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Current Notes and Comments

Détente and Dollar Diplomacy

Soviet trade and credits have become enmeshed in the debate over détente, human rights and the role of Congress in foreign policy. Issues have become confused and distinctions blurred. The debate now is seen as one between supporters and opponents of détente.

But détente is not the issue. Whether viewed as an evolving process which creates conditions for agreement on substantive issues—or as an end in itself—détente has no opponents.

The methods by which détente is pursued are issues. The extent to which the high expectations of Mr. Nixon and Secretary Kissinger are realistic is an issue. But détente is not an issue. Trade is not an issue.

The issue is whether and to what extent unlimited United States capital and free access to United States markets should be dangled before foreign countries in an attempt to influence their policies. The issue is largely to what extent the United States should subsidize the development of the Soviet Union in order to obtain short-run economic benefits and seek to influence Soviet policy.

The next step toward détente should be a realistic perception of these issues and the interests and motives of both sides. For three years the Soviet Union and the United States have been the victims of illusion; now their expectations are disappointed. If the Soviet Union expected to become a major recipient of foreign aid from the United States after acquiring our wheat reserves and $1 billion in subsidized credits, it was mistaken. And if the United States ever expected the Soviet Union to forego its interests in Indochina, the Middle East or anywhere else for a détente premised upon cash, then it was foolishly mistaken.

Perhaps now the process called détente can be renewed upon a foundation of reality, instead of the illusion fostered by presidential posturing in Moscow and the Delphic utterances of an itinerant Secretary of State. If so, something will have been gained from recent events which have been labeled, too loosely, setbacks for détente and trade with the Soviet Union.

Now let me suggest some considerations which ought to be part of any effort to bottom expanded economic relationships and détente on firmer foundations.

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Trade and expanded economic relations with the Soviet Union should be pursued. They offer the possibility of mutual economic benefits and a climate more favorable to the resolution of underlying political questions.

But what kind of trade and on what terms? The conventional wisdom has it that expanded economic relations of any kind with the Soviet Union will improve all relations between the two countries and give each a larger stake in avoiding hostilities. This conventional wisdom has no historical foundation and is overly simplistic—though not without validity. Since the Soviet Union has a centrally planned economy, trade and investment opportunities depend entirely on acquiescence by central planning authorities. They are inevitably controlled by political, as well as economic, considerations. Opportunities which might exist in an open economic system are barred unless they conform to overall Soviet economic and political designs.

To date, most United States exports to the Soviet Union have been concentrated in the heavy machinery, transport and agricultural sectors. From 1970 to 1974 those sectors accounted for well over eighty percent of the shipments. Export-Import Bank assistance has been targeted almost exclusively for industrial development, chemical and fertilizer production, and oil and gas exploration. In most of the major ventures involving Western investment, the Soviet Union has insisted on commodity pay-back arrangements to guarantee a future export market. Soviet strategy is to welcome trade and investment which assists their own industrial development and future export potential. With certain limited exceptions, our access to the Soviet consumer market is excluded.

This attitude points up one of the limitations of East-West economic relations and makes it essential that the United States take a hard look at the implications for its own economic well-being, particularly where United States Government assistance is involved. At present, there is little in the way of Soviet goods which the United States wants. Over the last five years, Soviet sales to the United States were only a third of United States sales to the Soviet Union. The Soviet Union is counting on Western capital and technology to develop export capability to pay for goods from the West and is concentrating on the energy and raw materials sectors where the export potential is greatest. In a very real sense then, assistance to the Soviet Union will be repaid with resources which that assistance helped develop.

Already, long-term worldwide demand for energy and raw materials insures continued improvement in the Soviet Union's already strong balance of payments position. United States-assisted industrial output in the Soviet Union could in time provide strong competition for Western goods. And allocation of United States resources for energy and raw materials development in the Soviet Union to the neglect of our own could increase already dangerous United States dependence on foreign sources for essential raw materials, including energy.

The issue is whether United States trade with the Soviet Union should be subsidized through unlimited export credits without periodic Congressional scrutiny. Government export credits are subsidies for the export sector and foreign buyers. As such, they confer benefits on the Soviet Union as well as all other recipients. Through the Export-Import Bank, financial resources are transferred at below-market rates to the export sector of the economy. The result is a reduced supply, and thereby increased cost, of capital for other sectors of the economy. With Exim subsidized credit, foreign buyers pay less and, therefore, trade fewer amounts of their goods for a given amount of United States goods. The economy is thus that much poorer, despite the fact that the aggregate level of exports may have increased.

Awareness of the economic consequences of government export credits helped frame the Exim debate in the last Congress, not only as it applied to East-West financing but to Exim activities in other parts of the world as well. No longer was Export-Import Bank assistance regarded as costless. Last year over $5 billion of private capital was committed to the export sector through Exim Bank lending at an estimated interest subsidy cost of over $400 million.

Measures were taken by the Congress to insure consistency between Exim activity and United States policy. Major Exim projects throughout the world were made subject to prior notification to the Congress. The Export-Import Bank was directed to scrutinize financing for parent-subsidiary transactions more closely. It was directed to examine more carefully the availability of private sources of credit in lieu of government credit. And it was directed to weigh the domestic economic consequences before making its credit available.

