It means putting a premium on science and technology.

Siberian development is science-intensive, requiring a constant generation of new technologies to withstand climatic and other unique conditions in the Far East. The long-term agricultural program for raising meat and other food consumption in the Soviet Union to "scientifically established norms," as Brezhnev promised last summer, centers on mechanization and the construction of agro-industrial complexes, or farm-food factories.

In capital construction, Soviet planning chief Baibakov noted that the portion of investments going to machinery (equipment) would rise again from last year's 36.8 percent. And in the electric power sector, where overall growth is to be 4.8 percent, high-technology nuclear power generation will leap by 21 percent.

Industry in 1979: gap to be narrowed

The growth rates announced by Baibakov for 1979 are higher for the key parameters of National Income and Industrial Production than in 1978, but 1978 was one of the slowest years for Soviet industry since the war (see Table I). It appears that the 1979 plan will be considered a success if the gap between the original five-year course charted for 1976-1980 and what has actually been accomplished does not widen any further, as it continued to do in such industries as construction materials and chemicals this year (see Figure 1, 2, and 3).

The uncertainties facing the economy were underscored when planning chief Baibakov failed to give overall quantitative targets for some industries, including steel. The 1978 steel plan of 154.6 million tons will not be met, since the projected year-end result is at best 152.5 million tons.

The basis for setting higher overall growth rates for 1979, as well as for the surpassing plan fulfillment in 1978 (despite the shortfall in key sectors such as steel), is not yet an anticipated long-term recovery. Both reflect the immediate impact of a vastly improved agricultural performance in 1978, which has had ripple effects throughout the economy. Brezhnev announced a grain harvest of 235 million metric tons, the highest in Soviet history and almost within the range set for the *next* Five Year Plan, 1981-1985. Rebounding from the disappointing 1977 harvest of 194 million tons, the crop signals a better chance of recouping from the 1976-1978 slide of the plan pace.

The farm sector, however, cannot be counted on to jolt the Soviet economy forward. Recapturing the high growth rates of the 1960s (five-year industrial growth went from 50 percent in 1966-1970 to 43.3 percent in 1971-1975 to the current period's planned 36 percent, which will not be met) will mean steps to reverse stagnation in the key economic sectors which determine future growth: machine tools, capital construction, energy. This can happen only through the expansion of East-West trade, now playing a marginal role in Soviet growth; imports from the advanced capitalist countries have hovered at the equivalent of only 10 to 11 percent of Soviet investments since 1975.

— *Rachel Berthoff*

The debate over the

As the new European Monetary System moves toward its Jan. 1, 1979 implementation, the months-long debate in the Soviet Union and other socialist countries over the new institution is coming sharply to a head. The fight is between those who see the EMS as a way to implement a "Grand Design" for East-West detente, and those who would push the USSR into the role of a petulant outsider, gloating over what is perceived to be the inevitable collapse of capitalism.

This battle is now raging openly on the pages of the Soviet press. *Pravda*'s authoritative International Week column of Dec. 17 — written by Arkadii Maslennikov, author of numerous recent articles cheerleading the collapse of the dollar — delivered the most powerful blast against the EMS to appear in the Soviet press to date. The fact that Italy acceded to pressure from "the leadership of the European Economic Community (EEC) and local conservative circles," and decided to join the EMS, Maslennikov wrote, "confirms once again that the 'European Monetary System,' like all the policies of the 'Common Market,' is being developed by the monopolies, in the name of the monopolies, and for the monopolies." He went on to cite a spokesman of the French Communist Party that the EMS is a scheme for the domination of Europe by "West German corporations."

In the next day's *Pravda*, a quite different and unprecedentedly accurate analysis emerged. The newspaper's London correspondent wrote that Ireland's entry into the EMS "provoked a shock in London and especially in the financial circles of The City. . . . Dublin's decision unquestionably far exceeds in its importance the framework of a mere 'Common Market' problem. It indicates a most radical step on the road to financial and economic independence by the former British colony, since for the first time the Irish national currency is splitting from the pound sterling, to which it has been linked up to now."

The real story behind the Soviet debate on the EMS first broke in the *Executive Intelligence Review* of Sept. 26 - Oct. 2, 1978. The *EIR*'s Stockholm bureau discovered an article in the July-August issue of the Moscow University *Bulletin/Economics* by A.I. Stadnichenko, a senior economist at the Institute of Oriental Studies of the Soviet Academy of Sciences. Stadnichenko vigorously defended the use of gold in *all* economic systems, and predicted a revival of gold on an international scale in the near future. This is one of the crucial features of the new EMS.

