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THE PRESENT MONETARY CRISIS

INTRODUCTION

The growing contradictions inherent in capitalism are concentrated, as though at a focal point, in the monetary field—the most vulnerable point in the whole capitalist economy. The extended period of the general crisis of capitalism is punctuated by periodic bursts of monetary crisis.

The well-known humorist Robert Benchley has attempted, in one of his stories, to depict a monetary crisis: when ministers of finance and directors of central banks rush from capital city to capital city, tear up and down the staircases of the foreign ministries and the international banks, stopping only to issue encouraging statements, then one can be sure that the capitalist monetary system is in trouble.

This sort of activity has quite often been observed in the capitalist world, especially since the late 1960's, when one of the periodic world crises exploded. It brought to light the underlying contradictions between different imperialist systems, and also exposed the inability of state-monopoly capitalism to cure the radical faults of the bourgeois system. L. I. Brezhnev, the General Secretary of the Central Committee of the CPSU, reporting to the 25th Congress of the Party, noted that "the

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drastic fall in production and the rise in unemployment in the majority of capitalist countries have been accompanied by serious shocks to the world capitalist economy, such as the monetary crisis, the energy crisis and the raw-material crisis."

The recurrent outbursts of the world monetary crisis are accompanied by "gold fever," currency speculation, devaluation and revaluation, panic on the stock exchanges, the mass movement of "hot money"—and all this, like the passage of a hurricane, leaves behind it a trail of social and economic disaster. This explains the great interest taken in the monetary problems of capitalism, not only by specialists but by the general public. Monetary relationships are the basis of a many-sided complex of international economic relations, and the study of the present state of the monetary system of capitalism is therefore of both theoretical and practical interest for the USSR and the world socialist system as a whole. Although the Socialist economy is well protected from the consequences of these crises by its monopoly of foreign trade and of currency, the instability of capitalist currencies nevertheless creates certain difficulties, e.g. in agreeing on the pricing of a contract, or fixing interest rates. These monetary risks have to be insured against. The analysis of concrete monetary situations is therefore important if the USSR is to make better use of its economic links with foreign countries.

WHAT IS A MONETARY CRISIS?

Monetary relations are a branch of international economic relations that have always received a great deal of attention from Soviet economists. The phenomena produced in the field of the means of production in bourgeois societies are so complex and so contradictory, however, and the analysis of the theoretical aspects of the monetary crisis is so inadequate, that there is a lack of agreement on quite a number of related questions. In particular, there is as yet no rigorous scientific definition of the very concept of a "monetary crisis." The term can carry a wide variety of interpretations. It is used to refer to any sort of complication of the currency market, and also in reference to

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the outbreaks of monetary crisis as manifestations of the general crisis of capitalism in a monetary context.

In the last analysis, the definition of the scientific concept of a monetary crisis can be reduced to an answer to the basic question: should one take this term to signify the instability of international monetary and credit relationships, which is a feature of the entire period of the general crisis of capitalism, or merely the aggravation of the contradictions of capitalism in a particular sphere at a particular stage of its development, caused by a failure of the principles of the monetary mechanism to reflect the changed circumstances of production and of the distribution of forces in the world capitalist economy?

The methodological principles for solving this problem are provided by Marxist teaching on the primacy of economics, the interrelationship between the spheres of production and exchange, which Marx called "the abscissa and the ordinate of the economic curve."[1] International monetary and credit relationships are based on production, world trade, the movement of capital and services. Consequently, only an analysis of these relationships in the context of their links with economics and politics can render their essential nature comprehensible. National and international monetary systems are constructed in the light of this fact. A national monetary system is a form of organization of the nation's monetary relationships with foreign states, which has arisen historically on the basis of the development of the production of goods, and which has been reinforced by legislation. The internationalization of economic relations causes its functioning to be dependent not only on the national legislature, but to a certain extent also on international agreements which themselves originate in the practicalities of inter-state monetary regulation. The national system is firmly tied to the world monetary system—to a form of organization of international monetary relations based on the development of a world market and fixed by international agreements. Its main constitutuent elements are:

the status of basic international means of payment;
the conditions of currency convertibility;

[1] K. Marx, F. Engels, *Works* (Russian edition), vol. 20, p. 150.

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- a scheme of currency parities and rates of exchange;
- a mechanism for injecting an adequate amount of finance into international circulation, backed by adequate confidence.

The form of public law under which the international monetary system is organized is a product of the conditions of production and of international trade, the distribution of forces in the world arena and the interests of the leading imperialist powers. Therefore, when these conditions change, structural crises of the monetary system periodically develop; and these, interacting with the chronic crisis of international monetary relations in capitalist societies, develop into a world monetary crisis.

