Fighting high finance: *US labour experiences, SA prospects*

Unprecedented debt and uncontrolled speculation have characterised many capitalist economies since the mid-1970s, including South Africa and the United States, writes PATRICK BOND. In the US, some progressive forces have begun to offer vigorous resistance to the pain of financial devaluation that invariably accompanies a speculative binge.

The recession is deepening, bankruptcies are increasing, and many South African workers are forced to struggle ever more desperately for economic justice because their employers *are sinking deep into debt*. Companies and farms which must repay their bankers an extremely high interest rate on loans find it difficult to meet demands for a living wage.

The problem of growing debt is not only a South African one. Across the globe, debt levels are higher than they've ever been. And tragically, rather than being used to increase productive capacity, many of the new loans are often used for further speculation. ('Speculation' means gambling that a higher than average rate of return can be gained from investments which are not tied directly to production.)

The best example of these trends - and of the damage they cause poor and working people - is the United States economy. There, hostile takeovers of corporations funded by extremely risky loans, the collapse of real estate markets and failure of thousands of building societies, an overvalued stock market, and massive levels of indebtedness throughout society, have combined to make a mockery of what was once the world's strongest industrial power.

A new generation of trade union militants - at both staff and rank-and-file levels - are waking up to the problems caused by the degeneration of the economy. Together with inner-city civic associations, these unionists are doing battle with the bankers, insurance giants, financial speculators, and "corporate barracudas," as Jesse Jackson calls them, that sit atop the US economy's commanding heights. These new alliances and coalitions are changing the rules of the game.

Will the coalitions be tough enough to resist the union-busting tactics of financiers? To get to the heart of the struggle, we must first look at the terrain: economic chaos created by financial parasitism.

The financial explosion

Leading radical economist Paul Sweezy coined the term 'financial explosion' to describe what is perhaps the most significant force in today's global economy. His argument is that stagnation enveloped the US and other capitalist economies in the early 1970s, with symptoms like slow growth, the decline of heavy industry, and inflation.

One logical response by institutional investors was to move a flood of capital away from *production* into *speculation* (other big business responses were wage cutbacks, plant closings and geographic capital flight, and a broad attack on the US government's already minimal provision of social welfare and non-military services). One form of speculation is lending money to companies and consumers in order to earn profits through interest. Another is to invest millions in the share market rather than investing directly in production. This inflates the value of the shares on the stock market.

It was not long before industrial and commercial capitalists became big financiers. Through what was formerly a car financing arm, General Motors now controls more housing bonds than any other US institution. Ford Motor Company became the largest building society in the US through its subsidiary, First Nationwide. Sears, a huge retail chain like OK, is now a major financial services firm.

Since interest rates in real terms had gone from around 0% in the 1970s to an average of 5% in the 1980s, this strategy was simply a more profitable one for businesses than reinvestment in factories and equipment. But as a result of alling profits and wages in the economy, many of the companies and individuals who went into debt during the financial explosion soon found they had to borrow more new money just to keep paying interest on the old.

The total debt owed by US companies, consumers and government to US creditors, soared from $5 trillion in 1980 to $13 trillion a decade later (the US also boasts the world's largest foreign debt, at well over $700 billion; in comparison SA's is about $20 billion and Brazil's $120 billion). Since many of these debtors are no longer able to pay off their debt, banks and building societies are threatened with bankruptcy.

Sweezy predicts that although government support of the stock exchange and bankrupt banks and building societies may allow the financial explosion to continue into the 1990s, at some point this approach will fail because the government will not have sufficient money. Then, as happened sixty years ago in the Great Depression, full-fledged *devaluation of finance* must be faced.

