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 by William Engdahl

Soviets, Germans sign new trade accord

The hasty trip by the German economics minister to Moscow resulted in a slap in the face to the IMF.

On Feb. 13, German Economics Minister Jürgen Moellemann went to Moscow for urgent discussions with Soviet Prime Minister and Finance Minister Valentin Pavlov. The results of that consultation may mark a turning point in economic reconstruction of Eastern Europe. At the very least, it marked the first break by a major Western industrial nation with the insane International Monetary Fund (IMF) prescription for Soviet economic reforms agreed upon by the economic summit of major industrial nations meeting in Houston last December.

Moellemann and Pavlov worked out a large, earmarked trade agreement in which Bonn will guarantee German private trade credits for select exports to the U.S.S.R. from industrial companies in the five states which were the former East Germany. These Hermes guarantees will allow nervous German banks and companies to resume exports to the U.S.S.R.

The issue is urgent. Before unification, some 40% of all East German foreign trade went to the U.S.S.R. in exchange for imports of Soviet oil and gas. The accounts were settled in so-called "transfer rubles" between members of the Soviet-dominated but now defunct Comecon (CMEA) trade bloc of states tied to the U.S.S.R.

Since January 1991, the CMEA members halted the settlement of their trade accounts in transfer rubles. The shift had been approved by CMEA members last June as part of what was to be a gradual 3-5 year transition to a new trade system.

But the economic chaos in nations such as Poland and Czechoslovakia, where Harvard Prof. Jeffrey Sachs's "shock therapy" has taken hold, has created such general chaos that Soviet and CMEA trade has collapsed in the past several months.

The Geneva-based U.N. Economic Commission for Europe, in a just-published study of the problem, correctly notes, "It was clear from January that 1990 would be the last year of the traditional system, and that the CMEA members would move toward market-based relations and settlement in convertible currencies. However, it was left unclear as to how the future system of intra-East European trade would work." Since last summer, East European regional trade has been a "chaotic mixture of barter deals" and other ad hoc arrangements between governments undergoing the most far-ranging upheavals since the Second World War.

As the CMEA members left unspecified how the 3-5 year transition would be managed and how any remaining claims denominated in rubles would be settled—at what parity, in effect—as the Jan. 1, 1991 deadline neared, no country wanted to hold CMEA ruble trade balances.

"In order to restrict the accumulation of ruble balances," the report adds, "the individual eastern countries resorted to a variety of direct controls on their exports and imports to and from one another, a process which led to mutual recrimination and retaliation. Against this background of a virtual trade war, there was a downward spiral in the value and volume of intra-CMEA trade." Soviet exports to former CMEA countries of Eastern Europe dropped 15% in volume in 1990 and, so far as is known, have plunged precipitously since January as all trade became payable in hard currency and at world market prices.

The necessary speed with which East Germany sought full monetary and political union with West Germany, created conditions which were unfortunate for the orderly reconstruction of the East German economy into a modern Western-oriented economy. "With introduction of the deutschemark [into East Germany on July 1, 1990] and the sudden availability of Western goods, East German consumers and many enterprises turned away from CMEA imports and many contracts made before were canceled," the study notes. In short, unemployment in East German export industry firms of between 500,000 and 1,500,000 was threatened by the end of February 1991 if something were not done.

Bonn decided to break with the IMF line on Soviet economic reform and resume state export credit guarantees to the U.S.S.R. Moellemann has likely bought a few months' time. Now, however, a breakdown of infrastructure, notably rail links among Germany, Western Europe, Poland, Czechoslovakia, and the U.S.S.R., must be solved. If the Paris-Berlin-Vienna "Productive Triangle" of Lyndon LaRouche is not put on the table soon by Bonn, with France and Austria, the present chaos will seem mild in the near future.

But, as experience shows, it is wrong to view infrastructure investment as a "funding problem." When properly built, it generates huge investments by private enterprise, and with that, the tax revenues to pay off the bond issues. Germany was built on such a state commitment to the most advanced integrated rail grid more than 100 years ago, on a design first outlined by Friedrich List in the 1830s.

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