



The Phyllis Schlafly Report

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Americans Should Say NO To Financing The Soviets

Rescheduling and convertibility are not exactly household words, but they may become so soon. Those are the names for the mechanisms by which some big U.S. banks and businesses are planning on making a tidy profit by using American taxpayers' and bank depositors' money to bail the Soviet Union out of its economic depression.

Rescheduling is a fancy four-syllable word which means that Soviet borrowers from U.S. banks never have to pay back the principal of their debt, while even the interest payments are postponed, financed by new loans, concealed from the banks' stockholders, and rolled around from one banking consortium to another so they are difficult to trace.

The banks which are most active in making loans to the Soviets are First Chicago, Chase Manhattan, Citibank, Manufacturers Hanover, Chemical, Bankers Trust, Marine Midland, and Bank of America. According to the human rights organization called Resistance International, of the ten largest U.S. banks lending to the Soviets, not one of them mentioned one word about Soviet-bloc loans in its Annual Report to stockholders.

The chief reason Gorbachev is currently so conciliatory toward the West, pulling out of Afghanistan and playing the role of Smiling Mike on television, is that he wants \$100 billion of Western capital over the next five years. And, like most Soviet bosses, he thinks Americans are suckers enough to provide it.

Despite perestroika, the U.S.S.R. has a long, long way to go before being considered for the preferential treatment represented by "most favored nation" trade status, let alone membership in Western financial organizations that are subsidized by U.S. taxpayers.

No businessman would call someone a "customer" who lacked any visible means of paying for his purchase. By any reasonable use of the term, the Russians cannot be called customers of American goods because they have no money to buy our goods and very little to sell that we want to buy.

So how does the Soviet Union finance its massive military buildup and its global adventures in Afghanistan, Central America, the Far East, the Middle East, and all over Africa? By getting unsecured and unrestricted (called untied) loans from the West, that's how.

While rescheduling has been going on for several years,

convertibility is the new hokus-pokus coming down the pike. One of the principal current impediments to the greatly increased flow of American capital for which Gorbachev and his pals are lusting is the fact that the Russian ruble is not convertible on world currency markets.

So, if U.S. corporations make any money by doing business in the Soviet Union, the rubles are not good for anything except to travel inside Russia. It is probable that most executives (and their wives) can find lots more exciting places to visit.

Plans are now being formulated to give a false image of ruble convertibility. The game plan calls for securing the connivance of West German and Japanese banks to support a limited amount of rubles on the market at a pre-agreed level.

Of course, that would not be a market ruble at all; it would just be done with mirrors. If Americans let the Soviets get by with this, the Soviets will then be eligible for membership in all the international money organizations that serve as conduits to bleed the American taxpayers for the benefit of foreigners.

The Soviet economy is an economic basket case and not creditworthy in any sense of the word. Dr. Judy Shelton of the Hoover Institution estimates that the current Soviet national budget deficit is now running at close to 15 percent of Gross National Product. (Our U.S. budget deficit, about which we hear so much, is less than 3 percent of our GNP.)

It is bad enough that U.S. banks and corporations are bailing the ruthless ruling regime in the U.S.S.R. out of its Communist-caused economic woes. But it is intolerable that those banks and corporations are able to impose half the costs on the American taxpayers.

When the Soviet bloc and Third World borrowers default on their loans from American banks, and when U.S. corporations have a loss on their trade or investments, the U.S. banks and businesses just deduct those losses on their income tax returns. It would be a simple matter for Congress to amend the tax code to eliminate deductions for foreign losses.

If the big U.S. banks and businesses want to risk their own money, let them (provided they tell their stockholders). But it is wrong for them to roll half their losses onto the backs of the American taxpayers. Ask your Congressman to put a stop to this racket.

Gorby's Speech That Didn't Make Headlines

Soviet Party boss Mikhail Gorbachev didn't come to New York last December to deliver the olive branch of peace and a renunciation of war. He came to the United Nations to give the fawning liberal media some headlines about promised troop reductions while he delivered his salestalk demanding cancellation of the massive debts owed to the West by Third World and Soviet bloc countries.

