Introduction

Money, Banking and Finance and the Performance of End of the Millenium Capitalism

As the twentieth first century draws near it is clear that the economic landscape at the beginning of the new millennium is far different from that which ruled as recently as January of 1981. When the 1980’s dawned the United States held unquestioned dominance over the capitalist world. True countries of the common market and Japan were greater had grown at a faster rate in the 1970’s than than the United States, but that was an expected and desirable outcome, for imitators of what is successful are expected to expand at a faster rate than the economy that is firmly on the technology and product frontier.

The United States was the dominant financial power in the world. By 1980 the deficits on trade account of the United States were of the correct order of magnitude to enable the rest of the world to earn the income that was needed to service their mainly dollar denominated debts. The imbalances that had characterized the first decades of the post war world were now a thing of the past: an era of strong prosperity seems inevitable. However new
imbalance, fostered in good measure by irresponsible UNited States policy, appeared as the decade advanced.

The international rivalry for military dominance between the United States and the Soviet Union was the main economic and social problem in the international sphere as the 1980's began. This had been unchanged for more than 30 years. Now that problem is history: the program of containment had won.

The dramatic collapse of the Soviet Union in 1991 marked the end of the Soviet model of Socialism as an economy and as an alternative to capitalism. In 1991 the economic policy problem, in what had been the Soviet world, became the need to put the institutional structures of a modern capitalist economy in place. This is much more demanding than the vulgar freeing of markets and of prices that became the model of the transition. The monetary and financial system is the main institutional structure that has to be developed for a transition from a Soviet type socialist state to a capitalist state to be successful. The monetary and financial system includes the arrangements for the ownership for capital assets and the systems which finance the capital development of the economy.

Economic development of a capitalist economy is not simply a matter of accumulation or of technical innovation, it is a matter of mobilizing and allocating finance to resource which are used in the accumulation process. This requires that there be in place a mechanism for valuing
capital assets, which are in a real sense each days inheritance from the past. Such a valuation can be made only if there is some way of estimating the future incomes and costs that in some sense are attributable to the outputs which the capital assets will help bring to the market. No matter what else may be true, such estimates need past or analogous performance histories for the data to be believable.

But the problems of creating a financial system for the former Soviet world is not the only financial problem that requires political will and creativity if the new century is to be ushered in in style.

In Western Europe, during the last decade of the twentieth century, present plans call for financial integration to catch up with the industrial and commercial integration which has made the new prosperous Europe. Whether the breakdown of the east slows the process of financial integration or accelerates it, the financial structure of Western Europe will be substantially different in 2001 than it was in 1981.

Japan and the other export oriented industrialized countries of Asia will need to adjust to their new positions of power in the economic and financial structure of the world. In Japan there are many signs of stresses and strains in their financial structure.

The countries of Latin America were worse off as the 1990’s started than they had been a decade or so earlier:
the 1980’s were a lost decade for Latin America. Their financial structure needs to be reformed if it is to become a vehicle for the capital development of the economy. The economies of Latin America remain failures as the century ends.

The financial system of the United States is not in an overt crisis as it had been in the 1930’s. This may be so because the Federal Government is pumping huge sums of money into the deposit insurance facility in order to keep the market value of deposits at par. In the 1991 legislative year, as part of a package which refinanced the deposit insurance funds, the Administration proposed extensive changes in the financial structure. This package of reforms were largely rejected by Congress. Legislation was passed which increased the powers and the options of the regulating agencies: this went in the opposite direction from what the administration had proposed. Financial institution reform will remain on the United States’ legislative agenda.

It is evident that legislation to create, reform or adjust financial systems is now on the political agenda