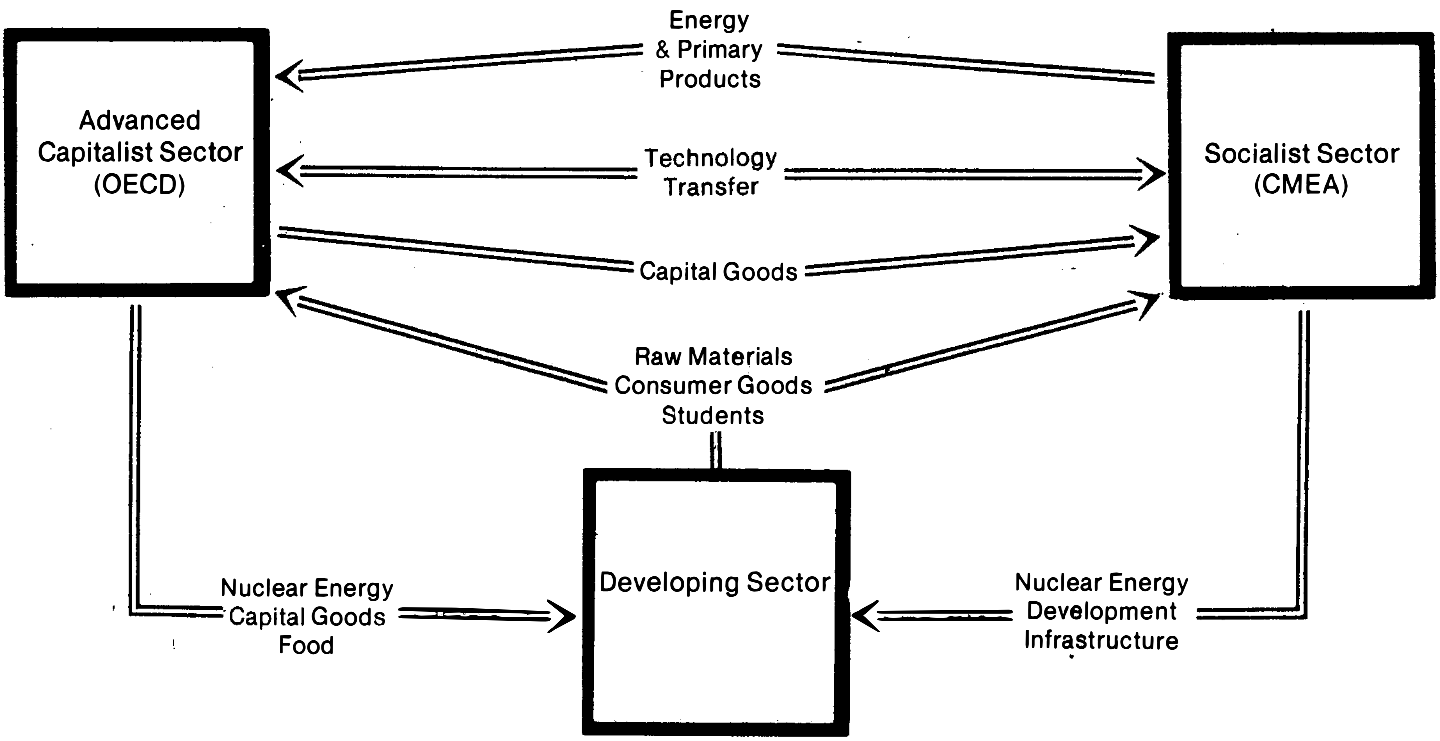
We are presenting a comprehensive global economic development plan in which United States, West European, Japanese and Soviet capacity for nuclear power facilities exports are all expanded simultaneously.

Overall the United States, the European Economic Community, Japan, and the CMEA must upgrade their national economies to reach a common production goal of 250 nuclear power plants with a combined power output of 250 GW (gigawatts) *annually* by the year 1985. About two-thirds of these plants are intended for domestic installation and one-third for export into developing-sector nations. Such a program, which reflects approximately a tripling of existing advanced-sector production capacity over a seven-year period, would lay the basis — in new capital formation, research and development capacity, and, most importantly, in the generation of sufficient skilled labor, engineering, and scientific manpower worldwide — to allow for a transition to fusion energy as a commercial energy source.

Financing An East-West Entente

The financing of a global economic development strategy presents no insurmountable technical problems. As is generally recognized among responsible economists, the U.S. dollar is the only currency with sufficient volume to function as a world trading currency. Common 1977 estimates put the level of U.S. dollar volume in total world trade as approximately 70 percent of all currency trading accounts. Therefore, world trade as a whole suffered drastically from the dollar's 1977 fall of roughly 16 percent in value against the West German mark, 24 percent against the Swiss

Three-Way Trade Flows in an Expanding World Economy



franc, and 19 percent against the Japanese yen as a result of the "malign neglect" policies of Secretary of the Treasury Blumenthal.