Stadnichenko identified the International Monetary Fund and its political supporters as the main enemies of gold, and labeled the IMF's Special Drawing Rights (SDRs) as their main weapon in the "antigold campaign."

Most importantly, Stadnichenko attacked by name the Soviet economist who has most vociferously backed antigold, pro-SDR policies, G. Matyukhin of the Institute

EMS breaks open

of the World Economy and International Relations (IMEMO). Since the Stadnichenko piece appeared, Matyukhin has authored a major *Pravda* feature attacking the European Monetary System.

After the *Executive Intelligence Review* drew international attention to this debate among Soviet economists, both sides in the fight have upped the ante. The Soviet news agency Novosti this week released for exclusive publication by New Solidarity International Press Service a condensed version of Stadnichenko's article, which we excerpt below.

At exactly the same time, Novosti circulated in its regular wire service an interview with economist Matyukhin, Stadnichenko's bitter opponent, attacking the EMS. Picking up the line which predominates in the British press, Matyukhin commented that "technical problems" will prevent the EMS from functioning as planned. "All these difficulties," he said, "will inevitably have an effect in the future too, because the transformation of the EEC's monetary relations can in no way affect the basis of capitalist production."

Debate matured over years

A review of the exchange of polemics between Stadnichenko and other Soviet economists indicates that this debate built over a period of years, until it jumped from the pages of academic journals into the Novosti features. In earlier writings, up through 1976, Stadnichenko has espoused a gold-backed monetary system, but only in 1977 did he take on Matyukhin as an opponent whose views had to be defeated for the sake of a sound Soviet policy.

This occurred when it became clear to Stadnichenko and his cothinkers that the monetary destabilizations in the West were jeopardizing East-West trade. In a July 1978 review of Matyukhin's 1977 book *Problems of Credit Money Under Capitalism,* carried in the journal *Money and Credit* side by side with a review Stadnichenko wrote, the economist D.V. Smyslov explained the importance of the gold debate: ". . .(This) kind of analysis is also necessary in connection with the practical requirements of the course being followed by the Soviet Union in developing relations of long-term mutually advantageous economic cooperation with capitalist states."

Unlike the Soviet economists who view gold as outmoded today, explained Smyslov, Matyukhin traces the problem to the invention of "credit money" at the dawn of capitalism. Credit money ousted gold, and at the national level, paper money evolved to the point where now a national currency (the dollar) serves as an international reserve currency. Matyukhin's idea of the solution, which he passes off as an "objective" and "progressive" tendency in contemporary capitalism, is the issue of international banknotes by a supranational central bank — hence his fascination with SDR's.

Eastern Europe joins the fray

Now the debate is spreading throughout the members of the Council for Mutual Economic Assistance, the socialist countries' economic community. Proposals are currently on the table for establishing a higher degree of cooperation between the CMEA and the EC — a goal which, if achieved, could serve to link up the CMEA economies to the new European Monetary System. Efforts to secure a cooperation agreement have been stalled for many years.

The issue was taken up by the Polish magazine *Politika* of Nov. 25, which published an article by Michal Dobroczynski that regretted the "artificial divisions" between the two halves of Europe. "The efforts to concert the principles of cooperation among the states of the two groupings," he wrote, "should be aimed not so much at the parochial interests of this or that subregion of the European economic region as at the common interest represented by mutually advantageous, dynamic and comprehensive all-European cooperation devoid of discrimination." While framed as a criticism of the "overwhelmingly technocratic" nature of the EC, Dobroczynski's words might equally well be directed at the opponents of all-European cooperation within the CMEA.

—*Susan Welsh*

Stadnichenko on gold's economic function

From "On the Question of the Evolution of the Economic Function of Gold," by A. Stadnichenko, Novosti Press Agency.

...The Soviet ruble, as a gold unit, has a fixed gold content. Since 1961 it has been equal to 0.987412 grams of gold. During the period between the First and Second World Wars, more than one attempt was made under the initiative of the United States of America to boycott the Soviet Union's gold in international currency transactions. Measures were taken to prevent an increase in the world price for gold, ways and means were discovered to limit the use of gold in international currency transactions in general. The question of gold and of the medium for international circulation became particularly acute during the world economic crisis of 1929-1933.

The crisis particularly crippled currency circulation in the world and did great damage to world trade. During the period from the First World War up to and including the world economic crisis, the largest part of the world's gold reserves were concentrated in the USA, making it the most important financial and economic power of capitalism. The ruling circles in the USA used this circumstance to get out of the crisis by introducing the American dollar into international circulation on the broadest possible level at the cost of other countries.