Routes to financial devaluation

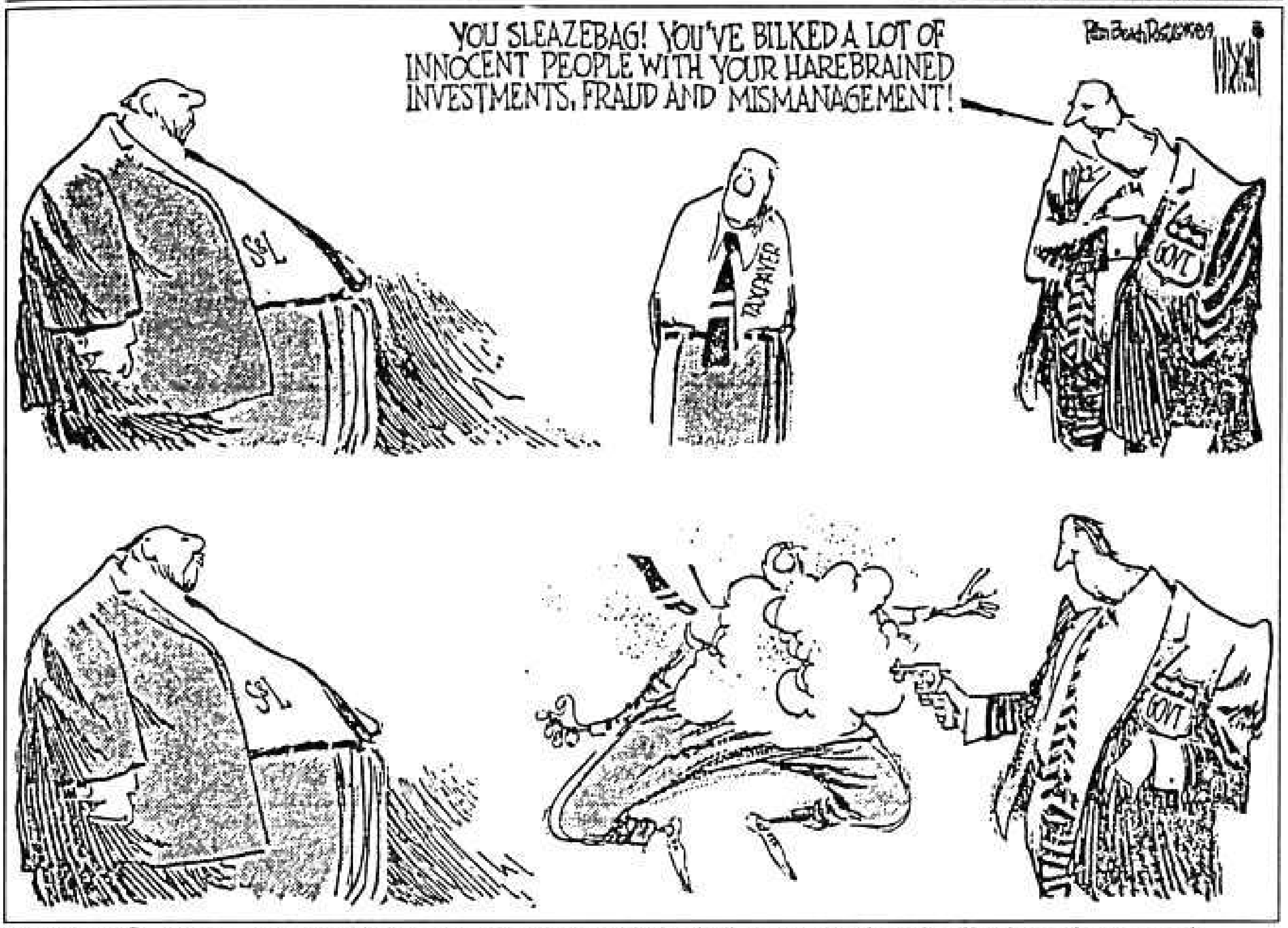
What is devaluation? Some examples of financial devaluation include bank failures, the collapse of stock markets, or inflation.

When it becomes impossible to continue gambling with debt the leading managers of the economy (usually to be found in the Department of Finance, the Reserve Bank, and top financial institutions) will realise the need to try to restore some real underlying value to all the speculative paper value that pension fund managers, bankers, insurance companies and other institutional investors have successfully created out of debt.

So how does the necessary devaluation of overvalued assets happen?

Occasionally the villains are made to pay. An example was the spectacular collapse earlier this year of the New York investment bank Drexel Burnham Lambert. Government officials let Drexel bite the dust because its top speculator, Michael Milken, had stepped on too many establishment toes with his outlandish financing methods.