The basis for financing a world development program is to strengthen the dollar through drying up the speculative matrix of the City of London, offshore Caribbean, and Singapore Eurodollar market. The procedure must be an orderly absorption of ill-used Eurodollar liquidity, retransformed into strictly hard-commodity trading credits for real production. This procedure is best served through a combined governmental and private sector antispeculation operation which avoids the dangers of both hyperinflation and deflationary collapse.

In the United States, appropriate procedures combine an expanded role for the Export-Import Bank entering into consortia with private, commercial banks as well as efforts along the lines of Nelson Rockefeller's intended private energy and food production development corporation, which is intended to utilize OPEC surplus. (See "A Proposal to Expand the Export-Import Bank: A Report to the Congress on U.S. Export Policy," *Executive Intelligence Review Special Supplement,* February 11, 1978.)

For Western Europe and Japan, the concentrated efforts of central and private banks to consolidate an industrial banking center in Luxembourg has the potential to directly absorb ill-used liquidity on the Eurocurrency market for redeployment into strictly hard-commodity trading credits, for the advantage of Third World development projects. Finally, what may be characterized as the "prodevelopment" transfer ruble proposal is an excellent and workable basis for CMEA interface. The "prodevelopment" characterization is to distinguish the wanted proposal from the City of London and Hungarian Central Bank's formula for the speculative utilization of CMEA foreign debt to prop up inflated balances held through London merchant banking control.

Instead, we propose a geometry whose invariant is the drying up of purely speculative markets and practices. In the context of capital-intensive development projects, convertible T-ruble balances will be used in three-way trade amont the CMEA, OECD and developing nations provided that the following four fundamentals of a new world monetary order are implemented:

1. The nonperforming foreign debt balances of the developing sector, especially that of the less developed countries (LDCs), owed on account to the International Monetary Fund and World Bank should be "frozen." Given the special nature and history of the IMF and World Bank, a generally agreed-upon freeze on outstanding obligations will not have adverse chain-reaction effects to the overall international banking system. Instead, the freeze will open developing-sector markets to OECD and CMEA exports by freeing Third World nations from genocidal looting programs of austerity and small-plot labor-intensive agriculture.

2. The remaining private sector debt, as well as new debt for expanded imports of the developing sector, must be reorganized around "Hamiltonian" national banking procedures, similar to those pursued for "home improvements" by our first Secretary of the Treasury and, adopted by the governments of Mexico and

Venezuela in the past months. The Hamiltonian approach is to issue selective easy credit to capital formation, infrastructure, and other real productive investment centered around industrialized agricultural techniques and expanding manufacture. At the same time, speculative investments in real estate, raw materials pricing manipulations, and debt pyramiding are penalized through high interest rates and other means. The specific goal of Hamiltonian banking in sovereign republics is to allow the conditions for actual national sovereignty to develop through the rapid development of skilled manpower. Labor productivity is advanced through technology transfers to industrial and agricultural processes. Therefore, the economic premium in society is placed on the education and training of quantities of skilled labor, of engineering and scientific strata. In Hamilton's terminology this condition was referred to as increases in the "productive powers of labor." In the CMEA nations the same condition is characterized as increases in "labor power."

3. The appropriate monetary interfacing arrangements for three-way trade among the CMEA, OECD, and developing sector can be mutually determined only on a gold reserve basis. The gold reserve feature flows from the necessary reorganization of the OECD nations into a gold-reserve monetary system. The deployment of American gold in the proper fashion, at market prices, will immediately strengthen the dollar for restabilizing the world monetary system.

4. The target of new monetary arrangements is to allow for the extension of long-term, low-interest loans and credits for large-scale Third World development projects. John Moore, chairman of the U.S. Eximbank, recently advanced a proposal to issue 18-to-20-year credits at extremely low interest rates for capital-intensive developing sector programs. The appropriate Soviet lending model can be seen in the recent $2 billion credit extended to Morocco for the development of phosphate mines, refining, a port, and a railroad... *a 20 year credit at 2.5 percent interest.* The West Europeans and Japanese have assembled special "packages" of combined development assistance, guarantees, and export credits at long-term low-interest for developing sector large-scale development orders. The special arrangements of the Japanese Export-Import Bank and the French policy of preferential credits to the Soviet Union define a mechanism whereby CMEA trading expansion can contribute to the overall development of expanding world trade.

Soviet Contributions to Third World Development

In 1977, 13 percent of Soviet trade was with developing sector nations and 15 percent of Soviet exports in all went to the developing sector. S. Skachkov, the chairman of the USSR State Committee for External Economic Relations, has indicated
programs for the developing sector are aimed at industrial development. Before inspecting the overall Soviet capability for contributing to Third World development in cooperation with the West on an expanded scale, one central theme must be underscored.

