Today's Big Red Market

by Harry Schwartz

For veteran Russia watchers in this country, there is a sense of *déjà vu* about the current boom in Soviet-American trade and about the even greater boom in expectations about that trade's future. There is much in the recent atmosphere that is reminiscent of the late 1920s and early 1930s, when American industry contributed so much to helping realize Stalin's initial program of Soviet industrialization. Once again we have enthusiastic meetings of American businessmen who cheer the messengers of Moscow bringing the good news that the Kremlin wants to buy. Once again Red Square has become a sort of Times Square for top American executives. And once again machinery manufactured in Ohio and Pennsylvania and New York and even California is being installed in Kharkov and Leningrad and Omsk and, no doubt, even Tomsk. It is rumored that forward-looking planners at Harvard Business School are suggesting that the study of the Russian language be made a required course for the M.B.A.

The bare statistics tell the dizzying tale plainly enough. In 1971 the United States sold about $160 million worth of goods to the Soviet Union. In 1972 that figure jumped to almost $550 million; in 1973, if the pace set from January to July was maintained the rest of the year, exports could approach $1.5 billion. The optimists argue that this is only the beginning and that by 1980 even the 1973 figures will look picayune. Now is the time to get on the Moscow trade bandwagon for fun and profit, they argue.

The optimists could prove to be correct, and certainly few major American industrial corporations today are without salesmen and market researchers probing more or less actively for Russian orders. However, there is also restraint and caution. And heed is being paid to pessimists who see the Russian trade expansion as a semi-mirage for the longer-run future and who also worry about the political backlash on their companies of too close and too extensive economic relations with Moscow.

The skeptics' case has both economic and political foundations. Economically, the doubters note that most of the recent export boom derives from last year's gigantic Soviet grain purchases here. With Moscow claiming a record 1973 grain harvest, Soviet buying agents are not likely to appear again soon in the American wheat market with the same almost insatiable appetite that they displayed in mid-1972.

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Even more, the skeptics worry about the colossal imbalance between recent Soviet purchases here and sales to this country. U.S. imports from Russia have been rising, but it would be surprising if in 1973 Soviet goods arriving here totaled very much more than $150 million, that is, little more than 10 percent of indicated 1973 U.S. exports. For the moment, Moscow is making up this huge gap by a combination of American credits plus payments in cash derived from Soviet sales of gold and other commodities elsewhere. Such a huge export-import imbalance as displayed in 1973 Soviet-American trade hardly seems supportable very long.

But the political hurdles ahead seem even more daunting to many observers than the economic problems. The simple fact is that many Americans still neither like nor trust the Soviet Union, and their sentiments are widely shared in Congress. The strength of these suspicions has been demonstrated vividly by Sen. Henry Jackson's success in frustrating the Nixon administration's efforts to deliver its promise to Moscow to give Soviet goods arriving here most-favored-nation tariff treatment.

Unpromising as the Soviet-American political atmosphere was regarding trade before the October Middle East war, that conflict worsened the situation. The brilliant display of the capability of Soviet advanced weapons during the conflict aroused new fears among many Americans and raised pointed questions about the wisdom of selling Moscow the American technology in computers and other fields that the Kremlin so badly wants.

But it is the Arab embargo on oil for the United States that has raised the most political worries before the most enthusiastic proponents of close Soviet-American economic cooperation. That is because the huge projects Moscow wants involve U.S. credits in the billions of dollars for developing Soviet natural-gas fields in frozen Siberia and for building the infrastructure required to carry that natural gas to markets. Moscow proposes to repay those credits by natural-gas deliveries after 1980.

But those promises seem less convincing now than earlier in this era. The spectacle of the American-owned oil giant Aramco being used as Saudi Arabia's prime servant in implementing and enforcing the Arab oil boycott against this country has been traumatic. If the Arabs, relatively weak militarily, can deny the fruits of American oil investment in the Middle East to the United States, what would stop the Soviet Union in the 1980s from reneging on its promises of natural-gas deliveries if new economic or political developments are made that seem advantageous to Moscow?

Even before the Yom Kippur war, the Nixon administration was being cautious about the Siberian natural-gas projects, showing nervousness about the large investments required and demanding that Moscow provide much more information than the Kremlin is accustomed to supply foreigners about its economic projects.

But these days President Nixon's line is that the United States must become self-sufficient in energy and not be dependent upon anyone else's whim. If that is meant seriously, it is hard to see how multi-billion-dollar investments in Siberian natural gas would help make the United States self-sufficient in energy. Couldn't the same money be used to better and more secure advantage in developing U.S. coal, oil, natural gas, shale, and other similar resources, either in the lower forty-eight states or in Alaska?

