

American slavishness to the IMF: The Kremlin finds it delightful

by Rachel Douglas

Perhaps no one better appreciates the ravages of International Monetary Fund in the underdeveloped countries and now in the formerly industrial powerhouses of the West, than Soviet strategists. A major article, published last month in the communist party journal *Kommunist*, said that, as a result of IMF policies and those of Paul Volcker's of the dollar and then of the whole Western financial system is very possible, and that American industry is rotting away already.

N. Shmelev, the author of "The Capitalist World Under the Burden of Debts," eagerly anticipated the results of the April 18-20 IMF Interim Committee meeting in Washington, D.C.; he wrote: "It would be interesting to see what happened, if the IMF's recipes, already imposed upon more than 40 countries, were applied to the U.S., which, is essentially in a similar [indebted] position today."

How the Soviets are counting their gains, while Reagan administration officials fantasize about the phantom "recovery," may be seen from Shmelev's profile of the U.S. economy's weakness.

Debt erodes industry

Shmelev welcomes the erosion of industry, crushed by the mass of debt, which makes the United States a less formidable strategic adversary by the day.

"The pyramid of debts in the capitalist world today has assumed fantastic size, exceeding the magnitude of the combined gross national product of all capitalist countries. . . . In the 1970s and 1980s, the 'world debt,' and external indebtedness of the capitalist countries, grew an average of 15 percent per year, increasing several times more quickly, than the gross national product of the capitalist world.

"Of course, in strict economic terms, this pyramid of debts is a fiction. The productive use of credit is only the last link in a long chain of financial connections, encompassing a multitude of creditors and debtors, who often have no relation to production, and only receive income from the same, repeatedly loaned, sum of money. . . . The turnover of the New York stock exchange alone, for example, amount-

ed in 1983 to the astronomical sum of 50 trillion dollars. For purposes of comparison, we may recall that the entire GNP of the U.S. that year was about 3 trillion dollars, and the entire real turnover of international trade amounted to a little less than 2 trillion.

"This absurd, illusory world of gigantic speculations dramatically reflects the accumulation of parasitical tendencies in modern capitalism. This money, in large part, represents air and only air, yet it and its movement exert a very strong, at times decisive, influence upon the entire economic life of the leading bourgeois countries and on the world capitalist economy as a whole. . . .

"The debt burden exerts a sharply negative influence on the possibilities for normal economic growth in the leading capitalist countries. In the U.S., for example . . . the markedly increased 'normal' indebtedness of industrial companies has led to a situation, where they are spending on the amortization and servicing of their short- and long-term debts, not 10 percent, as in the 1950s, but 50 percent of their profits and amortization deductions, which, naturally, reduces their ability to invest. . . .

"It is no accident, that domestic industrial investment in the United States has shrunk in recent years. The volume of capital investment in the construction of industrial enterprises fell 24 percent in 1983. . . .

"The question, naturally, arises: How could the Reagan government embark upon such deliberate blood-letting of its own country's economy? . . . The essence of the question is that, in manipulating interest rates, the Washington administration found a very convenient, at least for the short term, way to transfer onto somebody else's shoulders, i.e., the shoulders of other states, part of its own military expenditures, and by the same means, to cover a substantial part of the U.S.A.'s requirements for new capital investment."

The dollar's perils

Shmelev then turned his attention to the bloated U.S. dollar. The Russians, of course, bought dollars heavily during 1984, as they accumulated a capability to launch attacks

on the American currency later on. In the meantime, in trade talks with French, German, and other West European firms, the Soviets have been pushing for new deals to be denominated in the ECU, the West European unit of account, instead of the dollar.

Shmelev: "The mechanism of this gigantic transfer of the resources of other countries into the U.S. is based almost entirely on the artificially high interest rates and, their consequence, the artificially high rate of the dollar. . . . At the beginning of the 1980s, the annual inflow of capital to the U.S. comprised 40 to 50 billion dollars, but by 1984, it had reached 100 billion dollars. . . . The chairman of the U.S. Federal Reserve System . . . P. Volcker, speaking before congress, had to make the following typical admission: 'The biggest and richest economy in the world is now on the brink of becoming an international debtor, or even the biggest debtor'. . . .

