'T-Ruble Most Important News Since Bretton Woods?'

A delegation of 180 Italian businessmen in Moscow headed by Prime Minister Giulio Andreotti's personal representative this week began negotiating the use of the transferable ruble to finance East bloc trade with Italy, while pursuing the nuts and bolts of involving one or more major Third World countries in the pilot "triangular" circulation of T-Ruble credits. The Third World element of the prospective package was stressed by both the Moscow Narodny Bank in London and sources close to the Italian government and the Montedison chemical conglomerate, which has taken the lead in exploring what its international director, Guiseppe Ratti, called "creative" new means of trade finance. Ratti has now left Moscow for Libya. At the same time, an Eastbloc government has made an unprecedented public call for transferable-ruble-based trade; the deputy finance minister of Czechoslovakia, Mirko Svoboda, specified in the Feb. 21 issue of the official newspaper Rude Pravo that such trade is needed to counter the collapse of the present international monetary system in general and to promote Third World economic development in particular.

The Italian-Soviet negotiations follow a report last week in *Il Sole 24 Ore*, the daily newspaper of the Confindustria, Italy's national industrial association, that British investment bankers are collaborating with the Soviets to make the transferable ruble an alternative to the dollar on a world scale. British bankers confirmed that they are conducting "feasibility studies" on the "international negotiability" of the transferable ruble. The *Financial Times* of London reported Feb. 22 that the Soviet plan "has sent ripples through Western banking circles.... Was it even, as one leading banker claimed, the most important news for currencies since Bretton Woods?" Yesterday's *Financial Times* followed with a report on the already existing ties between the Eastern European Common Market, the CMEA, and Third World institutions including the African Development Bank and two Algerian banks. The article commented that "one of the transferable ruble's advantages is that it is quite cheap" — ruble credits bear a 25 percent charge — owing to the "comparative price stability of Comecon (CMEA) markets," i.e. the sturdy growth of real economic activity in the East.

There are so many unanswered questions about just how it (the t-ruble) will work that the West has yet to make up its mind what it all means," continues the Feb. 22 *Financial Times* article, which proceeds to stress two aspects — the t-ruble's availability for the Third World as well as the advanced sector, and the Soviet refusal to allow the t-ruble to become a "convertible" increment of international liquidity subject to manipulations on the Eurodollar and other Western markets. The T-ruble is not another currency, but a credit line, the *Financial Times* reminds its readers.

This consideration has already led the USSR negotiators with Italy to rule out a proposal by Italian Trade Minister Rinaldo Ossola to make Soviet promissory notes "discountable," i.e. saleable for cash on the Eurodollar market. The problem thus remained of how to finance the roughly $6 billion in new Italian-Soviet business deals concluded this winter but stalled for lack of Italian credit facilities, given Italy's $20 billion international debt obligations.

The Italian delegation conducting the talks which have now turned to the transferable ruble is on the highest level, including men who command the respect of pro-growth forces throughout the world, such as Eugenio Cefis, the Montedison head who has been a prime mover behind Italy's push for industrial development and expansion of international energy networks outside Exxon-coordinated restrictions; and Ratti, author of a leading plan for a new international financial institution involving the CMEA as well as OPEC oil-producing governments.

The Italian financial press has made the background and international significance of the negotiaions explicit. Last week *Il Sole* related the introduction of the transferable ruble to the "general illiquidity crisis" constraining trade; financial commentator Giorgio Vitangeli followed in *Il Fiorino* Feb. 20 with an insistence that barter alone — one of the Italian tactics for filling the credit gap — cannot replace the remnants of the Bretton Woods dollar-based system with a genuinely stable and practical new monetary order. In *Il Globo* Feb. 24, an economist from the Italian state petroleum concern, ENI, called for a return to a system of fixed exchange rates based on regional currency blocs, a system that could provide needed liquidity to the Third World as well; the only obstacle was described as U.S. efforts to maintain its financial ascendancy.

These themes were echoed in the Gaullist publication L'Appel, which portrayed the USSR as the world power able to help launch a new gold-based monetary system to supersede the suffocating dollar debt overhang.

One institutional focus for expanded negotiations will probably be the European Economic Community (EEC), whose Commission has formally proposed action on "long-delayed European monetary union," now that the pound sterling has been stabilized, according to the latest

EEC economic monthly publication. Britain has been proposed as mediator in "bloc-to-bloc" relations between the EEC and the CMEA, a long step beyond bilateralism. European monetary union, probably based on the kind of gold clearing-accounts system being studied by the Commission, would facilitate the orderly clearing-instrument use, in turn, of the transferable ruble.

