Bipartisan challenge to 'untied loans'

by Scott Thompson

As last week's *EIR* began to document (see "Want to buy a used perestroika?"), a faction fight has erupted against the now hegemonic policy of Western rentier-financier interests that seeks to "bail out Gorbachov" by "financing perestroika." While the Reagan administration, especially since the INF treaty, has lined up increasingly with those financial interests that seek to strengthen the Soviet Union militarily and economically, a strong counterattack has been mounted against such lunacy by a bipartisan coalition in the U.S. Congress. The flanking issue around which this coalition has chosen to fight for the moment is the issue of "untied," general purpose loans to the Soviet Union at terms that are more favorable than those available to Western farmers and industrialists.

The first major salvo in this counterattack was the Aug. 4, 1987 introduction to several House committees of the International Financial Security Act of 1987, which was drafted by the office of Rep. Jack Kemp (R-N.Y.), who was then a candidate for the Republican presidential nomination. Kemp's bill has 16 cosponsors, including Rep. Toby Roth (R-Wisc.), who has helped steer the bill through the committee process since its inception. The Kemp-Roth Bill is designed "to amend the Export Administration Act of 1979 and the Federal Deposit Insurance Act to authorize controls on the export of capital from the United States, to control exports supporting terrorism, to prohibit ownership of United States banks by controlled countries, and for other purposes."

Key passages of the proposed amendment that would hit the question of "untied loans" to the U.S.S.R. include:

"Section 2 of the Export Administration Act of 1979 is amended by adding at the end thereof the following: (14) Loans and other transfers of capital to the Soviet Union and its allies, especially untied, no-purpose loans and interbank deposits, from public and commercial sources significantly increase the ability of those countries to obtain sensitive goods and technology and to more easily divert funds to purposes inimical to United States interests, thereby damaging the security interests of the United States and its allies."

The bill also provides that "the President may prohibit, curtail, monitor, or otherwise regulate the export or transfer, or participation in the export or transfer, of money or other financial assets, including the making of a loan or the extension of credit . . . to the government of any controlled country"—e.g., the Soviet Union and its allies.

The reason that Congress focused upon "untied loans" is summarized by a "Fact Sheet on Untied Loans to the Soviet Bloc" prepared by Congressman Roth's office. Based upon a Treasury Department estimate that the Soviet bloc received $24 billion in medium-term loans from Western banks and governments in 1986, it appears that approximately 80% of this total, "or about $19 billion, took the form of untied, general purpose loans—pure cash with no underlying trade transactions, projects, or jobs." The "Fact Sheet" then corroborates statements from former Reagan administration National Security Council personnel that such "untied loans" have, in reality, been used by the Soviets "for purposes inimical to vital Western security interests, such as support for Soviet client states, the KGB/GRU," and modernizing the Soviet military.

The "Fact Sheet" also notes that: "In 1986, nearly 100% of the hard currency requirements to support Soviet global commitments and activities were funded on Western financial markets [e.g., the annual $7 billion relending to Cuba—ST], if one assumes that Soviet hard currency income was earmarked solely for the purpose of imports from the West and to service debt."

Alliance compliance sought

It soon became apparent to Congressmen opposed to "untied loans," that unilateral action by the United States against this practice, would have little real impact upon the Soviets' ability to obtain "untied loans," because 90% of all such loans are granted by banks in Western Europe and Japan. Also, roughly $10 billion in Western bank deposits in Soviet-owned subsidiary banks are also untied credits, although these deposits/loans are not included in Western statistics as part of the total indebtedness of the U.S.S.R. Finally, there is no information whatsoever on the nature of the $14 billion in short-term credit that Soviet bloc borrowers received in 1986. If there was to be any solution, Congress determined that compliance would have to be sought from Western Europe and Japan on the issue.

The first step in this direction was taken on June 15, 1988, when the Senate passed a non-binding resolution 96-0, which called on President Reagan to consult with allied leaders on the issue of "untied loans" at the Toronto Economic Summit.

Meanwhile, in the House of Representatives, a letter was circulated by Roth and Rep. Charles E. Schumer (D-N.Y.), which gained some 50 signatories and said: "It has become apparent that Moscow's ability to maintain costly military commitments worldwide may, in large part, be due to the willingness of Western banks to make loans, especially untied loans, to the U.S.S.R. This, in turn, likely translates into a multi-billion dollar increase in the defense burden on Western taxpayers." The letter concluded by urging the President, at the Toronto Summit, to suggest that the Organization for Economic Cooperation and Development (OECD) "supervise and monitor the voluntary adoption of more prudent and disciplined lending practices by Western banks toward potential adversary nations."