The monetary crisis is not a fortuitous or isolated phenomenon, but the expression of a profound and continuous underlying process of crisis in the development of capitalism, which is brought about by the existence of an interrelationship between the processes of production, external economic relations and international settlements.

In our view it is expedient to separate two concepts.

Firstly, there is the crisis of international monetary relations in the capitalist world; this expresses itself in their chronic state of instability, and coexists with the crisis of the capitalist system throughout the latter's course.

Secondly, there is the periodic crisis of the international monetary system, which expresses itself in a discordance between its structure and mechanism on the one hand, and the level of productive forces, the international distribution of labor and the distribution of forces in international capitalist society on the other.

... The Second World War brought an aggravation of the crisis in the international monetary system. Even before the end of the war, the capitalist countries set about working out the status of the monetary system in international law, with the aim of re-establishing their economies and normalizing international economic relations. In 1943 American and British proposals on the monetary system were published; these reflected the interests of monopoly capital. The United States used its economic dominance to reject Keynes's plan for the creation

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of an "international clearing union." During the war years American industry expanded almost to double its previous size, and by 1948 it made up 54.6% of industrial production of all capitalist countries (as against 36% in 1938). The United States accounted for 1/3 of all international trade and 3/4 of all official gold and currency reserves of all capitalist countries. It is for this reason that the Bretton Woods agreement of July 1944, which became the basis in international law for the postwar monetary system, worked in the U.S.'s interests and served to strengthen its position in the world arena. In theory, the agreement on the setting-up of the International Monetary Fund was intended to provide for international monetary collaboration, to guarantee the stability of rates of exchange and to lead to a gradual abolition of currency restrictions and to the introduction of currency convertibility, etc. In practice, this system, which was set up when the United States was in a dominant position, guaranteed the dollar the status of a universal means of payment.

The late 1960's and early 1970's saw the explosion of a further crisis in the international monetary system of capitalism, as a result of a qualitative change in the evolution of the general crisis of capitalism in its third stage, with an interaction of crises in many different fields, such as had not been seen in the past twenty years: crises in production, in the relations between the industrially developed capitalist countries and the developing countries, and in the relations between the three main imperialist centers—the USA, Western Europe and Japan.

... The mechanism of the monetary crisis can be represented as a chain of interdependent factors: economic instability, inflation, balance of payments inequalities, discordance between the form of the international monetary system according to international law, and the conditions of production and distribution of forces in the capitalist world; wild movements of the money market, particularly in relation to European currencies, speculation by supra-national companies, contradictions in the state-monopoly regulation of the economy, etc.

... Finally, an important factor in the monetary crisis has been an increasing degree of disorder in the development of capitalism. As Lenin stressed, "As a whole, capitalism is grow-

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ing immeasurably faster than before; but its growth is not only becoming generally more disordered—the disorder manifests itself specifically in the rottenness of those countries that are richest in capital...".[2] This is an observation of crucial importance for the study of the present-day monetary crisis.

On the one hand, the United States is progressively losing its pre-eminence over its competitors. Its agressive militarist policies, the maintenance of foreign military bases, a fall in the rate of economic growth, increasing inflation, have all aggravated the external and internal contradictions of American imperialism. Between 1948 and 1974 the U.S.'s share of industrial production in the capitalist countries fell from 54.6% to 39.2%, gold reserves from 72% to 27%.[3] The dollar crisis has destroyed the myth of American invincibility. The dollar's Diktat has lost its erstwhile force. The status of the dollar as a reserve currency is being ever more hotly contested.

At the same time, the U.S.'s main competitors have come into a stronger position. The nine Common Market countries together accounted for 24.8% of the industrial production of the capitalist world in 1974, 43.3% of the exports and 41.2% of the official gold reserves.* The EEC is thus the biggest exporter and economically the second strongest "power" of the capitalist world. This new stage in the power balance of the imperialist camp has become known as the "European challenge" to the American monopolies. As a West German newspaper remarked "It is ironical that the USA—the biggest power of the capitalist world—is now demanding from its chief competitors that it be granted a "fair share of world trade."[4]

THE PECULIARITIES AND THE CONSEQUENCES OF THE CRISIS OF THE CAPITALIST MONETARY SYSTEM

The present world monetary crisis displays a number of peculiar features. Its appearance and development are determined by an

[2] V. I. Lenin, *Complete works* (Russian edition), vol. 27, p. 422-3.

[3] Source: the Appendix to the journal *World Economy and International Relations*, No. 8, 1975; the figures for 1974 differ in being of more recent date.

[4] *Die Tat*, March 29, 1974.

