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# THE GENERALIZED RECESSION OF THE INTERNATIONAL CAPITALIST ECONOMY

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This special issue of INPRECOR, devoted to an analysis of the generalized recession now striking the international capitalist economy, represents the first attempt by Marxists since the 1920s to analyze the conjunctural economic situation on a world scale in such a detailed and systematic manner.

In the present phase of crisis of the international capitalist system making such analyses regularly becomes imperative for revolutionaries. For this reason, INPRECOR will publish similar special issues twice a year. The present issue is thus the first of a series.

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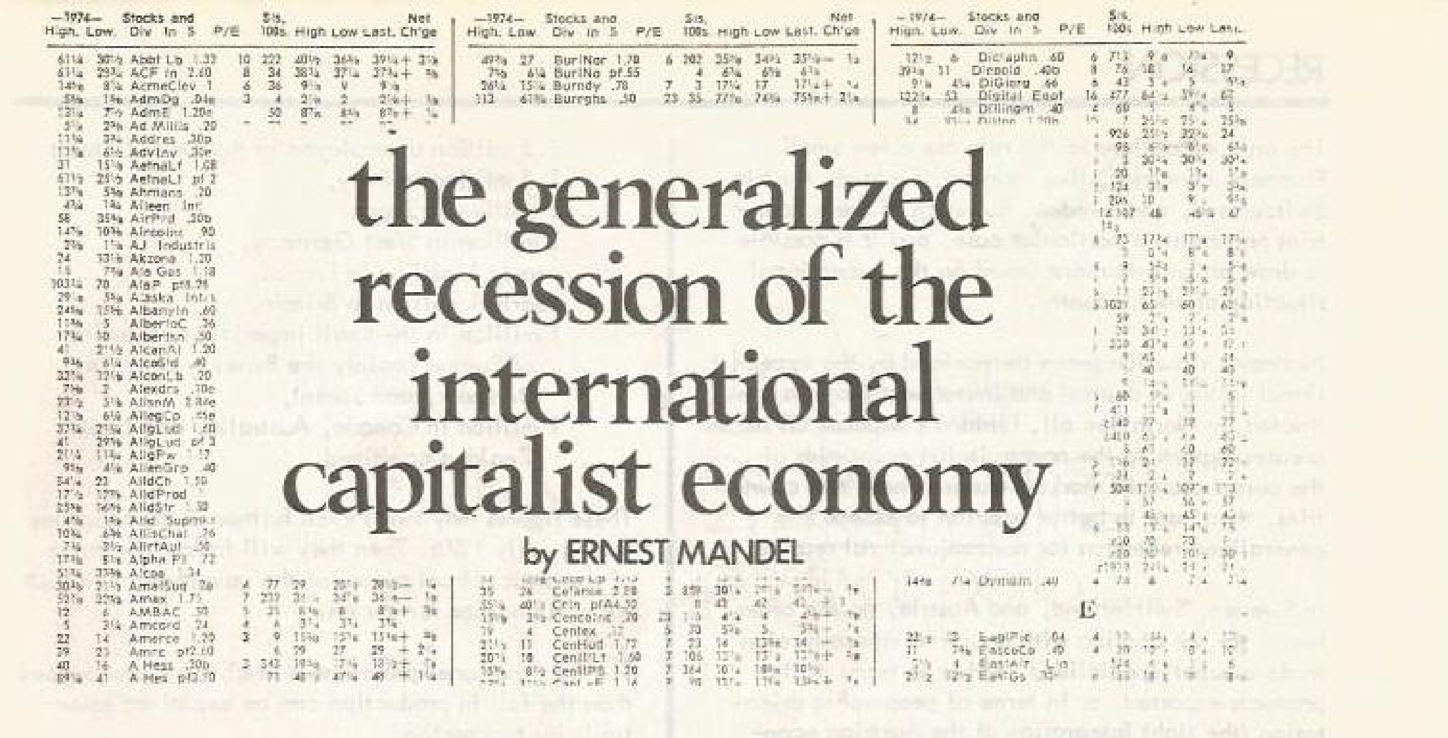

# the generalized recession of the international capitalist economy

by ERNEST MANDEL

The international capitalist economy is now going through its first generalized recession since the second world war. It is the first recession to strike simultaneously at all the great imperialist powers. While the recession may be a surprise to all those in bourgeois and petty-bourgeois circles and in the workers movement who had been taken in by the claim that the governments of Capital endowed with neo-Keynesian techniques would henceforth be in position to "control the cycle," it was foreseen and predicted by our movement, almost to the exact date.

The theses on the "New Rise of the World Revolution" adopted at the Ninth World Congress of the Fourth International in April 1969 affirmed the following about the long period of postwar expansion of the international capitalist economy:

"This analysis led to three conclusions: First that the principal motor forces of this long period of expansion were going to progressively run down, thus provoking a sharper and sharper aggravation of interimperialist competition; second, that the deliberate application of Keynesian anticrisis techniques would accentuate universal inflation and the permanent erosion of the buying power of money, which would end by provoking a very serious crisis of the international monetary system; finally, that these two factors taken together would multiply partial recessions and would tend toward a general recession of the imperialist economy, different, to be sure, in breadth and duration from the great crisis of 1929-32, but nevertheless hitting all the imperialist countries and largely exceeding the recessions of the past twenty years in scope. Two of these conclusions have already been confirmed; the third promises to be confirmed in the early 1970s." (Quatrième Internationale, May 1969, p.19.)

Four years later, the general political resolution adopted at the Tenth World Congress of the Fourth International in February 1974 explained:

"The 1969-71 recession hit most of the imperialist countries, even if to varying degrees and without pronounced simultaneity. This was followed by a new accelerated expansion of production beginning in 1972, except in Italy. But it was a typical inflationary boom, marked by an acceleration, disturbing for capital, of inflationary processes and by a soaring of speculative fever, especially in raw materials, gold prices, and real estate. As predicted, this inflationary boom was of only short duration, and the recession that will follow it in 1974 or 1975 will be all the more synchronized in that the 1972-73 upswing also drew nearly all the imperialist countries in its wake." (Quatrième Internationale, new series No.16-17, July-August 1974, p.8.)

## Scope of the recession

In the fourth quarter of 1974 industrial production and/or gross national product were on the ebb in all the great imperialist countries, as the following table illustrates:

INDUSTRIAL PRODUCTION IN THE FOURTH QUARTER OF 1974

| | |
|---|---|
| Japan | -2.6% |
| United States | -2.5% |
| Britain | -1.5% |
| West Germany | -1.5% |
| Italy | -1.2% |
| France | -1.0% |
| Canada | -0.5% |

The only exceptions to the rule are a few small European countries, like Norway, Finland, Austria, Switzerland, and Sweden. But each of these countries represents a particular case, and it is possible to draw prognostications based on the exceptional situation of each country.

Norway's situation seems determined by the exceptional influx of capital and investment projects attracted by North Sea oil. Finland's depends on its greater exports to the noncapitalist economies of the bureaucratized workers states. These two countries, then, are in better position to escape the generalized recession for nonconjunctural reasons.

In Sweden, Switzerland, and Austria, on the other hand, we are dealing with countries whose foreign trade is super-specialized, either in terms of the products exported, or in terms of geographic orientation (the tight integration of the Austrian economy into the West German economy, for example). This gives these countries a greater margin for maneuver, provided that generalized recession does not last too long and that the West German economy remains in better shape than the other great imperialist powers.

The generalized ebb in industrial production in the imperialist countries is not yet accompanied by an absolute decline in the volume of world trade (in terms of fixed prices, eliminating the effects of rising prices on the world market). But there has already been a very clear deceleration of the growth of international exports. For the past twenty years, international exports have been expanding more rapidly than industrial production.

Between 1953 and 1963 the volume of industrial production of the capitalist countries increased 62%, while their exports grew 82% in volume. Between 1963 and 1972 industrial production increased 65% and exports 111%. In 1974-75, while industrial production will decline 2-4%, exports might still increase, by about 2-3%. But if the recession continues and deepens, and especially if the trade war is stepped up and the international monetary system breaks down further, it is not excluded that the volume of world trade will decline absolutely (abstracting from the exchanges among noncapitalist countries).

It is striking to observe the gap between the still modest reduction in industrial production and the already considerable spread of unemployment. There were 10 million unemployed in the imperialist countries during the 1969-71 recession. At the beginning of winter 1974-75 unemployment stood at about 15 million (if partial unemployment is included), with the following geographical distribution:

7.5 million unemployed in the United States,
1.5 million in Italy,
1 million in Japan,
1 million in West Germany,
nearly 1 million in France,
nearly 1 million in Britain,
1 million in the small imperialist countries of Europe (mainly the Benelux countries, Denmark, and Spain),
1 million in Canada, Australia, and New Zealand combined.

These figures may swell even further in all countries during early 1975. Then they will follow the curve of the anticyclical policy of the governments, which we will analyze further on.

The fact that unemployment is much more pronounced than the fall in production can be explained essentially by two factors:

*Industrial activity in the imperialist countries remains strongly marked by the third technological revolution, that is, the introduction of semiautomatic or automatic techniques of production. The consequence is a rapid increase in the physical productivity of labor, especially in capitalist Europe and Japan (the United States had experienced the same phenomenon during a previous phase; the sources of increase in productivity there have begun to dry up). If productivity increases 5%, a similar increase in production itself is necessary if the volume of productive employment is to be maintained, all other things being equal. A fall in production of 2% accompanied by a growth in productivity of 4% results in a 6% increase in unemployment.

*In order to reconstitute the industrial reserve army during the long period of postwar expansion, Capital incorporated into the mass of wage earners a great number of married women, youth, and immigrant workers, who were poorly paid, marginally utilized, and more rapidly expelled from the productive process whenever a downturn occurred. So it is not astonishing that the rate of unemployment among these three categories of proletarians is much higher than it is among male, "native," family heads.

## Place of the recession in the history of capitalism

The generalized recession will be the most serious recession of the postwar period, precisely because it is generalized. The lack of synchronization of the industrial cycle during the 1948-68 period reduced the breadth of recessions. Each time, a fall in production and internal demand in the countries

**the generalized recession will be the most serious recession of the postwar period. . .**

hit by the recession (for example, the United States in 1960, Japan in 1965, or West Germany in 1966-67) was compensated for by an expansion in exports to countries that had escaped the crisis. This time, on the contrary, the international synchronization of the conjunctural ups and downs in the main imperialist countries is intensifying the decline in economic activity.

This synchronization is not an accidental feature. It results from the deeper economic transformations that occurred during the long period of expansion that preceded the recession.

Internationalization of production took new leaps forward, marked by advances in the international division of labor among all the imperialist countries. From the standpoint of the organization of capital, this reflected itself in the rise of multinational firms which produced surplus value in a great number of countries simultaneously, not only in the sphere of raw materials but also in that of manufactured industry. This internationalization of production (which under the capitalist system has to take the form of international concentration and centralization of more advanced capital) inevitably cuts across the attempts of "national" imperialist states to apply "anticyclical" policies limited to national frontiers.

The principal method by which bourgeois governments sought to slow down crises of overproduction after 1945 (they were no more able to prevent the outbreak of such crises than they had been in the past) was the expansion of credit, that is, of paper money, that is, of inflation. Each bourgeois government was able to apply "its own" credit policy, with successive phases of expansion and contraction tied in a "flexible" manner to the world market through the ups and downs of the balance of payments of the countries in question.

But as soon as inflation is accelerated in all the imperialist countries — an inevitable result of twenty-five years of essentially inflationary "anticyclical" techniques — and as soon as the collapse of the international monetary system led to the system of floating exchange rates, that is, as soon as it became impossible to resort to sharp devaluations to boost exports, all governments were obliged by interimperialist competition to apply an antiinflationary policy simultaneously. Hence the new impulsion toward the international synchronization of the industrial cycle.

Finally, to the same extent that the long phase of postwar expansion reached its end, that the principal motors of expansion began to run down, and that long-term growth in production had to slow down, the contradictions of the capitalist economy asserted themselves more seriously, both within each imperialist country and among all these countries taken together (as well as between these countries and the semicolonial countries). "Boom" phases are becoming shorter and more artificial (the 1972-73 boom was speculative to a large extent). The phases of stagnation, and even recession, are beginning to be longer. Obviously, this leads to synchronization. When they occur in a dozen countries at once, recessions that last six months are less easily surmounted than recessions that last two years.

Thus, the generalized recession expresses in a summary manner the turning around of the "long wave of expansion" (which lasted from 1940 to 1966 in the United States, and from 1945 to 1966 in capitalist Europe and Japan). We had predicted this turnabout in 1964.* Our latest book, Der Spätkapitalismus (Late Capitalism), published in German in 1970 (to be published in French and English in 1975) was devoted to this question.

To be sure, while the new "long wave" will not see the feverish growth of the 1950s and 1960s, this does not at all mean that it will be marked by uninterrupted decline or stagnation in production or employment. The cyclical movement will continue to operate. But it will be marked by a succession of shorter and less rapid phases of growth and by longer and more serious phases of contradiction that had appeared during the previous quarter of a century.

Above all, what is now coming to the surface — symbolized by May '68 in France, by the "creeping May" in Italy, and by the new rise of workers struggles in Europe, which tomorrow will be accompanied by a similar new rise in Japan and North America — is a total social crisis, a crisis of capitalist relations of production, a crisis of all bourgeois relations that accentuates and aggravates the effects of the conjunctural fluctuations of the economy and in its turn receives new stimulus from these fluctuations.

## A classical crisis of overproduction...

The generalized recession of 1974-75 is a classical crisis of overproduction. This must be stressed all the more categorically in that many circles are trying to lay the blame for the generalized recession on the "oil sheikhs" or even on the trade unions — and not for reasons that are purely ideological.

The classical character of the current recession appears strikingly if two features that dominate the longer-term ups and downs are taken into consideration:

*In French: "L'Apogée du néo-capitalisme et les lendemains" in Les Temps Modernes, August-September 1964; in English: "The Heyday of Neocapitalism and its Aftermath," in the Socialist Register, 1964.

*The current recession is the outcome of a typical phase of decline in the rate of profit. This decline clearly antedates the pronounced increase in oil prices after the October War of 1973. Here are some statistics that demonstrate this:

Rate of profit (after deduction of the gains of appreciation of stock values) on the net holdings of industrial and commercial companies in Britain

| Year | Before taxes | After taxes |
|---|---|---|
| 1950-54 | 16.5% | 6.7% |
| 1955-59 | 14.7% | 7.0% |
| 1960-64 | 13.0% | 7.0% |
| 1965-69 | 11.7% | 5.3% |
| 1968 | 11.6% | 5.2% |
| 1969 | 11.1% | 4.7% |
| 1970 | 9.7% | 4.1% |

Rate of profit (after elimination of the gains of appreciation of stock values) on the capital of nonfinancial companies in the United States

| Year | Before taxes | After taxes |
|---|---|---|
| 1948-50 | 16.2% | 8.6% |
| 1951-55 | 14.3% | 6.4% |
| 1956-60 | 12.2% | 6.2% |
| 1961-65 | 14.1% | 8.3% |
| 1966-70 | 12.9% | 7.7% |
| 1970 | 9.1% | 5.3% |
| 1971 | 9.6% | 5.7% |
| 1972 | 9.9% | 5.6% |
| 1973 | 10.5% | 5.4% |

For West Germany, experts calculate that the gross income of companies (minus fictitious "salaries of entrepreneurs") divided by the net holdings of these companies declined by about 20% between 1960 and 1968 (the year of the economic upturn, with a strong new rise of profits after the recession of 1966-67) and by 25% between 1968 and 1973.*

*The present recession is marked by a pronounced underutilization of productive capacity in the principal imperialist country, the United States, as is shown by the following table:

*Sources: For Britain: Andre Glyn and Bob Sutcliffe: British Capitalism, Workers, and the Profit Squeeze, Penguin Books, 1972, p.66. For the United States: William D. Nordhaus: "The Falling Share of Profits" in A.M.Okun, L. Perry, et.al. (ed.): Brookings Papers on Economic Activity, No. 1, 1974. The Brookings Institution, Washington, D.C. For West Germany: Sachverständigenrat zur Begutrachtung der Gesamtwirtschaftlichen Entwicklung: Jahresgutachten, Bonn, 1974.

Production in the Manufacturing Industries as a Percentage of Capacity

1966 : 92
1967 : 87.9
1968 : 87.7
1969 : 86.5
1970 : 78
1971 : 75
1972 : 78.6
1973 : 83
1974 : 78 (fourth quarter)

This long-term deterioration is all the more pronounced if account is taken of the enormous share of American production wasted on military or paramilitary goals. The result is a virtually permanent nonutilization of nearly a third of productive capacity directed toward civilian productive goals. The source of the current crisis as a crisis of overproduction could not be better expressed.

The turnabout in the long-term economic trend of development is also perfectly classical. Nurtured by the war and reconstruction and by the increase in the rate of exploitation of the working class that fascism and the war allowed international capital to carry out; amplified by the third industrial revolution and a strong increase in productivity (of production of relative surplus value), the prolonged expansion has been exhausted by the combined effects of the increase in the organic composition of capital (a result of the third technological revolution itself) and the stagnation or decline in the rate of surplus value (a result of the long period of full employment). The rate of profit has been whittled down. Accumulation of capital has slowed.

## ...but with particularities

Every crisis of overproduction in the history of capitalism combines general features revealing basic contradictions in the capitalist mode of production with particular features that result from the precise historical moment of the development of this mode of production in which the crisis occurs. The general economic recession of 1973-74 is no exception to this rule.

Two particular features of this recession ought to be stressed.

The capitalist economy has passed from permanent inflation stimulating economic activity to stagflation in 1970-71 and then to slumpflation in 1974-75, sliding from one to the other down the slope of the acceleration of the inflation. Inflation and price increases are now persisting during a period of outright reduction in productive activity and of increases in unemployment. The facts on the acceleration of inflation speak eloquently (and the increases in the price of oil account for an inflation rate of no more than 2% in the imperialist countries!). (See table at bottom of page.)

