The global gambling den

Martin Thomas looks at the growth of a world-wide casino economy in the 1980s.

PRODUCTION, consumption and investment in capitalism are limited not by social need but by effective demand — by the number of buyers with cash, or an accepted substitute for cash, in their hands. Thus credit makes capitalism grow quicker. It makes it more flexible.

At the same time, credit nurtures speculation, risky ventures, and enterprises based on over-optimistic hopes of an industrial boom continuing. When an industrial boom slows down, and new investment in machinery and buildings dries up at the end of a business cycle, the credit boom may be able to 'overshoot' and continue for a while through its own momentum. But all dividends, interest and other gains eventually have to be paid out of the profits of productive enterprise. The credit boom has to end sometime — and its very flexibility may make that end a crash.

Since the 1930s capitalist governments have developed methods for controlling credit within their own economies which can smooth out such potential crashes. By reducing interest rates and printing more money, and undertaking public works, they can offset a shrinking of credit caused by the free market.

Behind the Great Crash of 1987, however, lies the fact that in the 1980s the world capitalist system has moved into uncharted waters. Various forms of *international* credit, only minimally controllable by national governments, have expanded hugely. As with credit generally, this expansion has given capitalism more flexibility — and a greater risk of sudden slumps.

International bank lending shrank from $336 billion in 1981 to $127 billion in 1983 because of the Third World debt crisis. But since 1983 it has expanded again, to $624 billion in 1986.

The volume of bonds (bits of paper carrying a fixed rate of interest, and, usually, a repayment date) issued by governments and companies outside their own countries rose from $44 billion in 1981 to $220 billion in 1986. International *share* issues rose from $0.2 billion in 1984 (they hardly existed before then) to $7.5 billion in 1986 and $17.7 billion in 1987.

The amount of foreign exchange trading — trading dollars for deutschmarks, pounds for yen, francs for dollars, and so on — was most recently estimated at $200 billion a *day*, in 1986. In 1970 it was less than $10 billion a day.

Just how huge these figures are can be gauged by comparing them with the US's reserves of gold and foreign currencies, which total about $170 billion.

Vast sums of money fly around the world at great speed in search of the best return. The gains or losses from having wealth in the right or wrong form can be huge. In 1987, for example, *before* the Crash, a British millionaire with his money in US government long-term bonds would have lost 47% of it. If he had the money in UK shares instead, he would have gained 44%.

In 1986 his possibilities ranged from losing 3% in UK government bonds to gaining 76% in French shares; in 1985, from losing 30% in the same French share market to gaining 55% in German shares.

The *Economist* magazine summed up the changes since the late '60s — changes which have accelerated dramatically in the 1980s — in these words: **"Capital mobility has transformed the monetary system, turning it from a series of official negotiated agreements into a 24-hour private, global market".**

Dollars held in London and other banking centres outside the US totalled $2,400 billion in 1985, and doubtless more today. Those dollars can be, and are, swapped into yen or deutschmarks, or used to buy shares anywhere in the world, at a moment's notice. Compare that vast mass of paper money with the US's gold reserves of about $130 billion! The gold reserves cover hardly more than 5% of the credit money. In 1971 the US's gold reserves covered 32% of foreign dollar holdings.

A long history led up to this situation. It is, briefly, as follows. After World War 2 the US was master of the world capitalist economy. It established a system based on the dollar being world money — money which any country would accept in payment for goods — the US guaranteeing the dollar with gold at $35 an ounce, and the exchange rates for other currencies be-

ing fixed unless a government devalued in crisis. Trade became fairly free, but international capital movements were comparatively restricted, except for the flow of US dollars invested world-wide and especially in Western Europe.

In the late 1940s this system caused severe difficulties because countries other than the US did not have enough dollars. The difficulties were eased by Marshall Aid and the Korean War. A lot of dollars flowed out of the US, in aid and military spending.

In the late 1960s the Vietnam war redoubled that flow of dollars to the point where the system broke down. The US could no longer effectively cover its dollars with gold. There was a risk that capitalists world-wide would decide that they no longer wanted dollars. The dollar would crash, and international trade would be left without any form of money acceptable to all sellers except gold.