The key dimension, however, is not strictly speaking a monetary one. The CMEA ruble is actually a form of long-term, low-interest credit which CMEA members use to finance trade and development projects. When, last October, the CMEA's central bank offered to facilitate the extension of this new form of credit to the West, the bank pointed to "projects on a continent-wide scale." This is the way the Italian delegation is approaching the negotiations, and the source of Fiat spokesman Nicolo Gioia's enthusiasm for the transferable ruble as expressed in *Il Sole* Feb. 25. Italian corporations were invited during the negotiaions to participate in expanding the Soviet nuclear power capacities based in Siberia; Montedison spokesmen's references to the "complementarity" of the two national economies are based on Italy's need and technological capacity for involvement in this sort of milestone large-scale project.

Consequently, the transferable ruble has an immediate reality for Italian business which is not yet matched in West Germany, in particular. Manifestly, no West German delegations are yet negotiating the kind of overall multibillion packages that necessitate the ruble. However, West German industrialists are following up the CMEA initiative. Traditionally averse to "state-to-state" dealings, they have conducted East-West and Third World deals on the corporate level. Now, not only has the banking journal *Zeitschrift fuer gesamte Kreditwesen* publicized the CMEA ruble initiative, but the leading financial daily *Handelsblatt* has assumed what amounts to a negotiating stance on the matter, signaling interest in pursuing the Ratti proposal for some sort of East-West trade bank, and suggesting obliquely that transferable ruble credits could be used to overcome the present stumbling blocks of CMEA deficits with the West and Third World deficits with the CMEA. The head of the East-West Trade Association this week said that corporations would be happy to use ruble accounts, but more "clarity" is needed on the whole question — and this call for clarity" has appeared in other European press organs.

Some of the points involved can be briefly summarized, keeping in mind the fact that the practical intent and function of t-ruble credits are basically on the scale of multilateral development projects, not simply deals between a given CMEA enterprise and a Western firm.

The first question has already been answered: the transferable ruble will not be automatically "convertible" into Western currencies, to the professed discontent of the *Neue Zuercher Zeitung*, the *Frankfurter Allgemeine Zeitung*, and the West German correspondent of the *Chicago Tribune*. No one except speculators and U.S. government economic warfare tacticians would benefit from such convertibility, and the New York banks have no hope that ruble balances could be transmuted into debt repayment by Italy and others.

The valid question is who will receive transferable rubles and thereby in effect grant credit to the CMEA. Private banks, under present conditions, have to pay too much for their own money to afford 2—5 percent "loans" to the CMEA, which is what a ruble account with the CMEA amounts to. Governments, however, can.

Isn't this, as the *Neue Zuercher Zeitung* charges, simply a giveaway to the East? One answer was probably provided by *L'Appel*, that is the French Gaullist businessmen: European governments have been holding dollars for decades and thus giving credit, through these paper IOU's, to the U.S. on a gigantic scale. "In liquid form it is especially the U.S. which is indebted, and this indebtedness, these dollars maintained outside the U.S. can be considered a sort of monetary base on which the dollar market is developed in other countries."

The dollar-debt structure is now agreed to have lost its compensatory merit of financing trade and investment, as dollar flows are concentrated in financing state and private debt rather than expansion of economic activity. And in 1977, the ease of short-term rollovers which has maintained that overhang since 1974 is jeopardized by U.S.-generated inflation and consequent upward pressure on interest rates.

The dollar's monopoly as a trade-credit and payments-settlement vehicle was not welcomed by European businessmen after World War II, but they had scant choice, and the U.S. economy was after all strong enough to back the value of the dollar — a situation which visibly eroded as of the late 1950s. There exists a precedent for the credit instruments of a less than universally beloved world power to finance trade and joint-venture operations.

By comparison, what to do with ruble balances is a far more gratifying question. Italian spokesmen have shown that new business can immediately be generated, pending the kind of triangular arrangements with the Third World that would make the t-ruble into a full-fledged substitute for the dollar: if Western European governments and corporations can meet oil and other commodity payments in CMEA rubles, which in turn can be directed by exporters as new orders for intermediate CMEA goods and high-level Western technology, the t-ruble will be "hard" indeed.

Additional questions ("Could Smith and Co. sell its transferable rubles to Western importers of Comecon goods" asks the *Financial Times*) will have to be ironed out in negotiations; the answer here seems to be "Why not, if the purchase is tied to trade?" A Euroruble equivalent to the Eurodollar market has been forcefully ruled out by the East, and the technicalities of parity relations depend first of all on progress in European monetary integration.

