Solidarity Federation
Global Fiction
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Amid rising inflation and mounting economic crisis, the dollar was finally devalued in the 1970s, leading to the collapse of the fixed exchange rate system, and its replacement with the present currency markets. New technology did not create the currency markets, it only speeded up the whole chaotic process.

The key to ending deflationary economic policies is to re-establish economic stability, which would in turn lead to monetary stability and the curtailment of currency speculation, high-tech or otherwise. If this could be achieved, rising employment and increased funds would allow the nation state to spend less of GDP on unemployment benefit and more on welfare provision. How this could be achieved though, given the unstable nature of capitalism, is hard to conceive.

beyond boom & bust

From the perspective of those seeking an alternative to the current mess, there are a number of things to be born in mind. The current economic woes cannot be blamed on faceless international financial speculators, as national governments and the left increasingly tend to do. They are caused by economic slump, which in turn stems from the nature of capitalism. Further, it should be remembered that national economies are still very much with us. There is still much to be gained from organising within national boundaries as well as internationally.

Finally, we should ignore all the hype concerning the global market. World trade deals, aimed at bringing down economic barriers, have little to do with globalism. The aim of such deals is yet further exploitation of weaker economies by the richer economies of the north. The establishment of a truly world economy will require democratic control and democratic planning, words not to be found in the free market dictionary.

union. Did the Mexican people embrace the latest NAFTA free trade agreement? Not exactly – the Mexican State is still killing those who have tried to make a stand against it.

Even international currency markets have little to gain from free trade and monetary stability; they rely on monetary instability for their quick profits.

Nor is the theory of a global market flawed simply because it confuses market theory with economic reality. Central to the global market idea is that of invincible high-tech global finance slaying the demon of state power. The world's lurch towards free market doctrine and the abandonment by governments of Kenynesian economic management had nothing to do with technology. Change was brought about as a result of the inflation and recession that hit the world's economies in the 1970s. It was from this instability that the power of the financial markets grew.

the seeds of superprofits

The long post war boom was built on the dominance of the US economy. It was this that allowed monetary stability to be established. The world's governments agreed upon a fixed rate exchange system. Currencies were fixed to the dollar, which in turn was backed by massive gold reserves. Known as the Brettons Wood system, the fixed rate exchange system prevented the sort of currency speculation that we see today.

Unfortunately, as is always the case with capitalism; out of stability, so instability grew. To finance the war against communism, America resorted to printing money. This led not only to inflation within the domestic economy, but as the dollar acted as the world reserve currency, inflation was injected into the world's economies. Further, as the American economic dominance began to be challenged by German and Japanese based capitalism, pressure grew to deflate the value of the dollar.

The communications revolution is stripping away the cultural, economic and political barriers that defined the nation state. Or is it?

The idea that we live in a global market is now accepted as reality. In this new global village the concept of national government is becoming increasingly irrelevant. In future it will no longer be state power that shapes our lives but the power of market forces. The history of the nation state is at an end.

Not so fast.

If the free market vision of a global market is a reality, then we live in revolutionary times. The establishment of a true global market will require a massive shift of wealth from the rich north to the undeveloped nations of the Southern Hemisphere. For, if the global capital markets operate in line with market theory, production and investment should be abandoning the high waged rich economies in search of higher rates of returns on offer in the low waged underdeveloped nations. And here lies the problem, for much of the global market hype is based on abstract market theory, rather than economic reality.

It is certainly true that the high taxing, high spending, national governments are still with us. On average, the nation states of the rich north consume some 47% of Gross Domestic Product (GDP). It seems that national governments still have a few pounds to play with. So much for the power of markets to impose economic discipline.

Is this continuing massive state spending spree, causing investment to flood into the poorer nations of the world? Well, not quite. Average direct foreign investment (FDI), the amount companies invest abroad in property, machinery, etc., is only the equivalent of 6% of total company domestic investment. Of this relatively small amount, only 9% was invested in the developing nations. Between 1970–89 the world's rich economies managed to swallow up 90% of total world FDI — the country taking the lions share being the USA.

These figures reflect the fact that in the 1990s only 10% of domestic investment in the emerging economies was financed from abroad.

Even the demon of the "left" and exploiter of low wage economies, the multi-national corporations (MNCs), remains firmly rooted in home territory. On average, MNCs satisfy over two thirds of their production and locate two thirds of their employees in their home country. Modern manufacturing requires highly sophisticated support networks, for example specialised suppliers, research and development facilities, access to highly trained labour, with much of this support supplied free by the state. Add to this the fact that, due to the increasing use of technology, labour costs now only make up around 10% of total productive cost, and it is not hard to see why MNCs remain rooted in the rich northern economies.

false-market

Despite the perception to the contrary, companies generally still operate within national boundaries. There is still a strong correlation between domestic saving and domestic investment. Companies still tend to raise funds, invest, and produce for the domestic economy. 80% of Britain's GDP is still produced for consumption on the domestic markets. The figures for Japan and the USA are even higher, around 90%. Also, GDP does not measure human activity not exchanged on the markets, most notably unpaid work like bringing up children. If this was to be included, the picture emerges of national economies still very much geared to meeting human "needs" within national borders.

The fact that national borders are still very much with us should come as no surprise, for society does not function according to the dictates of free market theory. People, workplaces, goods and services cannot simply be transported around the globe in search of higher profit, they tend to be fixed by locality. For instance, according to market theory, the sole factor in deciding where to live, is levels of income. Human beings are slightly more complex, they are fixed to locality by a common culture, family ties and a sense of belonging. They do not continually move around the world in search of ever-higher standards of living. National borders cannot be simply wished away by simplistic market theory.

To argue that national economies are still very much with us is not to say that there has not been an increase in cross border trade. But statistics can always be deceptive, and the growth in cross border trade does not demonstrate that we are moving in the direction of a global market. What is beginning to emerge is the existence of regional trading blocks, centred around Europe, the Americas and Asia. Trade within these regional blocks is growing at the expense of trade between the regions. Exports within America, Europe and Asia rose from 31% percent of total world exports in 1980, to 43% in 1992. Well over 50% of Britain's exports now go to EEC countries.

superstates?

It should be stressed that for reasons already outlined, these regional trading blocks have a long way to go before they become "super state" regional economies. The regions are dominated by the US, Japanese and German economies. Even in the European block, which is attempting to introduce monetary union, it is likely that economic inequalities will remain, with the German economy remaining the dominant force.

The other notable thing about the emergence of these regional trading blocks, is the way they were formed. They did not result from some natural free market process, spurred on by the introduction of new technology. They were planned by supposedly enfeebled nation states often against the will of the citizens and in opposition from sectors of the market. For example, the overwhelming majority of European citizens are against European monetary