The inflation is nurtured by the cumulative effects of more than three decades of inflationary practices. It is amplified by the unbridled speculation of 1972-73 (in gold, land, construction, diamonds, jewelry, and objets d'art, and above all in raw materials, that is, all the "real values" and "refuge values" that appreciate all the more as paper money depreciates). The inflation was strengthened by the "managed prices" imposed by the monopolies. It was accentuated by the colossal military expenditures that have not ceased to expand and to which every bourgeois society has become accustomed. (It is significant that with all the innumerable denunciations as to "who is responsible" for inflation, the $250 thousand million worth of military expenditures in the capitalist countries is never mentioned!) But the main cause of inflation is incontestably the inflation of credit in the private sector, that is, the

ANNUAL RATES OF CONSUMER PRICE INCREASES ACCORDING TO OFFICIAL STATISTICS

| Country | 1960-65 (average) | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 (1st half) | 1974 (3rd quarter) |
|---|---|---|---|---|---|---|---|---|
| United States | 1.3% | 4.2% | 5.4% | 5.9% | 4.3% | 3.3% | 10.2% | 11.6% |
| Japan | 6.2% | 5.5% | 5.2% | 7.6% | 6.3% | 4.3% | 23.0% | 23.4% |
| Britain | 3.6% | 4.8% | 5.4% | 6.4% | 9.5% | 7.0% | 14.2% | 17.0% |
| West Germany | 2.8% | 1.6% | 1.9% | 3.4% | 5.3% | 5.5% | 7.3% | 7.0% |
| France | 3.8% | 4.8% | 6.4% | 5.3% | 5.5% | 5.9% | 12.5% | 14.6% |
| Italy | 4.9% | 1.3% | 2.6% | 5.0% | 5.0% | 5.5% | 14.8% | 20.8% |

bank loans and paper money that served as the main prop for the preceding "boom." The Western economy sailed toward expansion on a sea of debts whose cumulative effects necessarily accelerated inflation (see table at bottom of page).

Moreover, the recession has been accompanied by several particular bottlenecks. There have been phenomena of shortage in some sectors coinciding with the general overabundance of commodities. Such coincidence commonly occurs on the eve or at the beginning of a crisis of overproduction. Such a crisis always begins by breaking out in a few sectors and then gradually expands to the whole of production or to most of its sectors.

Thus, the recession began in 1974 in the automobile and construction industries. It then spread to the textile industry, to meat, to electrical appliances, and to building materials (glass, bricks, cement), finally to hit the petrochemical industry. Steel was spared until the end of 1974; now the recession is striking there too. The same can be said about wood.

The sectors of machine-tools, coal, oil, cereals and some other food products are still in a good situation. But the sugar industry has just experienced an especially spectacular turn (a fall in price of 30% in the space of a few weeks). The volume of sales of machine tools may also go down if the generalized recession continues. Already orders in the telecommunications industry, which were expected to continue to expand, are on the decline in Europe and Japan. Virtually the only sector that will most probably maintain itself in a situation of shortage throughout the recession will be cereals, and that is because of the famine in several key areas of the semicolonial world.

There is no better indication of the irrational and inhuman character of the capitalist system than the fact that millions of men, women, and children are gravely undernourished and threatened with starvation while enormous resources in machinery, raw materials, and labor remain unutilized — resources with which tractors, fertilizer, irrigation canals, and electrical pumps could be produced to rapidly increase food production and thus feed the hungry.

## Not yet galloping inflation

Under a "normal" capitalist economy a turn in the economic cycle expressing generalized overproduction of commodities and overcapitalization of the economy (that is, the fact that the total mass of surplus value produced no longer permits the assurance of a "satisfactory" return on all available capital) results in price reductions.

The fact that there is "creeping" or even "accelerated" inflation does not prevent these declines in prices from occurring. The characteristic feature is the continual increase in the general level of prices. But a whole series of prices (those over which the monopolies have the least control, in areas in which competition asserts itself more freely) begin to drop. On the other hand, in an atmosphere of galloping inflation all prices go up ceaselessly (although not necessarily at the same rate; the law of value continues to rule here too!). Completely depreciated money remains in circulation constantly. No one wants to hold onto it any longer. Everyone ceaselessly exchanges it for commodities. Such was the atmosphere in Germany in 1923 or at the end of the second world war; it was also the atmosphere in the countries occupied by the Nazis on the eve of their liberation.

In the imperialist countries today, we have not yet seen an atmosphere of galloping inflation. Some prices are still declining. Such has been the case

DEBT IN THE UNITED STATES
(in thousands of millions of current dollars)

| Year | A: Gross National Product | B: Public Debt | C: Private Debt | B as % of A | C as % of A |
|---|---|---|---|---|---|
| 1946 | 208.5 | 269.4 | 153.4 | 129.4% | 73.6% |
| 1950 | 284.8 | 239.4 | 276.8 | 84.0% | 97.2% |
| 1955 | 398.0 | 269.8 | 392.2 | 67.8% | 98.5% |
| 1960 | 503.7 | 301.0 | 566.1 | 59.7% | 112.4% |
| 1965 | 684.9 | 367.6 | 870.4 | 53.7% | 127.1% |
| 1969 | 932.1 | 380.0 | 1,247.3 | 40.8% | 133.8% |
| 1973 end | 1,294.9 | ±600.0 | ±1,800.0 | 46.3% | 138.9% |
| 1974 end | ±1,335.0 | ±660.0 | ±2,000.0 | ±50.0% | ±150.0% |

with shares on the stock exchange, which have experienced their worst depression since 1940 and even since 1931. (See table at bottom of page.)

The same was true for the price of building lots, at least in some countries in which real estate speculation had gone on in the most unbridled fashion. Thus, in Britain in the summer of 1974 the price of building lots was 40% lower than it was in the summer of 1973. Many real estate companies and real estate credit companies fell with the prices.

Finally, such was the case with most raw materials, as the following figures demonstrate:

INDEX OF RAW MATERIALS PRICES
(according to The Economist)

| | |
|---|---|
| December 19,1973 compared with mid-December 1972 | |
| Food | +38.5% |
| Fibers | +66.3% |
| Metals | +90.8% |
| Other | +92.7% |
| December 11,1974 compared with mid-December 1973 | |
| Food | +32.5% |
| Fibers | -36.2% |
| Metals | -36.9% |

Certain prices have dropped even more than this. In mid-December 1974 copper was selling for 60% less than it was at its peak in April 1974. Rubber, hit more strongly by the crisis in the automobile industry, suffered price declines on the order of 52%; cotton declined 57%, zinc 45%. And this declining trend is far from having ended.

Even the price of oil may drop. It is known that sales cartels cannot resist a long decline in sales if the number of sellers increases and if their interests are divergent. Between the oil-exporting countries that want to make maximum gains in the immediate future (like Iraq, Nigeria, Indonesia, and Algeria) and the less-populated countries that can permit a ceaseless reduction in production (like Kuwait, Libya, Saudi Arabia, and the emirates of the Arab-Persian Gulf) these divergences are obvious.

## Prospects of the recession

Will the recession last through the medium term (until the third or fourth quarter of 1975, say) or will it be of longer duration? Much depends on government policies, that is, on political decisions. Will the governments "refloat" the economy or not? That is the crucial question.

STOCK EXCHANGE INDEX*

| | 1973 highest | 1973 lowest | 1974 highest | 1974 lowest | level on Dec.18,1974 |
|---|---|---|---|---|---|
| London | 509.5 | 305.9 | 339.3 | 150.4 | 161.1 |
| New York | 1051.7 | 788.3 | 891.7 | 577.6 | 603.5 |
| Toronto | 237.9 | 200.4 | 228.8 | 150.6 | 153.3 |
| Tokyo | 422.5 | 284.7 | 342.5 | 252.0 | 282.4 |
| Hong Kong | 1775.0 | 423.9 | 481.9 | 150.1 | 163.3 |
| Paris | 98.9 | 70.7 | 85.1 | 47.8 | 49.4 |
| Brussels | 142.3 | 112.8 | 131.5 | 84.2 | 87.8 |
| Frankfort | 120.7 | 85.0 | 609.2 | 520.0 | 561.4 |
| Amsterdam | 171.9 | 113.3 | 140.8 | 94.6 | 106.1 |
| Milan | 147.3 | 98.3 | 154.2 | 87.0 | 87.8 |
| Stockholm | 389.5 | 297.2 | 410.6 | 303.3 | 304.8 |

*The Economist, December 22,1973, and December 21,1974. The German index was modified between June 29 and July 6 by The Economist, 93.2 on the old index equaling 609.2 on the new index. The 1974 minimum thus represents approximately 79.5 on the old index.

If abandoned to its own internal logic, every crisis of overproduction has a tendency to worsen through cumulative effects. That remains true today, in the epoch of capitalism in decline, just as it was true before the first and second world wars. In Marxist Economic Theory, we reported the following effects of the first nine months of the recession of 1957-58, very much comparable to those of the first nine months of the crisis of 1929-32:

CHANGES IN ECONOMIC ACTIVITY PROVOKED BY THE FIRST NINE MONTHS OF THE CRISIS IN THE UNITED STATES

| | 1929-32 | 1957-58 |
|---|---|---|
| Nonagricultural employment | -6.5% | -4.2% |
| Gross National Product | -5.5% | -4.1% |
| Industrial production | -15.9% | -13.1% |
| Volume of retail sales | -6.1% | -5.1% |
| Orders for durable goods | -26.5% | -20.1% |

The situation in the sectors in which the present crisis has broken out scarcely looks any better than 1957-58, far from it. The unemployment rate in Detroit, center of the American automobile industry, is reported to be 25%. The number of new housing units built in Britain and the United States fell nearly 50% in autumn 1974 (The Economist, November 30,1974). The demand for certain petrochemical products has dropped 20-30% during the past few months. These are percentages that incontestably recall 1929-32.

Nevertheless, all this presupposes that the bourgeois governments will remain passive. The recession is precisely a crisis of overproduction whose breadth and duration are limited by an injection of inflationary buying power. Thus, if the economy is refloated by means of such injections during coming months — first of all in West Germany, then in the United States and Japan — the international capitalist economy will avert a grave depression this time.

It is true that a massive dose of inflation will be necessary to obtain an economic upturn. The cumulative development of inflation is explained exactly by the fact that during each recession greater and greater inflation is needed to avert a grave depression; the 1969-71 recession, with the emergence of stagflation, confirmed this in a striking manner.

Since there is a time gap between the moment when the money supply expands at an accelerated rate and the moment when this reflects itself as a new rise in prices, the most likely scenario is the following: loosening of the credit policy at the beginning of 1975; moderation of inflation (which will not at all disappear!) in 1975; new upturn in the West German economy toward the end of 1975 and of the U.S. economy sometime later; serious new acceleration of inflation in 1977 (or perhaps even earlier), followed by a new recession that will threaten to be even more serious than the current one.

This scenario is also the most probable one in that the existence of bottlenecks in the food and energy sectors (as well as in other raw materials sectors) will stimulate feverish investment in certain sectors. The conversion of "petrodollars," money-capital placed as short-term investments in industry, will likewise stimulate a supplementary demand for investment goods. All this can foster a new upturn in the economy; but it will be of relatively short duration, for it will be dried up at the source by unbridled speculation, accelerated inflation, and an even more pronounced long-term decline in the industrial rate of profit.

Nevertheless, in addition to being conditioned by the political choices of Big Capital, this scenario presupposes that the international banking system, that is, the mechanisms of credit, will bear up under slumpflation. Once again, this is probable. But it is not 100% certain.

On the eve of and at the beginning of the generalized recession, a series of bankruptcies and collapses occurred among financial and banking companies: the crash of the Herstatt Bank in Cologne, of the Franklin Bank in the United States and of the Sindona Italian group that controlled it, the collapse of some "fringe banks" and financial groups in Britain (the Lyon group; the Jessel insurance groups; London & County Securities; the Triumph Investment Trust) and of the International Credit Bank (an Israeli bank established in Geneva), etc.

Many financial companies specializing in real estate speculation have also been drawn into the same vortex. There was the spectacular failure of the Sofico group in Spain (where the crisis of tourism combined with that of real estate), which followed the failure of two of the major British real estate groups and the inability of Continental Mortgage Investors in the United States to pay back on time a loan of 80 million Eurodollars that had been advanced by a consortium of big European banks.

Between 1969 and 1972 some 6 thousand million common stocks in real estate were sold in the United States. They have now lost 70% of their value. Even a firm as solid as the Chase Manhattan Trust — backed up by the bank of the same name, that is, by the Rockefeller group — has seen the value of its shares plummet from $70 each to $4.

To this must be added the Churchill Forest scandal in Canada and some resounding industrial bankruptcies in Japan. Germany, Britain, Italy, the United States, Japan, Spain, Canada, Israel, Switzerland. The beat is decidedly international. The much more advanced internationalization of production and capital obviously involves the risk of chain reactions once big bank crashes begin. If an appreciable part of bourgeois and petty bourgeois clients simultaneously withdraw their holdings from the banks — that is, if there is a bank panic — the credit system is threatened with paralysis. In that case, the recession would be transformed into a grave depression. The international bourgeoisie is perfectly conscious of this. After the crash of the Herstatt Bank, governors of the central banks and heads of the big deposit banks concluded a firm agreement no longer to tolerate the collapse of any bank of any importance. The payment difficulties of Continental Mortgage Investors were covered by an immediate intervention of American financiers who furnished a loan of more than $150 million. The British "fringe banks" have been saved (up to now) by the injection of what must amount to $3 thousand million from the big British banks.

All this has prevented a panic. And it can prevent it so long as the holes that have to be plugged are not too big. But what will happen if one of the principal deposit banks gets in trouble, if the deficit to soak up is no longer $50 million or $100 million but instead several thousand million dollars, with all the consequences that such a sum involves? Already the big deposit banks in Britain are straining to collect the $250 million that is apparently needed to save the "fringe banks." (The Times, December 13, 1974.) Will the banking system be able to withstand such a test? Will the test come during this recession or during, or even on the eve of, the next one? That is a mystery that no economist, no minister, and no capitalist entrepreneur or banker will be able to solve. That is the cloud that continues to hang over the "pump-priming" operation. It is a good-sized cloud, even allowing for inflation, and it can only get bigger as the pump-priming itself goes on.

## Economic crisis and social crisis

It could be answered: But doesn't the economic crisis itself have an objective function to fulfill for the capitalist system? Couldn't a policy of monetary restriction "break" inflation? Wouldn't massive unemployment weigh heavily on wages, that is, increase the rate of surplus value and thereby the rate of profit? Isn't the elimination of less solid and profitable capitalist businessmen through the bankruptcies provoked by the crisis a healthy thing for the capitalist system in that it increases the profitability of the system as a whole? The massive devaluation of capital precisely permits the increase in the rate of profit for the surviving capitals and therefore permits the new rise of accumulation. Why then should the bourgeoisie relaunch the economy in the short term?

All this is perfectly correct. But for the bourgeoisie to content itself with passively watching the purely economic mechanisms of the crisis it is not enough for these mechanisms to begin to operate. What is also necessary is that there exist social and political conditions that do not entail too high a price for such passivity.

These conditions do not at all exist today. What makes the current situation grave for capitalism is the combination of the generalized economic recession and an exceptionally high level of organization, numerical strength, and combativity of the proletariat, which is in turn combined with an exceptionally pronounced political weakness of the bourgeois system.

This combination is not fortuitous. It is the result of the overall worldwide economic, social, and political evolution during the past quarter of a century. The worldwide relationship of forces has manifestly deteriorated for Capital. In the imperialist countries the long period of expansion has objectively strengthened the weight and force of the working class. The new rise of struggles in West Europe since May 1968 has subjectively strengthened the combativity and anticapitalist consciousness of the workers in many countries. Nowhere has the bourgeoisie been able to inflict on the working class defeats so grave that the workers would be unable to respond to a considerable increase in unemployment.

Under these conditions, the big bourgeoisie, or at least the decisive sectors of it, calculates that 15-20 million unemployed in the United States, 5 million unemployed in West Germany, Japan, and Italy, and 3 million unemployed in France and Britain would immediately provoke a social and political crisis of such scope that the very survival of the system would be in danger in the short term. That is the fundamental reason why it will very probably react as it did during previous recessions, through massive measures aimed at inflationary "priming" of the economy.

The big bourgeoisie is perfectly conscious of the long-term risks it is courting in acting this way. But it has no choice. Between an immediate threat and a threat three or four years in the future, the bourgeoisie must obviously react to the more pressing threat. Such is the dilemma and such is the fate of all classes condemned by history.

## Extension of workers struggles

Will the rise in unemployment by itself be sufficient to hold down workers combativity, thus facilitating the most "orthodox" options for the bourgeoisie? In view of the still limited extent of unemployment this question deserves a generally negative response. In view of what has happened in the past, of the state of consciousness of the proletariat, and of the evolution of the social relationship of forces now going on, the most likely variant is that the working class will attempt to refuse to bear the costs of the recession, just as it has tried to refuse to bear the costs of inflation. We will therefore see an outbreak of struggles, defensive at the outset, against layoffs, factory closings, and unemployment which will be combined with struggles against the high cost of living; these struggles will tend to become generalized, will lead to the raising of a series of clearly anticapitalist transitional demands, and will tend to squarely pose the question of the government, the question of power.

To be sure, this tendency is not universal, since it results not simply from the economic conditions but also from a whole series of subjective factors created by developments during preceding years. In West Germany the first effect of the recession has been a decline and not an increase in workers combativity. A new rise of workers struggles in the United States is probable — it has undoubtedly already begun — but it is still slow and fragmented. Will this new rise in turn be transformed into a brush fire? What will be the reaction of the Japanese workers to Big Capital's attempts to impose an incomes policy? These questions have to be resolved by revolutionaries and worker militants in each country before a detailed prognostication can be formulated on an international scale.

Nevertheless, as a whole, for most of the countries of West Europe, and for Australia, Canada, and Japan it is probable that the present extent of unemployment will not be sufficient to "calm down" or demoralize the working class and that the recession will therefore exacerbate class struggles. That, at least, is also the hypothesis under which Big Capital is operating. We have no reason to doubt the well-foundedness of its analyses on this point, so long as the recession does not last too long and so long as the reactions of the workers are rapid.

The main threats under these conditions derive from the bourgeois maneuvers, supported or tolerated by the reformist and neoreformist leaders, aimed at fragmenting and scattering the reactions of the workers, at playing on the fears of unemployment in order to "moderate" wage demands, at reabsorbing the workers' rejection of unemployment by paying big bonuses to those who are laid off, at canalizing the will for radical political change on the part of the workers into reformist solutions or into governmental collaboration with the bourgeoisie — solutions that are compatible with the survival of the system.

The response of revolutionaries must be to fight for transitional demands that correspond both to the most pressing needs of the workers and to the historic need to orient the workers mobilizations in a pronounced anticapitalist direction: radical reduction of the work week (to thirty-five or thirty-two hours); integral and automatic sliding scale of wages; opening of the companies' books; nationalization without compensation and under workers control of the key industries and banks; nationalization without compensation and under workers control of all enterprises that close down or are saved from bankruptcy by state subsidies; for a workers government that formulates a plan of economic development based on the satisfaction of the needs of the masses and guaranteeing full employment.

