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World Monetary Crisis

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*The world watched in disbelief as the media recently discussed the possibility of Mexico defaulting on its international debts. We reproduce a talk recently given by Ernest Mandel to the recent **International** 'Debating Socialism' weekend on the meaning of the world monetary crisis.*

To understand the threat of a collapse of the world monetary, credit and banking system, we have to look at the present economic crisis as a combination of two movements. The first is the normal business cycle which has an average length of between five and seven years; the second is a long wave movement which has been a declining movement since the end of the 1960s or the beginning of the 1970s and which is interwoven

> with the normal cycle. This distinction is necessary for several reasons: to understand the gravity of the present crisis, but also not to get carried away by the idea of an uninterrupted linear decline of output and national income. Trotsky made this same point during the big depression of 1929-1932; at that time some Marxists both within the Trotskyist movement, but more often in other tendencies referring to Marxism, particularly the Stalinist movement, thought that the crisis would not lead to any recovery even of a temporary nature through the internal logic of the capitalist economy. Trotsky opposed this argument very strongly and events proved him right, for there was an upturn starting in 1933 or 1934 in the United States, Britain, Germany and all the big imperialist countries.

There have now been 21 business cycles since the beginning of what Marx called the world market for industrial goods in the early 1820s; if you work out the average length of these business cycles, you will see it neatly works out to about seven years which was, incidentally, Marx's estimate of the length of the cycle in his own lifetime. In the twentieth century, the period of imperialism and especially in the period of late capitalism, the cycle has become a little less long: some five or six years. As the present recession started, say, in 1980, it is to be expected that some slight recovery will take place around the end of this year or the beginning of next year. This will mean that production will pick up a couple of per cent as will national incomes and gross national products.

This is of importance from the view of short-term trade union strategy as it is generally easier for workers to fight back against attacks on their standard of living or unemployment under conditions of even modest upturn, and this will probably develop in a series of imperialist countries. But while the normal succession of business cycles continues, it is important to see that this happens within the framework of a declining or stagnating long wave and that therefore recoveries are short, recessions are longer and deeper, and, in particular, unemployment continues to grow even during the periods of recovery. It is now generally predicted by nearly all bourgeois and reformist experts that unemployment will continue to grow into the second half of the 1980s, if not even longer. The basic reason for this lies in the very nature of investment during this whole long wave: essentially rationalisation investment, i.e., investment which destroys more jobs than it creates. This is linked with a long term upswing in the average productivity of labour as the third technological revolution proceeds, especially in its present microchip phase which is abolishing jobs not just in industry but also in the public service sectors which had been the largest employment growth areas in the previous decades: banking, trade, insurance, state administration, health, education, and even the leisure industry.

While the productivity of labour grows faster than the increase in output, even if output grows, unemployment grows. We are faced, therefore, with the prospect of huge-scale unemployment in the capitalist countries: even leaving aside unemployment in the so-called Third World and looking at the Western countries and Japan alone, unemployment is now about 30 million compared to 20 million during the recession of 1974/5 and 10 million in the recession of 1970. By 1985 it will grow to 35 million and in the next recession which will certainly come before the end of the 1980s, it will probably reach as high as 40 million, which is close to the level of the 1929-1932 crisis; several Western countries already have unemployment higher than it was at that time in absolute figures though not as a percentage of the population.

In the United States, unemployment in now officially 11 million; trade union figures put it at 13 million, and if you adjust these to include women who have been forced out of the labour market by the non-availability of jobs, it is nearer to 15 million. Even this figure does not tell the whole truth because one must also consider the duration of unemployment: in the United States the situation is different from that in Europe and Japan because the turnover in jobs, and thus the turnover in unemployment, is much larger than in these countries. Some recent estimates published in the USA suggest that out of a total 90-95 million salary earners and unemployed people, only 60 million had a permanent job in the second half of 1981 and the first half of 1982. One third of the labour force were, while not unemployed, not permanently employed but in and out of work, working perhaps for two months, then being two months on the dole, then finding another job and so on.

