

A Brief on Market Reaction to the Euro-Ruble

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Introduction

The following is a tabulation of the world's political-economic ledger for the past month, contrasting the statements of leading financiers and monetary officials on both sides of the Atlantic on the respective fates of the U.S. dollar and the transferable Ruble of Comecon, the economic organization of the workers' states.

Since the Soviet news agency TASS first proposed in January that the Comecon's monetary instrument could apply to trade agreements between the Comecon sector and capitalist countries, raising the question of a new reserve currency to replace the crumbling dollar, the "Euro-Ruble" program has come dominate capitalist policy discussions in Western Europe and to terrorize policy-making layers in the United States. Apart from press citations, the enclosed material has been drawn from the daily work of the New Solidarity International Press Service.

As a guide to the crucial policy issue of expanded

East-West trade, which requires the replacement of the dysfunctional capitalist credit mechanisms with the production-based credit instrument of Comecon, this brief is intended to give the reader an inside view of the discussions within capitalist circles on this topic. The material itself, selected from a considerable volume of IPS interview transcripts, is exemplary of these discussions as a whole.

At no time in modern history have leading capitalist circles been as willing to document their intellectual and political bankruptcy. The events of the last month leave no doubt that the Rockefeller faction of international capital has neither the means nor the competence to hinder a general breakdown of the international monetary system, and the resulting threat to world trade. One of the most dramatic indications of this factional bankruptcy is the willingness of capitalist layers allied to the Rockefeller clique to opt instead for the sane solution put forward by the Soviet Union and the German Democratic Republic.

But let the reader judge for himself.

RUBLE

DOLLAR

January 20

"There is no doubt that right now the Ruble is the most stable currency in the world." — a spokesman for Lloyd's International Bank.

"Something, some other currency must be developed as a reserve currency." — a European banker.

January 21

"I know Swiss banks will definitely like to increase their Ruble holdings...I don't think the Russians are ready to make a concerted effort to bring that about. All the same, I am now dealing in Rubles and I like to hold them myself. The Ruble is very, very stable and I trust the Russians." — a spokesman for Credit Suisse.

"I see nothing wrong with the idea of a Ruble bloc. It would be interesting to study it. I'll talk to a specialist." — an official of the CNPF, the French Employers Union.

January 22

"Now on the Ruble-bloc question, I think if enough people are interested then at some stage in the future it could indeed be a reality." — chief Forex trader Weatherstone at Morgan Guaranty Trust.

"The main reason (for the dollar "weakening") was the irresponsible fiscal policies of Washington..." — chief Forex trader, First National City Bank.

"God only knows!" Robert Triffin, monetary expert and professor at Yale, responding to the question "What will the U.S. do if OPEC carries through on its threat to dump the dollar?"

January 23

Economic Research Institute in Cologne advises a 50 per cent increase of West German exports to the East Bloc and OPEC. — London Financial Times.

“I think this will generate a lot of new thinking on the part of the business community.” — Robert Murphy, of Corning Glass and the Murphy Commission.

“Those circles who object to it are very conservative, let's say, absolutely pro-West, and never entertain favorable considerations that Germany would become overly dependent toward the East...I've heard about the Euro-Ruble...As we go down the road something like it might very well come about, but I couldn't comment on the technical implications...it's mainly a political issue. It's difficult to reach a joint policy between the EEC and the U.S. because no one knows what U.S. policy is — there are sufficient grounds to believe there is a lack of coordination of U.S. policy...” — spokesman for the Union Bank of Bavaria.

“Ach, that's right, that's exactly the logical thing to do, all industrial states are trying to get more exports, even the United States has a lot of pressure from behind the scenes to give the Soviet Union what it wants...” — Werner Chilton, German specialist, First National City Bank.

“Is that New Solidarity IPS? I don't want to comment.” — Robert Davis, Central European Office, U.S. State Department.

January 27

“Funny money.” — the Saudi Arabian Embassy, commenting on the dollar.

