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What the Soviets are Saying on Gold and Capitalist Monetary Crisis

June 12 (NSIPS) — *The following are excerpts from an article which appeared in the current issue of the Soviet economic weekly Ekonomicheskaya Gazeta by V. Zholobov, candidate in Economic Sciences.*

....Bourgeois economists and government bureaucrats are proposing the traditional palliatives to solve the problem of inflaton — changes in the level of taxation and interest rates, buying and selling operations with commercial paper and other measures to regulate monetary circulation.... But no one in the West, writes the newspaper Le Monde, "dares to admit the one thing that characterizes the current difficulties: a crisis of the system. But precisely this is the essence of the problem."

Precisely because it is a crisis of the system in the U.S. the issuing of paper money has become one of the most important means for covering over enormous budget deficits. In turn, devalued dollars ending up abroad have introduced a new destructive element into international economic life — so-called "imported inflation." Acquisition of American goods at even higher prices has become an additional factor forcing the western countries to raise their own domestic prices and balance the growth of their (extra) currency reserves by issuing additional sums of (their) national paper currency.

The ineffectiveness of control over international capital flow creates serious barriers to the containment of inflation in the national framework of individual countries, a fact which the USA has not failed to utilize. Acting contrary to the agreements reached by the International Monetary Fund (IMF), the U.S. is obliging the other countries of the capitalist world to recognize the dollar as the irreplacable standard, which in turn is leading to the accumulation of American debt in other countries and turning into the main generator of international inflation.

The second characteristic trait of the monetary relations of capitalism at the present time is the (complete disintegration) of its international payments mechanism. The 1975 balance of payments deficit for current operations was $3 billion for Englan, $1.2 for Italy, $2.5 for Japan....

The worsening of the monetary positions of many capitalist countries is occurring on the background of the final collapse of the post-war Bretton Woods financial-monetary system, which began in 1968 with the termination of dollar convertibility to gold. A year and a half to two years later, the contours of a new system began to emerge — the "controlled float" of the main currencies, and the de facto establishment of the International Monetary Fund's "Special Drawing Rights" (SDRs) as a standard in place of the previous dollar standard....

Trying to escape monetary chaos, several Western European countries joined their currencies in a system of coordinated floating relative to the dollar, an arrangement called the "European currency snake." But it proved impossible to keep themselves within the established bounds of allowed fluctuation, as a result of the clear tendency of some currencies to rise and others, on the contrary, to fall. In fact the countris of Western Europe, above all the members of the Common Market, already several years (ago) fell into two separate groupings: the bloc of "restricted currency snake" (the West German mark, Dutch gilder, French and Belgian francs, Danish kroner) and the zone of currencies which float with no limitations at all (the pound sterling, the Irish pound, the Italian lira). Now the tendency to collapse has increased. In March 1976, under speculative pressure, the French franc left the "snake." At the same time another agreement was broken off, which had regulated the mutual fluctuations of the currencies of Belgium, Holland and Luxembourg. All this goes to show that the monetary crisis is continuing to deepen and the relations between partners of the "Common Market" are worsening.

The new wave of currency troubles is connected to a considerable degree with the changes during 1975 of the position of the U.S. dollar. After its double devaluation, American exports to other countries increased significantly.... Instead of the huge foreign trade deficit of previous years, the USA was able to achieve a $10 billion surplus last year.

But the USA is not the slightest bit interested in losing the trade advantages it gained as a result of devaluation. With extreme reluctance and only under great pressure from its partners did it agree to establish "control" over the floating of currencies, which limits U.S. opportunities to play on the contradictions between its partners and prevents stimulation of exports through lowering the value of its currency.

It is also necessary to note that the factors which led to the crisis of the dollar continue to operate at the present time. As in the past, this currency is threatened by the destructive influence of a huge mass of roaming means of payment (i.e. "hot money" — ed.) which are capable at any moment of causing currency scrapes whose consequences even the dollar would not escape. According to data put out by the Bank of International Settlements in Basel, the totoal sum of deposits in the Eurocurrency (mostly Eurodollar) markets in Western Europe reached almost $300 billion in 1975. Under conditions in which the depressed state of the stock markets made mobilization of resources on the Eurocurrency market more difficult, through issuing sharesmand bond obligations more difficult, these huge sums are being used to a significant degree for speculation. And this promises new difficulties.

Vicious Circle

The March, 1976 explosion of currency fever took place just two months after the January meeting of the "temporary committee" of the IMF in Jamaica... declared the monetary crisis to be essentially cured. Subsequent events have shown that the participants of this meeting were too optimistic in evaluating their work. What was worked out in Jamaica in the assessment of Western observers, was only an unsuccessful compromise, which proved unviable at the first test.

Several points of disagreement among the capitalist powers regarding a new monetary sytem can be pinpointed.

First of all there is the problem of currency exchange rates. The U.S. wants currency values, and especially that of

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the dollar, to be determined by free fluctuation on the world market. Many Western European countries, however, are asking as much as possible to return to stable parities.