The strict controls on the t-ruble emphasized by some press outlets are a feature of any monetary system or internal corporate financial flows. The persistence of annoying secondary bureaucratic hassles in East-West trade should not obscure the expansive potential of t-ruble use. This was clearly perceived from a certain distance by Senior Vice President for Research Carlos di Origunaga at the world's largest bank, the San Francisco-based Bank of America, who commented in a recent interview that "I don't see any problems with establishing it (the transferable ruble) as an international credit device. It doesn't present any problems to Soviet planners. There's no reason why it shouldn't fly." Di Origunaga stressed "triangular trade" — the involvement of OPEC and Third World countries in European-Soviet deals — as the key to the transferable ruble's prospective success.

International Press Debates Expanded Use Of T-Ruble

Rude Pravo, Feb. 21,
"For More Active CMEA Monetary Relations,"
by Mirko Svoboda, Deputy Finance Minister:

The decisive factor for the development of Comecon member nations is the commodities sector, i.e., securing sufficient amounts of fuel, basic raw materials, energy-related copper, and so forth.

The systematized supply of these resources, which also involves the organization of currency transactions and bills of exchange, helps broaden cooperation and improve its qualitative level. The (Comecon) state's monopoly on foreign exchange transactions facilitates a more active use of exchange and currency relations... The fact that the state has the unconditional right to conduct credit and payments relationships with other nations, to transmit abroad the means of payments, and to make them available in the first place, provides the possibility — from the standpoint of exchange relations — of influencing production and the flow of goods, as well as signalling lags promptly and promptly eliminating them.

In the present period, characterized by the effects of crisis developments in the capitalist world which will not be overcome but on the contrary will persist, the importance is increasing of the foreign exchange monopoly's defensive functions is increasing... vis-a-vis the negative effects of this process. The international monetary system of the capitalist countries, which was established on the Bretton Woods basis following World War II, has in fact collapsed, as has its representative, the International Monetary Fund.

An international world wide monetary system cannot be created which defends the principle of giving a privileged position to a number of capitalist powers — specifically the U.S. — as is today the case. It is impossible here not to take into consideration the changes in international developments and in the world community of nations, based on the efforts of the socialist countries and the developing nations for independent decisions in currency and monetary issues and for reversing the horrible consequences of former colonial dependence on their economies.

Attempts to reform the International Monetary Fund into some kind of 'World Central Bank' or into a 'World-wide centralized organ for International Monetary Relations' are necessarily a fiction which belongs with other "convergence theories" about the "growth of capitalism and socialism towards each other."

There presently exists a diversified unit of account system in transferable rubles, which subsumes all forms of trade relations, as well as a number of non-trading relations, including short-, middle-, and long-term crediting through the banking institutions of the socialist countries. The International Bank for Economic Cooperation and the International Investment Bank are to be counted in this system. This year, the CMEA's Standing Commission for Currency and Monetary Questions will deliberate on a number of important tasks, which touch upon the entire array of matters in the area of parities and unit of account relations. Priority deliberations will be completion of the system of guaranteeing equivalency in non-trade relations; raising the effectiveness of currency-financial and credit instruments functioning through international economic organizations; currency, financial and credit questions, which relate directly to economic and scientific-technical aid for the developing nations; prevention of double taxation between Comecon member nations and the People's Republic of Yugoslavia; and similar matters. Special emphasis is to be put on the role of the collective currency (the transfer ruble) and the broadening of its application. An analysis is needed also of the appropriateness of the parity and the gold content of the transferable ruble, in connection with the contracted prices of the member countries of the Comecon for the years 1976-80 and the dynamics of the world market price.

In the area of currency relations, it is necessary today to draw joint conclusions from events which constitute the negative consequences of the capitalist countries, price increases in petroleum and energy, the economic decline of the capitalist world and price movements on the capitalist markets.

L'Appel, February,
"The Cold War":

The implementation of American dollar inconvertibility into gold in two steps — March 1968 for private holders and August 1971 for all dollar holders — has provoked the greatest wave of international inflation which the world has ever known. On this wave, which creates and carries the dollar market outside of the U.S., the quadrupling — in fact today the quintupling — of oil prices has appeared as the inevitable consequences of the disorders thus engendered.

Developed countries, like developing countries, feed (supply) the OPEC countries, not with real goods — but in the form of debts. The oil consuming countries borrow dollars on the external markets. Then they settle their oil accounts with these dollars. The excess part of these liquidities thus received by the oil producing countries is