

How we design and implement the emerging policy of détente, the weight we assign to human rights in the development of relations with the Communist nations, and the depth of our own commitment to individual liberty will prove decisive."

— Senator Henry M. Jackson
(*New York Times* 9/9/73)

The Human Cost of Soviet Trade

Martin and Dina Spechler

The momentum of East-West détente has grown with the summer visit of the agreeable and businesslike Leonid Brezhnev. A burst of treaties, agreements and deals has noisily signaled a singular achievement of Nixon-Kissinger diplomacy. To most Americans the sole objections, raised by Senator Jackson and others in the name of Soviet Jews and liberal dissenters, must seem unwelcome throwbacks of the cold war or at least a parochial intrusion. With world peace and free trade seemingly at stake, even many intellectuals hesitate to belabor the narrowing liberties of those dissident groups.

Both Nixon and Brezhnev agree that trade and arms reductions are practical. While neither disavows ideological competition, both now say it should be channeled to peaceful outlets. In an interview with American business executives, however, the Communist Party General Secretary insisted that mutual advantages could be had only if the customs and internal system of the USSR were respected. He warned, with some intentional vagueness, that some people's efforts to "correct" joint positive achievements would be detrimental to the national interest of the United States. Iuri Zhukov, spokesman for the Soviet ruling elite, complained in *Pravda* on February 27 of attempts to link trade issues to "matters which have nothing to do with these." For its part the Nixon Administration also opposes any linking

of these practical agreements to the questions of free emigration and civil rights.

Before sacrifices are made in the spirit of practical accommodation there is a need to explore the value of the détente, especially the promised multiplication of East-West trade. Academician Andrei Sakharov has pleaded that trade expansion constitutes a serious threat to the world. He believes technological aid will allow the Soviet regime to solve many chronic economic problems and will thus substantially strengthen the country. "As a result," he said recently in Moscow, "the world [will] become helpless before this uncontrollable bureaucratic machine." Why should the West cultivate "a country where anything that happens may be shielded from outside eyes—a masked country that hides its real face"? The famous nuclear scientist urged the United States to demand free emigration as the minimum price for such assistance.

But the American people are in a post-Vietnam mood. A Soviet Union increasingly preoccupied with China and with grain shortages simply does not seem as dangerous as once it did. Would it not be better to use trade contacts to encourage its evolution in the Hungarian or Yugoslav direction? Would not American intervention on behalf of dissidents weaken Brezhnev's position in the Soviet leadership and endanger the relaxation of international tensions achieved in the last decade? Unreasonable moralism, after all, kept us bogged down in Indochina for years with no clear gains. In politics, alas, one may have to deal with the devil. Better a devil we know. But what is the devil offering? How profitable is Soviet trade?

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No one will seriously dispute the fact that the USSR has up to now done little business with the United States and only somewhat more with Western Europe and Japan. The Soviet bloc as a whole buys only 4 per cent of the exports of all advanced capitalist countries. The USA had been sending less than 1 per cent of its exports to the USSR, and aside from extraordinary grain purchases in 1972, the recent increases have been minimal. In recent years Portugal has done as much business with us as the USSR. Official, hence aspirational, estimates for U.S.-Soviet trade over the next three years run to \$2-3 billion, a marked rise but still smaller than our dealings with individual European countries such as Italy or the Netherlands.

With no recent years of so-called normalcy to take as a benchmark, such predictions are hazardous. Judging by the last year (1972) in which U.S.-Soviet trade was determined mainly by commercial principles, Soviet imports plus exports during 1973 can be expected to total about \$1 billion. Much has changed in forty-five years, including America's need for energy. The volume the Soviets can purchase depends on whether they can sell petroleum, natural gas or other goods in the hard-currency area. Soviet deficits with the developed capitalist world had been about \$250 million per year before ballooning to \$1 billion during the disastrous harvest year 1972. Based on the best outside estimates of gold production and continued high prices for this Soviet export, a deficit of \$650-800 million might be sustainable through gold sales. Any larger amount would have to be financed by exports of natural resources.