## Aggravation of interimperialist competition

Interimperialist competition always tends to intensify when the economic cycle is on the decline. At such times "sacred egoism" comes to the fore. Each "national" capitalist class seeks above all to save itself by exporting its difficulties and unemployment to its neighbors and competitors.

The imperialist bourgeoisie of the United States has lost its absolute hegemony over the capitalist world (which it had acquired in 1945) during the 1960s, which were marked by a spectacular rise of West European (especially West German) and Japanese imperialism. Toward the end of the 1960s the U.S. bourgeoisie sought to react, first of all on the monetary level. The cascading devaluation of the dollar was supposed to improve the American bourgeoisie's position on the world market. Then the increase in oil prices appeared to the American bourgeoisie as an excellent point of departure for striking at its European and Japanese competitors, who had previously paid a lower price for energy but who depended on oil imports much more than U.S. imperialism

Incontestably, at the beginning of 1974 U.S. imperialist hegemony appeared better assured than it had been several years earlier. How does U.S. hegemony stand today? The least that can be said is that the question has scarcely been settled.

In the area of trade the year 1974 was marked by a sensational counteroffensive of West German and Japanese exports that reduced even further the share of American products on the world market. (To this must be added the fact that the still relatively favorable position of American exports is due in large part to the increase in prices of raw materials — and food! — exported by the United States). For the first time in history, West German exports alone have surpassed those of the United States, as these figures demonstrate:

EXPORTS IN THOUSANDS OF MILLIONS OF US$
(in annual rates)

| | 1970 | 1973 | 1974 (1st quarter) | 1974 (2nd quarter) | July-Aug. 1974 |
|---|---|---|---|---|---|
| United States | 43.2 | 77.3 | 91.0 | 101.2 | 93 |
| West Germany | 34.2 | 67.5 | 80.1 | 91.2 | 93* |
| Japan | 19.3 | 37.0 | 41.3 | 55.0 | 52.7 |
| France | 18.1 | 36.7 | 42.2 | 48.1 | |
| Britain | 19.3 | 30.5 | 32.7 | 40.4 | |
| Canada | 16.8 | 26.3 | 29.5 | 35.6 | |
| Netherlands | 11.8 | 24.1 | 28.8 | 34.2 | |
| Belgium | 11.6 | 22.5 | 24.6 | 30.6 | |
| Italy | 13.2 | 22.2 | 25.0 | 29.0 | |

*At the exchange rate of 2.5DM per US$. At an exchange rate of 2.4DM per US$, German exports reached an annual peak of $96 thousand million; at a 2.3DM per US$ exchange rate the annual peak is $100.4 thousand million, surpassing U.S. exports.

On the monetary level U.S. imperialism's plan to eliminate the gold standard and definitively institutionalize the inconvertibility of the devalued dollar as the basis of the international monetary system through the system of Special Drawing Rights has less chance than ever of being accepted. The more inflation spreads and is prolonged, the less owners of commodities and holders of credit notes can be obliged to accept inconvertible paper money outside the borders of a single state. In the final analysis, a world paper money of obligatory usage presupposes a world state, a world government, that is, the disappearance of interimperialist competition, that is, superimperialism. We are further from that than ever.

It is on the military-political level that the predominance of American imperialism remains most pronounced, not because of but rather in contradiction with its relative financial and economic decline. The inability of the European bourgeoisie to make new progress toward financial and political integration within the Common Market, to transform the EEC from a confederation of states into a federal state, consolidates the status quo and costs the European bourgeoisie very dearly from the financial point of view. These internal contradictions make themselves felt, as do those of Japanese imperialism. Japanese imperialism is threatened with supplementary military costs. It is threatened with having to bear the costs of some spectacular changes in trade. When these changes are thrown into the balance against the more serious recession in the United States, the existing balance of forces is on the whole preserved.

The capitalist world as a whole, while escaping from American leadership, has been unable to replace that leadership either with an American-European-Japanese alliance based on equality of power or with the hegemony of some other country; it is thus being racked by a crisis of political leadership sharper than in previous years. There is nothing to suggest that there will be any decisive change in this regard in coming months.

## Petrodollars and the underdeveloped countries

The effects on the generalized recession of the increase in the price of oil and the supplementary income obtained by the oil-exporting countries has been considerably exaggerated. The total amount of supplementary income obtained by the oil exporters has been falsely identified with the sum of the balance of payments deficits of the importing countries. But this ignores the fact that a not negligible part of this income has been placed as short-term deposits for long-term investments in the imperialist oil-importing countries themselves. This income thus creates neither a problem of balance of payments deficit nor a problem of deflation of total demand. On the contrary, it can be considered that the swelling of Eurodollars through the massive influx of petrodollars has expanded the money supply and thereby fostered inflationary phenomena as a whole rather than having the opposite effect.

It is true that it is somewhat misleading to consider the question in global terms, for the deficits and surpluses are not shared equally among all the imperialist powers. West Germany and the Benelux countries have a surplus. Japan has been able to reduce its gross deficit of 1973 to a considerable extent thanks to the huge rise of its exports. The deficits of the United States, and especially of France, Britain, and Italy are consequently greater. The problem of "recycling" petrodollars is thus in the final analysis a problem of redistributing the short- and long-term investments of the oil exporters among the various imperialist countries in order to eliminate these too pronounced distortions. The end of the West German and Japanese export boom, which can be predicted for 1975, will likely make some contribution toward this redistribution.

INCOMES OF OIL-EXPORTING COUNTRIES IN 1974
(estimates in millions of $)

| | |
|---|---|
| Saudi Arabia | 29,500 |
| Iran | 21,000 |
| Venezuela | 10,600 |
| Nigeria | 9,232 |
| Kuwait | 9,000 |
| Libya | 9,000 |
| Iraq | 7,000 |
| Abou Dhabi | 5,300 |
| Algeria | 5,000 |
| | ±110 thousand million* |

Division of income

| | |
|---|---|
| Imports | 50 thousand million |
| Aid to semicolonial countries | 4 thousand million |
| Short-term deposits in U.S. | 10 thousand million |

In Europe

| | |
|---|---|
| Deposited as Eurodollars | 15 thousand million |
| Deposits in Britain | 10 thousand million |
| Invested | 5 thousand million |
| Hoarded | ±16 thousand million |

*Le Monde, December 29, 1974

In the longer term, petrodollars will be less and less "volatile" for two reasons: First because they will serve in growing proportions to finance investments within the exporting countries themselves, which will go through an undeniable industrialization because of this supplementary capital. (This industrialization will go on within the framework of a social system that will leave a good part of the people of these countries outside the "economic prosperity," at least in the more densely populated countries, and this will in turn limit the internal market and the future base of the industrialization itself; it will accentuate technological dependence and will thus not fundamentally modify the semicolonial nature of these countries.) Second because in the imperialist countries themselves petrodollars will be increasingly converted from short-term deposits into long-term investments.

The disappointments they have suffered with their pound sterling holdings and the successive devaluations of the dollar have taught even the most obtuse "oil sheikhs" (not to mention those exporters who are advised by bourgeois and petty-bourgeois technicians who are well schooled in economic matters) that liquid deposits are an excellent way of losing money through successive slices. Long-term investments, which will increase their solidarity with the imperialist system and integrate them into the international bourgeoisie, will bring their particular interests into line with the overall interests of international Capital. Things will move in this direction so long as the toiling masses of the producing countries do not force a halt.

The generalized recession of the international capitalist economy has struck the semicolonial countries differently according to whether or not they are exporters of oil (or, secondarily, of other raw materials whose prices have gone up). The oil exporters can escape the effects of the recession provided it does not last too long and does not worsen to the point of causing a collapse in the price of oil. These countries that are not oil exporters have suffered the cruelest fate since the end of the "Korean War boom." Countries like India, Bangladesh, Pakistan, most of the countries of East and equatorial Africa, and some Latin American countries that have deficits in oil have been struck simultaneously in four ways:

*The increase in the price of oil has aggravated the chronic deficit of their balance of payments and absorbed a good part, if not all, of the "aid to the third world" that they have received.

*The increases in the prices of foodstuffs and chemical fertilizers on the world market has made them lose even more resources than has the increase in oil prices. The cost of food and fertilizer imports to the semicolonial countries increased by $5 thousand million in 1973. It will most likely increase by the same figure in 1974. The cost of their oil imports went up only $1.2 thousand million in 1973 and will go up by $7 thousand million at the most in 1974.

*The collapse of raw materials prices, the reduction in the volume of their export of these products, and the reduction of their industrial exports because of the effects of the recession will reduce their currency reserves just at a time when their expenses are increasing significantly.

*The cumulative effect of all these factors is provoking a regression in the productivity of labor in agriculture, combined in several cases with a regression in absolute production as well as a stagnation if not decline in industrial production (because of the impossibility of importing all the necessary raw materials, the decline in demand on the internal market, the decline in exports, etc.).

For the Indian subcontinent, it is catastrophe, as for the countries of the Sahel in Africa. The catastrophe may extend to other parts of the semicolonial world.

## Economic recession and the decline of capitalism

The generalized recession of the international capitalist economy confirms in a striking manner the correctness of the revolutionary Marxist analysis of the noncapitalist nature of the economies of the Soviet Union, the workers states of East Europe, Cuba, the Peoples Republic of China, North Korea, and North Vietnam. While the recession is hitting all the capitalist countries, imperialist and semicolonial alike (although to different degrees and with varying intensity), the countries with noncapitalist economies are escaping the overall effects of the recession. In 1974 and 1975 they will experience their usual growth rate, which will appear all the more pronounced when counterposed to the stagnation or decline in production in all the imperialist countries.

A planned economy based on collective property in the means of production and the elimination of a bourgeois class owning important economic resources can guarantee continuous economic growth, even taking account of the enormous waste and imbalance provoked by irrational bureaucratic management. The superiority of the property relations issuing from the overthrow of capitalism in these countries is now making itself felt once again, despite all skeptics and myopic observers.

But the capitalist economic recession also confirms the petty-bourgeois utopian character of the thesis of the possibility of achieving the "construction of socialism in one country." The bureaucratized workers states — societies in transition between capitalism and socialism —, are not and cannot be immune to the repercussions of grave fluctuations of the world market. The socially different character of their economies and the monopoly of foreign trade effectively protects them against the threat of being drawn into the recession. But nothing can prevent the international economic conjuncture from having repercussions within their economies. We will not insist on this point any further, for other articles in this issue of INPRECOR are devoted to this subject.

The generalized recession is dealing a grave blow to all neoreformist and neogradualist illusions about the allegedly infinite capacities of "adaption" possessed by the capitalist system. It confirms what our movement had been proclaiming ceaselessly throughout the years of the strongest expansion. The leopard has not changed his spots. Capitalism is still capitalism. Its internal contradictions remain insoluble. If a return to unemployment, to graver and graver recessions, to galloping inflation, to famine throughout the semicolonial world, to misery that can reappear on a grand scale even in the imperialist countries is to be avoided, it is not enough to try to make the market economy function better or to daydream about setting up an impossible "mixed economy." The capitalist system and the bourgeois state must be overthrown. The regime of the workers must be established (and in the semicolonial countries, the regime of the workers and peasants).

By an apparent alchemy whose mechanism has long since been exposed by Marxism, ruling ideology follows objective developments like a shadow, sometimes even anticipating them. After the optimistic decade of "guaranteed growth," it is now the hour of the pessimists of "zero growth," of the "irremediable crisis of technological civilization." We reject both these myths, which have been concocted in the image of a ruling class in decline.

Uninterrupted growth is impossible under the capitalist system, which carries with it the economic cycle as surely as the cloud carries the storm. Capitalist growth is always unbalanced and unbalancing growth. It is always a combination of development and underdevelopment, growth and social inequality on the national and international scale, exactly a function of the growth itself. But this is not due to the nefarious character of science or technology. It cannot be solved by a Malthusian return to primitive forms of production that would condemn thousands of millions of human beings to misery.

The cause of the evil is exchange value become independent, self-enrichment become the goal of economic activity, company profit become the criterion and final aim of growth. The cause of the evil is private property and competition, that is, the market economy and capitalism. All the catastrophes, including the irrational and inhuman roads that technology is led down, derive from this social base and from it alone. The catastrophes can be averted if the profit system is abolished, if the workers manage their own enterprises in a planned manner, if growth is regulated and subjected to the imperatives of satisfying the needs of all the inhabitants of the earth.

The generalized recession of the international capitalist economy confirms that the system is sick, that it is in its historical death agony. But we know that death agony does not mean automatic disappearance, that the economic crisis does not in itself produce a victorious social revolution. The generalized recession has broken out in a historical context infinitely more favorable to the proletariat than that of 1929-32. But if the crisis of revolutionary leadership is not resolved; if the revolutionary workers party is not built in time; if the class consciousness of the toiling masses does not rise to the heights of the historic requirements; and if the economic contradictions meanwhile become more and more explosive, then it is possible that the imperialist bourgeoisie during the next several years may for a second time have recourse to the "remedies" with which it "resolved" the crisis of the 1930s. It will then seek to inflict a very heavy defeat on the working class, to raise the rate of profit through superexploitation of the workers, to stabilize this system through a "strong state" or even through a ferocious dictatorship. It would once again take the course of war. These would be "remedies" infinitely more catastrophic during the epoch of nuclear and biological weapons than they were during the epoch of Hitler. Thus, the generalized recession also recalls the timeliness of the burning alternative: socialism or barbarism. □

December 31, 1974

# FREE FALL

by B. SUTCLIFFE

## 1. Depth of the recession

Throughout the postwar period Britain has been the least successful of the major imperialist economies in terms of the growth of output and productivity. For this reason the present recession, which began in early 1973 after the short-lived six-month "boom," is less dramatic in relation to the preceding years than the recessions in Japan or the United States, for example.

The recession is nonetheless quite marked. In March 1973 a year of quite rapid expansion in industrial production came to an abrupt end. Since then the monthly production total has stagnated, except during the period of the three-day week from December 1973 to March 1974 which the Tory government imposed in response to the miners' work-to-rule. Industrial production has not recovered to its level before the miners' dispute. The gross national product for 1974 will probably be about 2% below its level in 1973.

A number of industries, however, have fallen into a more acute state of recession. The most important, of course, is the motor industry. Monthly production of motor vehicles has fallen by about 20% compared with 1973. The construction industry also has plunged into a very deep slump. Steel production in the first six months of 1974 was 16% down from 1973. Other industries badly hit are timber and furniture, bricks and cement, and textiles, especially oil-based artificial fibers. In addition agriculture (especially cattle breeding) has been meeting a mounting crisis due to rising feed costs, and this is sharply reducing the purchase of new stock.

The likelihood of an intensification of the recession in output, regardless of what happens to the capitalist economy internationally, is shown by the sharp decline in orders for most of the major industries. Over the last twelve months for which figures are available, these fell by about a quarter in the engineering industry, 15% in the textile industries and clothing industries, 90% in shipbuilding, and nearly 40% in construction.

The official figures for the number of workers unemployed has not yet risen as much as expected in such a recession. Unemployment continued to fall until the end of 1973. Since then it had risen by October 1974 to 622,000 in Britain and another 22,000 in the North of Ireland. This is 2.7% of the labor force, compared with 2.2% in late 1973. Unemployment would undoubtedly have risen faster already if it were not for the capitalists' real fears of militant factory occupations, which have spread with extraordinary speed in Britain in the last four years in response to redundancies. As a result, especially in the industries hardest hit by the recession, short-time working has become much more common.

## 2. Fall of capital accumulation

The decline in labor productivity, evidenced by the combination of stagnant or falling output and rising unemployment, is partly the result of the decline in capital accumulation that is associated with the economic crisis. Over the past year private fixed investment has dropped by nearly 10% and public investment has continued the unbroken decline that began as long ago as 1968. The slight rise for manufacturing investment in the first half of 1974 was canceled by a further fall in the third quarter of the year. The total is now much less than it was in 1970. The fall in public investment arises out of the long-term financial crisis of the nationalized industries, which itself results from the charging of noneconomic prices so that the nationalized industries can subsidize the private capitalist sector and act as a temporary control of inflation. All the nationalized industries except steel are now operating at a huge loss, which the Labour government has now said it will correct.

There is one element of expenditure generating demand in the economy that has fallen much faster than investment: housing construction. The completion rate of new housing has fallen by nearly 20% since 1973. But more important, the rate of new orders for housing received by contractors has fallen by about half, producing a growing number of redundancies and bankruptcies in the construction industry.

Consumer spending also shows clear signs of the recession. Retail sales have remained almost completely stagnant since the end of 1972, and the recent fall in real wages described below can be expected to make then decline further. A sharp decline has already shown up in car sales, which dropped by more than 20% in 1974 compared with 1973. The present level of consumption is being maintained only at the cost of a fall in personal savings from 11% of disposable income in 1973 to 9% this year.

## 3. Balance of payments

As far as the effects on expenditure are concerned, the British economy is still in a period of "phony war," because no serious efforts have yet been made by the government to correct the extremely large balance of payments deficit. Part of the deficit, of course, results from the oil crisis, and it remains true that a large section of funds from the oil-producing countries continues to flow into London, so the necessity to correct the deficit is avoided, at least in the short term. Even so, the British government has been forced to borrow huge sums directly from countries like Iran and from the Eurodollar market.

The reason the problem is so serious is that the British deficit consists not only of higher payments for oil but also of a huge deficit on the rest of its trade, which began in mid-1972, long before the oil crisis. The total deficit is expected to be about £4,000 million in 1974, of which £2,400 million is accounted for by oil. The elimination solely of the part of the deficit not attributable to oil would imply the reduction of total consumption by about 5%. The balance of payments deficit, therefore, simply expresses the extremely strong pressures towards further recession that still remain in the British economic situation.

## 4. Budget deficit

The same potential is reflected in a different way in the immense size of the financial deficit of the central and local governments. The public sector deficit has grown from £2,525 million in 1972-73 to £4,497 million in 1973-74 and an estimated £6,300 million in 1974-75. Only the printing of money to cover these gigantic deficits at present stops the huge potential for further recession from materializing. The local governments, which cannot print money, have fallen into a state of very serious crisis, and the result is growing expenditure cuts, especially in education, but also in all the fields in which local government operates (transport, health, etc.). The immediate crisis was staved off in November 1974 with a huge new grant from the central government.