In the case of the Soviet Union, Congressional attitudes about government credits were influenced by the knowledge that most Exim credits in the Soviet Union were long-term and for large projects capable of producing goods in competition with United States industry and labor. They were influenced, not by any desire to discriminate, but by the Soviet Union's overall economic strength. The Soviet Union has enormous resources of oil, gold and other raw materials. It is the world's largest oil producer. Its gross national product is second only to our own. It is almost completely insulated from the economic distress of the rest of the world. And OPEC oil price increases, which the Soviet Union first encouraged and then took advantage of, have conferred substantial additional benefits.

The Soviet Union's balance of trade moved from a $1.7 billion deficit in 1973 to a $1 billion surplus in 1974. The Soviet Union is in a position to pay cash for its imports, and in dealings with West Germany has demonstrated a willingness to do so. In this context, serious questions arise about the need for indiscriminate subsidized credit.

It should be emphasized that the issue is not all credit, but subsidized credit. Export credits are a normal and necessary part of international trade. But when credits are subsidized, the use of public funds is involved and the responsibility to insure that those funds are spent wisely cannot be avoided.

Some argue that without unlimited subsidized credit, United States-Soviet trade would dry up. But the evidence is to the contrary. For one thing, private credit from United States banks is becoming increasingly available. For another, preliminary figures for early 1975 indicate that trade between the two countries is likely to be at an all time high during 1975 despite the complete lack of Exim credits. For the longer term, the billions of dollars in joint ventures currently under negotiation suggest that trade and investment are expanding, not contracting.

Of course, the Soviet Union would prefer government-subsidized credit. With worldwide inflation and growing resource scarcity, the value of Soviet gold, oil and raw materials holdings increases. Rather than trade gold and oil now, the Soviets would prefer to hold them while their value increases, meanwhile repaying foreign loans with currencies depreciated by inflation.

From a public policy point of view, it is essential to ask what purpose is served the United States by government credits. What is the cost to the United States? And what has been and can be achieved by credits the Soviets do not need?

The Administration sees credits as a device for achieving its political objectives. From 1972 to 1974 United States credits became a cornerstone of the Nixon overtures to Moscow. In a year and a half, the Soviet Union received almost half a billion dollars in six percent Exim loans. By the end of fiscal 1974, the Soviet Union had become Exim's second largest customer. In the same period, the Soviet Union also received more than $500 million in other United States credits to buy American grain on preferential terms. The grand total thus came to more than a billion dollars in subsidized United States credits for the Soviet Union over a two-year period.

At present, it remains to be seen what, if any, benefits have accrued to the United States or whether the Nixon method of pursuing detente will endure. To all appearances it has been a highly profitable venture for the Soviet Union so far and a highly expensive one for the United States. We have given up our wheat, our credits, also our strategic superiority, with nothing as yet gained in Indochina or elsewhere.

Large questions arise about the effectiveness of dollar diplomacy. In my own judgment political objectives will not be achieved in the Soviet Union by the grant or denial of credits. Soviet repudiation of the 1972 trade agreement illustrates the issue. Rather than brook a perceived interference in its internal affairs, the Soviet Union chose to deny itself the benefit of United States credits and most favored nation trade status.

Nations do not permit their perceptions of self-interest and their policies to be changed by cash. Henry Jackson and Henry Kissinger both have been disappointed. Credits are withheld, and Soviet emigration policy is not liberalized. Credits and other concessions have been granted, and evidently it was naive for Secretary Kissinger to think that in the name of a detente pursued by such means, the Soviet role in Indochina or elsewhere would be altered.

The $300 million ceiling on Exim credit which finally emerged last year was prompted by an awareness of these limitations, but also by an appreciation of the connection between economic and political issues. It reflected a desire for continued Exim credits subject to periodic reassessment, given the uncertainties of United States-Soviet relations and the questionable pursuit of détente with credits.

The ceiling does not impose a $75 million per year limit on such credits. It does not place an absolute ceiling on future credits. And it does not require the Congress to approve each credit in excess of $300 million. All it provides is that if the President wants to extend more than $300 million in addition to the almost half-billion dollars already granted, he must find it in the national interest to do so and seek and receive Congressional approval for a higher ceiling.

He could do so tomorrow, next week or next year. Presumably the Congressional response will depend on some evidence of progress toward a détente that is more than a one way street for aid to the Soviet Union.

When the President requests an increase in the ceiling, an opportunity will be provided for reassessing the economic implications, as well as the progress in overall political relations.

At this juncture the question of credits to the Soviet Union is mooted by the emigration provisions of the Trade Act—the enactment of the Jackson Amendment and the so-called Kissinger compromise. No credits are available until the President certifies that he has received assurances of progress on the emigration question. At the present time, he cannot deliver such a certificate because Foreign Minister Gromyko has disclosed that the Congress was misled; there never was a Kissinger compromise—except perhaps in the vaguest of forms.