Usually, though, the villains get off scot free and taxpayers are called in to bail out multi-billion dollar financial institutions which have gone bankrupt. The $40 billion Continental Illinois Bank, for instance, failed in



In the US, when 1 000 of the country's 3 000 building societies (called savings and loans, or S&Ls) failed in the late 1980s, more than $500 billion of taxpayers' money was used to bail them out

Graphic: Courtesy of the author

1984 due to shaky oil, property and Third World loans. The government took over to save it from bankruptcy. And presently, the government is using more than *$500 billion* of taxpayers' money to support the US building society industry, which played fast and loose with millions of Americans' savings.

Aside from banking crashes, there are vivid indications of devaluation's human costs already apparent in the US. For example, in the early 1980s, hundreds of thousands of small, over-indebted mid-western family farmers were declared bankrupt by the banks (a similar process is now happening to farmers in South Africa.) Then, as the farm banks began going bankrupt by the hundreds, major insurance companies and huge agribusiness firms moved in and took over the devalued land.

Devaluing the US working class

Traditionally-privileged US workers have also suffered as a result of the general problem of high company debt. When the financiers demand repayment of the debt, the indebted companies must take added steps to lower wages and bust unions.

In an even more disturbing development, many US workers' pension funds - which are typically controlled by the employer - have done very well thanks to the speculative rise of the share market. But two million workers saw none of the benefits. Why? Throughout the late 1980s banks forced many indebted companies to raid the excess assets in the pension funds, close the funds, and pay the workers off early. The workers lost both their retirement security as well as those surplus pension fund assets which were morally, if not technically, theirs (there have been a few similar incidents in South Africa, pension fund sources admit).

Speculation is extremely profitable in the US. Drexel financier Michael Milken, for example, earned a world record *$550 million* in personal income from his junk bond deals in 1987, but two years later was fined $1.8 billion for financial crimes. [Since the writing of this artcile, Milken has been sentenced to 10 years imprisonment as further punishment for his financial crimes - *ed*]

When considering how to pass the costs of speculative finance and over-indebtedness from the banks to the people, the trick for big business strategists and government bureaucrats is to devalue slowly and steadily, without risking the kind of public panic where people try to withdraw all their money from the banks, and the stock market collapses, as happened in the 1930s.

The trick for trade unions and civic associations, on the other hand, is to resist devaluation in a way that not only protects their interests, but also sets the stage for a more fundamental transformation of society.

Resisting the US financial explosion

Progressive forces in the US are trying a range of strategies to avoid being forced to carry the burden of financial devaluation.

Pension funds, for example, are already becoming a crucial component in the overall strategy of resistance. Jesse Jackson and his National Rainbow Coalition have put forward the idea that pension funds should be redirected to low-income housing and community development, even if the short-term rate of return is a bit lower. While US progressives maintain the demand that the government continue to finance housing, the $2.5 trillion federal debt makes this a losing cause. New financing sources are needed. For pension funds, one of Jackson's concerns was that stock market investments are far too speculative, even if over the past few years they seem to have offered a good return.

Jackson and his advisors and some unionists are trying to shift the national economic debate away from a focus on high investment returns and toward the issues of equity and stability raised above. One way of doing this was Jackson's leading role last year in a major taxpayer revolt ("The Financial Democracy Campaign") against the bailout of the building societies.

Jackson and other leading progressives have also joined grassroots efforts to oppose the devaluation of urban areas that accompanies the financial crises of inner cities. In Baltimore, a declining mid-Atlantic industrial town with an up-and-coming financial services economy, a broad civil rights-labour-community-student front successfully waged a campaign against the city's largest bank (Maryland National). The front won $50 million in loans at below-market interest rates for poor neighbourhoods; $50 000 per year for grants to non-profit community development groups; an endorsement of bank-financed Third World debt relief; and a commitment to end all its South Africa business.

The community development groups - especially credit unions and housing and land cooperatives - are, in many people's view, the seeds of a new, socialist mode of production that can only develop, at present, in the margins of decaying urban capitalism. If Jackson succeeds in getting support from pension funds for non-profit community development groups, this will strengthen the movement immeasurably.