## 5. Inflation

These gigantic state deficits are closely related to the rate of inflation. The central government deficit has appeared partly as a result of desperate efforts by the state to stifle inflation through food subsidies and the necessary grants to cover the deficits of the nationalized industries and the local authorities. And the local authorities' deficits appear because of the steep increase in costs that they face in providing all their services.

The rate of inflation in Britain has now risen to about 18% a year. Aside from a brief reduction as a result of the cut in value-added tax in July, the inflation rate has now been increasing more or less continuously since 1972. The effect of the price code, which has been in effect since 1973 and which limits allowable price rises to cover certain recognized costs, has probably been to limit a little the inflation that would otherwise have occurred. In the November 1974 budget the code was considerably relaxed. This relaxation, combined with the recent new acceleration in industrial costs, means that inflation is very unlikely to decline in the near future. But in addition, the serious balance of payments situation began once again in late 1974 to reflect itself in the exchange rate of the pound, which fell by about 4% between August and December 1974. That will give a further sharp twist to the inflationary spiral.

## 6. Profits

The recession in output and the rate of inflation in Britain are serious enough, but they are not exceptional compared to some other imperialist countries. What makes the British crisis exceptionally intense is the extraordinary deterioration in the economic position of capital that has taken place over the past ten years but has very fiercely intensified in the past two. One of the most readily available measures of this is the share of profits in the total value added of industrial and commercial companies. This rate fell from 15% in 1964 to about 10% in 1970. There it remained for about three years, prevented from falling further by the short boom of 1972-73 and by the Tory government's incomes policies. In 1974, however, it took a new nosedive: in the first quarter of the year, when the three-day week pushed output sharply down, the share of profits was negative; and in the second quarter it had only recovered to 4%. This represents a fall in profits of over 80% between the first half of 1973 and the first half of 1974.

These figures are adjusted to exclude stock appreciation, the unrealizable profit that results from the effects of inflation in pushing up the value of normal assets in the form of stocks of materials and finished goods. The position is now one in which huge sections of British capital are failing to make realizable profits at all even before the payment of taxes. After taxes are paid the situation is worse, since under the British tax accounting system corporation tax normally has to be paid on the unrealizable capital gains in the form of stock appreciation.

The drastic recent decline in profitability has been one of the things that have influenced the collapse in liquidity that has afflicted large sections of British capital in recent months. A good part of this collapse, however, is not the result of outside forces of which capital is an innocent victim, as the Confederation of British Industries continually suggests, but is the result of conscious planning by the firms concerned in order to reduce their liquidity so as to raise their profits in an inflationary situation. The three-day week, in which wages were maintained at relatively higher levels than output, placed a heavy burden on firms that were already illiquid through choice and then were forced to do more short-term borrowing. That is one of the reasons Heath's provocation in declaring the three-day week did not meet with wholehearted support from capital.

The collapse of liquidity has produced a spate of bankruptcies or near bankruptcies. The total number of company liquidations rose by 15% in 1974. Among the first to have been forced into complete liquidation in 1974 are Court Line (holiday tours), G. Stibbe (knitwear machinery), London Indemnity and General Insurance, and Nation Life (insurance). Among those that have been saved from bankruptcy only by injections of cash from the government are Ferranti (major electrical engineering firm), Alfred Herbert (major machine-tool firm), and Aston Martin (specialized motor manufacturing). And among those which are in a sufficiently parlous liquidity situation to be threatened with bankruptcy or near bankruptcy are British Leyland and many others.

The liquidity crisis is particularly severe among certain sections of financial capital and in the property companies. Rumors of liquidations of insurance companies and property companies are an almost daily occurrence on the stock exchange, and several of them have materialized. Significant insurance companies and property companies have gone bankrupt; several "secondary banks" have been subjected to rescue operations by the big banks, organized by the bank of England; one of these (Triumph Investment Trust) has gone into liquidation. Most of the banks in difficulty have been in the Eurodollar market and were hit by a steep rise in the rate of interest they had to pay for deposits during the semipanic that followed the collapse of the Herstatt Bank in Germany.

The most dramatic single indicator of the acute worsening of the economic health of capital is the recent behavior of the stock market. The value of shares has now fallen in nominal terms by over 70% since mid-1972; when adjusted for inflation, this represents a fall in the total market value of shares by well over 80%. Saudi Arabia, for instance, could now buy a controlling interest in all public companies in Britain with something like six months of oil revenues!

## 7. Wages

That the deterioration of capital's position has continued so rapidly shows how woefully insufficient have been the measures so far taken by both Tory and Labour governments to redress capital's economic difficulties. These governments have failed so far because they have feared the consequences of the confrontation with the working class that would be necessary as a prelude to imposing the needed economic solutions. Instead, both Tory and Labour governments have pursued a course of steady pressure against wages as well as a whole host of measures to siphon economic resources to capital through the financial mechanisms of the state.

The ability of the working class to resist the continual pressure on wages has been limited, as wage movements in the recent period show. Over the whole period since 1964 there has been an increase of only 11% in the level of average real take-home pay (money wages adjusted for inflation and taxation). In 1973 this level was static and has fallen by about 4% during 1974.

The Labour government's abandonment in July of the Tories' statutory incomes policy has led in the short term to an improvement in the movement of money wage rates, which in October were rising at 23% a year. Some of the gains, however, were the result of the final round of increases under the threshold agreements (limited cost of living compensation) that were introduced under Phase III of the Tories' incomes policy and ended in October. It is still too early to say how much these thresholds (now worth £4.40 a week to the 10 million workers who received them) are being incorporated into basic wage rates under new agreements.

## 8. Social contract

It is too early to determine the results on wage agreements of the "advice" offered to union negotiators by the Trades Union Congress (TUC) under the social contract — the formal expression of the efforts by the Labour government and the trade-union bureaucracies to impose nonstatutory wage controls on the working class. The content of the advice is that wage claims should be made no more than once a year, that they should be for an increase no more than the rate of inflation in the past year or the expected rate in the coming year, and that if threshold increases have been received, then the claim should be equivalently reduced. The TUC also suggests that the claim should be raised to take account of the extra proportion of any increased wages taken in tax, though this last point has been very ambivalently presented. Additional claims may be made in respect of especially low-paid workers and women workers, and in producivity deals. The net effect of these regulations, if interpreted to the letter, is that at least half of all workers would be asking for wage cuts during the period of the agreement — very sizable wage cuts for all workers if the rate of inflation were to accelerate.

## 9. Welfare state

The decline in standards of health, education, and housing is occurring at an even sharper rate than the fall in the real value of wages. Hit by inflation and rapidly rising interest rates (local authorities depend on loans to finance their spending, including outlays for education), most sectors of the welfare state are also being eroded by direct cuts in government expenditure. Previously rising at a rate of 7% (allowing for inflation), public spending is now to be cut by 5% in Chancellor Healey's latest budget. There has been no restoration of the £182 million worth of cuts made in spending on education by the Tories in 1973. The rude shattering of welfare state Britain is most dramatically seen in housing. Some 18.2% of British housing units are described as "unfit dwellings." The reality behind this state euphemism is that over 1 million families live in slums. Housing construction (combining both public and private investment) reached a total of 425,855 units in 1968. This level had dropped to 304,118 in 1973, and figures released for the first part of 1974 indicate a further slump of a possible 100,000 units from the 1973 figure. Meanwhile housing prices are rising faster than inflation. Secondhand housing that in 1970 sold for an average price of £4,946 would sell in 1974 for £10,043.

Against the background of the recent large jump in the rate of erosion of social welfare, sections of workers have taken action to protect these services. Recently, miners in Yorkshire, one of Britain's major coal fields, struck for increases in nurses' pay. They justified their action in terms of the protection of the Health Service. Meanwhile, workers at one hospital banned servicing of private patients during actions to win pay increases. The big decline in the quality of life in all the city centers (teacher turnover rate is 30% in some London boroughs, many Glasgow children have had only three day a week education for several months, over 1.5 million people in London have no inside toilet, or hot water, or bath) has created direct action groups, like squatters seizing empty property. In addition to the immediate fight over the cost of living, the need to protect elements of the welfare state that face government "rationalization" is likely to continue to be an important theme of the unfolding class struggle.

## 10. Labor bureaucracy

A great part of the energies of the leadership of the Labour party and of the leading members of the trade-union bureaucracy have for several months now been devoted to propagandizing for the social contract form of wage control and publicizing a danger of mass unemployment if it is not enforced. Many of those who in the last few years have been regarded as leaders of the "left" in the trade-union movement have joined in the propagandizing. Jack Jones of the Transport and General Workers Union, for instance, adds to propaganda for the social contract a plea that workers should not make wage demands that create financial difficulties for the firms concerned. Given that the Confederation of British Industry is now increasingly saying that British capital cannot afford even those wage levels implied by the social contract, this presumably means that Jones will be advocating even lower wage claims.

The TUC has also joined the campaign of the CBI for higher profits, and it therefore gave a warm welcome in November to Chancellor Healey's third budget, in which he distributed about £2,500 million unconditionally to capital in various ways. This was done first by abolishing the taxation of stock-appreciation profits; second, by making relaxations in the price code on allowable costs, thus permitting larger price increases; and third, by organizing a £1,000 million fund to be raised from the banks with which the government would provide medium-term finance to capital.

The "left" Tribune group in the Labour party has reacted to the financial crisis of capital and the recessionary danger by saying that they do not exist. And this, as much as the right's call to restrain wages in the interests of profitability of capital, could serve to prepare the way for rapid and severe cuts in workers' living standards, since workers cannot prepare for a crisis that they do not believe to exist.

Until recently the bureaucracies were having some success in imposing the social contract: Numerous low wage settlements have been made; at the annual conference of the TUC the halfhearted opposition to the social contract led by the Amalgamated Union of Engineering Workers (AUEW) crumbled willingly in response to a demagogic appeal by TUC General Secretary Len Murray; and a move inside the AUEW to put in a wage claim that would break the social contract was defeated in favor of a vague formula for a "substantial claim." More recently, however, the rank and file have been making some inroads: The series of militant strikes in Scotland in October and November, which the bureaucracies were unable to control, led to some quite high wage settlements; and the miners' ballot in November threw out the National Coal Board's productivity deal, opening the way for another large wage claim not linked to productivity.

The leaders of the Labour government are taking the line in the face of the growing recession that unemployment is a worse danger than inflation, and in international meetings they are arguing against deflationary policies. Domestically the government has been prepared to see a rapidly growing government deficit because of its subsidies on food, the subsidies to the nationalized industries, and the massive handouts to capital. The policy, however, is not nearly as expansionary as it looks: The subsidies of the nationalized industries are to be rapidly phased out; and while the handouts to capital are officially supposed to lead to more investment and therefore to a way out of the recession, this is scarcely likely to happen when with the other hand the government is doing everything it can to hold down consumption through wage controls under the social contract. These handouts may avoid a few bankruptcies in the short term but are more likely to be used by capital to reduce debts to the banks rather than to finance investment. They will probably do little, therefore, to offset the growing recessionary pressure that was reemphasized early in December by an ominous rise in industrial stocks. □

# THE RELATIVE STRENGTH OF


# GERMAN CAPITALISM

by WINFRIED WOLF

For some time now, West German Chancellor Helmut Schmidt's refrain has become international: Everywhere people are insisting on the "strength" and "health" of the West German economy. The various capitalist countries are seeking to get material aid from West Germany in order to straighten out their own economies, which are going through crises. There is good reason for them to hope that West German capital will bend to their pressure, for West Germany is extremely dependent on the world market and on exports.

During a speech delivered June 29,1974, to a gathering of functionaries of the SPD (Sozialdemokratische Partei Deutschlands — German Social Democratic party), Helmut Schmidt outlined his demagogic campaign: "Wherever one speaks, it is very important to demonstrate clearly to oneself and one's audience that the dislocated state of the world economy stands in sharp contrast to what we have safeguarded here in this country, what we have been able to succeed in and create." And in the same speech Schmidt observed: "For the moment, employment in Germany is essentially guaranteed. . . . We must create conditions such that our wage earners will continue always to take home a little more, in net and real figures." Sixth months later he was singing a different tune. All official bodies were confirming that there would be a million unemployed during the winter of 1974-75 (not counting immigrant workers sent back to their home countries, women forced back into the home, old workers forced into premature retirement, and youth unable to find apprenticeships). And in view of the virtual stagnation of industry and the new rise in the rate of inflation because of a deliberate stimulation, Helmut Schmidt today says quite openly that "in the long run" a fall in real wages will be necessary, even in the Federal Republic of Germany. It is with that in mind that the current wage contracts are being worked out, especially those contracts overseen by the government and the Sachverständigenrat (Councils of Experts), bodies composed of five professors of economics who present annual surveys to the government.

Taken in isolation, claims about the "strength" of West German capital are pure demagogy. Even the observation of a "relative strength," which is closer to correct, distorts reality. It is more correct to speak of a relative weakness of the other capitalist economies compared with West German capital, to assert that the West German economy is "less sick" than the economies of its "neighbors and partners." At least since the crisis of 1966-67, West German capitalism has demonstrated that it is no exception to the general trend of deteriorating international conditions for the realization of capital. And the current economic recession demonstrates that the 1966-67 crisis was not a unique "fluke," that it was not political in origin (provoked by the Christian Democrats, as the SPD and the trade unions often claim). This point is important above all for the consciousness of the West German working class and for developments within the unions and the SPD. We have now reached a decisive economic and political point in the evolution of West German capitalism. In this article we will analyze the economic situation in some detail. (For the political situation, see "The End of Stability" in INPRECOR No.5-6.)

## Part of the world economy

Today more than ever it is not enough to consider only the "internal economy" of a national capitalism. This is even more true for West German capitalism than it is for the other imperialisms. For some time there has no longer been any question of all countries riding the boom together as they did during the "golden age" of the 1950s or the beginning of the 1960s; but there remains the question of the danger of a generalized slide toward an acute economic crisis. The crises that the other capitalist countries are going through have direct consequences for West German capital that in the event of serious protectionist measures, for example, could take on catastrophic dimensions. The Organization of Economic Cooperation and Development estimates that the West German balance of payments surplus for 1974 will hit the record figure of 7 thousand million Deutschemark; all the other countries of the Common Market (with the exception of the Netherlands) will have balance of payments deficits.

The tendency toward integration into the world economy has deepened continuously since the founding of the German Federal Republic. In the 1950s and 1960s exports grew at a greater rate than gross national product (except in 1958 and 1962), often by fantastic proportions. The growth rate for exports was 50% in 1951, about 30% in 1953, and more than 20% in 1957 and 1959. During the 1966-67 crisis it was precisely the strong expansion of exports that provided the most solid support for the declining production within the country. This development has continued since 1969. Thus, between January 1969 and August 1974 the total number of domestic transactions by West German industry grew by scarcely 60%, while the growth of foreign transactions during the same period was nearly twice as high (132.5%).(1)

In this process of export expansion West German capitalism aimed above all at the countries of the Common Market and the states oriented to the Common Market. The pattern of West German exports and investments abroad makes that clear. In 1973, of the total volume of German exports (whose value totaled about 177.7 thousand million DM), 48% was sent to Common Market countries and 64% to members of the Common Market and of the European Free Trade Association (EFTA). The figure for exports to the United States and Japan combined was only 10%. Moreover, the growth rate of exports to the EEC countries was 20.4%; that of exports to the United States only 9%. (The growth rate of exports to Japan was 36.8%. But that is explained by the very low volume of exports to Japan up until 1974 and the consequently broad room for expansion. Japan's share of West Germany's exports in 1973 was only 1.5%.) Of total imports into West Germany, 70.8% came from Common Market and EFTA countries and only 12.2% from the United States and Japan.

Likewise, if we consider direct West German investments abroad, we find that of a total of 32,235 million DM (up to the end of 1973), nearly 60% went to countries in the Common Market or to countries tightly linked to it, like Switzerland, Austria, and Spain.

On the other hand, only 16% of capital invested abroad went to the United States and Canada (but 22% to Brazil). The distribution of investments flowing in the other direction is rather different. Of the total amount of foreign capital invested in West Germany as of the end of 1973 (35,442 million DM), some 43% came from the United States and only 50% from Common Market countries, Switzerland, and Sweden.(2)

The picture that emerges from all these figures is unequivocal: The economy of the German Federal Republic is oriented in large part toward the principal European countries. That is where the most important markets and spheres of capital investment are found. Such is the background to the "pro-European orientation" of West Germany ever since the world recession of 1957-58. It is above all a material background.

Despite everything, it is a contradictory image of "European unity" that West German capitalism contemplates. First of all, it is only during periods of clear German economic superiority that West Germany has aimed at economic and political union (and it thus often came into conflict with Gaullist France). At the beginning of the 1970s, when British entry into the EEC was discussed and finally carried out, the West German capitalists were much less sure of themselves. They feared that close cooperation among important European countries (especially France) and Britain could challenge West German hegemony over West Europe. In the present situation, in view of the "relative strength of West German capital," the crises that are shaking what remains of the British empire, the agony of Italy, and the political weakness of France, West German capital seems to be pursuing a new strategy. SPD President Willy Brandt indicated what it is in his speech in Paris: strengthened integration of the "strong" European economies; increased "dependence" of the weak ones, especially Italy. It is certain that West German capitalism is tied as a matter of life and death to the European market. Any protectionist measure taken by a "European partner" will be painful; every loss by important European countries of their spheres of export and investment will have catastrophic repercussions on the West German economy. That is what explains all the "friendly" help the West German government offered when it granted a $1,000 million loan to Italy; it also accounts for Helmut Schmidt's anxiousness to get involved in the "internal affairs" and political weakness of France.

The end of 1974 marked the end of the sixth industrial cycle of West German capitalism since 1948. The year 1974 was one of bitter disappointment for the "growth theoreticians" who had projected future industrial growth rates as high as those of the 1950s and the early 1960s.

Thus, the average annual growth of industrial production during the first cycle was as high as 24%; during the second cycle it was 8.6%; during the third (1959-63) it was 6.3%; during the fourth (1964-67) it was 3.2%. From 1969 to 1971 the growth rate was 4.5%, and for the period 1972 through the third quarter of 1974 it fell to 2.4%. While the 1966-67 crisis resulted in an absolute decline in industrial production for the first time since the second world war, the figures for the third quarter of 1974 were nearly as bad: less than 2.2% growth for the whole of West German manufacturing industries.

In one respect the West German employers are much better off than their European colleagues: The West German working class remains calm in face of the economic recession; the trade unions are bending to the "Social Contract," which exists practically although not formally, and do not present "exaggerated" economic demands — or if they do, they fold rapidly in face of the Diktat of the employers (the most recent example being the minimal results obtained by the metalworkers).