They based their speculation on the following: Since a considerable portion of the world's reserves of monetary gold was already concentrated in the USA, and since the government forbade private banks and citizens from using gold in international transactions, the dollar would be used extensively. The reality of this speculation was also reinforced in that calculations in dollars between central banks were to be in accordance with the above-mentioned gold content of the dollar. But because the gold content of the monetary unit, in this case the dollar, remained constant, the gold standard also consequently remained constant in transactions between central banks. As the well-known French economist and financier Jacques Rueff said, "President Franklin Roosevelt did not do away with the gold standard in 1934, he reconstituted it. It was understood that it was a special kind of gold standard, only for the central banks."*. . .

The U.S. abandons gold

However, by the middle of the 1960s it became clear that the USA, which allowed itself to be carried away by the arms race, the Cold War against socialist countries, and the Vietnamese war, was seizing on the issuance of excess dollars and the introduction of these dollars into the international currency channels and the reserves of other countries in order to cover its balance of payments deficits. This American currency and financial policy led to the dollar being devalued as an international currency and degraded. The former ratio of 35 dollars to one ounce of gold changed in the sense that the price of gold in dollars increased, even though in the 1960s people attempted to prevent this with the help of the so-called gold pool that was established on the initiative of the USA.

The price of gold overthrew the controls on it, and towards the end of that decade it became clear that even the "goldpool" itself, to which the leading capitalist countries belonged and which had the task of controlling the price of gold, had not grown. The official price for gold and its market price were finally separated from each other: the former remained unchanged, while the latter continued to increase.

Towards the middle of the 1960s, the USA was first presented with the problem of a lack of gold. According to the law that was valid at that time in America, all of the bank notes and bank deposits that were in circulation had to have 25 percent of their value covered by gold in the form of an official gold reserve up until the time that they were claimed. But when the amount of money issued increased very sharply at that time in conjunction with the Pentagon's war adventures, then the danger existed that the amount of gold that was needed to cover 25 percent of the value of the bank notes in circulation could exceed the USA's entire gold supply. The law would then have shown itself to be unrealizable. As a result of all of this, the question was posed about first suspending the law requiring a gold reserve cover for bank deposits, and later for the banknotes in circulation inside the USA.

The suspension of the law requiring the 25 percent cover for deposits first, and then for the banknotes circulating in the USA, was represented in the middle of the 1960s as a measure that had secured the release of gold reserves in order to guard against the unhindered exchange of the dollar for American gold in case the central banks of other countries would demand this. In order to build up a foundation for the thesis about the allegedly self-initiated demonetization of gold, there was increased propaganda for the idea about the creation of a supernationally controlled currency ("paper gold"), which was to be issued under the leadership of an international center. The International Monetary Fund, whose foundation dates back to the 1944 Bretton Woods conference on currencies and finance, was to function as such a center. Since that time the IMF was under the aegis of the USA. As a prototype for such a currency, a so-called Special Drawing Right (SDR) was to be introduced into the IMF's range of operations. It was to play the role of a world monetary credit, that would replace gold. . . .

. . . At the end of the 1960s, the demonetization of gold became the number one theme in the Western press, as the gold price rose in all the world markets. . . .

The IMF and the SDR

The creation of the SDR in 1970, originally in the amount of around 3.4 billion dollar units of SDR (it was equal to the dollar before the dollar's devaluation) should, according to the view of the IMF director, have steered the disputes about the dollar's hegemony and the demonetization of gold (i.e., its change into the monetary function of a cash commodity) onto the road toward the discussion of the problems of the creation and gradual development of the supernational currency. This actually did happen in reality. Many economists considered the SDR to be a kind of embryonic form of a world currency and tried even more zealously to prove that even if gold had not yet forfeited its functions as money, it was gradually forfeiting them.

There were adherents of this viewpoint even among Soviet economists. And in order to give it even greater persuasive power, a couple of them even seized on the version that the gold standard had generally ceased to exist a long time ago. They tried to convince the reader that there had been a collapse of the gold standard as a consequence of the world economic crisis from 1929-1933. If one accepts this version, then it follows that gold had forfeited its monetary functions for over 40 years and that in the meantime capitalism had learned to get along without gold in its currency and financial transactions.

*"The Role and Rule of Gold: An Argument," Jacques Rueff and Fred Hirsh, *Essay in International Finance*, 1965, N. 47, June, International Section, Department of Economics, Princeton University, New Jersey.