The Monetary Crisis

This, then, is the backdrop to the present monetary crisis. Let us now look at its character and how it relates to the post-war boom. The big mistake which is made by most people who try to interpret the financial crisis is that they detach in a completely artificial and unscientific way the present monetary crisis from

> what went before. On the contrary, as we have argued many times, everything that happened after World War Two led towards this kind of monetary crisis. The post-war boom was essentially inflationary fuel: to use a metaphor that I have used many times (and is borrowed from Winston Churchill), one can say that the Western World floated towards prosperity on an ocean of debts, of credits and bank money inflation; and of course if you have a constant and cumulative build-up of this kind, at some point it explodes. Inflation grows from half a per cent to one per cent, from one per cent to two, from two to three, and eventually at some point an explosion is inevitable. So from a purely technical point of view one can say that the origin of the present financial crisis lies in the permanent inflation of the previous 25 years of expansion which created the momentum for the destruction of monetary stability and which at a certain point stopped providing the fuel for continued expansion and started acting as a brake upon it.

To give just one example of how this happened, probably the gravest effect of cumulative inflation for the capitalist system was the impossibility of seriously planning medium and long-term investment projects. This led to an abandonment, or at the very least a severe curtailing, of such projects which has been one of the main causes of the turnabout of the general economic climate. Every single one of the major investment projects started at the end of the 1960s and beginning of the 1970s, from Concorde to Ariane to the new nuclear power stations in the United States and

Europe, had final costs not 10 per cent or 15 per cent but 100, 150 or 200 per cent higher than originally planned. No capitalist firm in the long run can live with this sort of situation: you make investment and expansion plans, you start building new plants and then you find that you have to pay twice or three times as much as you had initially forecast. The result is either that you will cancel the project, possibly leaving unusable a half-built plant, or complete it but make tremendous losses as happened with Concorde.

This was far more instrumental in curtailing investment in the long term than any wage explosion, any increase in nominal or even real wages, which played a role certainly in making things more difficult for the capitalist class but only a partial and subsidiary role. So, when we say that monetarism represents some sort of turn in capitalist strategy, or at least in the economic policy of the main capitalist governments, this is certainly true; but it should not be seen as some sort of conspiracy – there is an element of aggression towards the working class and there are elements of long term bourgeois class objectives being followed, and I will return to this later on, but this is not the central point. The capitalists are in business to make profits not to attack the working class: attacks on the working class are only ways of defending or increasing profits. If the capitalists stop investing, it is not because they are scoundrels who deliberately wish to create unemployment but because investment is not profitable for them. There is no class interest, no power on earth, that will stop a capitalist from making profitable investments; they are not that class conscious, not that idealistic, not willing to sacrifice their private interests for the global interests of their class. But if they cannot profit, and indeed may even make losses, then there is no preaching by any government, either right wing or left wing which can make them invest.

They will have to be shown that investment will be profitable before it will start to pick up again. So, if monetarism represents a turn, it was not primarily caused by political or ideological considerations but because tackling inflation became a priority from the point of view of defending profitability.

Now this, as I have said, is purely technical. The problem appeared to be a monetary problem, a problem of balance of payments deficits, of rising industrial costs and consumer indices getting out of hand. It was addressed by restricting money circulation and money quantity, making money dear by putting up interest rates, and so forth; the details need not concern us here.

But there is also a more substantive element which is much more important from a Marxist point of view for understanding where we are coming from, where we are now, and where we are going. In the period of capitalist decay starting with the First World War, and especially in the period of late capitalism starting with the Second World War, there are intrinsic reasons why the system through its own inner forces cannot ensure long-term profound expansion. These internal reasons relate to an excess of capital and a declining rate of profit from the long-term point of view, and express themselves in a very clear way on two fields. First, the internal resources of the system do not allow markets to grow and profits to grow at a sufficient rate to ensure even a high rate of unemployment, let alone full employment, of existing industrial capacity and existing labour power. If the system is left to itself, without outside intervention, without state intervention, there will be permanent excess capacity and permanent unemployment. One of the merits of Lord Keynes, and he had his merits, was to understand this fact. He was not the first to do so; many

Marxists had explained before him that this was a necessary feature of declining, as opposed to rising, capitalism.