Up to now, the West German working class has had little tradition of struggle. There is no strong classical reformist or Stalinist party. In this country the trade unions have always played the role of "upholders of order" rather than instruments of class struggle. Up to now the struggles of the West German working class (wildcat strikes in 1969 and 1973, new initiatives in the trade unions and more accentuated trade-union struggles from 1970-71 to 1973-74) have led only to breaks in practice with the trade-union bureaucracy. There has been very little political differentiation. Consequently, the West German revolutionary left remains isolated from the working class, even though it has retained a certain quantitative strength since the student revolt of 1965-68.

Today, in contrast to the 1969-73 period, this working class is confronted with a fundamentally new situation. The specter of massive unemployment has been added to the high rate of inflation. In face of this new situation, the West German working class is disarmed; that explains the present shift by the West German Social Democracy under Helmut Schmidt toward a course that openly favors the market economy and simultaneously rejects "reforms that are costly." Reduced to its economic aspect, this political quiescence in the class struggle means that West German capitalism is able to plan on and accept long-term delivery dates in international trade, for there are few strikes of any scope. At the same time, the "wage factor" in the cost of production can be set in advance — and at a level beneath that of the annual growth of productivity.

It is here, at the level of class politics, that the "strength" of West German capital really lies; it is a strength that is a weakness for the working class. This makes the dangers of the present situation — the crisis, the unemployment, the disorientation of the West German workers movement — all the greater. And it also makes the tasks of revolutionaries in this country all the more important.

## The present conjuncture

West Germany is now experiencing a "divided conjuncture." It is divided among the rare economic sectors that are still recording positive economic growth (like steel and some export industries), those sectors whose production has declined absolutely (like the construction industry), and a great number of sectors that are stagnating.

In 1972 the average growth of industrial production ("manufacturing industries") was still 8%; in 1973 it was only 4.6%, and in 1974 the "growth figures" of West German manufacturing industries were as follows: first quarter, less than 1.1%; second quarter, 0; third quarter, less than 2.2%.

Between the third quarter of 1973 and the fourth quarter of 1974, production in the industries manufacturing basic products and means of production dropped 2.8%; production in the investment goods industry dropped 3.4%; in the consumer goods industry it dropped 4.9%; it was only in the foodstuffs industry that slight growth took place (1.3%).

If the picture of the present conjuncture is broken down still further and we look at production in given industrial branches, we get the following view: During the period indicated above, growth in the chemical industry (which exports heavily) was 0.7%; in metallurgy, which benefited from the boom in steel, there was also (minimal) growth: 0.5%. On the other hand, in the electrical industry production is stagnating and in the course of the past several weeks has tended toward an absolute decline (even though this branch is strongly oriented toward export). The situation is similar for the machine-tool industry, which is also oriented toward export.

In the automobile industry production dropped by nearly 10%, in line with the world crisis of this sector. For the textile industry the fall in production was nearly 5%.

For the construction industry, which is particularly sensitive to crises and is oriented almost exclusively toward the domestic market, production has had a downward tendency almost from the first quarter of 1973; by the end of 1974 the industry will have suffered an annual average decline of more than 10%.

That exports are the decisive "props" in the present conjuncture in West Germany is proven by the fact that between the second quarter of 1973 and the second quarter of 1974 the foreign transactions of the investment goods industry rose 15.8% and those of the basic goods and means of production industry rose 53.9% (above all because of the steel boom).(3)

On the whole, the picture is unequivocal and allows of no illusions, contrary to the claims of Schmidt and many international commentators: The West German economy is experiencing an internal economic crisis whose impact has been attenuated only thanks to the "divided conjuncture"; the main positive factor has been the growth of exports up to the middle of 1974.

## Historic reserves

West German capital today is still feeding on its particular historic development. It is here that we find the real core of what Schmidt is talking about when he says that "we must be proud of what we have been able to safeguard, succeed in, and create."

From the end of the war, West German capital benefited from two factors.

The first was a working class that had been very much weakened by fascism, the world war, and the defeats of the postwar period (1947-52). Capital could consequently impose especially low wages on the working class. (As late as 1955 wage costs in the United States were four times as high as they were in West Germany; they were 50% higher in Switzerland, 15% higher in Sweden, 14% higher in France, 7% higher in Belgium, and 6% higher in Britain.) The West German workers got back up to their 1938 wage levels only in the middle of the 1950s; at the same time, the average work week was more than 50 hours in twelve industrial branches out of twenty-four.

Second, the West German economy was stimulated by the Marshall Plan and was able to recover its old positions on the world market through a big export offensive during the Korean War boom.

These advantages brought on a favorable evolution for West German capitalism up through the middle of the 1960s. Before the 1966-67 crisis, West German capitalism had not at all been forced to introduce new technology into the process of production (automatically controlled installations, automated or semiautomated processes, nuclear energy, etc.).

This meant two things on the economic level:
1. At a time when international growth rates were generally declining, "contrary" tendencies were asserting themselves in West Germany because of the belated technological renovation, which softened the decline in average growth rates. It was possible to realize special profits through a wave of big investments in rationalization and through the process of concentration. The economic branches that went through important technological renovation experienced an especially strong growth. Out of this there came a so-called "structural effect."

Thus, the growth rates in the chemical industry and the oil-bearing minerals industry were respectively 70% and 133% higher than the general industrial growth rate during 1953-71. Growth in the electronics industry was 75% higher than general industrial growth, and in vehicle manufacturing it was 87% higher (during the same period). It is easy to see that these developments had to have a serious positive influence on general economic growth. According to his own estimates, the Marxist economist Elmar Altvater observed: "This structural effect accounts for 14-16% of the growth in productivity between 1950 and 1970."

2. According to Marxist economic theory, the introduction of qualitatively more advanced technology also means the rise of the organic composition of capital (increase in "dead labor" — machines, raw materials — in comparison with "living labor"). Since only living labor creates value and surplus value, this process also means that the mass of profit realized per unit of capital diminishes; that is, the rate of profit falls. The rise in the organic composition of capital is thus the motor force of the regular increase in productivity; but at the same time it is the motor force of the tendency of the rate of profit to decline and thus of the general lowering of the rate of growth.

During the period 1952-56 investments in industry reached an annual average level of 9,596 million DM. For the period 1957-62 the figure rose to 16,155 million DM. If the year 1950 is taken as a base of 100, an index of the organic composition of capital shows an increase of only 19 units between 1951 and 1956, while the increase from 1957 to 1961 was 29 units. There was another increase of 24.3 units between 1968 and 1974. As a whole, the level reached in 1974 was 75% higher than the 1950 level. The latest annual report to the government by the "Council of Experts" stressed this situation: "The constant deterioration of the share returning to the entrepreneur and the capitalist is explained by the fact that the component of capital has become larger than the component of labor power." If it is considered from the standpoint of the bourgeois theory of "three factors of production" (labor, capital, and land), the combination of which contributes to the growth of the annual income, then the observation of the West German "savants" is merely an absurdity. On the other hand, if one begins from the Marxist labor theory of value (to which these gentlemen hardly feel indebted), according to which only living labor creates additional value and, in the framework of the capitalist system, surplus value, then one can clearly see what lies behind the quotation: The growing weight of dead labor at the expense of living labor affects the rate of profit by driving it downward.

The factor that we have summed up under the term "historic reserves" means that capital in West Germany has on the whole gone through the same evolution as capital in the other big imperialist economies, but with a time lag. The positive aspects of this process manifest themselves belatedly, precisely in a period marked by recession. The negative effects (the fall in the rate of profit) emerged in significant proportions only during the 1970s. There is no reason to theorize the special nature of West German capital as compared with the developments the other big imperialist countries have experienced. Rather, the same events that are now taking place in Britain and Italy will occur tomorrow in West Germany. To be sure, the process will be belated, but it will be no less dangerous for the West German economy.

## Strong points

Apart from the "historic reserves" discussed above, the major strong points of the West German economy are the boom in the steel industry and West German capital's general export offensive, especially in 1973-74. As we will demonstrate further on, here again it is a matter of extremely dubious factors whose duration appears strictly limited. As far as the export offensive is concerned, it will be called the Achilles heel when the obituary of West German capital is written.

The situation in the steel industry rests essentially on international factors (this is demonstrated in part by the dependence of West German steel on exports). During the 1960s, some 26% of steel production was exported; in 1974 it was 35%. The boom in this industry is a universal phenomenon, a world boom stimulated precisely by the crisis that entailed a big wave of technological innovation (investment in rationalization). The general deterioration of the conditions for the market realization of surplus value led to a strengthened push toward the introduction and generalization of more advanced technology, thus to a rise in the organic composition of capital. At the same time, this meant a growth in the demand for investment goods and therefore, in the final analysis, for crude steel.

Conjuncturally, we are heading toward an ebb in steel on the world market. Especially since the recession of 1971-72, investments have been slowing down, and the expansion of the capacity of the big mills has been eased off by most crude steel producers on an international scale. This phenomenon has been especially marked in the world's major steel-producing country, the United States. To this has been added interruptions in production by the other main producing countries, like Britain and Japan. All this has generated a transference of demand toward West Germany. Moreover, West German steel mills have received larger orders from the oil-producing countries and the East European countries. An additional conjunctural factor that explains the steel boom lies in the rise in prices: From the beginning of 1973 to February 1974 steel prices increased 23.7%, and since the latter date the increase has been even greater. It is probable that this factor will not persist much longer, for it rests on a swelling of profits and not on any real development.

The situation in the steel industry has had a big effect on the overall economic situation in West Germany. This allows us to shed some light on the ambiguous character of the strong points of West German capitalism. Since 1947 there has been a great wave of new investment on a world scale in the steel industry in order to respond to a ceaselessly expanding demand. The Commerzbank estimates that the investments that will be needed through 1980 for new installations will total more than 600 thousand million DM.

The weakness in this generally positive perspective for the steel industry is that the indispensable development of productive capacity is carried out in a completely anarchic manner, as is all capitalist production. While there is an extraordinary degree of concentration on a national scale, it is clear that there is no planning among the various competing steel producers. (In 1973 the United States produced 58.5 million tons of crude steel, Japan produced 47.9 million tons, West Germany 25.9 million, Britain 11.2 million, France 10.9 million, and Italy 7.8 million.) So it is appropriate to stress that despite a probable global increase in the need for steel and an increase in productive capacity, a certain number (or most) of the big steel producers are going to be thrown into crisis because of an overcapacity of production. The Commerzbank poses the question: Will the steel industry turn around? Presently available facts indicate a reversal of the present tendency. Such a decline, which remains probable, would represent a hard blow for the West German export industry.(4)

The situation with exports, the second major prop of the West German economy, is likewise ambiguous. One of the most important factors accounting for the success of the West German export offensive is the tremendous specialization of certain industries and industrial branches toward export. But this means that these branches are totally dependent on export markets for sales of a great part of their production; often they are dependent on the market in a very few countries.

The overall dependence of West German industry on export is slightly less than 25%. The percentage of production going toward export varies according to industrial branch: In the metal industry it is close to 30%; in machine construction it is close to 40%; in building materials and machinery it is 50%; in machine-tools it is 62.6%; in textile machines it is as high as 91.8%. The export rate in automobile construction is 43.3%; in the office machine and computer industry it is 53.1%; it is close to 60% in the shipbuilding industry.

The following points must also be added to those mentioned earlier explaining the success of the West German export offensive:

1. Unlike the United States, West Germany has an extremely limited domestic market; nor does it have an "economic backyard" as Japan does in Southeast Asia and as Britain does in the Commonwealth and Ireland. But it is nonetheless true that the West German economy went through a great development of its capacities and productivity during the 1960s. In order to be in position to translate into money the economy's immediately favorable conditions for realization, West German capital found it absolutely necessary to assure itself a high and rising rate of export.

2. The successful resolution of this internal compulsion to export was assured by these additional factors:

*First there was the extremely high level of specialization, which we have already mentioned. This specialization was able to compensate for the natural disadvantages capital faces in disposing of commodities on foreign markets. Here we should cite the example of Volkswagen, which has entire units producing exclusively for export; the company has its own fleet for transporting cars to the United States.

*The possibility of honoring delivery dates for foreign contracts (at least until now). West German capital owes this "reliability" to the very low number of production hours lost through labor conflicts.

*The West German rate of inflation, far lower than the international average, has been able to compensate for the sometimes very significant revaluations of the Deutschemark, the normal effects of which would have been to make West German commodities more expensive on foreign markets and thus reduce German competitiveness. Thus, while world market prices (for foodstuffs and industrial raw materials) went up cumulatively by 85% during the period 1963-73 and by 35% just between 1972 and 1973 — we are leaving aside the increases in energy and raw materials prices that have occurred since 1973 — the prices of West German manufactured products suffered an accumulated increase of only 24.3% between 1963 and 1973; they went up scarcely 20% if the calculation is stopped in 1972.

What about the present pattern of West German exports and the evolution of this pattern? We have already mentioned some figures in this regard: Some 50% of West German exports go to the countries of the Common Market, another 15% to the countries of EFTA, and 8.5% to the United States. The "countries with state trade monopolies," that is, the bureaucratized workers states, especially the Soviet Union, Poland, and Czechoslovakia, absorb 6.5% of West German exports.(5) As for trade with the "developing countries," it represents about 17%. In the second section of this article we indicated what had been the structural developments and changes in centers of gravity of exports up to 1973: a relatively high rate of increase in exports to the countries of the EEC and a not very high increase in exports to the United States. Interesting changes in the pattern of exports can be gleaned from the latest available figures:

*Exports to the EEC countries, which, let us recall, represent the greatest share, increased continuously until the middle of 1974; in the third quarter of 1974, however, they stagnated.

*Exports to the United States, the third-largest category, have been declining continuously since the first quarter of 1974; for the third quarter of the year they represented only 6.5% of exports.

There were tendencies toward expansion only in:

*Exports to the EFTA countries (the second-largest category). These exports increased from 8.48 thousand million DM for the first quarter to 9.01 thousand million DM for the third quarter (15.2% of total exports).

*Exports to the semicolonial countries ("developing countries"). This category of exports, which since 1969 had stood at about the same level as exports to the EFTA countries, increased more strongly beginning with the end of 1973, and in 1974 took on a greater importance than the exports to the EFTA countries. In all, they rose from 9.9 thousand million DM in the first quarter of 1974 to 11.38 thousand million DM in the third quarter, which represented 19.24% of total West German exports.

*Exports to "countries with a state trade monopoly" (bureaucratized workers states). The rates of expansion were high for 1973 and 1974: 25% for each year. Nevertheless, structurally these changes did not come close to attaining this breadth, as might have been expected. In 1969 the share of exports going to the "countries with a state trade monopoly" was 5.1%; in 1974 it was still less than 6.5%.

In view of the world economic recession, it is difficult to generalize by beginning from the present development of the export sector. Nevertheless, exports are so important to the economy of West Germany that we will try, though cautiously, to offer an interpretation:

1. Exports to the imperialist states — to the United States, for example — are stagnating or declining (exports to Japan are an exception). This means that because of the growing crises they are facing on the national level, the economies of these countries are doing all they can to conserve their domestic markets and to keep foreign competitors at the greatest possible distance.

2. Exports to the weakest European countries (EFTA) are growing. In this area the pressure of West German capital exerted through its export offensive is decisive, and the protectionist measures taken by these countries are scarcely capable of holding back West German capital.

3. Exports to the semicolonial countries are expanding at a greater rate. The structural changes to which this is linked appear to lie essentially in the increase in imports of raw materials and oil.

4. Exports to the "countries with a state trade monopoly," which are also increasing more than proportionally, correspond to the expansion of trade relations deliberately undertaken by the bureaucracies of the Comecon countries. But the growth possibility of this trade with the Eastern countries is limited. The workers states can agree to such expansion of exchange only up to a determined percentage. In this sense, this growth must be understood as "grabbing hold" of a possibility of expansion that is already almost in existence. That said, we should not ignore the positive effects of

this trade (guaranteed "market" over the long term; no industrial fluctuations).

## Energy and raw materials

West German capital, like capital in most of the imperialist economies, has suffered negative effects from the scarcity and price increases of energy and the rapid price increases in raw materials between the end of 1973 and July 1974. It is absolutely wrong to deny these negative repercussions, as some left groups are now doing, or to see them as nothing more than a "big stunt" by the multinationals. (This is not to say that the "oil crisis" has not had an important ideological function, particularly in West Germany; at the end of 1973 and the beginning of 1974 the federal government succeeded in fomenting a real obsession out of the crisis and the climate of latent racism.)

During the first four months of 1974 West Germany had to pay 7 thousand million DM for its imports of crude oil, as against 2.7 thousand million DM during the corresponding period of 1973 — and this despite an 11% reduction in the quantity imported. In April 1974 prices for imported raw materials stood on the average 27% higher than they had in April 1973, and there have been only small reductions since then. The consequence of this state of affairs has been that the share of total imports accounted for by industrial raw materials has risen from 12.3% in 1972 to 19.6% for the first quarter of 1974; during the same period, the share of imports made up by oil rose from 5.8% to 12.9%.

It is obvious that this development changes the value-composition of capital and that it consequently has a negative effect on the national rate of profit. Contrary to the normal rise in the organic composition of capital, which leads to an increase in productivity, there is no growth in productivity in this process. This means that both "production of relative surplus value" (drop in the relative price of consumer goods necessary to sustain the working class), which is a corollary of the law of the tendency of the rate of profit to decline in cases of an increase in productivity, and the counter tendencies this gives rise to are absent here. The increases in oil and raw materials prices reflect no increase in productivity (at the most they can impel a new wave of investment in rationalization), and their negative effects hit the capitalist economy fully. (We have already drawn attention to the important role played by "petrodollars" in this context of scarcity and price increases in energy.)

The development of the energy sector is henceforth to be marked by attempts to reorient energy policy. What is being projected is increased research in nuclear energy and the setting up of a greater number of atomic reactors. The share of nuclear energy in the production of West German electricity is still extremely modest, only about 5%; electricity produced by atomic reactors so far accounts for only 1.1% of so-called primary energy consumption. Presently, eleven atomic reactors produce a total of 2,315 megawatts (MW) in West Germany. Twenty-one additional reactors are planned; some are under construction, others have been ordered. West Germany is very far behind the United States and Britain (fourteen reactors, 5,381 MW) but very close to France (nine reactors, 2,631 MW). According to the plans of the federal government, nuclear energy production is to be developed to such a degree by 1985 that some 15-20% of primary energy needs will be covered, and it will be possible to produce 40-50% of the total electricity necessary by reactors.