This was the number-one point of his UN address but, funny thing, it didn't make it onto the front pages of the *New York Times* or the *Washington Post*. This remarkable message was couched in terms of saying that the U.S.S.R. would cancel the debts other countries owed to it, but it is clear he was challenging America to do likewise; and it is also clear that the United States would be the big loser under such a policy while the Soviet bloc (and the Third World) would be a big winner.

In diplomatic language, Gorbachev said: You American suckers might as well face the music. The Third World and the Soviet bloc are never going to pay back their bank loans to the West, and are not even going to make current interest payments.

Gorbachev put it like this: "Looking at things realistically, one has to admit that the accumulated debt cannot be repaid or recovered on the original terms." He blamed the problem on "colonialism" — which, of course, disappeared a generation before the debts were incurred.

In the new spirit of perestroika, Gorby offered U.S. bankers several options: (1) "write off the debt altogether," (2) give "a lengthy moratorium of up to 100 years on debt servicing" (that means postpone interest payments 100 years and forget the principal altogether), or (3) "limit their debt servicing payments" and defer the principal for "a long period."

Perhaps those alternatives seem too outrageous because of American sensitivities to the sanctity of financial contracts. If so, Gorbachev offered another option to ease the pain.

Option 4 is "guaranteeing government support for market arrangements to assist in Third World debt settlement, including the formation of a specialized international agency that would repurchase debts at a discount." That means setting up an international revolving-door agency that would buy the debts from the big banks at, perhaps, 50 cents on the dollar.

Of course, it goes without saying that the United States always pays at least a third of the budget of any international agency.

This option would allow the big banks to recover about half their losses out of the pockets of U.S. taxpayers. The big banks would evade paying for their financial mistakes, Communist and Third World countries would get a free ride, and the U.S. taxpayers would foot the bill.

The rest of Gorbachev's speech was a contradictory mish-mash of notions that allow persons with contrary views to hear what they want to hear. Lenin called this tactic using Aesopian language.

Headlines in the liberal U.S. media proclaimed that Gorbachev came out for "de-ideologizing relations among states." His Marxist associates were reassured, however, by the very next sentence in his speech: "We are not abandoning our convictions or philosophy or traditions."

Headlines in the liberal U.S. media proclaimed that Gorby may be willing to negotiate away his massive treaty-violating

radar system at Krasnoyarsk. In fact, Gorby reassured his Kremlin buddies by saying that his plan is merely to put that radar under the Kremlin-controlled U.S.S.R. Academy of Sciences!

Gorbachev announced that "Soviet democracy will be placed on a solid normative basis." Some naive Americans may believe that means he is veering toward our kind of democracy, but his Politburo pals will read that to mean Soviet-style, one-party, totalitarian government by Gorbachev's own appointees will be even more institutionalized.

In a peculiar piece of diplomatic effrontery, Gorbachev invoked the Latin maxim "pacta sunt servanda," which he kindly translated for us: treaties must be observed. Does it strike you as a little discordant that the Soviet boss should be lecturing us on treaty compliance?

Before we cuddle up too close to this new television star from Moscow, let's remember what Gorbachev didn't say. He didn't say he would tear down the Berlin Wall or the Krasnoyarsk radar, and he didn't say he would stop propping up Castro and the Sandinistas.

Bank and Business Favoritism to the U.S.S.R.

The U. S. banking business is one of our most regulated industries. Bank examiners have vast powers to bring about compliance with strict regulations and standards.

So how is it that U.S. banks can get by with lending U.S. depositors' money to foreigners on terms so much more favorable than American businesses and farmers can get? The biggest banks in the United States have been lending vast sums to Communist countries on easy terms not available to any U.S. firm or farm or even to the U.S. Government.