The efforts afoot to eliminate the credit ceiling miss the point. $300 million of credits would be immediately available, except for the hurdles of the Trade Act. Elimination of the ceiling would do nothing to change Soviet policies on emigration and, therefore, the credit ban of the Trade Act will continue in effect.

It is unrealistic to expect any significant movement on this issue in the immediate future. On both sides positions have been taken which reflect deeply held views from which neither side can be expected to retreat under pressure from the other. The spectacle of United States officials and prominent American businessmen obsequiously, or hungrily, joining Soviet officials on American soil to deplore or misrepresent American policy only hardens the resistance in the Congress.

The emigration provision of the Trade Act reflects high ideals. Not many are willing to subordinate them under pressure or for cash sales in the Soviet Union. The $300 million ceiling reflects a sober concern for the economic and political consequences and the price of dollar diplomacy.

Having said all that, let me add that movement is possible. The United States and the Soviet Union have differences on many subjects. The most explosive is the Middle East. Progress in a multilateral context toward a guaranteed settlement in the Middle East might lay the foundation for reconsideration of the MFN and credit links to emigration.

A Middle East settlement could open opportunities for settlement in Israel, help achieve the goals of free emigration, and pave the way for reimplementation of the broken trade agreement. Evidence of Soviet cooperation on some matter of significant mutual interest would not go unappreciated in the Congress. But at present, there is no such evidence.

Now that the dust has begun to settle on last year's legislative efforts, it is important to consider some of the lessons. In my judgment, there are several:

United States economic policy in the Soviet Union must receive continued scrutiny to insure consistency with United States interests.

We cannot ignore long-term economic and political interests for the sake of short-term economic gains. When allocated to industrial and energy development, instead of routine sales of finished United States goods, credits take on the character of foreign aid. It is misleading to contend that all that is at stake is a boost for United States exports. These exports accelerate the development of the Soviet Union as a force to contend with in the markets of the world. Soviet emphasis on the development of truck factories, energy and other basic resources, while excluding Western access to consumer markets, must be seen as part of a continuing strategy aimed at enhancing future Soviet economic power. That power could be used to the detriment of our commercial, as well as political, interests.

It is argued that if the United States does not make credits available others will. That argument is only partially true. To the extent it is true, it behooves the United States to convince its European allies and Japan of the folly of export credit competition. The recent extensions of billions of dollars of below-market credit by Britain and France reflect a beggar-thy-neighbor attitude which in the long-run does no one any good. For the United States, the Europeans and the Japanese to outdo each other in supplying low-cost credit to the Soviet Union reflects a disturbing disarray among the industrialized democracies all too reminiscent of the early thirties. While Western democracies struggle to repair tottering economies, totalitarian regimes profit at our expense. While the Western alliance comes apart, the Eastern alliance is glued together by force and Soviet oil.

Another lesson for United States policy is an awareness of the possibilities and limitations of economic policy for the achievement of political ends. Political relations between the United States and the Soviet Union are in a stage of transition. Economic policy has a role to play in that transition, but it must be used discreetly. Multi-billion dollar government credits in the U.S.S.R., all, of course, subject to repayment could increase Soviet leverage. The United States has no obligation to supply unlimited economic assistance to another nation, let alone a nation with a growing payments surplus and GNP second only to our own. The value of credits to the Soviet Union is marginal. At no time did it cite Exim credit restrictions as the cause of its repudiation of the 1972 trade agreement. Moreover, throughout the six-month period when the credit ceiling was pending in the Congress, Administration spokesmen made it clear that the limitation was one they could live with. The Secretary of State himself, although given ample opportunity, raised no strenuous objection.

This brings me to my final point: greater candor from the Executive Branch. Secretary Kissinger's failure last year to disclose the existence of Mr. Gromyko's letter denying the existence of the Kissinger compromise deprived Congress of an opportunity to learn that the United States and the Soviet Union were on a collision course with passage of the trade bill. Subsequent attempts to shift blame for the collapse of the trade agreement to the Exim legislation, and the characterizations of the initial $300 million as "peanuts" were disingenuous and self-serving. Cooperation between the branches would be enhanced by candor.

I have not taken the time in this extended talk to discuss trade with Eastern Europe. The considerations there vary, country by country, but in the main there will be little Congressional opposition to MFN and selective grants of Exim credits. I know of no disposition to prevent either credits or MFN for Rumania, as the President has recently proposed. On the contrary, the political and economic considerations argue, it seems to me, for discreet efforts by the United States to normalize commercial relations with all the autonomous nations of Eastern Europe—and we are doing so. The President is not severely impeded by the Trade Act, as the anticipated Congressional response to his proposed trade agreement with Rumania indicates.

We all look forward to a new era of expanded trade as well as progress on the political issues, including SALT, the Middle East and force levels in Europe. The political matters are moving independently of trade—and even on trade, the momentum continues. Little has changed, except that the United States is stripped of illusions and deprived of expensive methods that were not working satisfactorily anyway. Both sides have a chance now to resume the normalization of commercial relations sought by many of us long before Nixon and Kissinger made it fashionable, but without resort to wheat deals, personalized or secret diplomacy and the illusory expectations which they create.