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unprecedented exacerbation of the crisis of the capitalist system. Whereas the monetary crisis of the 1930's with which the present monetary crisis is often compared, took place in the context of a world economic crisis, the present monetary crisis is not accompanied only by economic crisis and depression, but in certain years at least by economic growth and growth of trade in a number of countries.

One distinctive feature of the present monetary crisis is the special part played by the United States in its development. The total domination of the dollar as the sole reserve currency has ceased to correspond to the real balance of power in the capitalist world. The mass flow of dollars into Western European countries and Japan leads to disturbances in their own economies, increasing inflation and currency instability. Another special feature of the present monetary crisis is the open attack by Western Europe on the hegemony of the dollar, and the aim of the Common Market countries to create a new center of monetary power, with a single European currency to stand against the dollar.

The creation of international monopolies, the cosmopolitan nature of their activities and the unprecedented expansion of the Eurodollar market vastly increase the scope and the depth of the present monetary crisis.

As regards the mass devaluation of currencies, this method of competitive warfare was much used by capitalist countries during the economic crisis of the '30's and after the Second World War. However, a comparison of the devaluations of the present time with the massive changes in parities of, e.g., 1949 demonstrates certain differences between the two phenomena.

Firstly, there is a difference in scale. In 1949, devaluation was carried out in conditions of total sovereignty of the dollar, and under a certain amount of pressure from the USA. Today, the decision-making center for alterations in parities has moved to Western Europe, primarily to the Common Market countries. The years 1967-1974 saw the devaluation of some 100 currencies (as against 40 in 1949), including two devaluations of the main reserve currency, the US dollar.

Secondly, the scale of devaluation in the present monetary

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crisis is lower (8-15%) than that of 1949 (up to 30.5%), or that following the First World War (up to 80%); there has mainly been a lowering of the rate of exchange of a particular currency and of its gold content, without any margin of safety, motivated by the fear of causing serious complications in international monetary relations in the case of a chain reaction. The possibility of this happening has increased with the increasing internationalization of economic life.

Thirdly, in the 1960's and '70's as in 1929-33, devaluation has extended over a number of years, and this has aggravated the monetary and commercial contradictions involved. In 1949 devaluation took place almost simultaneously in a number of countries.

Fourthly, the present devaluations are accompanied, *de jure* and *de facto*, by the official revaluation of a number of currencies. In 1949 there was no question of raising the rate or the gold content of the majority of currencies.

The monetary crisis of the 60's and 70's is a structural crisis of the international capitalist monetary system. In 1929-1933 it led to a collapse of the gold standard. The end of the exchange of dollars for gold, the two successive rises in the official price of gold and its effective abolition altogether,* the introduction of "floating" exchange rates instead of fixed parities, and the weakening of the dollar as a reserve currency, all combined to undermine the gold and currency standard system that had been in force since 1944.

This does not, however, entitle one to maintain that the international capitalist monetary system has ceased to exist. Even in conditions of monetary crisis, the internationalization of economic relations has led to an increase in the volume of foreign trade on the part of the capitalist countries (in constant prices) of 5.7% in 1971, 9.7% in 1972, and 14% in 1973; and the rate of economic growth was faster than during the preceding two years.[5] Notwithstanding all the monetary

* The last five words constitute recent material inserted into the original text.

[5] The world economic crisis was accompanied by a fall in the volume of international exchange of goods. The physical volume of exports fell by 5% between 1974 and 1975, and that of imports fell by 13%; the corresponding

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risks and shocks, international settlements continue without interruption. The essence of the monetary crisis lies not in the collapse of the international monetary system, but in the fact that the Bretton Woods monetary mechanism is now no longer functioning properly, since it no longer corresponds to the present level of development of the productive forces and the new power relationships in the capitalist world. We are now seeing a period of transition, from the Bretton Woods monetary system to a new international monetary system.

A specific peculiarity of the present monetary crisis is the fact that it is taking place in a context of highly-developed state-monopoly capitalism, a circumstance that gives it an essentially individual character. On the one hand, the united power of the monopolies and of the state tends to aggravate the contradictions of capitalism, which is one feature of the monetary crisis. On the other hand, when the monetary system begins to show irregularities in its functioning, state-monopoly capitalism is activated on both a national and an international scale to soften the socio-economic consequences of the monetary crisis.

Although the monetary field depends mainly on the state of the economy, it also exerts an effect on the economy itself. The instability of the economy that gives birth to the monetary crisis is a mirror reflecting its own consequences. Bound up as they are with instability in the balance of payments, increased inflation, the movement of "hot money," and lately with the energy crisis as well, monetary upheavals aggravate the contradictions of production and increase social antagonisms.