It may be that the Arabs will relent, that the chill in Moscow-Washington relations will warm up as the Middle East war recedes into history. But at the moment—though the trade statistics are still rocketing and though new contracts are being signed almost every week—the future of Soviet-American economic relations seems very cloudy. And the pessimists recall that after the boom of the late 1920s and early 1930s there was a sharp drop in the mid- and late 1930s. Will history repeat in the mid- and late 1970s? □

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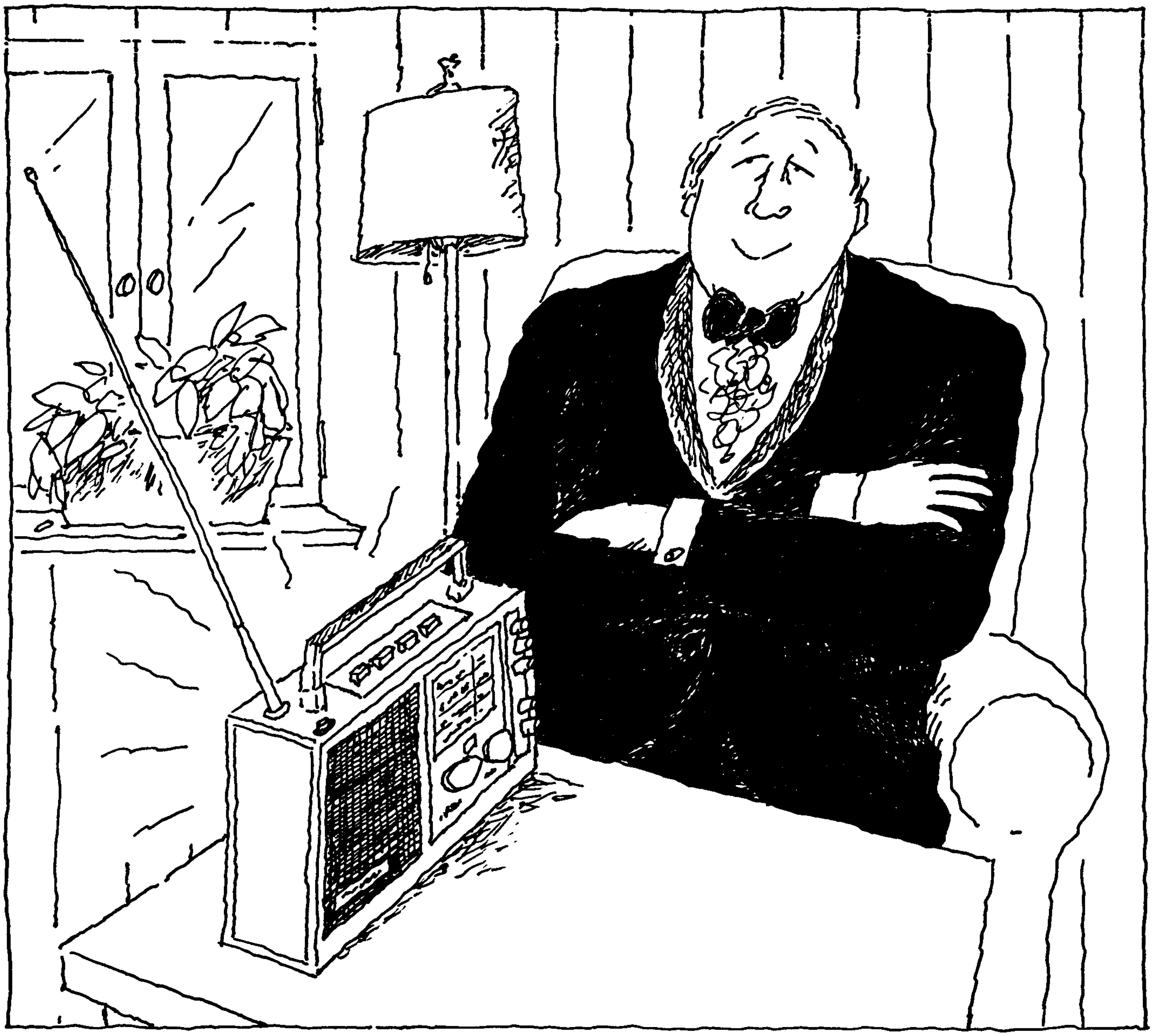

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The Nine Lives of Gold

The all-important metal has made another roaring worldwide comeback despite U.S. efforts to keep it immobilized.

by C. Gordon Tether

It is by this means that the Great Khan may have and, in fact, has more treasure than all the kings of the world. These pieces of paper are issued with as much solemnity and authority as if they were of pure gold or silver, and on every piece a variety of officials, whose duty it is, have to write their names and put their seals. And the Khan causes every year to be made such a vast quantity of this money, which costs nothing, that it must equal in amount all the treasures in the world.