“The Swiss government and National Bank held urgent talks today on how to stop the drastic plunge in the value of the U.S. dollar. Dealers say the Bank would have had to buy several hundred million dollars to provide any effective support for the U.S. currency...So it took no action.” — Reuters

“Well, you know. You get these finance ministers meeting all over the world every week, every month. They can't come up with solutions...Tomorrow someone is gonna say something else and the thing's gonna reverse itself. Nobody expected the dollar to be weak; but there it is — it is weak. And...I...but...as you say...the...the 'funny dollar.' Ahhh...nobody trusted it, I guess. Only us, only us....” — an executive at Manufacturers Hanover.

January 28

"I can't seriously think that anybody believes that the dollar is moving towards a greater weakness. There is no reason why it should." — George Ball, of Lehman Brothers investment house and member of the Tri-lateral Commission.

January 29

"...it has been climbing in the past days, hasn't it?...the dollar is somewhat inflated, yet, but...Worried? No, I'm sitting here, fat, dumb, and happy." — U.S. Treasury Undersecretary Jack Bennett.

February 3

"If, say, the central bank of Germany tried to keep the dollar-level at about 2.35, they would get run over. There's no way in which central bank interventions can boost the dollar in any effective way. I would be surprised if they could do anything at all....The situation is so damn volatile! I'm beginning to despair of fundamentals." — Chief economist, Chemical Bank.

"We're not deliberately creating this situation. What we're doing is letting the market force take over..." — Vice-President, First National City Bank.

February 4

"...it is not entirely inconceivable that they are talking about the Ruble..." — Chief Forex trader, Bankers Trust, in reference to the recently announced Japan-East German trade deal.

February 5

"Our exports would collapse if the dollar collapsed." — spokesman for the BRD's Central Bank, the Bundesbank.

February 7

"We're concentrating on managing the U.S. economy, not the exchange rate of the dollar..." — Paul Bocker, chief monetary officer, U.S. State Department, Office of Monetary Affairs.

February 8

"A mere few years ago, it was commonly admitted that the USSR could not afford to render the Soviet Ruble convertible, but such an assertion must today be revised....Has the USSR today an interest in such a convertibility which under current circumstances would initially be limited to relations between the USSR state bank and other central banks? What would be the international prestige of a convertible Soviet currency, pegged, as the Soviets enjoy to say, on the fortune of a powerful nation to whom, furthermore, inflation is unknown?" — Le Figaro, Feb. 8.

February 10

"Yeah, I know, I talked to Simon last week in Washington, and he was asking me, 'Why is the dollar falling?' I've given up talking to Bennett." — financial writer for a leading New York business daily.

"No, no the dollar is really undervalued, everyone knows that. The U.S. budget is the strongest in the world on a full employment basis." (But unemployment is over 8 per cent....") "I guess you have a point there." — C. Fred Bergsten, economist, Brookings Institution.

February 12

"What a great idea!" — Robert Roosa of Brown Bros. Harriman investment firm, previous undersecretary of the U.S. Treasury and member of the Trilateral Commission.

"(Making the Ruble convertible) would be of some use....Third world countries with Ruble balances could use them to import from France and Germany, or other countries. That would be fine." — Paul Bocker, U.S. State Department, Office of Monetary Affairs.

"I can't answer that too quickly, since it deals with the question of a new leading currency. That would indeed have enormous, including political implications. France indeed has another interest through its specific relations to the state economy countries and its economic situation...Certainly that's not being discussed just in France....But the political implications! It's not just an economic question, it would have enormous political effect." — Ludwig Poullain, chairman, Westdeutsche Landesbank Girozentrale.

"Yes." — Ludwig Poullain, in response to the statement that the dollar is worthless.

February 13

"It is bound to be a consideration with the weakness of the dollar." — John J. McCloy, Milbank and Tweed, Supreme Allied Commander of the postwar German occupation.

"Europe, obviously, has much more interest than the U.S. in expanded trade with the Soviets..." — Larry Brainard, chief economist Chase Manhattan Bank.

"Look! I mean, why do you use such expressions as 'worthless'? That's a silly expression!" — George Ball, Lehman Brothers investment house and member of the Trilateral Commission.

February 14

“The Euro-Ruble issue is intensively discussed in the BDI...but the main problem is political...without the political implications, the idea would be very good...” — Secretary to Mr. Metzger, chief of the International Department of the West German Industrial Association.

“The Bundesbank is quietly selling dollars in favor of hard currencies.” — Forex trader, Morgan Guaranty Trust.