The monetary crisis affects the position of the workers in various ways. Inflation, imported by the workings of the monetary mechanism, causes prices to rise in the affected country, and the workers' living standard to fall. The accelerated rate of inflation in 1972-3 led to a standstill or even a fall in the real incomes of workers and employees in most capitalist countries. This obliged them to fight for pay rises. Devaluation is

figures for the developed capitalist countries are 7.2% and 11.6% respectively. (Source: the journal *World Economy and International Relations*, No. 4, 1976, p. 151 [in Russian].)

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also a disguised way of lowering wages, since it leads to rises in the price of imported goods. Revaluation makes imports cheaper and leads to a fall in employment in export industries, since a rise in the exchange rate decreases a nation's exports.

International monetary ties cause economic difficulties and contradictions to spread from one country to others. Thus the dependence of many countries on the American market and the protective measures taken by the USA in response to the dollar crisis led to a worsening of the position of the workers in Western Europe, particularly those involved in production for the American market.

Even currency speculation, far removed though it seems from the workers' sphere of interest, has a disadvantageous effect on their circumstances. An example may be found in the failure of the Cologne bank Bankhaus Herstatt in June 1974. The currency manoeuvres carried out by this bank in an attempt to increase profits in fact led to heavy losses, and to the consequent bankruptcy of other related banks and enterprises. The victims included tens of thousands of small investors, and as the bank's failure was announced the day before pay day, 800 of its employees also suffered. The opinion is held in financial circles that it will take not less than two years to sort out the problems of this bankruptcy. The Federal German authorities have introduced regulations making the banks responsible for fixed-term currency transactions. But even bourgeois economists admit that "monetary control measures can restrain speculation but cannot prevent it." [6]

The monetary crisis is bad for world trade. Terms of payment for exports and imports are shifted in expectation of devaluation: importers try to speed up payment, since they lose when their country's currency is devalued and they have to spend more on buying dearer foreign currency; while exporters delay accepting the payment or transfer of foreign currency due to them. A small disparity in the delays involved in international settlements is enough to lead to a significant loss of capital from the country.

[6] H. Bourguinat, *Marché des changes et crises des monnaies*, Paris 1972, pp. 76-77.

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A change in the parity of a currency leads to contradictory consequences. In principle, devaluation is good for exporters, since the foreign currency they receive buys them a greater sum of their own national currency. Debtors who owe their debts in the devalued currency also gain, since the real amount of their debt is reduced. The importers in the country that has devaued lose, since they have to pay more for the foreign currency they need; and creditors who receive a smaller real sum in settlement of the debt owed them also lose. Countries that do not devalue simultaneously with others, lose through the forced revaluation of their own currency: both as exporters, receiving less when they exchange the devalued foreign currency for their own currency, now become more expensive; and as creditors, since they receive from their debtors a nominally unchanged but in real terms a smaller sum, in the devalued currency; and again as holders of cash in the devalued currency. On the other hand, they gain as importers, having to pay less now to buy the devalued currency to pay for imported goods; and as debtors, needing to pay less of their own currency to settle their debts.

It is customary to look at the effect of changes in the parity of a currency only with reference to foreign trade, taking account of the increased part played by "wandering" capital and international speculation. Devaluation, in principle, encourages the influx of capital, while revaluation encourages the flight of short-term capital once the exchange-rate distortion has been ironed out.

The effectiveness of a devaluation or revaluation depends on concrete conditions, and only becomes manifest after a certain time. We know that the devaluation of the dollar in 1971 did not lead to an improvement in the USA's trade balance; this showed a deficit in 1971 of two thousand million dollars, while in 1972 the deficit had more than tripled, to 6.44 thousand million dollars. Only in 1973 did the United States show a positive trade balance. This fact is explained by the relatively slow reaction of international economic relations to changes in exchange rates. Devaluation and revaluation lead to aggravation of inter-state contradictions. For instance, the two devaluations of the dollar cost the Western European nations around ten billion

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dollars.[7] The bourgeois press is obliged to admit that its much-vaunted capitalist world is being shaken by political, economic, social, monetary and energy crises.

The deepening general crisis of capitalism and the inexorable growth of the world Socialist system together provide the overall socio-political background against which the currency crisis develops. Bourgeois ideologists exhort the public to accept the shortcomings and contradictions of capitalism, and argue in support of state-monopoly programs aimed at overcoming the monetary crisis.

The programs provide for measures aimed at limiting internal demand, restraining inflation, encouraging exports, and imposing restrictions on currency and credits. A general feature of "rescue programs" in aid of a nation's currency are harsh economies and the orientation of the economy towards the export market. The ruling circles put their stake on exports, as one of the chief ingredients of economic growth. A program of harsh economies is instituted in order to preserve the profits of the great monopolies, contrary to the interests of the working class and all working people. The "emergency measures" for rescuing the dollar in August 1971, for instance, turned out to be an attack not only against the USA's trading partners, but also against its own workers. Wage rises were forbidden by law. At the same time, the government gave the big monopolies the right to fix their own prices for their products, "within the limits laid down."