Labour-community alliances

The Baltimore campaign also attracted a great deal of labour interest. Unions were concerned about several of the Baltimore banks' practices (such as funding new multinational corporate investments in repressive countries like El Salvador). But they also saw the demand for more lending for community development as one way to play a more social role, and to help build longer-term alliances. One major union went to court against Continental Illinois Bank, alleging that after it was taken over by the government in 1984, the bank had completely abandoned its community responsibility and commitment to the African-American neighbourhoods of Chicago. The case stunned the entire financial community when the judge ruled in the union's favour in early 1989.

In another recent example, the United Mine Workers were in the middle of the toughest US labour struggle in recent history, against the Pittston Company. To bust the Mine Workers in the face of an extraordinary strike effort that gained support from all over the world, Pittston borrowed $100 million from a five bank syndicate led by Manufacturers Hanover Trust of New York City. Though the Mine Workers had no members in New York, they found some new allies: national anti-apartheid groups angry that the bank had also rescheduled $200 million in loans to Pretoria in the face of the international call for financial sanctions; and the US' most militant national civic association, ACORN (the Association of Community Organisations for Reform Now), which saw the bank taking money out of its poor Brooklyn neighbourhoods and lending very little of it back. All three forces waged a simultaneous campaign against Manufacturers Hanover Trust, using the old strategy, "Think globally, act locally."

Corporate campaigns

Unions employ other strategies in campaigns like the one against Pittston. Sometimes, the huge leverage of pension funds can be used by trade unions during shareholder annual meetings. In the Pittston campaign, the United Mine Workers sponsored some progressive shareholders' resolutions that - thanks to union pressure on pension funds and other institutional investors - gained 40% of the vote (in contrast, the most popular shareholder resolutions sponsored by church groups to disinvest from South Africa typically receive less than 10% of the vote).

This kind of 'corporate campaign' tactic is being used more and more frequently by unions so as to educate and confront shareholders with the unacceptable - and often very costly - deeds of a new class of buccaneer corporate management.

Together with civic association struggles for community control of capital, the trade unions are gaining some short-term - but vital - concessions, and beginning to educate their membership about what's really at stake in the economy: control over the levers of high finance.

The SA financial explosion

While the class struggle in SA is clearly well-advanced at the shop floor level (much more so than in the US), the financial explosion trends described above are also appearing, and this will affect workers and their communities. Finding means of resisting the subsequent devaluation process might become a top priority for progressive South Africans, whether they are labour or community-based.

Consider the massive

Johannesburg Stock Exchange: the speculative boom has increased the value of JSE shares from R47billion to R400 billion since 1982

Photo: Morice/Labour Bulletin

speculation in the Johannesburg Stock Exchange (JSE), which rose 51% last year (in dollar terms) - the fastest in the world - against real gross domestic product (GDP) growth of just 2%. This sort of speculative boom has plagued South Africa since 1982, as the value of JSE shares increased from R47 billion to R400 billion, while the real underlying value of the JSE's companies stagnated (see Figure 1). Due to international gold fluctuations, the JSE has since dropped a bit, but much more devaluation is required to bring it in line with the real capital value of the companies that JSE is meant to represent.

Aside from the JSE, property is also a favourite investment for speculative finance - the value of SA property transactions has more than doubled since 1985 to R20 billion a year. In both stock markets and real estate, though, what goes up - beyond reflecting real value increases - must come down.

Debt has soared, too. While private corporate and consumer debt to the banking sector was just 28% as high as SA's GDP in 1980, it rose to 47% of GDP by 1989 (Figure 2). Both Pretoria and big business seem to be searching now for a black middle and working class to become the next set of debtors, since consumer bankruptcy rates for the white middle class are already at a record high. And SA companies, while less indebted than in the peak years of 1985-86, are now returning to their addiction to borrowing.