The function of inflation and neo-Keynesian politics was essentially to overcome this difficulty. There is a big mythology which has been created by bourgeois ideologues, and unfortunately by some ideologues of the labor movement, too, about the origins of inflation. It is not true that the arms race is the main cause of inflation. From the point of view of facts and figures, two-thirds of the debts created in the post-war expansion period were not state debts but private debts; private debts grew twice as fast as state debts. These private debts were of two kinds: consumer and corporate debts.

A big part of the post-war boom in consumer goods was a credit boom. Hire purchases, of cars and to a lesser extent of consumer durables, and above all home loans fuelled the boom. Company debts also exploded at the end of the Second World War and especially during the 1960s, creating a situation today where many companies are hovering on the edge of bankruptcy – often you can not tell if they are bankrupt or not. They could go over the edge from one day to the next.

I am not referring to small firms but some of the major multinationals. There are probably 10 or 20 of the top 100 companies in that situation today. This huge debt explosion created an expanding market and greater investment opportunities and hence the conditions for the long term boom. But this was fuelled by debts and not paid for by real resources. There was a considerable accumulation of debts in the world capitalist system which was further accelerated after 1973 by the creation of petrodollars. The banks took large deposits from the oil-exporting countries and used them as loans to firms or states for profit. There is an inner logic between the restraints, the limits, of normal, internal, capitalist expansion and the plethora of capital and the excess capacity and growing unemployment.

The threat of credit collapse

Now we can see a declining capitalism, with growing difficulties for self expansion, needing the artificial inflation of markets, allied to investment via debts. Here we have the essential and final links in the analysis. The form the inflation has taken has been an increasing quantity of money – bank notes and short term deposits – floating around. This could be stopped very easily. A deflationary government policy would bring it to zero, but at a terrible price of condemning large parts of industry to bankruptcy. It is a technical possibility, but even if monetary inflation is stopped, the debts remain unpaid. Actually the more stable money becomes so the burden of debts weighs more heavily. By calculating on inflation the capitalists thought they could get richer through becoming more and more in debt. In the short-term some did, but this was a foolish long-term assessment. It was an easy trick. You obtain loans at a rate of interest of 10 per cent while the rate of inflation is 15 per cent and the rate of profit 20 per cent, hence the more money you owe, the richer you become. This is fine as long as all things remain equal, but if the rate of interest rises to 20 per cent and rate of profit falls

> to 10 per cent, then you become poor. Monetary policies cannot sweep away the decline in profits or the accumulating debt charges which are weighing down the capitalist classes and the states worldwide.

The threat of a credit collapse takes the specific form of a huge accumulation of debts via different agents. Today on a world scale the banks are owed more than $1000 billion and there is the danger that some of these debtors will be unable to pay back their debts. Who are these debtors? There are two broad categories – governments, and private firms and households.

By government we mean all governments. There is a myth that it is only the Third World countries which have huge debts. This is not true. The Danish and Belgian governments are nearly bankrupt while the British and Italian are not far behind. Overall, these governments have debts totaling around $500 billion.

The debts of private firms are also very substantial. Some firms owe more than governments. Chrysler has debts approaching $3 billion, International Harvester and Massey Ferguson $1.5-2 billion, etc. Overall, the total runs to hundreds of billions of dollars.

Household debts, especially in the Anglo-Saxon countries, have a similar amplitude. It has not been such a problem in France and Italy because of different consumer habits during the past 25 years. Nevertheless, everywhere mortgages, which are a form of debt, are very heavy. These are not just consumer debts. For example, in the USA 75 per cent of all farmers are in deficit and if the banks had behaved as they did in 1929-1932, a lot of farmers would have been out of business. Instead, they have not foreclosed and have allowed the debts to build up. The final form of debt, and the gravest for the system, is inter-bank debts. The banks are in debt and could be forced to close. This is a serious worry for the capitalist class, and in particular they fear a snowball effect. To take an example – and avoiding the obvious case of Mexico – there was a group of small Oklahoma stockbrokers who went bankrupt when there was a rise in the interest rate. Their collapse also involved some small local banks, again completely marginal to the national economy, who had engaged in some speculative oil loans. But within one week these local bankruptcies had threatened the sixth largest bank in the USA, which lost $5 billion. People with deposits in the small banks could not pay their debts, and so it snowballed through the system. A large bank may have hundreds of billions in deposits, but their own capital can be as low as a few billion. A loss of $5 billion could wipe them out and thus cause millions of people to lose their deposits.