State-monopoly regulation cannot overcome the contradictions or the essential disorderliness of international capitalist monetary and credit relations. Deflationary methods of evening out trade balances encourage the growth of exports when foreign states are in a good situation. The attempt to solve balance-of-payments problems by restrictive measures often take the course of limiting internal demand. On the other hand, the stimulation of economic growth leads to an increase in imports and a worsening trade balance. All in all, then, the measures taken by a state to combat the monetary crisis are by no means all effective, though they cannot be said to be totally without effect. As the

[7] *Le Nouvel Observateur*, 1974, supplement.

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25th Congress of the CPSU observed, "capitalism attempts, by every available means, to keep in step with the times, using a variety of methods to regulate the economy. This has enabled it to stimulate economic growth, but has not removed the contradictions inherent in capitalism."

THE ESSENTIAL PROBLEMS OF REFORMING THE CAPITALIST MONETARY SYSTEM

The present world monetary crisis has exposed the discordance between the Bretton Woods monetary machinery and the present-day distribution of forces in the capitalist world; and it has led to the appearance of large numbers of plans for the reform of this machinery. The reason is that growing internationalization of economic relations requires a relatively stable international monetary system.

The proposals have been of various kinds: from plans to create a collective reserve unit, the issue of a world currency guaranteed by gold and goods, to a return to the gold standard.[8] The suggested reforms are built, as a rule, on the fundamental concepts of bourgeois political economy—the ideas of neo-classical economists, who lay their hopes on the automatic working of the market mechanism with minimal government interference, and neo-Keynesian theories of regulation.

Neo-classical economists often advocate a return to the gold standard (e.g. Jacques Rueff, M. Halpérine). This approach might be called "neo-metallism," since it has a distant affinity with the theory of metallism, which equated money with precious metals, but at the same time reflects the recent phenomena arising out of the abolition of the gold standard and the development of state-monopoly capitalism. The supporters of this

[8] F. Makhlup, *Plans for Reform of the International Monetary System*, Princeton University Press, 1964; A. G. Mileykovsky et al., "Bourgeois Economic Theories and the Economic Policies of Imperialist Countries," in *Mysl'* ("*Thought*"), Moscow, 1971; A. V. Anikin, "The Reform of the Capitalist Monetary System and the Present State of the Problem", in *World Economy and International Relations*, 1973, No. 5.

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school advocate a return to the exchange of currencies for gold for purposes of international settlement, while retaining the use of paper money within a country. The "neo-metallists" aim to establish the thesis of the automatic self-regulation of the capitalist economy, according to the 19th-century model. A return to the gold standard is impossible, since it would contradict the real conditions of state-monopoly capitalism. There is not one bourgeois state that could allow its balance of payments or its monetary transactions to be regulated in this elemental way. One must add that Jacques Rueff did not propose the reintroduction of metal money, and that his ideas were temporarily elevated to the status of official dogma during the attack of the franc against the dollar in the 1960's. In a crisis situation, the pragmatism characteristic of the economic policies of capitalist countries wins out; Rueff's idea became merely a matter of academic discussion.

The Keynesian approach now in favor advocates eliminating gold from the monetary system and giving credit money an international character.

Attempts have been made since the early 60's to escape from the monetary crisis, but the opposing interests of different capitalist countries have prevented the formulation of any agreed plan. Monetary projects that lay claim to an "international" character actually reflect the interests of national state-monopoly capitalist systems. Current monetary concepts therefore represent a meeting of two trends characteristic of international monetary and credit relations. The aggravation of the monetary crisis has strengthened the trend towards partnership between the major capitalist countries, leading to a greater degree of agreement on the question of monetary reform. Of the many proposals (16 in all), one that has actually been implemented is the agreement on special drawing rights (SDR) with the IMF; this was agreed in August 1967.

During the 1970's, theoretical studies of proposals for monetary reform gave place to analyses of the practicalities of these proposals. However, disagreement was so profound that the plan was not ready in time (September 1973). The "Committee of 20" confined itself to "sketching out" a future monetary system. The aggravation of contradictions in the capitalist world

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in connection with the energy crisis also delayed work on monetary reform.