Essentially the October, 1972, agreement with the Soviet Union, if ratified, would allow the USSR the same tariff rates most other nations enjoy for sales to the U.S. and equivalent credit for purchases. At first glance, reducing barriers to trade would seem to make sense. In fact, elaborate proofs advanced by international trade theorists have shown that reducing one, but not all, tariffs does not necessarily improve national welfare. Nor will the world's people, regardless of nationality, benefit from a move toward, but not all the way to, a system of free trade without monopolistic or other market imperfections. We would first have to know who would benefit and who would lose from a tariff cut and expansion of credits, and then judge.

Lacking any correct *general* presumptions for expanded U.S.-Soviet trade, one has to indulge in ad hoc and conditional analysis. Our view is that Soviet trade could be moderately valuable in certain circumstances, but not as rewarding as is sometimes implied. First, sales to, or purchases from, the Soviet Union might displace trade with other nations or domestic concerns. For example, capital equipment-makers might commit themselves to Soviet contracts and thus be unavailable to fill orders to increase the capacity of the U.S. or of other

countries. The recent sale of grain to Russia contributed to the dramatic rise in wheat and feed grain prices in this country. One effect was to redistribute income from poor and large families to farmers. By selling one-quarter of our crop, we allowed the price paid by housewives for the remaining wheat to rise by one-third to one-half.

Diverting trade to the Soviet Union could be worthwhile if it were exceptionally profitable or if it would employ the jobless in declining regions or industries. Steven Lazarus, Deputy Assistant Secretary of State for East-West Trade, has asserted that because Soviet-bound exports are labor-intensive, every \$1 billion increase would create 60,000 jobs in the United States. Surely this would be to the good, if true. But producers of heavy equipment, electronic instruments and feed grains are not likely to absorb the chronically unemployed. Despite Marxist beliefs in permanent U.S. overcapacity, we have not had for a number of years large numbers of unemployed people who can readily move to new areas and new jobs. The 60,000 would then be diverted from previous employment.

"[Détente without democratisation would be] very dangerous . . . that would be cultivation and encouragement of closed countries, where everything that happens goes unseen by foreign eyes behind a mask that hides its real face. No one should dream of having such a neighbor, and especially if this neighbor is armed to the teeth."

— Andrei Sakharov (press interview 8/21/73)

Another example of dubious gains from U.S.-Soviet trade is the provision for using American ships to transport one-third of the grain in the current deal. According to government claims, 43 ships were activated, bringing the U.S. Merchant Marine fleet to full utilization and 210,000 man-days of employment. This business, however, could be done only with a subsidy, and so the effect of the grain deal has been to prolong an activity which is not self-financing. The grain itself was sold with a \$300 million subsidy, though this may have been granted through negligence. All this is presumptive waste.

Current energy shortages in the U.S. make Soviet natural gas and oil attractive. For several basic reasons Eastern countries have been unable to sell much of their manufactured goods in the hard-currency areas of the world. Oil and gas, as well as traditionally exported nonferrous metals, can meet world quality levels and would be welcome in the future if the price were right. No one can assure us the price will be right—that the Soviets will be willing

to sell sizable amounts at prices competitive with domestic and best foreign sources.

Consider for a moment the natural gas the USSR can produce. Assuming that the Soviet Union can supply natural gas in quantity from the rich west Siberian fields, the delivered price might be two to three times the current wellhead cost from American fields. To be sure, industry sources predict a doubling of the domestic price by 1985. Let us assume outside experts confirm Soviet reserves and estimates of the costs of extracting and transporting it; the investment will still be immense—in the “North Star” project alone, \$6.3 billion. There is no conceivable way to guarantee a profit on gas deliveries made over the period 1980-2005, since we cannot predict how domestic prices may change. We should realize that even the announced \$15 billion to be repaid in gas deliveries is worth only \$4.3 billion *today*, assuming the commercial rate of discount for comparable securities. The simple economics of compound interest at present levels requires a truly mammoth return in the distant future if a \$6 billion investment is to pay off.