With these pieces of paper, the Khan causes all payments on his account to be made, and he makes them pass universally over all his kingdom and possessions and territories and whithersoever his power and sovereignty extends. And no one, however important he may think himself, dares refuse them.

So wrote Marco Polo of the monetary system devised by the man who ruled over the greatest kingdom the world has ever known. That was seven centuries ago. Yet the passage could be fairly used to describe the monetary regime that the United States has imposed on the non-Communist world through the profligate dissemination of inconvertible paper dollars. And since money is a field wherein history is particularly apt to repeat itself, it is not surprising to find that the self-generated afflictions that eventually brought the Great Khan's monetary debauch to a disastrous conclusion are now besetting the dollar.

That, let it be clearly understood, is what the great debate currently raging over the future role of gold in world monetary affairs is really all about. If gold is dead, as Washington propaganda would have everyone believe, it won't lie down. The fact that the metal has roared into the headlines during the past year, with a popularity rating so high that its market price has more than doubled, is eloquent enough testimonial. Indeed, gold is standing right in the path of the Nixon administration's efforts to exploit the international monetary havoc it has itself done so much to create for one key purpose—to make the world safe for financial policies that depend on keeping a debased and discredited dollar afloat.

It is currently fashionable to denigrate the Bretton Woods System's procedure for maintaining international monetary law and order, which finally collapsed when the United States torpedoed its key feature—the convertibility link between gold and currencies—in the summer of 1971. That is just a way of deflecting attention from the real culprit. The setup was not, of course, entirely without defects. For one thing, its principal agency—the International Monetary Fund (IMF)—suffered from a certain rigidity in outlook, and that communicated itself in some measure to its members. But, in broad terms, it was an immense success story in all senses but one.

The one flaw the system had—and it turned out to be a fatal one—was the privileged status it conferred on the dollar by allowing it to share with gold the position of centerpiece around which the whole mechanism revolved. That was not a handicap so long as the United States played the game the way the architects had envisaged its being played, and so long as it was just as willing to apply the stipulated disciplines to itself as it was to insist on other countries' abiding by them. But when the American balance of payments started running into trouble in the first half of the 1960s, Washington began to abuse its special status.

The purpose of this deviation from the straight and narrow path of international financial rectitude that the Bretton Woods System had laid down was to get other countries to finance an emergent U.S. payments deficit, arising principally from enthusiasm to export capital for investment in the outside world—a luxury that the deteriorating relationship between American merchandise exports and imports had made impossible to support by orthodox means any longer. And Washington achieved its aim by pressuring these other countries to treat

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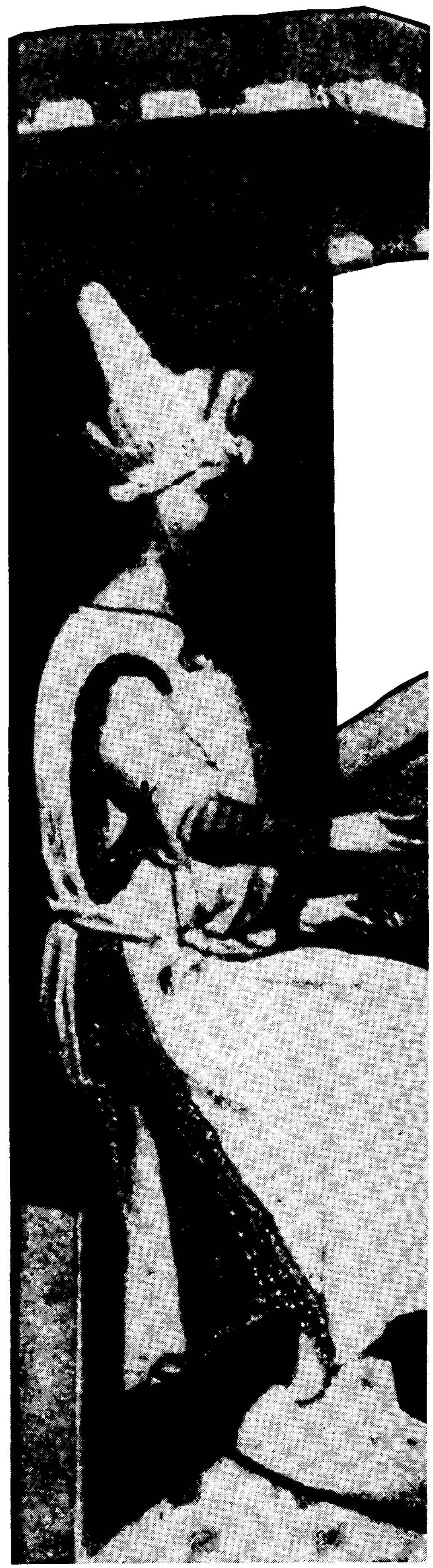

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