At the end of 1974 there was a series of meetings on the monetary and economic problems of the Common Market countries, the "Group of Ten" and the "Committee of 20." These meetings approved certain proposals on the basic discussion points of monetary reform. The "Committee of 20" referred in its communiqué to a plan for immediate action to settle the problems of the monetary system in the capitalist world.[9]

THE RÉGIME OF THE RATES OF EXCHANGE AND THE CONDITIONS FOR ALTERING THEM

The international monetary crisis has made it essential to carry out a radical reform of the system, and particularly of the whole mechanism of exchange rates. The aim of the reform is to create a system of currency parities that would assist the evening-out of balances of payments. The system of fixed parities has shown itself to be non-viable in a crisis situation, so the concept of "fixed parities" has been replaced by one of "stable parities," a new term reflecting the official abandonment of one of the cardinal principles of the Bretton Woods machinery. It is proposed to introduce a system of regulated currency parities. In special circumstances, and under the supervision of the IMF, it is permitted to make use of a system of "floating" parities.[10] The principles governing the regulation of floating exchange-rates were worked out here too.

... The system worked out by the IMF's experts for "symmetrical intervention in various currencies" means that the dollar has lost its position as the chief intervention currency. However, the realization of this plan comes up against the difficulty of choosing a currency for intervention by a central

[9] However, it was not until the meeting of the IMF Temporary Committee in Jamaica (7-8 January 1976) that a plan was approved for making the necessary amendments to the IMF constitution; this will only become effective after ratification by the national parliaments of at least 80% of IMF member states.

[10] The IMF meeting in Jamaica approved the system of "floating" exchange-rates and defined the IMF's tasks of overseeing the regulation of exchange rates.

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bank in monetary operations. It is proposed that intervention in a number of currencies simultaneously be carried out by the IMF. However, it is unlikely that the IMF will become an international central bank, since governments are not willing to renounce their national sovereignty in monetary matters. The IMF is endowed with the function of an international consultative body and an observer of the regulation of exchange rates and central bank measures for ordering their own national monetary markets.

Bourgeois economists are also not in agreement with regard to the question of floating exchange rates. The international discussion on this topic organized by the Paris Economic Institute (28 March 1974) showed that the majority of them (M. Friedmann, F. Machlup, G. Johnson, A. Lindbeck and others) consider the use of floating exchange rates unavoidable in conditions when the major problem of capitalism is economic growth and employment rather than monetary discipline.[11] Certain individual economists (J. Rueff, R. Mandella and others) proclaim their support for fixed parities, on the grounds that unrestrained oscillations in exchange-rates interfere with the development of external trade and feed inflation.[12] As the Bank for International Settlements notes in its Report for 1973, "insofar as changes in exchange-rates have taken place spontaneously and to varying extents, the evening-out process has inevitably taken place under the pressure of crises that have shaken the currency market."

Experience has shown that floating exchange-rates are most appropriate to a crisis situation, but do not help to ensure the stability of the capitalist monetary system or the equalizing of balances of payments.

It is an open question how far and in what circumstances the rate of exchange needs to be changed. The United States insists on the principle of "symmetry" of constraint, requiring

[11] Friedman holds that "if we continued to keep to the system of fixed parities, we should enter this year into a stage of severe currency crisis." He is echoed by another American economist, F. Machlup, who writes "There is no choice: we may like fixed parities, but they don't like us."

[12] J. Rueff considers the system of freely floating exchange-rates "highly vulnerable and unstable; faced with a new crisis on the currency markets, it may collapse".

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action to be taken to even out the balance of payments in the case of countries in credit as well as those in debt. This principle is enshrined in the 1973 plan for currency reform, which was adopted against the opposition of a number of countries.

THE STATUS OF INTERNATIONAL RESERVES

The plan for currency reform envisages that the main instrument of the new currency mechanism will be the Special Drawing Rights (SDR), rather than gold or dollars.

It must be remembered that after some hard bargaining, an agreement on SDR was signed at the 1969 session of the IMF, with the intention of increasing international liquidity. Special Drawing Rights are allocated by means of subscriptions to the accounts of central banks with the IMF amounting to 16.8% of the quota of each member country. In this way, 72% of SDR are allocated to industrially developed countries, while developing countries (which have the greatest need of funds to cover their balance of payments deficits) are allocated 28%. The SDR therefore carry the stamp of economic supremacy and of inequality.

The first three years (1970-1972) of allocation of SDR, to the amount of 9.5 billion dollars, saw an increase of 12% in the volume of international liquid resources by comparison with 1969. It would therefore be wrong to hold that the SDR do not, in principle, increase the total volume of liquid resources, but are merely a way of redistributing currency reserves on favorable terms (at an annual interest-rate of 1.5 to 2%). Because of their inadequacies and contradictions, however, the SDR have not been a stabilizing influence on the capitalist monetary system. In principle, they are the prototype of a collective capitalist currency, one of the manifestations of state-monopoly capitalism on a supra-national scale. It is a typical fact that this is the first time in the history of capitalism that credit money is being issued on the basis of an international agreement.