The SA financial explosion

Jan Lombard, Deputy Director of the SA Reserve Bank, on the SA financial explosion

"Young upward mobile professionals (yuppies), able and interested in making money out of restructuring existing financial empires, are in great demand. But blue collar work has been expanding very little. For long periods the yields available from investing in existing stocks and shares remained more attractive than the expectations about new real capital formation. According to Reserve Bank calculations the profitability ratio in practically all industries (including primary and tertiary industries) showed a markedly declining trend over the past 12 years. In the sector 'finance, insurance, real estate and business services,' however, the ratio fully recovered its lost ground since 1981. It really seems as if the intellectual talent of the community was being increasingly devoted to financial management. To my mind such a trend for an economy in the position of SA is not a healthy one."

Talk to CSIR, June 1988 ❖

In the months ahead, the ability of all these debtors to survive will be determined by the level of interest rates.

Foreign influence

SA's foreign debt will play a crucial role in the whole financial explosion, as it has in the recent past. Even after apartheid is finally abolished, the SA economy won't get much relief from the international financial community on the $20 billion foreign debt. The SA government has a perennial crisis trying to repay foreign banks; now former US ambassador Herman Nickel is trying to persuade President Bush to open the door to new SA borrowing from the IMF. In May, Finance Minister Barend du Plessis told a British journalist, "We need more than a symbolic lifting of sanctions. We need access to banks and the IMF." That same week, a World Bank team made a preliminary visit to SA, and according to one business representative who met with the team, "already acted as if they owned the place."

A great deal of new IMF and World Bank money might 'solve' things in the short term, but only by adding even more debt for future generations and drawing a post-apartheid SA deeper into the ever more hostile international capitalist markets. Perhaps a better long-term solution is to help mobilize the international anti-apartheid network to focus attention on *writing off all commercial bank loans inherited by a future ANC government.*

Progressive directions

With the support of billions

of rands in union-influenced pension funds and an aggressive approach to corporate campaigns, South Africa's progressive forces can do quite a bit to withstand devaluation of the SA financial explosion.

The South African financial battleground is very different to that in the US, of course. For example, while leading progressives such as Jackson push hard on the US mass consciousness to become "populist" in the grand anti-corporate tradition of the 1890s and 1930s, SA seems to offer prospects of a much more deeply-rooted *socialist* attack on the underlying causes of the financial explosion (ie, stagnation in the productive sector), not merely its symptoms.

And notwithstanding the awesome threat of mass bond boycotts, SA's banks are perhaps not as good targets as in the US, since some leading financiers (eg, Chris Ball, formerly of Barclays, or Bob Tucker of the Perm) have offered their services in varying degrees to end apartheid. Although this is largely self-interested, it is not to be shrugged off. MDM personalities even sit on the boards of leading financial institutions or the Urban Foundation. SA's financial institutions are also mostly controlled by huge monopoly groupings, so while they are vulnerable to pressure, they are also immensely powerful.

But that does not mean that certain US lessons on

NUMSA's Schreiner: use pension fund cash for non-speculative land acquisition and co-operative building schemes
Photo: William Matlala/COSATU

building a labour and community movement in the context of the financial explosion are not useful in SA.

For example, NUMSA's Geoff Shreiner has argued in *Trustee Digest* that a fraction of his union's stake in some R3 billion in pension funds might be used to support *non-speculative* land acquisition

COSATU vs Barlows: the battle continues

and *co-operative* building schemes. And, as in the US, if democratic, worker- and member-owned, community-controlled banks or credit unions were to be established at some point (as is being discussed by the Alexandra Civic Organisation), pension fund deposits in these banks might be an ideal way to promote popular community development.

As the big COSATU campaign against Barlow Rand continues, pension funds might play their role by either selling company shares in protest or voting them against management's anti-union position if a shareholder vote arises. With R3 billion in debt, Barlow is the most exposed SA company in the credit markets (the second most indebted owes just R800 million). As was the case with Pittston, this vulnerability also presents opportunities to trade union strategists.

Economist Stephen Gelb summed up the SA situation in a recent *Weekly Mail* article: "The popular demand for increased provision of jobs, housing and other necessities carries implicitly a requirement for considerations of production and of the needs of society to be restored to primacy over those of finance. The conflict between these contrasting approaches to reshaping South African society is certain to be the central feature of the next decade."

If the US is anything to go by, labour-community struggles that link issues and targets can create the kinds of material concessions and consciousness-raising that will, perhaps, sustain working class politics through even a ghastly financial devaluation. ✩