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Money Manager Capitalism

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II. Some basics

In order to understand the basic financial properties that any new international order will have to deal with, it is necessary to understand how trade and finance are inseparable in determining the behavior of a capitalist world. The linkage is especially close now when the power to communicate and compute far exceeds what had been true hitherto. Financial linkages among countries means that the analysis of the balance of payments needs to take into account the prior commitments that are embodied in the international financial linkages. As a result the analysis is best set up in terms of tiers or layers; each tier or layer corresponding to inherited financial relations or to markets in which decisions are made.

A. Financial linkages.

A fundamental characteristic of the modern international economic structure is that strong financial linkages exist among the various national entities. These financial linkages take the form of the ownership of real and financial assets in one administrative unit by entities that are domiciled in another. These real and financial linkages set up payment commitments and expected receipts through time: each period, year, quarter, month or day, begins with prior payment commitments as well as prior expected receipts due to the ownership of financial and real assets. The net of these balance sheet payments give us a prior commitment that needs to be financed or placed.

In the world as it is we can virtually ignore the existence of direct ownership of real assets across national accounting unit lines. We can assume that the proximate owners of all real assets are corporations, and the persons, natural and corporate, own financial instruments, debts and equities. Thus the balance sheet payment commitments are payments due on financial contracts. The payment commitments include dividends, therefore there is a contingent though presumably rationally anticipated element to the prior payment commitments due to the financial linkages.

Note that while debt contracts involve a commitment to repay on principle - except in the now obsolete case of perpetuities - equity investments do not involve such commitments. However commitments to repay principle are binding only if there are difficulties, either current or anticipated, in meeting interest payment commitments for if interest on debt can be paid then the debt can always be rolled over. Nevertheless for the argument to be advanced the relevant payment commitments are gross, in the sense that they include commitments to repay principle as well as the interest and dividend payments that are due. This is so because we wish to focus on the gross action in financial markets where both refinancing and the advance of new money takes place. In well functioning financial markets refinancing and new money are comingled.

We therefore have a first tier to the balance of payments, which we may call

1. net payments due on outstanding financial instruments (interest, dividends, and maturing debts).

This tier consists of prior commitments to make payments. This total is, to use the vernacular, "a nut" that has to be met for the economy to function well. For some purposes it might be best to divide this "nut" into two parts

1*. net payments due on outstanding financial commitments

a. net interest and anticipated dividend

b. net repayment of principle.

B. The current balance on trade and services (ex finance)

The second tier is the balance of trade. This is the domain that is usually considered. The by now chronic deficits on trade account has transformed the United States from the great international creditor into a great debtor. The trade balance is of special importance because the a surplus in the balance of trade increases the gross flow of profits within a country whereas a deficit decreases the gross flow. Symmetrically a surplus on trade account augments and a deficit diminishes employment. The impact upon employment and profits are the rationale for protectionism within the context of a theory of system behavior in which a sustained full employment of labor is not the normal end result of market processes.

C. International Investment

International investment is the third tier of a comprehensive view if the balance of payments of an modern capitalist economy. Fundamentally if the world economy is to continue the evolution that has led to the greater integration among economies then international portfolio diversifiction cannot be prevented, The choice is whether the interpenetration of ownership open of assets is to be open or whether it is to be clandestine.

1. Rollover and new
2. International Portfolio Diversification.

D. The balancing items
1. Gold movements
2. Deposits
a. Bank
b. Central bank
c. The IMF as the central bank for central banks in the future.

E. The equilibrium contour among the tiers.

III. Capitalist Evolution

The entire post war era can be interpreted as demonstrating the evolutionary character of capitalism: capitalism survives because it is an economic system that is hospitable to institutional change. Not only do institutions matter but the evolution of institutions matter. Because institutional change is often the result of a combination of market and political processes, ideas and understanding of how the economy functions matter to the extent that the political processes matter.

II. A Capitalism

Capitalism is inescapably a financial system. The evolution of financial institutions and of the way in which financial institutions interact, deal with, households, business firms, and governments affects the way in which the economy functions. The resource allocation, dynamic or growth, and stability efficencies of a capitalist economy is affected by its financial structure.

All economies need to develop means by which economic activity is coordinated. A village or broader commodity market where goods are brought to be traded - where production takes place off stage, so to *apeak - is simple device for coordinating production and consumption. As the twentieth century draws to a close the revolutions in transportation and communication has led to the globalization of commodity markets to a degree that was incomprehensible at the beginning of the century. Furthermore this globalization of commodity markets has been accompanied by an unanticipated degree of coordination of financial markets.

The central actions of a capitalist economy are those that follow from the pursuit of profits.

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I. Introduction

II. The tiers approach

III. An overview of the U.S. & world financial structure,

A. The tension between market and institutions in finance

B. The shifting weights of financial centers.

IV. The Emergence of financial turbulence

A. the underlying cause of the change in performence

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