It took some time for congressmen to drag out of the Reagan administration, whether or not the issue had actually been raised at the Toronto Economic Summit. An Aug. 8, 1988 letter from Treasury Secretary James A. Baker III in response to Representative Roth's letter, finally indicated: "We strongly believe that controls on capital movements should be exercised only in emergency situations. After reviewing the whole range of East-West economic relations, the Summit countries adoped a policy that East-West economic relations, including financial relations, can be expanded 'so long as the commercial basis is sound, they are conducted within the framework of the basic principles and rules of the international trade and payments system, and are consistent with the security interests of each of our countries.' "

Round two of 'untied loans'

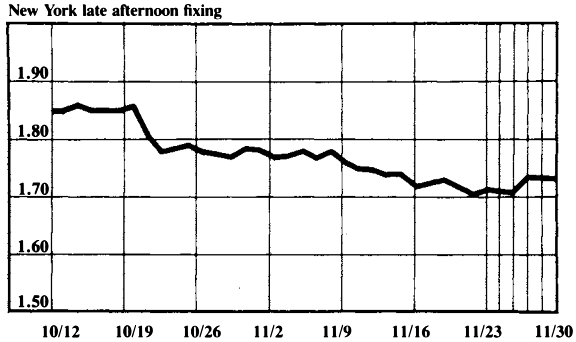
The issue appeared tabled until Oct. 7, 1988, when Rep. Robert Garcia (D-N.Y.) introduced the International Financial Cooperation and Security Act of 1988, at the height of the ten-day orgy, during which Western Europe and Japan extended $9 billion in loans to the U.S.S.R. According to Garcia, the legislation "would require the Secretary of the Treasury to enter into negotiations with other nations belonging to the Organization for Economic Cooperation and Development to establish multilateral standards for entering into and reporting financial transactions with the Soviet Union. At the same time the Secretaries of Defense and State are instructed to hold discussions at NATO with our allies on the security implications of conducting financial transactions with the Soviet Union."

On Oct. 18, Sen. Steven D. Symms (R-Idaho) introduced amendment 3717, which passed 64-2. Its main provision states "that it is the sense of the Senate that the President of the United States should instruct the Secretary of State, the Secretary of the Treasury, the Secretary of Defense, and the Secretary of Commerce to consult immediately with allied governments on the impact on Western security of various types of private and public sector credit flows and debt reschedulings to the Soviet Union, Warsaw Pact countries, Cuba, Vietnam, Libya, and Nicaragua, and to call for a multilateral voluntary initiative, supervised by the Organization for Economic Cooperation and Development, to end untied, general purpose lending to those countries for reasons both of national security and prudent commercial banking."

Currency Rates

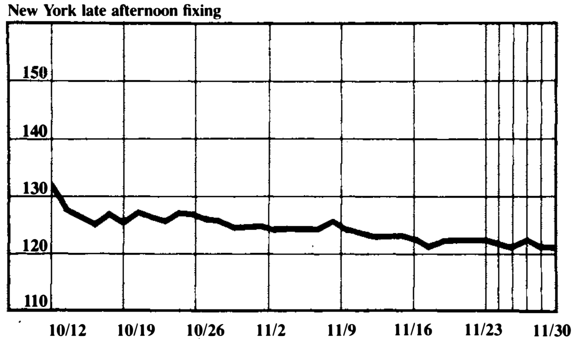
The dollar in deutschemarks

New York late afternoon fixing



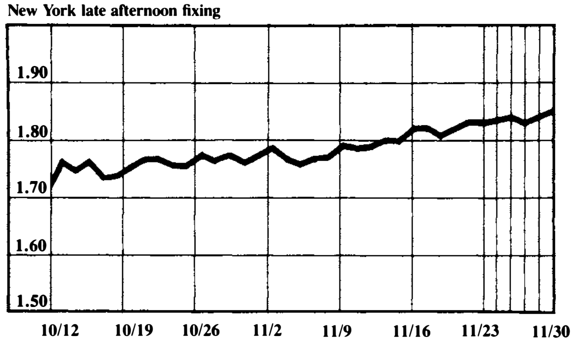
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing