Soviets intensify currency crackdown

by Steve Parsons

Contrary to the delusions of Western financiers and media pundits that he is seeking to "rebuild bridges with Western businessmen," Soviet Prime Minister Valentin Pavlov has vowed an even tougher crackdown on the hyperinflationary swindle that he says is being run by Western financial institutions against the ruble. In statements on Feb. 22, Pavlov escalated the charges he first leveled in the Soviet newspaper *Trud* Feb. 12, comparing these operations to "the emergence of certain groups resembling the Colombian mafia, especially in the black market exchange of the ruble against the dollar. . . . We will put a stop to such things."

He revealed information on two foreign operations to buy up rubles, one by a bank based in Geneva aiming to purchase 25 billion rubles, and another involving the Far Eastern branch of a major London bank, which allegedly is trying to buy 100 billion rubles. This follows Pavlov's charges of a plot by Dove International Corp. to buy 140 billion rubles for $7 billion, and operations by banks in Switzerland, Austria, and Canada. He also said he has evidence of a Moscow bank selling rubles to a foreign bank and keeping the hard currency outside the U.S.S.R., a violation of central government bans.

Western media and "Sovietologists" have downplayed Pavlov's moves as theater and a doomed effort by the Soviet old guard to control the supposedly inexorable drive toward a "free market." The London *Financial Times,* for example, plays up statements by Pavlov that he is not attacking all foreign business, under the headline "Moscow tries to mend links with West."

In fact, the value of the ruble is being smashed by these deals, often trading at up to 35 rubles per dollar, more than 20 times the official exchange rate, as Western firms try to buy up the Soviet economy at bargain basement prices. The chaos is so grave that even Soviet foreign debt is becoming worthless, with payments being missed for the first time. Soviet debt is worth as much as junk bonds, said Richard Judy of the Hudson Institute. "Even Brazilian debt looks good compared to Soviet paper."

Far from attempting to assuage Western banks, Pavlov virtually acknowledged that the Soviet Union cannot and will not pay its foreign debt, now estimated at about $55 billion. With the sharp drop in oil production last year, said Pavlov in a Feb. 16 television interview, "Now, there's nothing with which to settle our debts. . . . Deadlines for payment have arrived," but there are insufficient revenues to meet the obligations. "We are now in a situation where we . . . must say honestly to ourselves . . . we cannot do this for the time being."

What is happening to the ruble is in effect a Russianized version of what befell the dollar beginning in the late 1960s and peaking during the 1980s, when the Eurodollar market, which was based on speculative ventures, foreign debt schemes, and ultimately drug trade financing, created billions of dollar obligations outside the U.S. and wrecked the dollar's purchasing value.

Western finance won't face reality

But rather than admit to the havoc their financial warfare is wreaking on a decimated Soviet economy, or to Pavlov's emphasis on effecting a productive, capital-intensive economy, the Anglo-Americans have focused on Pavlov's charges of currency manipulations by Western banks. These are dismissed as "wild fantasies," since, they say, no self-respecting bank would want so many rubles when their value is plunging. Besides, says the U.S. State Department, it is all a cover for the Soviet Union's, and Pavlov's, own economic incompetence.

This is disingenuous, if not shrill. "I was very surprised by the reaction of some quite serious banks. All of a sudden they began to say and to state that this was not the case, that they had nothing to do with that at all, that this was impossible," Pavlov responded. "That amazed me somewhat because we hadn't named banks . . . not a single banking cooperation or company was named anywhere. For some reason they began to disassociate themselves very actively in advance. That only makes me suspicious."

Pavlov is thus signaling a break with the so-called Cosmopolitans, led by Russian Republic President Boris Yeltsin, who have been pushing for "privatization" of the economy, similar to the break during the 1930s between Stalin and Bukharin. Pavlov made this clear in a speech Feb. 14: "Those who simply consider that the market is a panacea against all ills and will immediately bring us to the realm of prosperity—no. [A market economy] bears its fruits when it is combined with the implementation and the mastering of new technologies. . . . We see . . . what connection is appearing between the organs of power and this shadow economy that is using various ways to legalize itself. . . . This has dictated the issuing of a decree in order to strike a blow at *organized crime,* which is no longer content with an economic role, but wishes to have power too."

Peter Palms, a U.S. "investment banker" whose specialty is deal-making with the Soviets, admits as much. "The slogan, 'The country is owned by everyone,' has now become, 'The country is owned by whoever can grab what he can.' The black market effectively *is* the economy," dominated by foreign currencies. No one in Russia, says Palms, not even the ordinary worker, earns more than 10-20% from his official job. The rest comes from black market activity in hard currencies, especially the dollar.