Banking as a crime

> Since the decline of capitalism, the banking business borders on criminality. It is a con. The banks take in large short-term deposits and invest them long-term on the assumption that the short-term will not be withdrawn. This is not just against the law but contravenes the elementary basis of banking. If a number of short-term deposits were withdrawn, then the whole system tumbles down because the money has been invested where it is not liquid. There is no bank in the world which can repay more than one-third of its deposits. If there was panic and people

> were to demand their deposits, then the banking system would not be capable of coping. During the collapse of the German Herstadt and American Franklin banks in 1974, the world's top bankers made a decision in Basle not to allow another major bank to go under. They agreed that the resources would be advanced to avoid such a panic which could threaten the world credit system. They took and applied that decision. During the present recession no major bank has been permitted to collapse.

Can this system continue forever? What are the limits of its application? Does the world capitalist system have the funds to save major governments, firms and banks? Until now they have done so. President Reagan intervened to save the Polish government from being declared bankrupt. Some American banks were pressing for such a declaration of bankruptcy because the Polish state was unable to repay some of the interest which was due. Reagan stepped in for an obvious reason. He knew that a small default to one small American bank would have spread to the entire Western banking system – the Polish government owes more than $15 billion to private banks in the West. The price of some Western banks also going bankrupt was too high.

The missing lender of last resort

> Can the world banking system continue to roll over credits and inflate the total credit loan? I doubt if this can be done forever – perhaps for a further limited period. If they continue to do so they face two major

> problems. The first pertains to the distribution of risks, to inter-imperialist rivalry and the absence of a lender of the last resort. This system can only be controlled if there is a world bourgeois state with a world central bank which would function on a world scale in the same way as each of the national central banks does on a national scale. That is, it would lend money to the private banks to avoid their collapse, but private property and competition prevents the creation of such a world state. Because there is inter-imperialist rivalry, there can be no lender of last resort. Thus, there always exists the question of dividing the risks and subsequent costs. This is open for negotiation and horse trading. What part will the Americans, Germans, Japanese, British, French or Italians pay?

As in the 1920s there is no single imperial power which can impose such a division. After the 1939-1945 war the USA could do that, likewise prior of the 1914 war the British were in such a position. Today, the inter-imperialist relationship of forces is such that the USA cannot impose anything on Japan or Western Europe; take, for example, the case of the Soviet pipeline.

If the burden of debt is only a few billion, that can be resolved and divided up, but what when it is hundreds of billions? The accumulated debts of the Latin American states is already more than $100 billion, that of the workers' states not far short, and amongst the largest multinationals in excess of $100 billion. In Britain industrial firms owe the banks £40 billion. With no lender of the last resort, the danger exists that one government will refuse to pay and not help bail out another country or its banks. As the inter-imperialist competition increases, so does that danger.

Deflation

> The second difficulty relates to the function of deflationary policies, the rise in the interest rate and the strangling of fresh credit. These are social as well as technical policies. They are being used to weaken the working class via mass unemployment and have the long-term goal of sapping the strength and militancy of the labour movement. They also are intended, like the capitalist crises, to clear dead wood from the system. But that means bankruptcy, and, as I have argued, that threatens the future of the banking system itself. The other question is how to discipline the banks. How do you force them to cease credit expansion while at the same time avoiding a crisis of 1929-1932 proportions?

That is the dilemma for the ruling class. Outright deflation entails a collapse of the banking system while all-out inflation stops the system functioning. Today, politics are a mix of the two.

The ruling class is faced with a very serious threat from a monetary and credit crisis on a world scale. It cannot resolve it easily. It faces significant social and political resistance from the working class and the colonial revolution. Within the imperialist states there is a growing rivalry. There is the clash with the workers' states. All in all, in comparison to the 1930s, the capitalist class has less control. That is why it is possible to predict that capitalism cannot resolve the crisis and that the labour movement will have several successive opportunities to resolve its way, provided there is a growth of mass militancy and the emergence of a revolutionary leadership.