Western countries and Japan have provided the Soviet bloc with about \$130 billion in low-interest, unsecured loans, and this sum is rising at the rate of \$2 billion per month. The U.S.S.R. share of these loans is about \$43 billion.

Most of these loans were sent eagerly, with no strings attached. They included a \$200 million loan by First National Bank of Chicago to the Soviet Union in 1987, and one the previous year to Communist Hungary for \$210 million.

When Hungary threatened to default, First Chicago postponed the payment-due date for four years. The banks call that rescheduling the loan, but that's a euphemism for default that is artfully concealed by a misleading audit.

A First Chicago bank representative was asked if the money could be used for missiles. He replied, "It could, of course, but we would hope not. We can't control that." Of course they can't. Because the Kremlin can dictatorially allocate resources, cash from U.S. banks helps to finance military support for terrorist states, genocide in Afghanistan, KGB operations, and the Soviet military buildup.

Why are banks so eager to "loan" their money to uncreditworthy Communists? Probably the same reason why businesses are so eager to "sell" their products to Communist "customers" who can't pay in real money. U.S. banks and businesses can write off their losses, which means the U.S. taxpayers end up holding the bag.

The focus for this promotion of subsidized loans and trade is a unique organization called the U.S.-U.S.S.R. Trade and Economic Council (USTEC). It held a conference in Moscow in April 1988 at which some 500 American businessmen and

government officials met with a like number of Soviet representatives.

The Pied Piper of this excursion was the then Secretary of Commerce William Verity, a founder of USTEC in 1973 and its chairman from 1978 to 1984. He boasted that, "The U.S. is going to have to get used to the idea that the Soviets are good trading partners. Right now we don't have that feeling. A lot of people feel it's a lousy idea."

Indeed, many people do think that giving the Communists preferential treatment through easy loans and trade on credit is a lousy idea. Senator Jesse Helms called USTEC "quite simply an arm of the Soviet Government, under KGB control, whose purpose is to subvert the U.S. economy."

When Mikhail Gorbachev came to Washington, D.C., in December 1987, the principal purpose of his visit was not to sign a treaty, but to attend a private meeting at the Soviet Embassy with some of the most powerful promoters of easy-credit trade between the U.S. and the U.S.S.R. Those men included the perennial Armand Hammer, longtime friend of Kremlin bosses since the days of Lenin; Dwayne Andreas, one of the U.S. grain moguls who have been making big bucks on grain sales to Russia subsidized by the American taxpayers; and USTEC president James H. Giffen.

On the NBC TODAY show the next day, Giffen predicted that "the level of [non-agricultural] trade could go from a billion dollars . . . up to four or five billion per year and maybe even higher -- into the 10- to 15-billion [range]." Asked if he really wanted to make the Soviet Union an economic superpower, Giffen replied, "I think we do."

All Republicans elected on November 8, 1988 should be held to fulfillment of what their 1988 Platform called a "fundamental principle." The Platform demanded "an end to untied credits, particularly general purpose loans which provide the Soviet Union with desperately needed hard currency to bolster its weak economy and facilitate illicit Soviet purchase of U.S. technology."

A human rights watchdog organization called the American Foundation for Resistance International has released an excellent five-point test for loans to Soviet-bloc states. U.S. banks should not lend to Soviet-bloc states (1) at rates or terms more favorable than available to U.S. taxpayers, (2) when there is less repossessable security than American borrowers must provide, (3) unless the banks publicly disclose all the terms, (4) unless the funds are earmarked and monitored to prevent diversion to military purposes, and (5) unless the borrower complies with generally accepted auditing and accountability practices.

Guidelines for U.S.-U.S.S.R. Trade

It is imperative that we stop U.S. banks from giving preferential loans to the Soviet Bloc. We must make sure that U.S. businesses are not subsidized in their trade with the Soviet Bloc.