The attractiveness of Soviet oil is more compelling. Soviet oil prices might be 50 per cent higher than current U.S. prices, which are, of course, rising. Since the USSR has commitments to supply East Europe and has limited oil resources, it is unlikely that the Soviets can expand their sales of oil as substantially as their sales of natural gas.

The Soviet Union has not managed to export much of its manufactured goods to the developed West because both the quality of their products and of their marketing is poor. This might change with time. Already Soviet ships, watches, metallurgical and electrical equipment and tractors have entered competitive, hard-currency markets. Strange as it seems, imports of such items might be quite advantageous for the USA as well as desirable to Soviet leaders, who ideologically prefer to export “progressive” goods rather than raw materials. Judging by the few cost comparisons available, Soviet prices could be low enough. Manufactured imports would spur American competition, whereas multinational companies which control European sources may restrict supplies to maintain oligopoly prices throughout the capitalist world. Manufactured Soviet goods would provide us insight into advanced Soviet research areas. Technology, which moves below cost in world trade, would at least move reciprocally. The ties and political side effects would be greater than those that result from the sale of raw materials. U.S.-Soviet trade is often promoted as a way for Russians to learn about democracy. However much American businessmen with interpreters can impart of our system, Soviet engineers and managers selling in the United States will learn more.

Most of the support for the trade agreement has come from potential exporters. Former Commerce Secretary Peter Peterson wrote in August, 1972:

With the industrial and technological development of other major economies, the U.S. no longer has the monopoly it once enjoyed in the production of certain goods. Our overall trade balance is a melancholy reminder of these changed circumstances. The increased availability of high technology products elsewhere rendered some of our original curbs on exports to the Soviet Union increasingly anachronistic. The real loser from these particular restraints would have increasingly been the U.S. producer and worker, not the Soviet consumer or the Soviet economy. There comes a point at which we must face the fact that business is business, and if it is going to go on in any event, we might as well have a piece of the action.

It is not necessarily contradictory for a Commerce Secretary to push exports while his counterpart in Treasury assures us the balance of payments has been remedied and that, if U.S. corporations limit foreign investment and excessive wage increases, inflationary pressure at home can be remedied too. Certain views go with the job. U.S. businessmen have reported profitable and sizable sales to the Soviet Union in the past and would like to hold open the potential of an even wider market. The National Association of Manufacturers favors the October agreements. That is *their* job. Exploiting past research or the peculiar Soviet preference for American-built plants is all to the good.

“We are taking the position that we would not, as a government, take a formal public position. But we have also taken the position that insofar as we have influence in other ways, we could use it to the limit of our capabilities.”

— Secretary of State, Henry Kissinger
(news conference 9/8/73)

However, enthusiasm for trade with the Communists may not be well-founded. During World War II, U.S. business executives had more faith in prospects in the Soviet Union than anywhere else. A *Fortune* poll predicted U.S. exports of \$1-2 billion annually after the war. The U.S. Bureau of Foreign and Domestic Commerce was even more enthusiastic. All were mistaken. In view of the difficult negotiations and strict compliance standards normal when selling to the Soviets, it is not surprising that in recent years several major Soviet deals with U.S., European and Japanese firms have fallen through or turned out poorly. Still, if business were not asking subsidized credit or political sacrifices, one would hesitate to object to its proposals.

A business civilization believes commerce is in the public interest. David Rockefeller, whose Chase Manhattan Bank has led American finance to Moscow, said in May that broader trade will be good because "I am confident it will increase human contacts." Gerald Gold, president of the Enterex Commodities Corporation, put it this way: "How can a cold war last if the Soviet Union, East Europe and mainland China become the largest customers of the Western business communities?" The State Department's Mr. Lazarus has warned that "Economic isolation . . . generates political isolation, hostility and suspicion, and restricts the flow

"Too much ought not to be expected from trade by itself as a factor for peace, but a political detente can hardly hope to succeed if it has no economic counterpart. For that reason alone, it would be desirable that Congress grant to the President the authority he seeks to establish 'most-favored nation' terms of trade with Moscow."