Nevertheless, the debates about the "energy sources of the future" have not yet resulted in a purely nuclear orientation. The move to this orientation has been slowed down by massive protests called by "citizens' initiatives" in the regions concerned, by warnings issued by some scientists, and also by certain "incidents" and accidents in the reactors now operating. That is why the federal government pushes the idea of the most diversified possible energy supply, from which one conclusion clearly emerges: The share of energy production based on oil must be reduced. Construction of power plants working solely off oil has been banned; only power plants capable of using at least two sorts of fuel are permitted. The other energy sources are coal, which accounts for 35% of electricity production, lignite (20% of primary energy), and natural gas (about 10% of primary energy production).

(Natural gas is one of the energy sources that has registered the highest growth rates. In 1960 energy production from natural gas accounted for 0.4% of total energy; since 1970 the figure has more than doubled. It is notable in this regard that West Germany is heavily and increasingly dependent on imports for natural gas: In 1973 nearly 45% of natural gas consumed was imported, as against 2% in 1965 and about 33% in 1971.)

The conclusions that flow from the restructuring of the energy sector are these:

Apart from the increased sums that will have to be devoted to importing oil, which remains indispensable, gigantic investments will be necessary in the energy sector in order to carry out an effective transformation. And in the medium and short term, the capitalists cannot count on a reduction in energy prices; this represents an important factor in production in the highly developed capitalist countries.

Thus, in the case of natural gas, large investments will be necessary, especially for transport (pipelines, transport by water). Growing investment is also necessary today in the hydrocarbon sector. The federal government's program calls for expenditures of upwards of 1.5 thousand million DM in this area by 1977, despite the fact that before the energy crisis the same government had demanded a reduction in coal production and the fact that the coal mines of the Ruhr have been suffering from a structural crisis for two decades. That is a good example of anarchic production.

But the most costly projects are those relating to nuclear energy. If the present program of the federal government is to be realized by 1985, simply the construction of the planned atomic reactors (at present prices) will require a total expenditure of 70 thousand million DM.

We do not think that West German capital will have the opportunity to carry out these long-term plans. But even if that is possible, it is obvious that in view of the general deterioration of the conditions for the realization of capital, these gigantic sums will represent an enormous supplementary expense for the capitalist economy. And we have not yet figured into the restructuring process the ancillary expenditures that will also be necessary (environment, research, development).

## The internal market

We have observed above that the West German internal market today finds itself in a state of regression and that this situation is the primary cause of the current recession. What are the causes of this regression?

Grosso modo, it is a question of a classical contradiction of capitalist production. On the one hand, profits have declined under the blows of various increased expenses — wages among them — and the employers are consequently seeking to combat this pressure, which directly affects the conditions of the realization of capital: They are in turn putting pressure on wages, resorting to layoffs (there are 1 million unemployed), blocking the immigration of foreign workers, and so on. On the other hand, the internal market is shrinking precisely because of the countermeasures being taken by the capitalists. From the standpoint of bourgeois production, the various interested parties are arguing in diverse ways, depending on their positions, stressing this or that aspect of the contradiction. Thus, Eugen Loderer, the leader of IG-Metall (the metalworkers union), fills virtually every column in his newspaper, Metall, with articles demanding "the increase of the buying power of the masses" and stressing that the employers are ignoring a whole gamut of economic theories demonstrating that the vitality of capitalism depends above all on the income of the workers. Is this true, "colleague" Loderer?

One can say Yes if one considers the concrete figures on the income of the wage earners: During the period 1970-74, the increase in the income of "dependent" wage earners in West Germany was only 0.3% (whereas for the period 1960-65 it was 7.2% and for 1965-70 it was 2.3%). The real income of the wage earners diminished 1.3% during 1973 and 4.2% during the first half of 1974. Such an ebb had not been seen in West Germany since the crisis of 1967, a year in which there was a decline of 2.5%. Since then, there had been continuous and relatively high increases (1969, more than 7.2%; 1970, more than 8.2%).

But one must say No to "colleague" Loderer if one observes the development of the conditions for the realization of capital. We have already cited one important negative factor: the rise in the organic composition of capital; and we have put forward figures that illustrate this tendency. For the capitalists, the way to combat the pressure being exerted on the rate of profit is to increase the rate of surplus value. If one calculates the direct relationship between "the income of the activity of the employers and their holdings" and the "income of nonindependent labor," one finds that there has been a declining tendency since 1960. Nevertheless, since it is not possible with these figures to observe a production of relative surplus value, because of inflation, these indications must not be given too much weight.(6)

The "share of wages and salaries in business transactions" has increased continuously since 1969; in 1973 a squeeze started, and in 1974 there was a fall to the 1970 level.

The conjuncture of the West German internal market cannot be analyzed without considering a particular factor: the policy of very tight restriction of credit, the increase in interest rates, and the relatively modest increase in the state budget.

Through this policy, which is not very pleasing to many capitalists and which irritates the trade unions, the state tried to combat the growing rate of inflation until 1972. And it must be recognized that some success was achieved. The rate of inflation was reduced to 6%. During 1974 it oscillated between 6.5% and 7.5%; it can be expected to rise to 8% during 1975 because of the relaxation of the policy of credit restriction. Today West German capital can afford the luxury of a restrictive policy, but it will certainly not be able to do so very much longer.

What will be the scope of this economic re-priming, 1 thousand million DM or 2 thousand million? That is the question being asked today. Pressure is being exerted on the West German government by its European competitors. It is obvious that the relative drop in the prices of West German exports is not very popular abroad. Nevertheless, the European states that have been greatly affected are expecting the "conjunctural shots in the arm" administered by the "strong" Federal Republic of Germany to have effects not only on the German economic situation, but on the situation throughout the Common Market as well.

The West German weekly Der Spiegel has revealed something that might surprise bourgeois economists: "West German capitalists are trying to lift . . . the rate of profit back to what they consider a normal level. Undoubtedly (!), they are contributing through this price policy to accentuating inflation. But they have not succeeded in braking the falling tendency of the rate of profit, this law discovered by Karl Marx (a law that only Marxists resist recognizing today)." There is not much point in spending a lot of time talking about the sort of "Marxists" Spiegel is referring to — Helmut Schmidt is no doubt among them. What must be noted in this statement is its essential observation, which sums up the second side of the classical contradiction mentioned above: the decline of the profit realized by a given capital. Der Spiegel cites figures: "In 1964 the Daimler Benz company earned 49.9 pfennigs on every mark invested; last year (1973) the rate of profit fell to about 30%. . . . In the Augsburg-Nuremburg machine factory, profitability has declined almost continuously, from 20% in 1963-64 to 8.2% in 1972-73. For the retail commerce giant Kaufhof the rate of profit passed from 29.8% to 12.5%, for the Ph. Holzmann construction trust from 53.5% to 23.6%. If one deducts the apparent profits due to inflation (profits engendered by deductions that do not cover the costs of reproduction) and the apparent profits engendered by fiscal deductions greater than the effective devaluation, the West German capitalists pocketed an average real profit of 15 DM on each 100 DM invested in factories, workshops, and computers in 1972; in 1960 that figure was still 25 DM."

Thus, the circle of the classical contradiction is closed. The solution recommended by bourgeois economy is also classical: Supposedly the year 1974 and the beginning of 1975 are the periods during which the "purifying forces" of the crisis are at work, capital is devalued (there have been 5,529 bankruptcies since the beginning of 1974), the costs of industrial production are held down, massive pressure is put on wages, masses of workers are thrown onto the streets, and, finally, a series of investments in rationalization is made at the same time.

## Is there a way out?

In the present situation, the West German government is trying above all to bring the crisis under control. This "crisis policy" is illustrated by a series of measures: conferences with specialists (more exactly, with people who pass for specialists), discussions at the national level with the Länder (states) about the program for moving to an upturn, consultations at the international level (like Schmidt's visits to Washington and Moscow), and finally, the Common Market summit of December 10 in Paris. But no serious solutions for getting out of the general impasse (and not just the current one) in the conditions for realization of capital have been broached. In fact, there is no clear line on this point. The government camp is divided by differences of opinion. Minister of Economics Friedrich, a member of the Free Democratic party and a junior partner in the government coalition, has infinitely less faith in "shots in the arm" than has his Socialist colleague Minister of Finances Apel. Friedrich places greater hope in the "self-regulating forces of the economy" than in an injection of monetary mass into the industrial sectors. That is why he is arguing for only a minimal re-priming of the economy. Apel on the other hand, pressed by the electoral defeats of the Social Democracy and the approach of elections in the most important of the Länder, Nord-Rhein-Westfallen (in the Ruhr region), is aiming at success in the area of employment and calls for strong aid from the state treasury. He knows very well that if unemployment continues to grow through the elections of May 1975, it will mean a new electoral defeat, the loss of the Nord-Rhein-Westfallen government to the Christian Democrats, and the challenging of the coalition government in Bonn.

As far as "ways out" of the economic recession are concerned, prospects are not brilliant. Three basic solutions have been advanced by various circles: (1) There should be increased state intervention. (2) There should be an export offensive. (3) There should be an increase in investments abroad. The three solutions converge in the same direction: They call for moving the factors of the crisis out of the realm of the immediate conditions of realization of capital. In fact, these points represent no solution. They are either unrealizable or else lead purely and simply to shifting the crisis to other levels.

An increased intervention by the public powers can in no way act as a brake on the crisis; it can only level out the economic cycles, that is, put on the brakes in the boom periods and accelerate at the end of the crisis. And when it is a question of measures that include direct public investments and subsidies, the question of where the money is going to come from is raised immediately. If on the other hand, it is only a question of paper money, the measure will have the effect in the present situation of accelerating inflation. If it is a question of money representing real values, all we have is a new division of the money supply. If credits were freed up, as many branches weakened by the crisis are demanding, that would also have negative consequences: The private companies, the employers, the municipal governments, the Länder, and the central state would then try through a strong demand for credit to cover the expenses that they cannot assume with their usual incomes because of the present economic difficulties.

The real function of interventionist measures by the state is the deeper cause of the differences of opinion that are coming to the surface in capitalist circles around the question of what economic policy the government should follow. Most bourgeois specialists who do not have to defend the interests of a particular capitalist or a given industrial branch fear above all the negative effects that interventionist measures would have. Also, they are not at all sure of the effectiveness of the "purifying forces" of the crisis and do not know whether a state "shot in the arm" will really have any effect. For them it would be a catastrophe if thousands of millions of DM were injected into the West German economy only to be swallowed up, with the economy turning around only very slowly and inflation strongly reactivated. The "Council of Experts" really defended an "expert" position when it mentioned these dangers and recommended retention of a restrictive policy in coming months. Obviously, the federal government will not be able to hold strictly to these recommendations, for reasons of internal and external politics.

An offensive aimed at export markets is no longer practically possible today. The most recent figures (November 1974) indicate a turn and herald the end of unbridled expansion of exports. We have already analyzed the pattern of the export boom and the modifications it is undergoing. In an overall sense, it is very improbable that West German capital will be able to obtain great export advantages in any of the three important sectors. Insecurity and the lack of internal markets in the "developing countries" will set up a limit. In the imperialist states the generalized economic crisis and the measures taken by each country will clash with the West German export offensive (we have already alluded to the initial effects of this). The monopoly of foreign trade and the particular interests of the bureaucracies of the Comecon countries will place limits on the expansion of West German exports in that area as well.

A growing transference of West German capital abroad is another of the "alternative solutions" called for by a good part of the employing class. They expect in this way to get around the difficulties with which West Germany is faced in its foreign trade. It is especially the big banks like the Commerzbank that are demanding such a policy. In reality, the slogan of "the development of production abroad" only serves to make things look better and amounts to self-deception. First, it is now too late to launch such a process on a grand scale: The situation in the countries with low wage rates (internal market structure, political insecurity, etc.) is absolutely not ideal for such investment of capital. The example of Rollei-Voigtländer is rather

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significant: Although this optical equipment trust opened a sector of production in Singapore a few years ago under the assumptions that goods could be produced more cheaply there, that the company would be more competitive there, and that this would assure the company's position in West Germany, today this company is laying off masses of workers in both Singapore and Braunsweig. Manifestly, the company was not in position to stand up to international competition.

Second, West German capital today is hardly capable of advancing the capital necessary for such investment. The best example of this is Volkswagen, which for many years has been nurturing the hope of constructing production lines in the United States. This plan has still not been realized.

Third, the growth of the development of production abroad would inevitably lead to the appearance of surplus capacity on the internal market and to loss of employment.

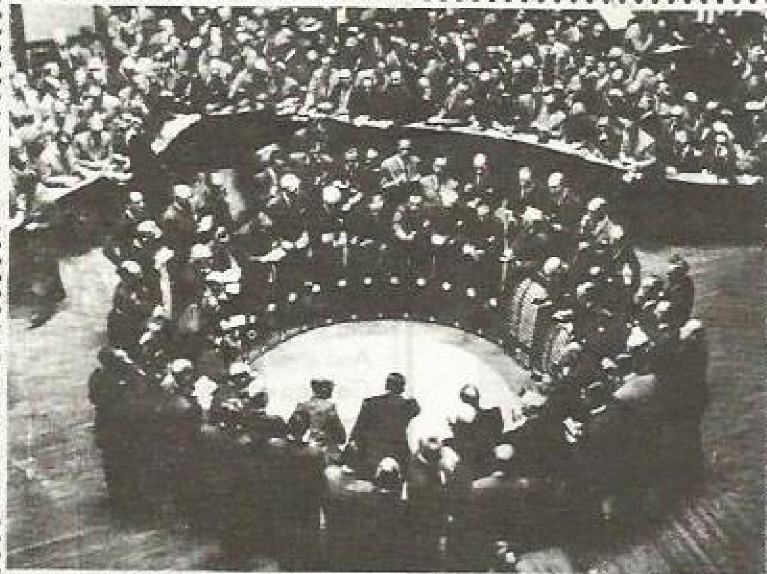
There is no need to say any more about the alleged solutions West German capital is working out to try to escape the generalization of the tendencies toward economic crisis. They are not ways out, but are instead culs-de-sac, detours, and bypasses. And everywhere they point to the same result: West German capital has entered a phase that will increasingly eliminate all the particular factors that have played a positive role for so long. The present crisis is the expression of this process. West German capital and its crisis are affected by the same evils of capitalist production as the rest of the imperialist world: falling rate of profit, inflation, unemployment, structural crisis, pollution, and so on. In spite of all the praise heaped on the country by Chancellor Schmidt and by certain representatives of international capital who for various reasons hail the "strength" of West German capital, West Germany is not very different from its partners and neighboring states. And it will come to resemble them more and more. □

December 11, 1974

Footnotes:

1. Sources: Jahresgutachen der Bundesregierung, 1964, p.7 and Monatsbericht der Deutschen Bundesbank, November 1974.
2. Figures on exports in: Monatsberichte, July 1974. Certain facts on direct investment come from: Aussenhandelsblätter of the Commerzbank, June 1974.
3. Monatsberichte, November 1974, No. 6-8.
4. Source for figures on steel production: Wirtschaftsnotizien, Commerzbank, Europartners, 7/8, 1974.
5. With a sigh of nostalgia for the "Great German Reich," the West German statistical department does not list trade with the German Democratic Republic under the heading "countries with a state trade monopoly," but rather under the heading "inter-German trade."
6. The figures reported by the MoBe (Monthly Report) of September 1974 (p. 64) are the following: a relation of 65.1 for 1960, 53.5 for 1965, 49.3 for 1970, 46.4 for 1971, 45.7 for 1972, and 43.9 for 1973.

# the moment of truth



by HELENE VALENTIN & C. LEUCATE

Manifestations of the slowdown in world economic activity and of the rise in oil prices have been felt by the French economy in particular forms:

1. Given the great French dependence on outside energy sources, the "oil bill" has been especially heavy: on the order of $6 thousand million — that is, 3% of national production. France consumes less energy, and especially less industrial energy, than the other imperialist countries (West Germany, United States, Britain, etc.), but it is unusually dependent on oil (like Japan and Italy). In 1960 oil accounted for 30% of total energy consumption; by 1972 the figure had risen to 67%.*

Concurrently, the contribution of the French oil companies to the national energy supply has been reduced: It is now less than 70%, as compared with 100% in 1968.

The impact in France of the rise in oil prices will vary according to whether the distortion of the price structures of energy sources persists or not. In the immediate future, however, the oil levy will weigh directly on the formation and division of internal incomes (especially between profits and wages) and will create an enormous disequilibrium in the balance of payments at least for several years. This is all the more true in that France is quite incapable of relying on "invisible exports" to compensate for the deficit in the balance of its commodity exchange and in that capital imports are compromised by the deterioration of the political and economic situation.

2. The recession did not hit the French economy fully at the beginning of 1974. But for some weeks now industrial production has been stagnating and prospects for industry are mediocre; in some sectors they are even bad (the consumer industries, for example). Growth in the volume of industrial production in 1974 will be lower than had been predicted; it will barely exceed 3%. Gross domestic production will increase by 4%.

* "Paradoxically, it is in the European economy that is perhaps the most subject to state intervention that the oil firms have most easily controlled the process of energy substitution, by systematically creating shortages, by financing fuel-oil heating installations, and, more generally, by successfully fostering belief in a long-term and continuous tendency toward a decline in the quantity of petroleum products." (Report of the conference of French-speaking economists of the CNRS, May 1974.)

Order books are still being filled in the equipment industry, but everywhere there is a fall in new orders, especially foreign orders. It is no longer assured that exports, which kept up the level of economic activity at the beginning of the year, will continue to grow at the same rate. This is now being reflected in a falling off in utilization of the apparatus of production which, after functioning at full capacity since 1969, is now once again finding its supposedly "normal" rate: about 80%. But the most striking feature of the situation has been a sharp increase in unemployment.

The number of unemployed has grown by more than 30% in just a few weeks. The figures for October were even worse than September: There were 100,000 more people unemployed. In one month, August-September, the number of new cases opened by the unemployment insurance system increased 40%. According to official figures, there are nearly 650,000 unemployed in France (twice as many as in May 1968). These figures do not include those who have been unemployed for the longest periods and have been excluded from the labor market without any real guarantee of compensation; nor do they include the hundreds of thousands of workers who are seeking jobs commensurate with their needs but have not been officially counted as unemployed.

