IMEMO on Crash

Pravda relishes U.S. 'internal weakness'

Before Soviet General Secretary Mikhail Gorbachov departed for the United States, he received the findings of a preliminary study of the Black Monday stock market crash, conducted by the Institute of World Economy and International Relations (IMEMO). I. Korolyov, deputy director of this leading Moscow think tank, summarized the findings in a Pravda *article printed Nov. 23. The following is a translation of Korolyov's assessment of the possible "dead end" the U.S. economy has reached. As Gorbachov goes to procure Washington's signature on the military decoupling of Western Europe from the United States, his advisers at IMEMO find reason to gloat, as well, about American treatment of its allies in the economic realm.*

For a month now, business and political circles in the West have been furiously studying the causes and consequences of "Black Monday," Oct. 19, when a record drop in stock prices occurred on the New York Stock Exchange. After New York, this wave rolled on from London and Zurich to Tokyo and Hong Kong. The devaluation of shares of American corporations, quoted on the New York exchange, was approximately $500 billion, and on the stock exchanges of the whole world—$2 trillion.

At the root of the stock market crash lie both purely speculative factors, and deeper reasons, connected with serious structural difficulties experienced by the entire financial system of the West, above all the giant swelling of all forms of indebtedness, which has enmeshed all the basic links of the capitalist economy. Thus, in the U.S.A., for example, the total volume of all types of indebtedness (corporate, farm, individual, and government internal and foreign debt) exceeds the gross internal product of the country by two-and-a-half times. Such indebtedness makes it possible to maintain the growth of the American economy, and to soften the economic disproportions which have arisen, including those connected with huge military expenditures. But there is a flip side of the coin: the uncontrolled shifting of astronomical sums of all sorts of financial assets and the loss of confidence in the reliability of the financial mechanism. . . .

The stock exchange, where various sorts of commercial paper is bought and sold, primarily shares of corporations, occupies an important place in the financial system of capitalism, although in the postwar period it has been noticeably eclipsed by other financial institutions—banks, investment and pension funds, insurance companies, etc. . . . The majority of corporations, in one way or another, resort to the services of the stock exchange. Distributing their shares among hundreds of thousands of small and medium-sized holders, corporations attract necessary monetary resources, leaving a portion of the shares in their own hands in order to maintain control of the enterprise. Stocks are widely used as collateral for obtaining bank credit. . . .

The stock markets . . . are an arena for speculative operations. . . . In the last five years, the New York stock market was dominated by a tendency to rise, which was inclusively thanks to a massive inflow of capital from abroad. As a result, in August 1987, the price of American shares exceeded by 20 times the average annual level of earnings. This is approximately one-third higher than the "normal" level. The removal of the prices from their real basis created the preconditions for its sharp decline. . . .

U.S. at a 'dead end'

One thing is for sure—behind the events on the stock exchanges there are serious economic and political processes at work. The analysis of the situation, carried out at the Institute of World Economy and International Relations, permits us to make, in particular, the following preliminary conclusions.

First of all, the stock market panic advertises the fact, that the longest peacetime upsurge in the postwar period, in the U.S.A., is accompanied by substantial internal weaknesses. Having become the biggest debtor in the world, with a huge federal budget deficit and foreign trade deficit, the U.S.A. has fallen into an extraordinarily difficult situation, in many respects a dead end. To a certain extent, the American administration is interested in low interest rates and a further decline of the rate of the dollar, in order to support economic growth and raise the competitiveness of American exports. This, however, is fraught with the danger of a massive outflow of foreign capital, an acute worsening of inflation, and a final blow to confidence in the dollar as the key international currency.

Secondly, the stock market crisis has sharply aggravated contradictions between the U.S.A. and Japan and Western Europe. America's partners are more and more insistently demanding from the Reagan administration immediate measures to restore order in the America economy, above all to reduce the federal budget deficit. On its part, the U.S.A. insists that Japan and the West European countries, above all the Federal Republic of Germany, take steps to stimulate their economies and increase their purchase of American products. Such measures, they hope, will help the U.S.A. reduce its foreign trade deficit and stabilize the dollar.