As in the past, it is hard to find any other sphere of international currency relations where the contradictions appear as openly as on the question of the future of gold. The U.S. government wants to "demonetize" (exclude it from international currency circulation) the metal and completely deprive it of its function as a measure of value and a reserve asset. Many countries, including France, have sharply opposed this.

Big disagreements have also arisen from the decision of the last IMF session that the gold contributed by member countries to its funds will be partially returned to them and partially sold at the free market price. The head of the Iranian Central Bank M. Yagan correctly noted that these are stop-gap measures, since increasing the volume of world liquidity by 100-150 million dollars (as will occur in the event that this decision is carried out), could intensify the inflationary process all the more.

The SDR's, which theoretically would become the basis of the new monetary mechanism, causes great doubts as well. Some Western economists consider that their issue will only help worsen inflation.

There are more than a few other problems, whch have not only not been resolved, but sometimes have aggravated the monetary conditions.

All of this undermines the efforts to develop an international monetary-financial system of capitalism. Temporary and unstable compromises, which are sometimes passed off as such a system, do not in any way help to overcome the monetary crisis.

Under these conditions, the advantage of the monetary-financial system of the socialist community countries become all the more obvious. As was noted in the resolution of the 28th session of the Comecon... "the foreign trade of Comecon member countries is growing with stability, free from the influence of monetary-finance crises, speculative price leaps and other negative phenomena. Monetary-finance relations are being improved, and the role of the transferable ruble as the collective currency in the ever growing economic relations of the Comecon countries is growing.

British Bail-Out Fails to Stem Crisis of Confidence

While the New York Times applauded this week's $5.3 billion bail-out of the Bank of England as "a well-timed example of international monetary cooperation at its best," both European capitalists and the foreign exchange market were quick to dismiss the move as a desperate and hyperinflationary gambit, staving off only momentarily the imminent collapse of the bankrupt Eurocurrency market. The only practical outcome of the Atlanticists' $5.3 billion "rubber check" to Britain was to further galvanize European and Soviet motion around dumping the dollar and establishing a gold-backed monetary system.

The loan gambit marked an attempt to counteract the common knowledge among leading capitalist layers that the British and Italian debt crisis, combined with the certain default of a half-dozen Third World countries in late June and early July, could bring down the entire world monetary system within weeks. On the private markets, the daily business of "syndicating" Eurodollar loans — making up large credits by convincing banks to chip in small shares — has been paralyzed for weeks, as Euromarket banks are engaging in a welter of suits and countersuits to determine who pays the tab for some major bankruptcies. As an attempt to stem this "collapse of capitalist confidence," the British bail-out has already proven to be a dismal failure.

Immediately following the June 6 announcement of the British loan, the pound rebounded from $1.72 to $1.79, but once the real implications of the bail-out had sunk in among European banking circles, the pound again nosedived. By the end of the week, it was at $1.7725, only by grace of heavy intervention on the part of the Bank of England. According to the British press, the British central bank spent at least $200 million in supporting the pound on Tuesday and Wednesday alone, and rumor had it that the Bank was already spending the proceeds of the $5.3 billion loan since the rest of its reserves are virtually exhausted.

Loan Ridiculed

The absurdity of handing over $5.3 billion in freshly-printed U.S. paper to the Bank of England only to have the latter immediately sell it all for equally worthless British pounds was satirized by London Times columnist Bernard Levin: "With the new money we are not going to but plant or bread or even circuses. We are not about to go on a Hellenic cruise or pay for imports of frozen carrots. We are going to spend it, should it become necessary, on pound notes...The land where the inhabitants are so foolish that they think they can live by taking in each other's washing is well known in legend and metaphor. Britain today has gone one better, and declared her belief that she can live by taking in her own."

Former top NATO economist Yves Laulan summed up the Atlanticists' present plight: "Either we walk the tightrope, and let drop the countries which can't manage, or else, we'll have world wide inflation. Either it's bankruptcy and let them go, or we extend credit and we're back at double-digit inflation as in 1973, and this time we won't be so lucky."

Moreover, the British must repay the entire $5.3 billion plus interest in December — a feat which everyone agrees is impossible. According to U.S. bankers' "game-plan," the British will then be forced to turn to the International Monetary Fund for credits. During the six-month interlude, to the game plan British Chancellor of the Exchequer Denis Healy and other British Atlanticists will have gained the muscle which they presently lack — needed to impose brutal budget austerity so that Britain can "qualify" for IMF credits. The flaw in this argument is that 10 per cent of the British budget already goes into debt service payments, and, as the Financial Times readily admits, this percentage is rising at a rapid and totally "unpredictable" rate. As the notorious case of New York City demonstrates, no amount of austerity will ever be enough to cover this debt; in Britain's case, the austerity will only accelerate the collapse of the productive economy from which the debt is extracted.