PS1 for 3/9/89 # Eliminate Tax Deductions for Foreign Loans and Losses

Rescheduling and convertibility are not exactly household words, but they may become so soon. Those are the names for the mechanisms by which some big U.S. banks and businesses are planning on making a tidy profit by using American taxpayers' and bank depositors' money to bail the Soviet Union out of its economic depression.

Rescheduling isa fancy four-syllable word which means that Soviet borrowers from U.S. banks never have to pay back the principal of their debt, while even the interest payments are postponed, financed by new loans, concealed from the banks' stockholders, and rolled around from one banking consortium to another so they are difficult to trace.

The banks which are most active in making loans to the Soviets are First Chicago, Chase Manhattan, Citibank, Manufacturers Hanover, Chemical, Bankers Trust, Marine Midland, and Bank of America. According to the human rights organization called Resistance International, of the ten largest U.S. banks lending to the Soviets, not one of them mentioned one word about Soviet-bloc loans in its Annual Report to stockholders.

The chief reasons Gorbachev is currently so conciliatory toward the West, pulling out of Afghanistan and playing the role of Smiling Mike on television, is that he wants $100 billion of Western capital over the next five years. And, like most Soviet bosses, he thinks Americans are suckers enough to provide it.

Despite perestroika, the U.S.S.R. has a long, long way to go before being considered for the preferential treatment represented by "most favored nation" trade status, let alone membership in Western financial organizations that are subsidized by U.S. taxpayers.

No businessman would call someone a "customer" who lacked any visible means of paying for his purchase. By any reasonable use of the term, the Russians cannot be called customers of American goods because they have no money to buy our goods and very little to sell that we want to buy.

So how does the Soviet Union finance its massive military buildup and its global adventures in Afghanistan, Central America, the Far East, the Middle East, and all over Africa? By getting unsecured and unrestricted (called untied) loans from the West, that's how.

While rescheduling has been going on for several years, convertibility is the new hokus-pokus coming down the pike. One of the principal current impediments to the greatly increased flow of American capital for which Gorbachev and his pals are lusting is the fact that the Russian ruble is not convertible on world currency markets.

So, if U.S. corporations make any money by doing business in the Soviet Union, the rubles are not good for anything except to travel inside Russia. It is probably that most executives (and their wives) can find lots more exciting places to visit.

Plans are now being formulated to give a false image of ruble convertibility. The game plan calls for securing the connivance of West German and Japanese banks to support a limited amount of rubles on the market at a pre-agreed level.

Of course, that would not be a market ruble at all; it would just be done with mirrors. If Americans let the Soviets get by with this, the Soviets will then be eligible for membership in all the international money organizations that serve as conduits to bleed the American taxpayers for the benefit of foreigners.

The Soviet economy is an economic basket case and not creditworthy in any sense of the word. Dr. Judy Shelton on the Hoover Institution estimates that the current Soviet national budget deficit is now running at close to 15 percent of Gross National Product. (Our U.S. budget deficit, about which we hear so much, is less than 3 percent of our GNP.)

It is bad enough that U.S. banks and corporations are bailing the ruthless ruling regime in the U.S.S.R. out of its Communist-caused economic woes. But it is intolerable that those banks and corporations are able to impose half the costs on the American taxpayers.

When the Soviet block and Third World borrowers default on their loans from American banks, and when U.S. corporations have a loss on their trade or investments, the U.S. banks and businesses just deduct those losses on their income tax returns. It would be a simply matter for Congress to amend the tax code to eliminate deductions for foreign losses.

If the big U.S. banks and businesses want to risk their own money, let them (provided they tell their stockholders). But it is wrong for them to roll half their losses onto the backs of the American taxpayers. Ask your Congressman to put a stop to this racket.