— Editorial, *New York Times* (9/18/73)

of contact which could conceivably cause such tensions." Many Americans cling to the idea that trade promotes peace, despite many examples to the contrary. Soviet Russian trade with Nazi Germany peaked just before the Hitler invasion, as did Russian trade with Germany just before World War I. Trade is a so-called "mixed game"—both cooperative and competitive—and freer trade among capitalist powers, including czarist Russia, has often increased suspicion and harm.

It is said that trade might in time loosen Soviet political and economic controls. By propelling the Soviets into an automobile boom, we pressure them to spend on all the auxiliary services involved. Roads, garages, anti-pollution devices are all expensive and not warlike. Soviet enterprises might become dependent on Western research and development, and the government might hesitate to interrupt the interchange of technicians. Successful negotiations over the extraterrestrial environment, transport routes, commercial facilities and other transnational issues create a stake in peace. Exposure to Western ideas is supposedly tantamount to conversion, and movement of ideas and persons is assumed to reduce tensions. All these processes would work more quickly in Eastern Europe, with its greater reliance on international trade and traditional ties with Western Europe.

This roseate vision must not be too easily accepted as an accurate prediction of future developments.

The indications thus far are that increased trade contacts have led to heightened distrust of the West among Soviet leaders and stricter controls on the population. While admitting several thousand businessmen this year, the Soviets have increased surveillance. The current campaign to cow Solzhenitsyn and Sakharov and suppress the democratic movement is, according to observers on the scene, a corollary of top-level bargains. The official position is that the more the country is exposed to Westerners, the more vulnerable it is to ideological subversion. Domestic dissenters must not be given a chance to take advantage of this vulnerability. They must be controlled even more closely and censored even more strictly, else they will undermine the ideological unity and strength of the nation.

Pressure from Western businessmen for direct contacts with Soviet enterprises might help bring a certain measure of autonomy to some few of them. Efforts to compete in Western markets might motivate the leadership to attempt further economic liberalization. But it is just as likely that sales of U.S. computers will promote or sustain centralization, at least in the short run. Moreover, even if in the long run decentralization is encouraged by trade, it is questionable whether this will have any beneficial political results, internal or external. The award of more decision-making power to managers will not automatically lead to increased demands for, or concessions in, the realm of freedom of speech. The individuals and groups interested in economic efficiency are not, by and large, those concerned about cultural restraints, and unity between them is unlikely. (The former are administrators and economists who are part of the establishment; the latter are intellectuals who are not.) Nor is there any reason why decentralization of the economy will make arms procurement and war production more difficult and hence war itself less likely. The defense sector will continue to be awarded first priority in investment, allocation of supplies and assignment of personnel, no matter what organizational evolution the economy undergoes.

The effect of increased commitment to consumer goods and services will be similarly limited. The Soviets have never in the past foregone what they deem to be vital defense expenditures for the sake of placating consumers and are unlikely to do so in the future. Auto plants can be converted to war production and roads can be used for supplying troops should the need arise. As Soviet behavior in China has shown, exchange of technicians, too, will be readily cut if the foreign policy of the moment seems to require it. Commercial facilities and transport routes are valuable only in the context of détente. If U.S.-Soviet relations deteriorate, due to competition in the Third World or the emergence of a closer U.S.-Chinese alliance, for example, these achievements will be of little importance.

Nor is there much reason to hope that exposure

to Western ideas will win many converts—especially at the top. Americans do not generally realize that most Soviet citizens, certainly most of those who have committed their lives to service to the Party, are strongly devoted to their own system and values. Dissent is very much a minority phenomenon. To most Russians socialism is still the wave of the future—and the USSR, for all its faults, is the closest approximation to a just society mankind has created. Contacts are unlikely to change these basic attitudes, even if they reduce some suspicions.