First, it is intolerable for U.S. banks to give better rates and terms to Soviet Bloc nations than to creditworthy Americans. There is something drastically wrong with a banking system that reschedules foreign Communists' loans that are in default while foreclosing on farmers' properties that have been owned by their families for generations, and on businesses that failed for reasons beyond their control.

Second, bank loans to the Soviet Bloc are unjust both to depositors and to taxpayers — and a danger to U.S. financial security—because the reserves of the FDIC (Federal Deposit Insurance Corporation) are insufficient to cover the uncollectible debts already owed by the Third World. Since the FDIC is guaranteed by the U.S. Government, in the last resort the American taxpayers could be stuck with the debts.

To make more loans to foreign borrowers on preferential terms is a betrayal of American taxpayers' interests. The Soviet Bloc countries are not creditworthy by any acceptable banking standards.

Those countries have no collateral to secure their borrowings, and there is no judicial system in which we can obtain justice. In the last several years, several Soviet bloc governments, Poland, Czechoslovakia and Hungary, have already defaulted on their debts to Western banks.

Third, credits and subsidized trade with the Soviet Union are a threat to U.S. military security because U.S. bank cash is used for the overt and covert acquisition of military hardware and technology from the West. Such credits are also a threat to the peace of the world because they are used to finance Soviet military support for terrorists, adventures in aggression, and worldwide KGB operations.

Many if not most of the American corporations that are so eagerly promoting U.S.-U.S.S.R. trade produce high-tech equipment and therefore are prime espionage targets. These companies' sole objective is to sell their products, and their slogan is "trade is trade."

Fourth, credits and transfers of high technology cost the American taxpayers billions of dollars to overcome the technology advantages that businessmen and bankers send to the Soviets. The Department of Defense stated that trade and technology transfers to the Soviet Union have already saved the Soviets billions of dollars, reduced weapons-development time, and amounted to a gain of between \$6.6 and \$13.3 billion in military technology.

According to a November 23, 1987 report of the Joint Economic Committee of Congress, this would translate into a need for the United States to increase its defense costs by an additional \$50 billion. The best way to avoid increases in U.S. defense spending is to stop shipping U.S. technology to Russia.

Fifth, Americans are taxed enormous sums of money to provide military and economic protection for Western Europe and Japan. We maintain 300,000 American troops in Western Europe to protect our NATO friends from Soviet Bloc aggression, and they certainly do not spend their fair share of the defense costs.

We spend large sums to keep oil tankers moving through the Mediterranean, primarily for the benefit of Japan and Western Europe. Japan spends next to nothing for its own defense, relying almost totally on the United States.

Yet these same countries have been falling all over themselves to send delegations to Moscow offering cash to the Kremlin. The West Germans offered \$1.6 billion, the French bankers offered \$2 billion, the Italians granted \$775 million on low-interest terms, and British banks are offering \$1.7 billion.

Observers call this NATO's "lending frenzy," and it will net the Soviets \$9 billion in new capital from NATO Europe and Japan. To add insult to injury, Italian Prime Minister Ciriaco

de Mita called for a "Marshall Plan for the Soviet Union."

It makes no sense to continue the high costs of defending our so-called Western European and Japanese friends while they use their ready cash to make huge loans to the Soviet Union, which then builds more weapons that increase our own military costs to defend the Free World.

Finally, credits are the wrong basis for a U.S. relationship with the Soviet Union. Our relations should focus on dismantling communication barriers and promoting East-West contacts based on human rights. Extending loans to bail a ruthless dictatorship out of its problems conveys the world perception that Americans don't care about human rights behind the Iron Curtain.

The best way to promote perestroika is to let the Soviet economic problems, agricultural failures, and scarcity in consumer goods force Gorbachev to reduce his military spending.

Our Great Opportunity for Real Arms Control

Pressure will be on the Bush Administration to cut defense spending in tandem with domestic spending cuts. However, what we need to spend on defense has no relation whatsoever to domestic spending. Defense spending should depend on the threat to America, namely, on Soviet weapons spending.