... At the time of their creation, the SDR were given a fixed gold content (0.888671 grams of fine gold), equal to the gold

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content of the dollar at that time. Insofar as the SDR are given the role of a standard of value and a basic reserve currency, one of the chief functions of currency reform must be a definition of their value. The anti-gold trend characteristic of capitalist monetary policy has led to an agreement between the Common Market countries and the USA to break the link between SDR and gold. The SDR are now seen not as a substitute for gold, but as a complex currency consisting of an assortment of several national currencies, predominantly those of the leading capitalist countries. From 1 July 1974, the value of the SDR has been defined in terms of the mean weighted value of the currencies of sixteen countries, taking changes in their exchange-rates into account.

... The SDR do not carry any real material security, since the value of currencies is in its turn defined in terms of SDR. It is no chance that Friedmann calls the SDR an "international unit of account without adequate guarantees," since there is no international government responsible for issuing them, and the basis for this issue is a precarious one, since collaboration encounters certain conflicts.[13] For the time being, the SDR remain an abstract idea that even experts have difficulty in understanding.

There are differences of opinion on the place of gold in a future monetary system. Some countries, led by the United States, are in favor of the demonetization of gold and of a scaling-down of its reserve role; others hold that its place in the currency system must be maintained. Now that agreement has been reached to break the link between SDR and gold, the planned monetary reform envisages the gradual abolition of gold's status as a fundamental reserve currency.

At the present time, the place of gold in the international capitalist monetary system has not been definitively laid down. Although gold is losing its importance as a pecuniary metal, it remains the basis of the monetary system. The production of goods has not yet revealed any real substitute for gold as a means of payment, although this remains a possibility for the

[13] M. Friedmann, *Dollars and Deficits. Inflation, Monetary Policy and the Balance of Payments*, Englewood Cliffs, Prentice-Hall, 1968.

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future. For the time being, gold continues to function not only as the most important merchandise, but also as a pecuniary merchandise. It fulfills the functions of a world currency and treasure, and is also a means of insuring against the loss of value of money due to inflation and the currency crisis. The fetishism of money is even today linked to gold, rather than to diamonds, platinum, etc. This is demonstrated by the accumulation of official gold reserve—50.5 billion dollars in June 1975— and the enormous private hoards— 23.9 thousand tons in 1973. The bourgeois world's passion for this yellow metal as a symbol of wealth has not waned.

... This metal has become increasingly attractive not only as an object of hoarding, but also as an object of investment. More and more companies are putting their reserves into gold. The French economist C. Bourillon [14] says that it is wrong to pretend that the Americans, unlike the Europeans, have no taste for gold. We know that from 1 January 1975 it has no longer been against the law in the United States for private citizens to own gold.

There have been substantial changes in the classic role of gold as a universal equivalent; these are related to the supplanting of gold in internal circulation, and to a large extent in international circulation as well. However, the demonetization of gold is a long process. Bourgeois experts are still uncertain about the continued role of gold in the international monetary system. It remains possible that gold may retain its role as an international reserve resource, in connection with the reassessment of gold reserve according to the mean market price.[15]

THE PROBLEM OF CONTROLLING THE MOVEMENT OF SHORT-TERM CAPITAL

The plan of reform of the international monetary system pays a great deal of attention to the problem of regulating the move-

[14] *Problèmes économiques*, 1973, No. 7, p. 22.

[15] The decisions of the IMF Temporary Committee in Jamaica make no mention, favorable or otherwise, of the role of gold as a reserve resource,

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ment of short-term capital. This is because exacerbations of the monetary crisis are often triggered by spontaneous, massive movements of capital from one country to another. The phenomenon arises for a number of reasons: the introduction of currency convertibility from the end of the 1950's; the broadening of operations on the Euro-currency market, whose liberal regulations set vast masses of capital in motion; the development of international monopolies, possessing enormous short-term funds (300 billion dollars); the continuing disequilibrium of balances of payments, which has led to the pumping of national currencies, particularly dollars, into international circulation; the sudden increase in the currency reserves of oil-producing developing countries; etc.

The capitalist countries have developed a whole arsenal of control measures to regulate the movement of short-term capital; these are based on market mechanisms and state-monopoly means of control. They include floating exchange-rates, the two-tier currency market, alteration in obligatory reserve holdings by credit and finance houses, limitations on bank credits, negative interest on deposit accounts held by non-residents, even in foreign currency, currency restrictions, interest-rate manipulation and fiscal policy.[16]

In practice, only discrete, national control-measures are applied. In the conditions of the monetary crisis, therefore, it was inevitable that the problem of international regulation of the movement of short-term capital should have arisen.

