

Why South Africa's future is all a gamble

By Wayne Visser

In 1996, the South African Rand currency took an unexpected dive, fuelled by false rumours that President Nelson Mandela's health was ailing. The devaluation affected millions of South Africans, but was completely beyond their control. Even the government seems powerless against these tides of financial speculation. Can we afford to live in a world where our fates are decided by financial gamblers?

Each day, over \$1 trillion pass through the world's financial markets, a 14-fold increase since 1980 which is mostly accounted for by the explosive growth in derivatives trading since it first began on the Philadelphia Stock Exchange in 1971. Of this, only between 2% and 5% is related to international trade in real goods, a phenomenon which US critic David Korten calls "de-linking money from value". The effects of speculative activity of these proportions on real trade, however, can be significant and potentially harmful.

One of the criticisms of speculative financial markets is that they divert capital away from long-term productive investment in the "real economy" in favour of short-term speculative investment in the "virtual economy". Another is that, since the development of expert systems and the piloting of programmed trading in the 1960s, these markets are becoming increasingly depersonalised and automated - "high tech and high speed" - operating without regard for the human or ecological consequences of their actions but simply chasing the highest profits to be made.

Combined with this is the growing level of deregulation of these markets ever since the creation of the Eurodollar markets and the discontinuation of the gold-dollar fixed exchange system in the 1970s, and now, in the 1990s, the Multilateral Agreement on Investment which is being pushed for. From the perspective of the financial players, this has read like a tale of triumph against government control over money. From a social or public point of view, it has placed myopic power in the hands of a few, with no associated accountability.

The overall result of these developments is a worrying increase in the volatility and instability of the financial markets. The claimed effects of this vary: from destroying the livelihoods of small traders and growers and the cultural fabric of indigenous or rural communities; to increasing the uncertainties and risks of bankruptcy for businesses, and disrupting the plans of governments and the economies of small nations. All of these effects amount to a decrease in self-reliance, at both national, community and individual levels.

The history of financial market crises is not new, from the South Sea Bubble of 1720 to the Wall Street crashes of 1929 and 1987. The difference is, now their frequency is increasing. Consider the following list since 1995: Mexico's peso collapse; the failure of British banking firm, Barings; the default of the US's Orange County on its municipal bond obligations; the dollar's 15% plunge against the yen; and the copper price plunge in June 1996 due to the speculative activities of rogue trader Yasuo Hamanaka.

Among the most direct casualties of these financial crises have been the banks. The costs to the tax-payer of central bank "bail-outs" related to speculator-induced financial crises over the past 15 years have already been substantial - \$150 billion for the 1980s US savings and loans fiasco; \$4.2 billion to rescue the state-owned French bank Credit Lyonnais between 1992 and 1994; \$2 billion for the Italian bank Banco di Napoli; \$1.4 billion for Britain's Barings Bank in 1995; and \$86 billion for Japan's 21 largest banks in 1996.

The "systemic risk" which these financial crises represent is widely recognised, as a recent International Banking survey supplement in *The Economist* indicates, but there is little agreement on what to do to prevent the next financial earthquake from being "the Big One". Even if agreement could be reached on international control mechanisms "the computerised hand can move faster than the regulatory eye." Were such a systems-wide "financial meltdown" to occur, the social and ecological consequences are difficult or too frightening to imagine.

Source:

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