

Moscow will reduce the amounts provided. The Soviets warn that Soviet oil can simply be sold on Western markets and the proceeds used to buy more advanced Western products.

"The East Germans are the largest East European technology sluce and supplier for the Soviets," says Klaus Schroeder of the West German government-sponsored Institute for Science and Policy near Munich. "Soviet demands have put a large amount of pressure on the East Germans to modernize their industry."

#### GOOD PERFORMANCE

U.S. bankers argue that they have good reason to be wooing the East Germans. First, they say East Germany's economic performance is the best in Eastern Europe. Produced national income (basically, gross national product minus invoices) in 1984 rose by 5.5%, compared to 4.4% the year before. Net industrial production rose 8.5% against 4.6% in 1983. Industrial labor productivity increased 7.7% against 5.8% in 1983.

The bankers also cite a radical improvement in East Germany's external position. While East Germany's debt to Western banks of \$10 billion once was worrying to the banks, they have placed more emphasis on East Germany's buildup of deposits in Western banks to some \$4.5 billion.

Some also argue that a double umbrella exists over East Germany. They say the Soviets wouldn't allow their most important economic ally to enter into repayment difficulties and hence would bail the East German out. The bankers are even more confident about a West German umbrella, following Bonn's financial intercession during East Germany's recent problems.

"The proof is in the pudding," one U.S. banker says. "East Germany is a solid bet. We have been aggressively adding to our exposure."

However, many Western experts believe the banks are making the sorts of errors they did when more than 400 lending institutions scrambled in the 1970's to do Polish business. They are competing to give East Germany even more cash than it is asking for, yet East Germany economic reporting remains imprecise. The bankers haven't any specific idea what East Germany intends to do with all the money, nor whether it can eventually earn the hard currency to repay the loans.

"Bankers learn very slowly and forget very quickly," says Mr. Schroeder, a former bank economist.

Says Mr. Seiffert, "The economic situation in East Germany has improved, and so no one should have great worries about giving the country credits, but the U.S. banks currently aren't being prudent enough and should only extend credits when linking them to specific projects or investment plans."

The CHAIRMAN. Thank you, Mr. Ruff.

Mr. Rurarz, you testified before this committee in February 1982, at our hearings on the Polish debt. I ask you the same question I asked Mr. Allen: What has changed since then that we should be making loans to these Eastern bloc countries? Is there anything that you see that's different in their activities or behavior since you testified before?

#### EASTERN BLOC COUNTRIES ARE SUBSIDIZING U.S.S.R.

Mr. RURARZ. Not at all. I think the change is for the worse. To give an example, ever since that time the so-called economic and military integration among the Soviet bloc countries has progressed and more is to come and whatever is offered to any of the Warsaw Pact countries, especially to Eastern Europe, may finally end in the U.S.S.R.

Just to be more specific on that, the U.S.S.R. is inviting let's say half a dozen Eastern European countries to participate in the so-called Joint Investments in the U.S.S.R., especially in the energy sector and elsewhere. What does it mean in fact? It means that Eastern European countries are extending credits to the U.S.S.R., long-term credits with an interest rate of 2 percent only. These credits, moreover, are calculated on a very peculiar basis. I mean,