The US abandoned its fixed rate of $35 to one ounce of gold, and exchange rates were set free to be decided by the market. Into this fluid situation the oil price rises of 1973 injected vast amounts of spare cash — the new income of the oil states. International bank lending increased explosively as the banks took the oil states' money and lent it on to Third World governments. This expansion of credit, yet again, made capitalism more flexible but more risky: many Third World economies expanded fast in the 1970s only to crash after 1982 when their export markets in the US dried up and interest rates rose.

International bank lending shrank again. But once the system had learned to go international, it could not be squeezed back into the bottle of national economies. On the contrary: in the 1980s one banking centre after another, seeking a bigger share of profitable business, has scrapped its government controls on international capital movements.

The modern global market in credit rests on a very delicate balance. The US government has to be just free and easy enough about printing dollars to keep the US economy from slumping and to provide international trade with enough dollars for its work, but not so free and easy that wealthy people around the world decide that the dollar is sliding downwards so badly that they had better swap their wealth from dollars to something else.

In recent years that delicate balance has been maintained by nothing better than fantastic coincidence. Since 1983 spending by the US government, US companies, and US consumers has boomed. The flow of credit *within* the US economy has increased dramatically. This has meant the US importing far more than it exports. The trade deficit — the excess of imports over exports — has risen from $67 billion in 1983 to $150 billion in 1987.

If that were the end of the story, then the US would face disastrous choices. If it tried to pay for the imports by releasing gold and foreign currencies from its reserves, then those reserves would run out within a year. So it would have to print vast numbers of dollars — thus risking a loss of confidence in the dollar and a decline in its value which the printing presses could not even keep up with — or engineer a drastic slump in the US to reduce imports. That drastic slump would pull the whole world economy down, just as the spending boom after 1983 pulled it up. The third choice would be to try to mend the trade deficit by strict import controls or tariffs. Some US politicians have toyed with this idea. But most of them know that strong protectionist measures by the US would inevitably bring retaliation from the EEC and Japan, and stifle world trade, dragging every national economy down. They would have particularly severe effects on debt-burdened Third World states which depend on exporting to the US in order to pay the banks — and thus, indirectly, on the US's own banks.

The US has been saved from these dilemmas by a huge flow of capital into the US, more or less balancing the trade deficit. British, Dutch, Japanese and Canadian capitalists have set up factories in the US, taken over US companies, and bought US shares and bonds, at a fantastic rate. Within a few years US capitalism has been transformed from being the capitalism with the greatest excess of its own assets abroad over foreigners' assets in its home economy — the world's biggest creditor — into the world's biggest debtor. (There are some arguments about the precise figures of this transformation, but its general size and direction are beyond dispute).

But foreign capitalists will not go on buying US assets forever. Japanese capitalists who lost billions by putting their money in US government bonds in 1987 will not carry on taking such punishment forever. British, Dutch and Japanese capitalists got a return of only 5% or 6% on their productive investments in 1986. They may reckon that such low returns are worth suffering for the sake of establishing themselves in the world's biggest market safe from the problems of protectionism and exchange-rate risk which they would have if they only exported to the US. But only up to a point! And when investment, industrial production, and profits in the US turn downwards — as they did in 1986, though there was probably some recovery in 1987 before the crash — then the limit where it ceases to be worthwhile for foreign capitalists to invest in the US comes nearer.

And besides, the increased foreign investment in the US means a new burden for the US balance of payments, since the foreign capitalists have to be paid interest, profits, and dividends — currently about $70 billion a year.

Alarmed by the stock market crash, the US government is now trying to bring the US economy down from its risky position in a slow and controlled way, by a gradual and limited decline in the dollar's value and a moderate recession in the US economy. No-one knows whether it will succeed or whether the whole dizzy structure of international credit will collapse.

But some things are clear. Capitalism is as much a system of chaos as ever. It is a casino economy where blind market forces and hitches in the trading of specialised bits of paper can suddenly and unpredictably ruin the livelihoods and lives of millions. It sacrifices people to the pursuit of profit.

Reformist programmes of national economic management have less and less grip on modern capitalism, dominated as it is by the international credit business. Any government attempting any control over its economy short of complete confiscation of the credit system can quickly be made a mere cork on the waters of the international flow and counter-flow of wealth. The debate in the Labour Party over whether to have exchange controls or only some tax incentives for British financiers to invest in British production is a debate between two forms of control equally inadequate to cope with the new regime of internationally mobile capital. Socialists need a programme both bolder and more international than ever before.