The "Committee of Twenty"'s plan for currency reform expressed the hope that countries would try to co-operate in counteracting the consequences of the movement of "hot money." In practice, however, the central banks prefer to adopt passive policies towards the Eurodollar market. The bankruptcy of the Bankhaus Herstatt, which shook investors' confidence in the Eurodollar market, was a signal for increased control by central banks over the currency operations of the commercial banks, and also for increased intervention activity on the currency market.

although the IMF's preliminary plan envisaged increasing the authority of SDR by converting official gold reserves into these new reserve units. (Author's note).

[16] G. G. Matyukhin, *Hot Money*, Moscow, 1974, p. 40.

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The Bank for International Settlements set up a working party to study methods for protecting the banking system against serious complications affecting the Euro-dollar market. On July 8, 1974, the routine monthly meeting of the heads of the central banks discussed the confidential report produced by this working party; the report called on the "Group of Ten" to act as "creditors of last resort on the Euro-currency market." The American economist M. Powers proposed the setting-up of a currency clearing-house which would regulate the activity of the currency markets and prevent the failure of banking houses.

However, bourgeois experts are pessimistic about the effectiveness of control-methods on the movement of capital; and rightly so. In the context of an economy founded on private property, no regulation of the movement of short-term capital can break free from the elemental laws of capitalism. It is hedged in by the limitations inherent in a bourgeois state, which makes a variety of exceptions in favor of the big monopolies. International monopolies and other organizations exert definite pressure on national legislatures. For instance, the constitution of the IMF states that controls of the movement of capital should not interfere with the freedom to make payments for current items in the balance of payments. The IMF's annual reports stress the undesirability of any all-embracing control over the international movement of capital. And the international money market is not under any national control. Traditional national control methods therefore are unable to prevent or limit the speculative movement of short-term capital. International regulation of this movement might help to stabilize international settlements, but in practice this is still an impossible goal.

CURRENCY REFORM AND THE DEVELOPING COUNTRIES

The tendency of imperialist countries to shut themselves off with their own problems is resisted by the developing countries, which are making ever more insistent demands for collective help, and fighting to play an active part in working out the plan for currency reform. The Report of the Central Committee

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of the CPSU to the 25th Party Congress of the CPSU emphasizes that "the part played by the liberated countries in world development is increasing." These countries are interested in the normal functioning of the international monetary system, in increasing their own role in international monetary and credit relations; and are insisting that any currency reform must take their interests into account.

The "Group of 24," founded in Lima in November 1971 and comprising representatives of Latin American, Asian and African states, acting in the name of almost 100 developing countries, formulated three conditions under which it is willing to sign an agreement on currency reform.

1. The issue of SDR must be linked to the offer of help in the development of their own economies. Under the pressure of this demand from the developing countries, the USA is intending to review its previously unfavorable approach to this question.[17]

2. A Fund for long-term finance must be set up. The Committee of 20 adopted a decision to extend the term of IMF credits to the developing countries to seven years, and to increase the limit on money allocated for this purpose to 50%, as well as using the resources of the auxiliary credit fund (three billion dollars) to cover the balance of payments deficits of the oil-importing developing countries.

3. The quotas and the number of votes allotted to the developing countries in the IMF must be increased to reflect their place in the world economy, as defined by the possibilities, the state of development and the volume of raw-material reserves of these countries and their population figures.[18]

* * *

The search for a way out of the monetary crisis is one of the most pressing problems facing the capitalist world. Changes

[17] However, the resolutions of the IMF Temporary Committee in January 1976 make no mention of the Committee of 20's proposal to link the allocation of SDR with the financing of development programs for the liberated countries.

[18] As a result of the alteration in IMF quotas following the recommendations of the IMF's Temporary Committee (January 1976), the developing countries' share (excluding that of oil-producing countries, which will increase from 5.19 to 10.09%), will barely change (it will be 22.19% as against 22.67%). Source: *Survey of IMF*, Jan. 19, 1976. The last two footnotes comprise material of more recent date than the text.

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in the currency system will take place gradually, as agreement is reached between the various countries; in the capitalist world, such agreements depend on the strength and the capital of each of these countries. Even if a new international currency system is successfully set up and brought to a state of relative normality, the fundamental causes of the monetary crisis, rooted as they are in the deepening general crisis of capitalism, will not be done away with. In such conditions, there is no hope of developing any monetary machinery that will function reliably and steadily in the long term.

The problem of consolidating the international currency system depends to a large extent on the successful settlement of commercial contractions between individual countries. Many bourgeois economists and politicians lay their hopes on a general improvement in the health of the world economy, and on the development of broad international economic co-operation.

The USSR is in favor of a normalization of international trade, and of international relations; in favor of mutually advantageous collaboration between East and West, and of a solution to currency problems that takes into account the interests of all countries.

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