Concurrently, collective layoffs have risen from 2,000 in the second quarter of 1974 to 6,000 in the third quarter. At the same time, partial unemployment has taken a leap forward: a 400% increase between September 1973 and September 1974. Nearly all sectors have been affected; even the insurance companies have announced "partial unemployment" (that is, compulsory reduction of the workweek). In the automobile industry the employers thought at first that they could avert massive collective layoffs because of high turnover in the work force (less than two years). They intended to foster voluntary resignations and reductions of the workweek. But the general decline in employment has discouraged workers from quitting on their own initiative, and the increasingly bad situation in the industry has forced the employers to move to layoffs.

Women in particular have been hit by the difficulties of the "labor market." Women account for at least 60% of the unemployed, while they represent less than 40% of the active population.*

*Contrary to certain generally accepted ideas, it is the fluctuation in industrial employment that especially affects women. Because of the employers' desire to make use of this less costly labor force, women filled 75% of new jobs created in industry in 1973, while they represented only 30% of the existing work force in industry; women are thus directly hit by stagnation in employment and by layoffs.

Youth seeking their first employment have likewise been especially affected by unemployment, both because they cannot find work and because they do not benefit from unemployment compensation in most cases. This unemployment pattern is directly comparable to the one that prevailed on the eve of 1968.

Nothing suggests that the process that has now begun will slow down. Even during periods of upturn, the French economy does not create many new jobs. In preceding years it has been mainly the unproductive sector and transport that have absorbed the excess work force, while industrial employment has remained virtually stagnant. Prospects for 1975 suggest a continued decrease in employment for several additional months.

3. Finally, the effects on industrial prices of the increases in the prices of oil and other raw materials are whipping to a gallop the accelerating inflation that has been going on since 1970, and has driven up the yearly increase of consumer prices by 16% in 1974. This process is more especially affecting all the various industrial products, whereas earlier it was agricultural and food prices that accounted for the most inflationary component of the total index. This is resulting in particular in a very sharp decline in the real income of farmers for the year 1974.

As the figures on price increases in October (1.3%) demonstrate, nothing leads us to expect a quick end to this superinflation, the "repercussions" of the various price increases (energy, raw materials) having come nowhere near the end of their course. The year 1975 is thus opening in a clearly "stagflationist" climate (a slowdown in economic activity combined with the continuation of inflation).

## Ten years' accumulated contradictions

These immediate factors cannot be properly appreciated except when viewed through the prism of the deeper contradictions that have characterized the accumulation of capital and the economic class struggle throughout the past decade. The past fifteen years have been marked by wide-ranging structural changes, by the re-equipping of the apparatus of production, and by a social reorganization of capital.

Fixed productive capital grew by 30% (computed at constant prices) between 1968 and 1972, that is, an increase just as great as that between 1950 and 1959. At the same time, the number of wage workers increased — although much less rapidly — especially in the semifinished and consumer goods industries.

This expresses a structural tendency toward the rapid rise of the organic composition of capital. This movement was carried out largely under the aegis of the monopolist sector of the bourgeoisie, but the trend toward economic concentration should not be exaggerated. Between 1961 and 1969 the rate of concentration (expressed as the share of the four largest companies in total business transactions) did not increase significantly. The middle-sized companies increased their shares the most. The phenomenon of concentration emerged clearly only in a few narrowly defined sectors in which the leading enterprises made their weight felt.

Furthermore, this shift developed through phases that varied greatly from the political and social standpoint. This explains to a large extent the specific features of the strictly economic "fluctuations."

From the standpoint of the effects of the relationship of forces between the classes and of "economic policy" on the formation of the rate of exploitation (and thus of the rate of profit), several characteristic phases can be isolated:

1. Gaullism's coming to power in 1958 and the turn to the Common Market was marked by a vigorous economic offensive against the workers carried out under the "Pinay plan," an offensive that allowed for a strong increase in the rate of profit up to 1960. Since 1960, however, developments have been much less favorable for capital: an anarchic growth in investment in face of the opening up of the borders during the period 1963-64, a conjunctural phase of overaccumulation, and a decrease in profitability.

2. The year 1963 opened a period of hardening of class relations during which the contradictions that would later touch off the May 1968 explosion were building up. The miners strike was the prelude to a new mobilization of the workers, while the "stabilization plan" and the "Fifth Plan" inaugurated a very active policy of monopolistic restructuring. The conjunctural policy followed after 1963 (credit restriction, strict price control), whose effects were prolonged by the repercussions of the West German recession of 1967, led to a slowdown combined with a growth in inflation. But this occurred under conditions that were generally favorable for the restoration of the rate of profit.

Beginning in 1964 there was a very clear increase in the rate of exploitation, even though the growth of capital was slowing down. (The costs to the working class were a flattening of buying power, which grew by less than 3% per year in 1966 and 1967, and a very noticeable worsening of unemployment, which came as a result of the restructuring and of the extremely intensive economic growth; in May 1968 there were 300,000 unemployed.)

It should be stressed that this trend of development, favorable for capital, was not at all halted by the economic consequences of May '68 (the Grenelle accords). In fact, 1969 set a postwar record for the average rate of profit, a result of the combination of a very rapid growth of exports (because of devaluation), a sharp inflation (7%, as compared with 2.9% in 1967), and strong increases in productivity.

3. Nevertheless, this record was a particularly artificial one. Beginning in 1969 there began to emerge the early signs of the difficulties that have characterized realization of capital in the most recent period. The acceleration of inflation has permitted the appearance in recent years of a very rapid nominal growth in the mass of profits. But in reality, in terms of the real division of income and the rate of exploitation, this amounted to an evolution that had become unfavorable to capital: Under the pressure of increased social combativity, the economic struggle allowed the wage earners to win substantial increases in their buying power (an average of nearly 5% annually); the increases in productivity were unable to compensate for this.

In the context of the very high rate of accumulation that continued after the exceptional boom of 1969-70 and began to level off only at the end of 1973, this trend of development in the division of income led to a continuous deterioration in the conditions of financing (the rate of self-financing) and of profitability (the rate of profits) for capital. At the level of individual factories, these effects were partially limited by a greater resort to existing savings and the under-remuneration of savings in a period of rapid inflation.

The debt level doubled in just a few years and reached nearly 40% of capital advanced. Low interest rates and a very favorable fiscal policy made massive indebtedness one of the most effective instruments for companies in concealing the decline in their rate of profit. But at the same time, these changes created the conditions for a considerable increase in the share of profits appropriated by the banks, which are the privileged instruments in the transformation of the incomes of wage earners into money capital in the hands of the enterprises.

Even before the oil crisis, the growing tensions over the profits-wages division and the consequent effects on the realization of capital (the average rate of profit in 1973 had fallen back to the 1963 level) had objectively placed on the capitalist agenda a new economic offensive against wages, an offensive aimed at restoring the rate of profit, just as previous offensives had been able to do with some success in 1958-60 and 1963-67.

## Growing difficulties in 1975

In relation to these developments, the present position of French capitalism appears more and more critical.

1. The overall growth of production and economic activity is increasingly threatened. Continuation of the expansion of exports and a substantial improvement in the balance of trade — hypotheses on which official optimism is based — are not at all assured for 1975. Since 1974 the simultaneous recession in the principal industrial economies has led to an overall restriction in markets, and at the same time France has been unable to enlarge its share of these markets. This explains its offensive toward the Third World countries and particularly toward the oil-producing countries (notably Iran and the Arab countries), an offensive aimed at exporting arms and industrial equipment.

French exporters have certainly carried off "exceptional" performances since the 1969 devaluation, but the advantages they have accumulated are increasingly threatened and will not suffice for allowing France to escape the effects of the world contraction of markets or to avert the enormous cumulative growth in foreign debt that began in 1974.

In the automobile industry, for example, French exports to the Arab countries increased 57% during the first half of 1974, while the rate of penetration by foreign producers had passed from 22% to 16% of the French market by the end of the third quarter of 1974. Thus, production continued to grow, although at a slower rate (on the order of 3%). Nevertheless, the consequences of the slowdown in growth and of sales patterns (an increased share for small cars) are such that at least two manufacturers (Citroën and Simca) have been thrown into grave financial crises, and serious difficulties are cropping up everywhere.*

More generally, even under the most favorable variant (a slowdown of internal activity permitting a limitation on imports; defense by French exporters of their current share of the market in the imperialist countries and the oil-producing countries), France would only manage a gradual reestablishment of its balance of trade, which would not allow it to "absorb" the enormous debts contracted in 1974-75.

In addition, because of the weak vertical integration of French companies, every increase in exports, no matter what kind of policy of assistance is enacted (credits, subsidies, etc.), entails a strong increase of imports (especially of the most costly imports: energy, industrial equipment, etc.). That is what explains the fact that beyond the advantages drawn from the 1969 devaluation, France has not been in position to structurally assure itself a net industrial export capacity of the type West Germany has.

Finally, the suddenness of the recession, coming after a long phase of euphoria about markets (1969-73), has already led entrepreneurs to exaggerate the consequences for their investment and employment policies. It can thus be predicted that there will be a cumulative process of contradiction of internal and external markets, even though this has not yet clearly begun. The breadth and forms of this process nevertheless remain subordinate to the development of the crisis on a world scale and to the manner in which the effects of the slowdown are distributed within the productive apparatus, and this is difficult to predict.

2. In addition, the problem of external financing once again dominates the whole French political and economic horizon. Continued growth in 1974 was made possible only by a significant decline in savings (a combined drop in the rate of private savings and in the rate of self-financing of enterprises) whose effect must necessarily be sought in international indebtedness (especially on European money markets).

Even in the event of a (forced or voluntary) slowdown in growth, there is no prospect for the reabsorbtion of this debt during the next few years; quite the contrary. This has two consequences: The ability to export capital will be seriously weakened. Capital export, in full expansion since 1965, had essentially served to develop trade networks abroad. Its decline can only aggravate the difficulties in exporting commodities. This also implies a deepening of financial dependence, a cumulative increase in interest charges, and, in the short term, an increasing need to relieve the growing debts of firms abroad by using public financial resources. Whatever forms this takes (interstate loans, use of IMF resources, European borrowing), it involves significant political promises that will have to be made to the imperialist "partners," Germany or the United States. The Italian precedent testifies to this.

3. The already existing tensions over division of income and the consequences for the profitability

*The Citroën crisis has just been settled through a state subsidy amounting to 1.5 thousand million francs for the incorporation of Citroën into the Peugeot-Michelin group.

of capital have not at all been eased. To be sure, the year 1974 registered a certain slowdown in the growth of the buying power of the wage earners (it was about 3.5%). But this was attained only at the cost of an exceptional level of inflation, for the increase in nominal wage rates during 1974 broke all records since 1968 (6.1% in the second quarter of 1974, including a rise in the minimum wage; 4.5% in the third quarter). Moreover, this relative stabilization of real wages was not sufficient to reverse the tendency of the rate of exploitation to decline. In spite of the repercussions of the rise in oil prices on other prices, it can thus be considered that in a definitive sense the essential part of the "bill" owed to the oil producers had to be paid by the companies. In the course of 1974 this reflected itself as a new deterioration in the conditions for financing investment and in the profitability of capital (the rate of profit).

1. The 1963 "stabilization plan" constitutes a memorable precedent for the man who was then in charge of economic policy: Giscard d'Estaing. Inflation was stopped and the rate of profit restored. But it was done at the price of "wrecking" growth for several years. Retrospectively, the bourgeoisie has become conscious of the fact that the consequent brutal economic and social effects on the working class during 1965-68 were directly related to the crisis of 1968.

This explains, for example, why none of the political personalities during the last period of Pompidou's rule wanted to take responsibility for a strongly restrictive economic policy. Fear of a new workers uprising and the approach of an electoral race that Pompidou's illness was making more certain every day led all the candidates for Pompidou's succession, Giscard in the first place, to refuse to take decisions that would have been injurious to their electoral popularity.

Moreover, the legislative elections of early 1973 and the presidential election of 1974 took place in an atmosphere of euphoria about the country's economic prospects. In 1973 the Hermann Kahn report was issued. It "predicted" that France would overtake West Germany during the coming decade. In 1974 government propaganda was built around the theme of France as the "island of prosperity in a world of economic disorder." Disregarding probability, the candidate of the bourgeoisie, Giscard d'Estaing, affirmed at one and the same time that the drop in the prices of raw materials had been won thanks to the recession that was hitting every country except France (and that inflation itself would consequently slow down in France) and that the new upturn in economic activity, imminent just about everywhere, would allow for the rapid development of exports and thus the reestablishment of the balance of payments that had been destroyed by the increases in the price of oil.

2. In spite of this atmosphere of permanent electoral campaigning, a few attempts to put the brakes on accelerating inflation were sketched out beginning in 1973. Their failure was not a technical problem, but was directly related to the political difficulties of the regime at the time.

After the failure of the contractual policy of the Chaban government, which sought to integrate a fraction of the working class and its trade-union organizations, the Messmer government tried to base itself primarily on the most reactionary layers: the peasantry, artisans, merchants, etc. That was the moment that the Ministry of Finance chose to launch, in October 1973, an "offensive" against high retail prices. Taxation of the profits of merchants, quickly abandoned, provoked the first merchants strike in twenty years. Limitation of credit was never a policy of tight quantitative restriction. Its principal effect was an increase in the cost of credit, which was reflected in prices and which also allowed the banks to increase their profits significantly.

3. Elected by a hair's breadth, Giscard neither wanted nor was able to take rigorous economic measures immediately. At the end of the spring of 1974, several months after growth had stopped everywhere in the world, the French economy still seemed to be exceptionally prosperous. Hence the new government's attempt to do nothing and to wait for the anticipated upturn in the other countries, hoping to wait out the slowdown just as in 1970.

Of course, inflation had to be slowed up a bit, at least in order to obtain the loans that were required because of the foreign trade deficit. Fourcade's "cooling off" plan was above all aimed at convincing West Germany and other possible lenders of the French government's intention to bring inflation under control. There is not sufficient space here to detail all the measures that were taken: the fiscal policy, price controls, quantitative limiting of credit, taking hold of the nationalized banks, etc. These measures could only lead to the strengthening of "anti-inflationary" measures whose ineffectiveness had been generally proven since 1972. Moreover, this belated policy came at the very moment when new difficulties were emerging: the deepening of the world recession and the first signs of slowdown (and aggravation of unemployment) in France itself.

But the incoherence of present government policy is not a result of technocratic incompetence. It directly demonstrates the political impotence of the regime in a situation of an extremely tense relationship of forces between the social classes. The political pressure of the employers and the "small and middle-sized companies" led to the dismantling of the project of "conjunctural taxation" and to the elimination of real price controls (of the 1963 type). This reduced the anti-inflationary apparatus to publicity operations and demagogic stunts related to retail prices and merchants' profits. Incapable of holding back inflation, the government is also powerless to implement a policy of "relaunching" the economy in the face of the more and more immediate threat of recession. The government is limited to a few "pump priming" measures in the sectors that have been most affected (especially automobiles).

The multiplication of bankruptcies and layoffs, aggravated by the effects of credit restrictions, is lending a "wildcat" character to the devaluation of capital, a character that is very different from the selective and harmonious policy of "redeployment" of the productive apparatus that the powers that be are claiming to be carrying out.

An apparent inconsistency is showing up in the regime's attitude to the working class. The working class is beginning to suffer the effects of the crisis on the level of employment (collective layoffs, partial unemployment, expulsion of immigrant workers) and at the level of buying power, at least in certain sectors (especially public services). Since the autumn of 1973, this has given rise to significant sectoral mobilizations of the working class against layoffs (Paquebot France, Titan-Coder, the printing industry) and in defense of buying power (the postal system and public services). The refusal of the workers' leaders to take steps toward a real extension and centralization of the conflicts (a "general strike until satisfaction of the demands" in the public service sector) has led to a dislocation of the movement, in spite of the "general strike" of November 19. This policy, combined with an active policy of the trade-union leaderships aimed at substituting "negotiation" for any political confrontation that could challenge the existence of the present regime (see the letter of CGT leader Séguy to Giscard, for example) has permitted the regime to refuse to make any concession, even on the strictly economic level, that could challenge its overall policy (especially as to disposition of the budget and wage contracts in the public services).

Nevertheless, this cannot conceal the regime's present incapacity — given the current state of working-class mobilization — to impose on the whole of the working class a "peaceful solution" that would force a division of income in conformity with the interests of the accumulation of capital. The institutions of "social harmony" (incomes policy, profit sharing, and participation) that the Gaullist regime had tried to set up, and their pale reflections under the Pompidou regime ("contracts for progress"), seem less able than ever to provide the regime with the means to bring the movement for economic demands under direct control. The "conjunctural tax" represented an attempt to induce the companies to directly assume the job of "policing wages"; this project failed both because of the contradictions it provoked within the bourgeoisie and because of the very strong pressure of the economic demands of the workers.

Despite the very recent failure of the movement in the public services after the November 19 general strike, economic and political accounts between the workers and the regime are far from settled.□

# the end of the miracle

by JIRO FUJIWARA

## Postwar economic reconstruction

Having lost 40% of its prewar productive capacity and all of its colonial territories (44% of the prewar Japanese imperialist territory), the Japanese economy began to recover with the politico-military support of U.S. imperialism. It entered a phase of development in 1950. Through the defeat of postwar revolution, the Japanese bourgeoisie, like the bourgeoisies of the West European countries, placed the enormous burdens of the time on the toiling masses: heavy inflation, an increase in population of 6 million (from the fronts and former overseas colonial territories), and massive unemployment.

The Japanese economy secured its stabilization (wage freeze and heavy rationalization) through the so-called Dodge Line (a stabilization policy for the economy designed by the general headquarters of the U.S. army in Japan), and it recovered its position in the world market by fixing the exchange rate of the yen at 360 to the U.S. dollar in 1948-49, after the defeat of an attempted general strike in 1947. Subsequently, special procurements for the Korean War gave an important impetus to the development of the Japanese economy. After the Korean War, U.S. military control over East Asia, the partial defeat of East Asian permanent revolution, and the U.S. dollar hegemony over the international capitalist economy created the international framework for the rapid economic growth of the Japanese economy.

This rapid economic growth was achieved in the greenhouse of U.S. military protection (supported by U.S. dollars) that was granted Japan in compensation for the loss of Okinawa, South Korea, and Taiwan. The Japanese government was able to mobilize the potential politico-economic forces to support the expansion of capitalist enterprise free of the burden of a military effort of its own. Capital could pursue its own interests acting purely as an "economic animal."

Just after the defeat of Japanese imperialism, a great majority of government funds and of U.S. aid funds were put into the basic industries: steel, coal, electric power, etc. On the other hand, a radical postwar land reform expanded the potential domestic market. The dissolution of the zaibatsu (big prewar financial combines) created the conditions for rapid technical innovation and economic growth, through the mechanism of capitalist competition.