The CIA has long estimated that the Soviet Gross National Product is a little more than half as large as America's and their per capita output a little less than half of Americans'. Last year an economist at the Soviet State Planning Committee (Gosplan) published a report on the Soviet GNP using rubles in a Western-style format.

When a scholar at the American Enterprise Institute, Nicholas Eberstadt, translated the figures into dollars, he discovered that the Soviet economy is barely a third the size of ours and that the Soviet per capita output is only one quarter the American level. Even that estimate is probably overstated because it used the official exchange rate for the ruble, which is artificially high.

Mr. Eberstadt also looked at the Soviet economy's growth rate. The CIA has been telling us that the Soviet economy has been growing at the low rate of two percent a year since the mid-1970s. But Mr. Eberstadt discovered that Soviet commentators now admit that the figures released by the Soviets made no adjustment for inflation because the Communists denied that inflation exists.

Last year, two Soviet economists said that the per capita output was slightly lower in the mid-1980s than it was ten years earlier. Since then, one of Gorbachev's top advisers admitted that the Soviet national income did not grow at all between 1981 and 1985, implying a per capita decline of almost one percent a year.

So it appears that the Soviet Union is in a far, far worse condition than American experts have been telling us. When we compare the U.S.S.R.'s economic condition with its military agenda, we can see what a historic opportunity has been served up to the Bush Administration.

Most experts believe that Soviet and U.S. military expenditures are roughly comparable. CIA figures have long been estimating that Soviet military spending is 15 to 17 percent of the Soviet Gross National Product.

However, if the Soviet economy is much smaller than

previously estimated, then its defense spending would have to be a much higher percentage of its GNP. The Gosplan GNP figures referred to above would indicate that Soviet defense spending is at least 25 percent of total output.

Any country that is spending 25 percent of its GNP on military weapons has its economy on a crash wartime basis. American military spending today is only 6 percent of our GNP.

Just as military spending becomes proportionately greater when we consider the true size of the Soviet economy, so also the level of trade and credits from the West becomes vastly more important. Indeed, they are so indispensable to the Soviet economy that, without them, the U.S.S.R. could not even be called a major world power.

The present economic problems of the Soviet Union offer us our greatest opportunity since the death of Stalin to advance the cause of peace in the world, to reduce tensions and nuclear arms, and to cut our own defense budget. By simply letting nature take its course, Gorbachev will be forced to reorder his priorities from weapons and aggressive adventures into food and consumer goods.

He might even be forced to respect some basic human rights. It would be one of history's greatest lost opportunities if loans from U.S. banks make it possible for the Soviets to continue their high level of weapons spending and aggression.

An interview with George Bush published the day he was elected President in the French journal *Le Figaro* showed that he understands the reality and the opportunity. "The real problem facing us at the moment," Mr. Bush said, "is money: loans and credits. We don't want to see untied credits being given to the Soviets at this point in time. We want to put Gorbachev in a position where he has to make hard choices and pull back from defense spending."

Continuing, Mr. Bush said, "That is supposed to be one of the hallmarks of perestroika. If we give him enough money, without stipulating how he is to spend it, we make it possible for him to avoid making this fundamental decision. So we don't want untied loans or credits."

The lesson is clear. The way to cut defense spending and achieve real arms control is to stop U.S. bank loans to the Soviet Bloc. The Soviet economy is in such terrible straits that the arms-control problem will then take care of itself.

Phyllis Schlafly is the author of 13 books, including five books on defense and foreign policy: *Kissinger on the Couch* (1975) and *Ambush at Vladivostok* (1976) covering the Kissinger years; and *The Gravediggers* (1964), *Strike From Space* (1965), and *The Betrayers* (1968) covering the McNamara years. She is a member of the Commission on the Bicentennial of the United States Constitution, by appointment of President Reagan. She is an attorney, admitted to the practices of law in Illinois, Missouri, the District of Columbia and the U.S. Supreme Court.

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