February 15

The ruling Finnish Social Democratic Party, in its newspaper Demari, calls for the creation of a Scandinavian trade bloc with the Soviet Union.

February 17

“Yes, but nobody wants to take a step. I don't think it's a very serious discussion yet because everybody speaks about it without taking action.... The question is: who would be the first? How would the market be created? It could be subject of serious discussion later but I repeat I have nothing against it.” —Walter Frey, General Manager, Swiss Bank Corporation.

“...The Americans, with their involvement in Vietnam, have long ago lost the strong position of their currency....” — Hans Juergen Koschnik, Mayor of Bremen, West Germany.

“Yes, but the Russians have to want that change. They have the wherewithal to make the Ruble convertible.... I would here say that I am not entirely sure whether Comecon and...ah...ah, whether the leaders in Moscow are ready to make their own currency convertible currency, then I can see the point of a reserve currency...the question is...how can the industrial states (1)find sufficient stability to prevent unemployment and (2)how can they at the same time take care that the Third World actually becomes better than it is today.” —Hans Juergen Koschnik, Mayor of Bremen, West Germany.

February 20

“I've raised this question since 1960. Because it is in our interest, **in our interest**, and the Soviet interest, to have a convertible Ruble, because if you have these monetary difficulties you are looking for other leading currencies in the world....” — Otto Wolff von Amerongen, German businessman and Trilateral Commission member.

“No, we're not worried about the dollar; no, we're not going to do anything....” — U.S. Treasury Department press chief, Jack Plum.

“This is a trend of the times...something like that will come, but we're not the body to have decisive talks about that....The Ruble to serve as a unit of account for international trade might be quite possible.” — Mr. Karl Hauenschild, head of the IG Chemie union and Trilateral Commission member.

“Well, I think, er, of course, you, we have er, not yet seen the last dollar weakness. I'm quite sure of this fact....” — Otto Wolff von Amerongen, West Germany businessman and Trilateral Commission member.

February 21

"Naturally the expansion of trade will raise this question more and more...It will be much more workable and better to have the Ruble convertible...but you need institutions!" — Mr. Vollmar, Westdeutsche Landesbank press chief.

"This is true." — Kurt Birrenbach, Krupp executive and Trilateral Commission member, in response to IPS statement that there was no one on the Trilateral Commission capable of finding a solution to the dollar crisis.

"I dunno...I dunno what could happen...but...it has not happened yet." — Mr. Titzhoff, assistant to Karl Klasen, West German central bank chief.

"I feel sorry for what is happening....There is such a number of uncertainties on the market...nobody knows...but my impression is that the dollar will continue to decline. It is also the impression of many dealers here...yes, if a 25 per cent depreciation is discussed around the market, there is trouble around, there will be trouble...when it will happen, in a month, in this year, nobody knows, all is speculation...." — Herr Bender, Forex dealer for the West German central bank.

"I agree, they are rotten, but one is not justified in talking of a Ruble when 90 per cent of all oil payments are done in dollars." — spokesman for Chase Manhattan Bank.

February 24

"All this seems very unlikely — why the hell the Soviets would go on an offensive like that I don't know. It's not what I'd look for...but then again there are lots of things I haven't looked for." — Deputy Director, U.S. State Department Policy Planning Staff.

"Yes there is something in the making....It is very interesting, if they come to convertibility, it will be a very new situation....I have been in East-West trade for some 20 years, and there was always rumors about the Ruble convertibility — but to see it just behind the door..." — Herr Kirschner, Comecon section head, West Germany Industry Federation.

"It's the last thing I would like to admit at the moment, but the dollar is the **only** weak currency at this time." — Forex trader, Morgan Guaranty Trust.

"If the U.S. government intends to let another 25 per cent devaluation to occur, it would derout (sic!) world trade, it would be a tremendous...a tremendous...disturbance for the normal competitive situation....Then we would seriously fear for our trade....If the dollar is devalued, then the French franc, the Austrian, the lira, the pound will follow immediately...what else could we do with the DM? We'd be overvalued. What will develop is very dangerous and has to be thought of very carefully...but what to do?" — Herr Kula, Mid-east section head, West Germany Industry Federation.