"The moment will inevitably arrive, when neither the domestic credit resources of the U.S., nor even the austerity measures of the entire capitalist world, will suffice to finance the American national debt."

In April, the Soviet party Central Committee's weekly, *Ekonomicheskaya Gazeta*, highlighted the onset of debtor status for the United States. B. Rachkov wrote, "In February 1985 . . . the U.S. began to turn into a 'net debtor.' However attractive investment in the U.S. . . . seemed to foreign depositors earlier on . . . the growing indebtedness of this country will lead to a reverse flight of capital. The dollar is, according to estimates in the West, 30 to 40% higher than it ought to be. The sharper its fall, the experts predict, the more ruinous it will be for the monetary system not only of the U.S., but of the entire capitalist world."

The debt bomb

Turning to the debt crisis on a world scale, Shmelev wrote, "Credit is a very powerful means of economic progress, but . . . it is the weakest, most fragile link in the entire economic mechanism. It is precisely with credit, that the collapse of the entire economy customarily begins (as in the mountains, when the falling of one stone touches off a gigantic avalanche).

"Under conditions of a developed credit system, the failure to pay of one government, or bank, or company, or individual borrower . . . means not only his individual ruin, but an abrupt deterioration of his liquidity position, if not also the collapse of his creditor, and his creditor's creditor, and the creditor of the previous two creditors, etc. Today, when the economic interdependence of all capitalist countries has grown so greatly, the potential explosion of the financial chain is becoming not just a national, but a serious international danger. . . .

"Beginning in the fall of 1982, the governments of leading Western countries, the transnational commercial banks,

the Bank for International Settlements in Basel, the International Monetary Fund, and the International Bank for Reconstruction and Development, undertook feverish efforts to somehow relax the situation which had come to pass, to keep their basic debtors 'afloat' and to save the financial-monetary system of capitalism from unbearable strain. . . . The main inspiration of this 'rescue' activity was a sort of 'balance of terror.' 'The foremost task today,' stressed former FRG Chancellor Helmut Schmidt, 'is not to permit a break in the international credit chain.' Formal bankruptcy can become not only a catastrophe for one debtor country or another, but will inevitably touch the interests of the creditor countries. The foreign assets, for example, of each of the largest seven American banks, including Chase Manhattan and Citicorp, exceed their capital by 1.5-2 times. . . . The basic 'rescue' technology in the majority of cases has been new credit from the IMF or IBRD, plus credit from private banks, organized in parallel, of at least four times greater size, for which these international financial institutions act as a sort of ultimate guarantor."

When the International Monetary Fund bails out a debtor, Shmelev observed, "The 'structural reform' required by the IMF of the national economies of debtor countries means the decline of production, the reduction of capital and consumer goods imports, cutting back the state sector and freezing important projects, new privileges for transnational corporations, a sharp reduction of the population's consumption and of state expenditures on social needs. . . . It is not surprising, that in many developing countries, the IMF's recommendations are greeted by stormy protests and a sharp growth of social tension, as happened recently in Brazil, Venezuela, the Dominican Republic, and Tunisia."

In Radio Moscow foreign-language broadcasts and other propaganda, the Soviets play the debtor's friend, with denunciations of these IMF ravages as the handiwork of "U.S. imperialism." But Shmelev, writing for the party elite, concluded with a cynical put-down of ideas for a solution:

"Would a full, radical exit from the current debt crisis of the capitalist world be possible, even in principle? There are no few plans for this, but as a rule, they are all of a utopian nature. For example, there is lively discussion in the developing countries of the idea of a collective debt moratorium. But they frequently forget, that the debts of the developing countries account for less than 10 percent of the assets of the Western commercial banks. In the event of collective bankruptcy, the banks (with the help of governments, of course) would ultimately survive this loss. But would the developing countries gain from this? Hardly, since the real consequence of such bankruptcy would be the curtailment of the main part of their export and import . . . deprivation of financial means from abroad, etc."

Obviously, the Soviets really don't want the practices of their friends at the IMF to be disrupted in the least!