

Remarks on Illusions Concerning Feasibility of T-Ruble Convertibility

by Lyndon H. LaRouche, Jr.
New York City
December 27, 1976

*[Published in **Executive Intelligence Review**, Volume 4, Number 1, January 4, 1977. View [PDF of original](#) at the LaRouche Library.]*

Recent policy statements released by the Council for Mutual Economic Assistance's IBEC discredit prevailing presumptions among U.S. banking and related circles, presumptions to the effect that such a potent option did not exist in practice for the CMEA at this time. This upsetting of earlier estimations among U.S. circles might be regarded as consistent with a current tendency to govern the affairs of this nation by a policy of successive strategic miscalculations.

The principal features of the CMEA system which had been adduced to the consoling effect of proving that what has just happened could not occur are the evidences to the effect that the CMEA financial and related operations are permeated with irregularities. These ostensible (sometimes very real) irregularities are cited to show that such problems must be corrected before TR convertibility could become more than an administrative technicality.

This cited sort of critical appraisal of the CMEA has two principal defects, one laughable, the other appropriate for systematic treatment. The howling irony in the rather self-righteous criticisms of the CMEA I have encountered from relevant U.S.A. sources is demonstrated by considering how the internal affairs of the principal lower Manhattan financial institutions must appear to an analyst advantaged by the relative objectivity of a Moscow office. The point for systematic criticism is the pervasive fallacy of composition which permeates the U.S. sources to which I allude collectively here.

In general, the conduct of the affairs of CMEA institutions is overall governed primarily by the kind of economic warfare environment in which those institutions operate.

Overall, from its beginnings the Soviet Republic has been dominated in its external and internal relations by its status as a besieged-garrison state. From the outset, Soviet foreign trade and financial operations have been governed predominantly by the view of these operations as governed twofoldly by economic-warfare policies, the economic warfare which

has been predominantly consistent since Versailles on the external side and for which situation Soviet financial and trade activities are counter-measures on their side.

The relevant question evoked by the consequent irregularities in Soviet and CMEA practices is not whether these are irregularities arising from economic-warfare circumstances, bureaucratic ineptness, or otherwise, but the ability of the Soviet and CMEA system to maintain the elasticity-in-depth to sustain the disadvantages so incurred.

Second, in analyzing the Soviet and CMEA it is indispensable to emphasize that the very nature of the social-economic system assigns to short-term and intermediate-term developments and fluctuations a much, much lower order of relative importance that is appropriate for analysis of financial and trade operations in the OECD nations. Here, the elasticity-in-depth of the Soviet system becomes dominant. If the net effect after discounting short-term phenomena is to enhance the long-term elasticity or merely to “buy time” for internal development of greater such elasticity, the short-term problems are to be regarded as effectively smoothed-out.

Third, overlapping the two cited points, the essential economic data to be studied are a comparison of the real capital formation rates in the OECD and CMEA countries. Here, the magnitude of real capital formation is of relatively lesser importance than the net rate of new real capital formation (after replacement and maintenance). If the Soviet-CMEA rate is higher than the current rate of the OECD nations, the convertible ruble can operate at a decided advantage to the dollar at the TR-dollar interface.

Provided that the Soviets and CMEA restrict their indebtedness to the dollar and other OECD sources to short- and intermediate-term credits or to payment “in kind” from new production facilities created, provided that the net rate of real capital formation is relatively higher in the Soviet than in the OECD sector, the relative elasticity-in-depth of the TR ruble (under recently proposed terms) as a reserve currency for nested, multilateral trade-and-credit agreements is enormous with respect to the dollar.

The type of financier mentality most appropriate to lower Manhattan is more or less inherently incapable of understanding the implications of those combined points, because he can not accept an economic analysis of the current OECD situation in terms of the methods uniquely appropriate to study of the Soviet-CMEA sector. The Soviet economy as an economy is more or less comparable to the kind of U.S. economy implicit in the proposal for the Third National Bank. That is, the Soviet economy operates on principles directly analogous to a pure industrial capitalism. Monetary processes are of course superimposed as an essential complement to industrial processes, but those monetary institutions and their functions are subordinate to the primary industrial interest—whereas, in the U.S.A.,

industrial development is subordinate to the primary interests represented by financial institutions.

This difference between the U.S. and Soviet economies, treating them as if both were capitalist economies, is that accumulated monetary instabilities in the Soviet economy can be settled politically by a stroke of the pen. Hence, the strength of TR-linked monetary systems depends not upon the current financial practices but upon the possibility for establishing a workable, durable monetary system on the basis of the net rate of real capital formation of the Soviet and CMEA economies.

In general the Soviets and CMEA can absorb relatively indefinite amounts of credit, to the extent that the growth in the resulting net rate of real capital formation is greater than the rate of payments so incurred.

In practice, such growth is bounded by the advances in Soviet productive technology and the ability to expand the Soviet industrial labor force. Increased capital formation itself will accelerate Soviet productive technology. The principal internal source for increasing the industrial labor force is agriculture. In general, modern technology applied to Soviet agriculture determines the rate at which the industrial labor force can be expanded.

This could be augmented if the Soviets could realize the objectives of the emergent TR policy: stable agreements which would permit the CMEA sector to plan long-term division-of-labor rationalization of Soviet development with respect to European OECD and key developing nations.