In order to drastically upgrade the CMEA's economic development contributions outside the CMEA, the industrial and energy capacity of the Soviet economy must be expanded through U.S. and other OECD capital-goods trade. Secondly, CMEA agricultural production methods must be rapidly upgraded along the model of American energy-intensive, capital-intensive, large-scale agribusiness.

In the Soviet sector approximately one-third of the total labor force is directly engaged in agriculture, compared with only 3 percent of the U.S. workforce in the far more productive U.S. agricultural industry. To free greater numbers of the Soviet population for industrial jobs and to adopt a capital-intensive agricultural "high-yield" approach, the CMEA needs millions of additional metric tons of fertilizer, and millions more tractors, combines, trucks, and other capital goods for drainage and irrigation systems. Already-existing programs "in embryo" will provide an excellent basis upon which to build. For example; the Japanese are already building approximately 10 fertilizer-related chemical plants in Siberia.

The rapid capital expansion of Soviet agriculture and industry is a function of the amount of military production that can be shifted to other production. As a viable East-West economic entente picks up momentum, allowing for such shifts of skilled manpower and productive capacity away from strictly military production, the potential expansionary output of the CMEA economies is enormous.

	TURNOVER		EXPORTS		IMPORTS	
	Total	Capitalist Sector	Total	Capitalist Sector	Total	Capitalist Sector
1970	151	168	155	157	147	179
1975	347	564	324	436	371	693
1976	389	664	378	557	400	771
1980 (Plan)	462	NA	NA	NA	NA	NA

Growth of Soviet trade and trade with advanced capitalist sector (1965 = 100). Source: Soviet yearbooks and *Ekonomicheskaya Gazeta*.

The economic gameplan will be to expand, in particular, on Siberia's export base, especially in the fuel industries, the power-utilizing sectors of ferrous and nonferrous metallurgy, and the chemical, petrochemical, and pulp-and-paper industries. Already Western Siberia has approximately 200 factories producing export goods for countries on all five continents. The biggest purchasers of Soviet imports in the advanced sector are France, Italy, Finland, Great Britain, West Germany, Japan, and Sweden. Eastern Siberia's economic export potential is associated with the region's richness in timber, coal reserves, nonferrous and rare metals, iron ores, magnesites, mica, asbestos, sodium chloride, carbonates, and other minerals. Therefore, metallurgy, iron-and-steel works, timber, engineering goods, chemicals, and fertilizer production indicate excellent export potential.

In terms of the highly desirable U.S. involvement in Soviet energy development, the progress in the Soviet-American-Japanese project to develop the vast natural gas resources of Eastern Siberia's Yakutsk region fields is of profound interest. The OECD consortium partners — Occidental Petroleum and El Paso Company of the United States, and Tokyo Gas of Japan — have received Soviet studies confirming at least 1 trillion cubic meters of natural gas in the Yakutsk fields. The next stage of the project is determination of overall financing as well as constructing a pipeline as long as the Alaska pipeline from Yakutsk to the Pacific Coast. Plans for extraction and liquification facilities will also be determined. Estimates of the Yakutsk deal's final size range from $10 billion to $20 billion.

The Soviets also have plans of potential joint OECD interest in large-scale projects in the Western Siberian Tyumen region oil fields for industrial-primary products complexes in Tobolsk and Tomsk, as well as a Central Siberian Yeniseisk complex. Outside the energy field, Soviet trade officials have invited Western participation in expanding Soviet truck production while shifting to diesel fuel vehicles, in the spirit of the Kama River project and the groundbreaking Gorky auto plant built by the Ford Motor Company in the 1930s. Special high-technology metallurgical plants and the advancement of light industry in anticipation of the Moscow Olympics would be ideal for expanding U.S. and other OECD trading opportunities as well.

	Percent of Total Turnover	Percent of Exports	Percent of Imports
1965	19	19	19
1970	21	19	24
1975	31	25	36
1976	32	28	37
1977 (Jan-June)	29	25	34

Portion of Soviet trade with capitalist sector (1965-1977).
Source: Soviet yearbooks and *Foreign Trade*.

East European Debt To The West (conservative estimates)

(billions of U.S. $)

	end 1970	end 1974	end 1975	end 1976 (estimates)	mid-1977 (NSIPS estimates)
Bulgaria	n.a.	1.7	2.4	2.8	n.a.
Czechoslovakia	n.a.	1.1	1.5	2.1	2.5
DDR	n.a.	3.6	4.9	5.8 (1)	6.5
Hungary	n.a.	2.3	3.2	3.5	4.0
Poland	n.a.	4.9	7.8	10.4	12.0
Rumania	n.a.	2.4	2.8	2.8	n.a.
USSR	2.5	5.9	11.4	14.4	16.0
TOTAL	8.3	21.9	34.0	41.8	n.a.
Comecon Banks	0.0	2.1	2.8	3.5	n.a.
Overall Total	8.3	24.0	36.8	45.3	n.a.