But will they do even that much? Gestures of friendship may help to allay fears of America's aggressive plans. But Marxists are trained to look beyond words and gestures to real forces and hidden intentions. Nixon has a history of anti-communism, has linked grain deals before with "freedom" for Communist peoples, and is still perceived by Soviet America-watchers as a tool of big business. Moreover, several authoritative Soviet commentators have written during the last year that business competition from Europe has forced Nixon to agree to eliminate trade restrictions. Thus, he did not act, it is alleged, out of a fundamental devotion to détente and belief in the value of peace.

If trade will not necessarily yield any of these highly desirable results, it would still be of political utility if it were to bring about significant concessions in future negotiations with the Soviets. However, it is unrealistic to hope that present American generosity on most-favored-nation treatment and credit will be matched by future political compensation. Past American tenders have been rewarded by Soviet concessions on Jewish emigration and forbearance over Indochina, and future Soviet negotiators may see current American concessions as a warranted adjustment to the balance of power.

We ought therefore to seek concrete immediate measures in exchange for trade and aid, and not lay our hopes on future political gains or long-run changes in the Soviet system. While the Soviet leaders have never bargained away their domestic control, they have made meaningful, *carefully delimited* compromises. Trade is the most effective, credible counter we have for exacting proportional benefits from the USSR. A counter does little good if it is never put into the game. Linking free emigration to unrestricted trade makes sense tactically, even if one does not logically require the other. Amendment 79 to the Trade Reform Act would deny most-favored-nation treatment or credit guarantees to countries with nonmarket economies if they deny the right or opportunity to emigrate or set more than a nominal tax on emigrants. No outsider can guarantee that such a demand will be accepted, but it meets several tests for realism. Since emigration is a human right which the United States does not violate and which cannot be considered an internal matter of one country only, the demand can

be raised by our side with self-assurance. A majority of Congress favor the amendment. Restrictions on free emigration are readily discerned by casual visitors to the USSR. Moreover, the Soviets have their own reasons for wanting to satisfy this demand. Unlike toleration of dissent, which creates problems, emigration seems to solve security and control problems for the Soviets. The most courageous spokesmen for liberalization are permanently eliminated without adverse publicity in the West. The departure in the last five years of more than 65,000 Jews—who could have been exiled or jailed—accords with this interpretation.

Senator Jackson's amendment, unlike the suspension of the education tax, promises permanent, meaningful assistance to Soviet citizens. Eighteen Jewish scientists, including Professors Alexander Voronel, Mark Azbel and Benjamin Levich, have warned in an open letter of "short-range concessions for the calming of gullible Western trade partners," which will be valueless in securing rights. As knowledgeable insiders point out, the Soviet security organs have several ready devices to bar emigration. The tax is only the most lucrative. Potential emigrants have been searched, forced out of jobs and schools, refused visas without grounds, beaten and imprisoned.

Conceivably the possibility of losing scientists or writers could force some liberalization toward discontented intellectuals or higher pay. Regrettably, it will scarcely help ordinary Russians with no contacts abroad. We must be realistic about what can be done. An editorial in the liberal London *Economist* said that Europeans, in exchange for more trade, might require free contact, not tightly controlled exchanges of delegations. Such normal relations among people may develop in time, but free contact is hardly well enough defined to demand in negotiations.

Historical precedent, to repeat, gives us no assurance the Soviets desire trade credit or arms reductions enough to concede even free migration. Certainly, large-scale investments to be paid off in decades will improve the prospects of the current five-year plan and thus sustain a regime with few dramatic accomplishments in the 1970's. The present analysis does not suggest that SALT II should, or could, be a credible bargaining stake. Trade concessions could be. Granting equal access and credits to the Soviets will have marginal advantages for the United States, but more for the USSR—even if Western Europe and Japan don't go along. The USA has used trade for political and humanitarian purposes before. In 1911 the USA abrogated a seventy-nine-year-old treaty which had granted czarist Russia most-favored-nation treatment. American intent was to pressure Nicholas II and his government to liberalize treatment of the Jews. Despite considerable trade and fewer political complications, the move failed. It may fail now, but there are no convincing reasons not to try.