nature

The post-Marx dearth of capital

The collapse of communism, the antithesis of capitalism, in Eastern Europe, and its economic failure in the Soviet Union, has brought to light a paradoxical circumstance — the world is dangerously short of capital.

KARL Marx, in retrospect, had a very simple view of life. People would work for the benefit of their communities, benefitting personally, like all others, to the extent the community saw fit. In stalinist times, marxism was an excellent recipe for what would elsewhere have been called capital formation. It was simply necessary to adjust the ratio of those employed to build factories and on other long-term projects to those employed to provide the community as a whole with the necessities of life. The growth of heavy industry in the Soviet Union during the 1930s was a remarkable proof of the efficacy of the process. One of the reasons why communism has come unstuck is that too little was left over to satisfy the legitimate aspirations of the people for a better life. (The accompanying lack of liberty is something else again.) It is a savage irony that most of this past capital investment is inappropriate to modern needs: it has been wasted.

So Eastern Europe and the Soviet Union are on the look-out for more capital, but at the least auspicious time. Most other places are also crying out for the same stuff. Where to find it, and how to recognize it when you do? Capital is nothing but money, and thus indistinguishable from what people use to buy train tickets or dishwashers. The difference is that capital is the money left over after people have spent what they wish to spend on their immediate needs and have paid the interest on their debts. At the personal level, capital is a person's savings. At the national level, the maximum indigenous rate of capital formation is the aggregate of these savings less the net cost of keeping the government in business. People, businesses or governments needing more capital than they have saved must borrow it from the banks and the other agencies of what is now an international market in capital.

Lip reading

The obvious difficulty, for Eastern Europe and the Soviet Union, is that the natural sources of capital are in dire need of the stuff themselves. In the United States, President George Bush has had to go back on his memorable election promise that there would be no new taxes (devices for enforcing savings) in the hope of an agreement with the Congress that the annual budget deficit will be reduced by two-thirds, or by a cool $100,000 million. In Britain, where the personal savings ratio has also fallen dramatically in the past decade, the hapless Minister of Transport, fresh from ruling that the country cannot afford a high-speed rail link to the Channel Tunnel or even a new subway line across London, let slip at the weekend that it cannot afford a new aircraft runway in South-East England either.

But not everybody is strapped for capital. In several countries, Japan and West Germany particularly, both the personal and the corporate sectors are saving hard, while corporate sectors elsewhere have money left over after paying dividends to their shareholders. Where does that finish up? During the past decade, it has been fashionable to invest in the United States, sometimes by buying companies outright (to the frequent chagrin of the locals), sometimes by lending directly to the US government. The reunification of Germany will seriously disturb that habit. The Bonn government, for example, estimates that reunification will cost it DM80,000 million in 1991, most of which will be borrowed from the banks. German companies will invest several times as much in the East. What will be left over for other people?

That is where the crunch comes. When capital is scarce, its price increases, which is why interest rates are likely to remain high for a long time. Outside the umbrella of united Germany, Poland, Czechoslovakia and Hungary will find themselves paying through the nose for private investment — and may consider themselves to have been exploited as a consequence. The imaginative idea of a European investment bank, due soon to be a reality, should blunt the edge of that discontent, but not by much. There will be two losers — the United States, where the economy seems nicely poised between boom and recession, and the poor countries of the world, which will be now more than ever dependent on government-backed assistance, either bilateral or through institutions such as the World Bank. Either way, it is a dangerous prospect for the rest of us. □

Genome goes cool

The human genome project deserves a better hearing from the US Congress than it is likely to be given.

THERE is no good reason why the US House of Representatives should have soured in its view of the Human Genome Project. It would be different if the House were