Naturally, in reality something different has occurred, and this is proven, for example, by the postwar system of the Bretton Woods gold currency standard. . . .

It is understood that the value calculated for the SDR is dependent above all on those currencies that make up the greatest section of the "currency basket," and first of all, on the U.S. dollar. But because the dollar is a tool of the USA's expansionary policy, which is characterized by a deficit in the balance of payments, this means that the SDR is also an instrument of this policy. The abrupt currency fluctuations of a string of other currencies also influence the value of the SDR, which has changed from being a currency stabilizer and a currency "numerical factor" into an unstable, abstract index of the chaotic changes in currency values. . . .

The SDR's failure

The SDR could under no circumstances become a world currency with the money function of gold, which according to Karl Marx is the form in which exchange value is conserved as value. As life teaches us, the most extreme instability in capitalist circulation does not at all hasten the "demonetization" of gold, and the transition of international settling of accounts to an artificial form of international, supernational money. The facts show that, on the contrary, the role of gold as a world currency has even increased in recent years. That is clear first of all from the daily increasing price of gold, which is expressed in dollars and other currencies. The attempt to stabilize the gold price through the sale of a portion of the gold at the IMF's disposal has failed completely. . . . Such auctions have become a standard event that does not noticeably influence the free market in gold. The circulation of gold as the money metal has expanded, particularly in the U.S., whose official propaganda cried for "demonetization" of gold louder than anyone. Today settlements are carried out in gold daily, as the business in the IMF's official gold auction has doubled and then quadrupled.

The growing popularity of gold is doubtless traceable to fear of an inflationary upset in the buying power of the dollar. Under such conditions the current Administration of the USA regards it as no longer possible to obstruct this fact, and has therefore abolished all restrictions on gold operations, that had previously been imposed under the slogan of "demonetization.". . .

How and in what form the further strengthening of the money function of gold will proceed in worldwide terms will be shown in the near future. But it is a fact that this process is going ahead, and that all theories about the creation of an artificial supernational world currency, etc., will disappear as suddenly as they appeared.

U.S. business: more East-West trade

"How can Carter be so stupid, when the solution to the U.S. trade deficit and depression conditions in the United States is staring him directly in the face," a member of the recent U.S. trade delegation to the Soviet Union asked this reporter. "It's no longer just irritation with the Administration on this question," said another, "it's exploding rage."

The sentiment was typical among the 400 U.S. businessmen who attended a week-long trade conference in the Soviet Union in early December put together by the U.S.-U.S.S.R. Trade and Economic Council. The anger of the businessmen was easy to understand for anyone who takes a cursory look at the relationship between foreign trade — especially with the Soviets — and industrial conditions within the U.S.

Those nations which are most rapidly expanding their Soviet trade base are the same nations that are advancing the technological output of their own economies at a growing rate. West Germany picked up on $5.5 billion in Soviet trade during 1977 and Japan grabbed up another $3.3 billion. The U.S., by contrast, exported only $1.8 billion to the Soviets in 1977, with $1.3 billion of that in agricultural products.

Without immediate and massive new markets abroad for U.S. industrial technology — and the biggest opening market for high technologies is the Soviet Union—investment and industrial output within the U.S. will continue to decline. The Dec. 25 issue of *U.S. News and World Report* predicts that based on the present rate of U.S. exports, the 1970 output of U.S. industry will change at a rate of zero, or decline, and that unemployment will jump from 5.8 percent in 1978 to 7.0 percent in 1979. Corporate profits, they predict, will go down 8.3 percent.

$10-15 billion on the drawing boards

The Soviets are aware of the American dilemma. Soviet President Leonid Brezhnev told the U.S.-USSR conference, with U.S. Treasury Secretary W. Michael Blumenthal and Commerce Secretary Juanita Kreps present, that the Soviet Union had already on the drawing boards a list of 28 big projects worth $10-15 billion that they were exploring with American companies. But, Brezhnev added, "I must tell you directly that it will be difficult to realize many of the projects without eliminating U.S. discrimination against the Soviet Union in matters of trade and credits. We can trade with you, of course, under the present conditions. But no substantial increase in trade should be expected in this case."

Secretaries Blumenthal and Kreps attempted to calm the businessmen by assuring them that "the attitude of the United States government toward trade is changing," according to C. William Verity, chairman of Armco Steel, Inc. and cochairman of the U.S.-USSR Trade and Economic Council. As a gesture, reported Verity, Kreps