Note: (1) In the case of the DDR, about $1 billion should be added, representing interest-free "swing" facility credits from West Germany for "intra-German" trade.

Sources: 1970, 1974, 1975 based on data provided by Chase Manhattan Bank. 1976 based on estimates of Chase Manhattan and Morgan's *World Financial Markets*.

If the Soviet capacity to upgrade exports to the developing sector is advanced through the types of projects indicated above — which in themselves will be greatly to the advantage of Western industry — in the proposed entente the USSR must vastly expand the sorts of projects they are already engaged in in the Third World. The specific Soviet contribution in the developing sector is best designated for infrastructure development — roads, schools, power plants, railroads, irrigation projects and so forth. Soviet railroad construction in Iran and Syria indicates the desired potential. In Iran the Soviets rebuilt and electrified 146 kilometers of railroad from Julfa to Tebriz, while in Syria, they completed a 754 kilometer main line to the coast (Kamyshla-Latakia) and built 325 kilometers of other lines for a developing sector total in 1976 of 1,225 kilometers (not all new). The special Soviet capacity for nuclear energy exports has already been highlighted. One may also note in passing the necessary contributions of Soviet educators to training engineers and scientists.

The traditional Soviet emphasis on steel plant construction in developing-sector nations (India, Iran, Turkey, Pakistan, Algeria) may very well be less advantageous than the concentration on infrastructure in an OECD-CMEA combined package. The potential Soviet rail construction capability could be directed to southern Africa or the Middle East on an expanded scale. The overall desired approach is for large-scale OECD-CMEA *regional* projects instead of isolated "bootstrapping" arrangements for discrete client states.

The Soviet role in the context of an East-West entente for Third World development would be different than what their correct approach was in the context of going into areas alone. The benefits of previous Soviet contributions are best illustrated with the Soviet-built Bhilai plant in India which alone produces 30 percent of India's iron and steel and 65 percent of its rails. The USSR is currently expanding the Bhilai complex from 2.5 to 4 million tons capacity, and also enlarging the Bokaro steel works by one-third.

It should be apparent that in the context of the indicated gear-up of a CMEA export potential, the widely sloganized "issue" of CMEA nations' approximate $50 billion foreign debt presents no problem at all, except for the special case of Poland, which may be considered the East bloc's "Italy." Despite the fact that the CMEA nations will initially continue to run a trade imbalance with the USA and the OECD in general, the only limitation on CMEA ability to meet those debt obligations for the purchase of high-technology capital goods imports is the limit of demand in developing sector markets for CMEA exports. With the large-scale utilization of Soviet export potential for Third World development outlined in this proposal, in combination with OECD export gear-up, a substantial CMEA export earning will accumulate at accelerating rates based on the rate of real Third World development accomplished. Thus, in addition to Soviet primary commodity exports, the CMEA nations will be achieving higher internal economic growth rates as a function of expanding export potential.

The proposal to utilize the T-ruble, the CMEA internal unit of account, for non-CMEA nations is not novel. It originated during the 1960s, as part of a Soviet effort to win allegiance in the developing sector and to organize a Conference on Security and Cooperation in Europe (CSCE) based on the policy of economic development and security guarantees for "Europe from the Atlantic to the Urals." However, political disorganizing by City of London-directed forces, as well as technical deficiencies, prevented its realization.

In December 1976, in the climate of deepening economic crisis in the advanced sector, the CMEA's International Bank for Economic Cooperation (IBEC) reissued the proposal with new provisions. Since that reissuance, two diametrically opposed notions of a T-ruble interface have circulated.

The one compatible with our East-West entente proposal recognizes the T-ruble as a simple method of clearing trade accounts in the context of a global development strategy. The City of London conception prevalent in merchant banking-speculation houses would be to utilize the T-ruble currency as a looting mechanism, under the pretext of calling in Eurocurrency obligations, thereby bringing the CMEA economies under monetarist control. Jacob Javits, among others, would like to bring the CMEA under IMF "discipline."

The political "come-on" to the CMEA nations used by City of London monetarists has been to sell the proposal as a weapon against the U.S. dollar. However, the starting point for an East-West entente for world real economic growth is predicated on strengthening the dollar and restricting the use of gold-backed currencies to strictly hard trading units of account. Therefore the arguments of Kissinger, Brzezinski, Javits, Jackson, et al. about so-called "strategic adversity" resulting from CMEA economic growth are specious. We aim to strengthen the position of the pro-American, anti-British forces within the CMEA.

With a true East-West entente centered around Third World development and global nuclear energy utilization, we will achieve not merely world peace. We will be on the way to ensuring that the world's population as a whole enters the 21st century.