In prewar Japan the system was based on the economics of poverty: the poverty of the peasants, victims of the tenant system, and of the ill-paid urban workers. Technological rationality based on mass production could not be established because of the narrowness of the domestic market. After the second world war, the Japanese economy, having developed the technological system of mass production, was able to maintain a pattern of economic growth oriented toward domestic demand.

Industrial production recovered its prewar level in 1950-51, lagging behind the West European countries by one or two years. But Japan did not succeed by that time in recovering its prewar export levels. Exports remained at only 36% of the prewar level (imports at 49%). Consequently, in spite of its rapid growth, the economy was several times forced to make adjustments because of the crisis of its international balance of payments.

A high rate of economic growth began in 1955. The steel industry was improved and expanded by the first steel production five-year plan (1951-55), which was supported by special governmental loans and investments and by special taxation measures. The automobile industry began domestic production of cars. The petrochemical industry began to make a quick advance, introducing technological innovations and building large petrochemical complexes. In the late 1950s, about half a million coal miners were discharged because of the "energy revolution."

In the early 1960s, Japanese capitalism made a drastic transformation of its industrial structure, incorporating the shortage of raw materials into the structure and transforming this weakness into a source of relative strength.

Rapid industrialization, involving the construction of many big complexes and heavy concentration of industry in the Pacific coastal areas in order to reduce transportation costs, produced a special coastal "belt" type of industrial structure. A huge shipbuilding capacity was developed. A great number of giant tankers and "bulk carriers" decreased the cost of transporting huge amounts of raw materials. Production facilities were enlarged enormously in order to utilize imported raw materials effectively. An industrial structure permitting massive consumption of raw materials was an absolute technical necessity for Japanese capitalism, which lacks domestic raw materials. All the leading industries with high growth rates, such as petrochemicals, synthetic fibers, steel, automobiles, etc., depended on heavy consumption of raw materials.

A specific mechanism of capital accumulation permitted this industrialization through extensive technological innovation and rationalization. The vast majority of the funds for investment in plant and equipment was financed not by the companies' internal reserves (retained profits), but by borrowed money. The ratio of net worth to total capital averaged 30% in 1960, 24% in 1965, and 19.3% in 1970. The unfolding inflation in particular made this borrowing very favorable for the big companies, which transformed borrowed funds into real wealth (plant and equipment) while repaying debts with devaluated paper money.

On the other hand, the increase in financial burdens pushed up the break-even point and forced the big companies to maintain high levels of operation. Thus, the pattern of fast growth, external financing, uninterrupted technological innovation, high operating rates, and growing rates of export was also an expression of the potential weakness of Japanese capitalism.

In the last analysis, the corporate borrowing was financed by funds extracted from the workers and peasants. The investments and loans of the public treasury, which amounted to half of the national budget annually, were financed not only by taxes but also by postal savings deposits (50%) and by welfare pension funds collected from the toiling masses (20%). Under the Japanese pension system, the workers pay 6.4% of their wages into the funds and become eligible to receive benefits only after more than twenty-five years. These funds thus accumulate huge revenues that the government utilizes for financing the investments of capitalist companies. In 1972, accumulated pension funds amounted to 7.8 million yen (about US$2.6 thousand million). The backward social security system in Japan induces a relatively high rate of savings; the capitalist companies then use these savings of the toiling masses to finance their investments.

Investment in the public sector takes up a high proportion of the national budget. The expansion and improvement of the social infrastructure (roads, railways, ports, berths, pipelines, land for industrialization, industrial water supply, etc.) is an indispensable condition for the expanded reproduction of capital. Japanese investments in the public sector have been closely tied to the reproduction of private capital. Public investments account for 17-20% of the national budget; of that amount, 65.5% goes for the support of industry and only 16.7% for public service facilities.

Wages, of course, increased throughout the period of rapid economic growth; but the increase in labor productivity exceeded the increase in wages. While the average annual increase in labor productivity was 9% in 1955-60, labor unit costs decreased 2.8% annually during the same years. Labor's relative share in value added in industry was extremely low: It was 32.2% in Japan, 55% in the United States, and 53% in Britain during the late 1960s.

At the same time, wage differentials have been very big. They vary especially according to employer size. If the average wage in companies with more than 500 employees is taken as 100, it falls to 80 for companies with 100-499 employees, to 70 for companies with 30-99 employees, and to 63 for companies with 5-29 employees. The average wage of women workers in 1960 was 42.8% that of male workers; in 1972 it was 50.2%.

With the structures and patterns of growth described above, the Japanese economy realized a rapid growth: The gross national product was US$10.9 thousand million in 1950 (the seventh largest among the capitalist countries), $24 thousand million in 1955 (the sixth largest), $43 thousand million in 1960 (fifth largest), and $200 thousand million in 1970 (second largest). Through this economic growth, the weight of heavy industry and chemicals increased significantly in the national economy: from 49% in

1960 to 60.7% in 1970. They accounted for 75% of all manufacturing in 1970.

Heavy industry and chemicals exports increased very aggressively after 1965. The export of manufactured goods was $3.6 thousand million in 1960, $7.8 thousand million in 1965, and $22 thousand million in 1971. Heavy industry and chemicals exports increased by 25-30% annually, accounting for 75% of total exports in 1971. Japanese international trade amounted to 1.5% of total world trade in 1950 and over 6% in 1970.

The drastic industrialization of the Japanese economy resulted in a very rapid decrease in the peasant and fishing population, the concentration of a large proletariat in huge urban centers, the generalization of pollution, and an increasing incidence of labor accidents.

The weight of the peasants and fishermen in the whole working population decreased from 44.6% in 1950 to 37.7% in 1969 and 18.2% in 1970. The big majority of those 18.2% were semiproletarian. Those who remained fully self-employed farmers came to only 15.2% of the total of 5.259 million peasant families in 1971. The proletarian population increased from 38.7% in 1950 to 62% in 1970. The number of women workers jumped from 3 million in 1950 to 6.46 million in 1960 and to 12 million in 1970. If we include part-time employees, there were more women workers than male workers by 1973. About 70% of women workers are married; married women, as well as temporary male workers, are the first to be discharged during a recession.

The heavy concentration of population in urban centers in a short time and the shortage of public investment in the social infrastructure have produced an explosive crisis in the cities. The three largest urban centers — around Tokyo, Osaka, and Nagoya — occupy 17.3% of the total livable land in Japan, but concentrate 41.5% of all the population and 49.2% of the total number of families. The three metropolitan areas produce 62% of all manufactured goods, having 52% of the total number of factories with more than 20 employees and 46.4% of all the automobiles (and 43% of all traffic accidents). The population per square kilometer of livable land, including rural areas, is twice Germany's and sixteen times that of the United States. The GNP per square kilometer of livable land in Japan is four times as great as Britain's, twice Germany's, and ten times that of the United States. But the social security spending per capita in Japan is a fifth of that of the West European countries. Only 18% of Japan's roads were paved and only 14% of the population had access to adequate sewage service, as of 1969.

## A structural crisis

The drastic industrialization of the society and the overconcentration of population in the giant metropolitan centers have produced many a "Minamata" (the city of mercury pollution) and unbearable psychological pressures on the toiling masses. The record of labor accidents reveals that 5,000-6,000 deaths result from some 300-400 thousand labor accidents annually. There were 3,873,167 workers injured and 61,507 killed in labor accidents between 1963 and 1972!

The 1964-65 recession was a symptom of the onset of crisis due to the high rate of economic growth. The recession was clearly a result of overproduction. The steel, electrical appliances, synthetic fibers, and other industries created antidepression cartels and reduced their production. The government recognized eighteen antidepression cartels, the highest number in the postwar period. The number of bankruptcies of small and medium-sized companies was 2,117 in 1963, 4,931 in 1964, and 6,060 in 1965. The increase in capital costs could not be covered by a decrease in labor costs because of the increasing shortage of labor.

A tendency to increase prices in order to maintain a "normal" rate of profit, and an important advance in exports, contributed very much to the recovery from the recession. The expansion of exports, especially important because of the tendency to overproduction, was supported by tax and financial measures. The major penetration of Japanese exports into the world market started in 1965, and after that year the structure of the Japanese balance of payments changed. In the earlier postwar period a balance of trade deficit was covered with the income from special procurements and the inflow of foreign capital. After 1965, Japanese capitalism began to export as capital the proceeds of a balance of trade surplus; that is, it recovered the typical position of imperialist capitalism.

Since the "Dollar Shock" of the early 1970s, almost all the advanced capitalist countries have been under the pressure of overproduction and have begun to manifest protectionist tendencies. The Japanese economy must expand its exports in order to keep its overgrown structure in balance, but it is becoming more and more difficult for it to export its goods to other advanced capitalist countries. Therefore, Japanese capitalism is forced to repeat its economic invasion of East Asia.

Japanese capitalism is now a giant economic power in relation to the semicolonial countries of East Asia. The semicolonial countries' balance of trade with Japan is deteriorating very sharply. The Japanese balance of trade surplus with these countries was $1,001.7 million in 1966, $2,006.7 million in 1972, and \$2,335.9 million in 1973. Yen credits to those countries, with annual interest rates of 4.75-5.75%, averaged \$200 million in the 1960s, \$563 million in 1972, and \$962 million in 1973. The total amount of Japanese "aid" to the neocolonialist countries was \$2.7 thousand million in 1972 and \$5.844 thousand million in 1973; Japanese direct capital investment was \$844 million in 1972 and \$3.07 thousand million in 1973. Its accumulated total surpassed \$10 thousand million in 1974.

The present recession started to hit Japan in 1974. Unemployment, according to official figures, is over 1 million; industrial output as of October-November 1974 is nearly 3% below the level of the previous year. Initial estimates calculated a simple slowdown of the rate of growth of the gross national product from the 9-10% levels to which Japanese capitalism had accustomed the world to a 1974-5 level of 3-4% and a 7% level in the late seventies. Today these estimates have been revised dramatically. For 1974, a decline in the rate of growth of the GNP of around 3% is foreseen. For 1975, the rate of growth will be 3.4%, it is predicted, and for the rest of the 1970s forecasts are scaled down to a modest 4.0-4.5% growth rate. But even these predictions do not take fully into account the cumulative effects of the worldwide economic recession upon the Japanese economy.

The automobile, electrical appliances, shipbuilding, and other industries suffer from serious overproduction. Their operation rates have fallen to 50-70% of maximum, as have those of the textile industry. Domestic automobile sales are down 35% and output is down 13%. Wage decreases, part-time work, and layoffs are hitting the working class. Large textile firms, like Toyoba, have fired between 10% and 30% of their workers. A main production unit of the Yashica camera trust had to be closed, and just to stay alive the big automobile corporation Toyo Kogyo had to borrow \$1,000 million from a group headed by the Sumitomo Bank.

The government is trying to help the ailing monopolies in these sectors with huge subsidies. A plan has already been worked out for subsidizing the shipbuilding industry by furnishing Development Bank loans for up to 52% of shipbuilding costs and city bank loans up to 20% of these costs.

At the same time, the Japanese economy is experiencing the worst rate of inflation of all the major imperialist countries. The consumer price index was 25% higher in October 1974 than in October 1973, and the government estimates that for the whole year 1974 the rate of inflation will be 24% as against a predicted 9.6%. This huge rate of inflation has already made several Japanese commodities and "factors of production" (like building sites for factories) more expensive than those of the European and North American competitors of Japanese capitalists. Therefore, the capitalist government has given high priority to the "fight against inflation" and has introduced a policy of credit restriction that has raised business bankruptcies to 1,000 a month since the beginning of fall 1974. It has cut imports to levels equal to or 15% below the levels of a year ago in volume.

While the export offensive continues in full swing and has chalked up many successes in 1974 (exports are up 50%, whereas imports increased by 42% as a result of higher oil and other raw materials prices), the balance of payments is in deficit (probably to the tune of \$5.5 thousand million for 1974), essentially as a result of a huge deficit in "invisible trade": freight and insurance costs, Japanese tourist expenditures, and export of capital. The biggest successes of the export drive (in the first half of 1974) were in textile fibers (+83%), iron and steel (+79%), other chemicals (+69%), and shipbuilding (+62%). Automobiles, televisions, and fertilizers were less successful.

There is a very serious danger for Japanese capitalism that the growth of world trade will come to a near stop in 1975, and that its export offensive of 1974 will fail to expand. Already exports to Southeast Asia, which had grown at a 50% rate for each month from January until August 1974, were only growing by 35% in September and 17% in October. Under such conditions, recovery could only come through new measures of "reflation" and credit expansion on the internal market, which would make a mockery of the attempt to reduce annual inflation from the present 24% to a 5-6% level.

A major problem for Japanese capitalism is that practically all its imports and exports are paid for in dollars, and the increase in oil prices has created serious "dollar shortage" problems there, the dollar inflation notwithstanding. To ease that pressure, Japanese capitalists have been looking for "barter type" agreements, involving, for example, Australian uranium and Soviet Siberian natural gas and oil (the so-called Tyumen oilfield project). Strong pressure from both China and U.S. imperialism might still bring on the collapse of these projects.

## A new grand design?

Japanese capitalism is now immersed in difficulties and contradictions, such as the labor shortage and increased labor costs, environmental deterioration and pollution problems, the problem of new industrial location, inflation-caused cost increases, and the decline of its international competitive capacity, all of which are the logical results of Japan's fast economic growth. The bourgeoisie is now talking about the need for raw-materials-saving industries and a qualitatively advanced industrial structure, which means exporting the heavy industries such as oil, petrochemicals, steel, etc., to the semicolonial countries, utilizing the abundance of raw materials and the cheap labor of the Southeast Asian countries, importing the cheap basic materials processed in those countries, and doing the final processing at considerable profits in the "mother country" of Japan. That is the "grand design" of Japanese imperialism — to organize the semicolonial economies of East Asia as a real economic periphery under the Japanese commanding center!

This grand design will be realizable only if the Japanese bourgeoisie is victorious in the coming years in a political and economic confrontation with "its" working class. The bourgeoisie was able to accept the relatively high rate of annual wage increases in the past years of high economic growth. But now the situation has changed. In the present situation the continuation of the past rates of annual wage increases will cause serious damage to Japan's competitive position in the world market. The bourgeoisie is saying: "The coming three years will be decisive for us. We must introduce an incomes policy in these three years to limit the annual wage increase to 10% or 12%. If not, Japanese capitalism will be bankrupted."

However, under the economic crisis and the explosion of social contradictions, the Japanese proletariat has strengthened its militancy. The "general strike" of the 1974 annual wage increase campaign was misled by the reformist leadership, but the workers have shown their great potential militancy, which on the whole has not receded. In recent years the workers of the public sector have been the vanguard of the whole proletariat in its economic struggle, but now the rank-and-file workers of big private industries have begun to move and to pressure the right-wing trade-union bureaucracies.

At the same time we must see the present situation of the East Asian semicolonial countries. The export of Japanese capital to those countries has deepened the disequilibrium of their economies, destroying native industries, accelerating inflation, and now producing vast unemployment on an East Asian scale. The export of Japanese capital is producing anarchistic urbanization accompanied by pollution, new poverty, etc. Japanese imperialism is exporting its domestic contradictions to those East Asian countries, and as a result Japan is becoming surrounded by developing anti-Japanese struggles among the toiling masses of these countries. We have seen the explosions of anti-Japanese sentiment in Thailand, Indonesia, Malaysia, the Philippines, and South Korea, and those movements will surely deepen their proletarian character.

We cannot categorically exclude the possibility that the Japanese economy will realize a certain recovery from the present depression and further expand its exports, because of the betrayals of the SP and of the CP's "people's front" line. Even in that case, Japanese capitalism will never solve the serious dilemma of inflation and unemployment, nor long postpone its final overthrow by the proletariat.

The tendency of the Japanese economy to export capital to the East Asian semicolonial countries will not cease in the coming period. But the present march of Japanese capital will surely provoke the masses' memory of the military march of Japanese imperialism in the first half of the 1940s and enlarge the social base of revolt against it, setting the groundwork for the building of East Asian sections of the Fourth International. The social and economic crisis may be prolonged somewhat, but capitalism has entered its final crisis and decline; we are living in the age when we will win.□

# U.S. recession: no end in sight


by DICK ROBERTS

The United States is in its deepest and longest recession since the second world war and there is no end in sight. Unemployment figures for November showed that 6.5% of the labor force — more than six million workers — are officially out of jobs. This does not include workers who have given up looking for work nor does it include those who have part-time jobs because they cannot get full employment. If the latter two categories are included the actual unemployment would be closer to nine million.

This is the highest unemployment rate since the 1960-61 recession under the administration of Democratic party President John F. Kennedy. But virtually all analysts predict much higher rates. Even the Republican administration of President Ford, which pretended until recently that there wasn't a recession, now concedes a likely unemployment rate of well over 7% next year. Some forecasters say the rate will exceed 8%. The potentially explosive character of such levels can be realized by the fact that in November the unemployment rate for Black workers was 11.7% and for Black teenagers, 37.5%. In industrial centers like Detroit, Michigan, the overall unemployment rate is already well over 9%.

And it is, perhaps, Detroit that most symbolizes the character of the economic crisis in the United States. The great auto trusts have suffered a sales drop of 38% from last year's already depressed levels. Chrysler Corporation, hardest hit of the "Big Three" (the others are General Motors and Ford), closed five of its six assembly plants until early January, idling about 60,000 workers. In all, the number of U.S. autoworkers already laid off or on notice is 300,000 out of a total work force of 750,000.

"We're in hell," a worker with 32 years labor in Chrysler's Jefferson Avenue assembly plant told a Time magazine reporter December 2. "Right now there are people with 1950 seniority laid off. I was right here in 1958 (the year of the worst postwar slump in U.S. auto production — D.R.), but the feeling wasn't like this. There wasn't this feeling of depression."

Not only assembly-line workers are being hit. "The car companies are laying off white-collar workers in larger numbers than at any time since the severe slump of 1958, and the nervousness among clerical workers and middle-management employees leads to wild rumors and strained human relations," Time reported from Detroit.

And the claws of unemployment have sunk into many other layers of the population as well. After auto, the housing industry is the most badly hit, with new starts of construction at 1.1 million during October compared to 1.7 million a year earlier. Retailing is beginning to be affected and the chain stores complain about a serious deterioration in Christmas sales upon which virtually the entire year's profits depend. In retailing alone there are already over 900,000 persons currently unemployed.

As major industries like auto slash production the "reverse multiplier" will be felt throughout the economy. Car production consumes almost 20% of U.S. steel output, for example, and layoffs in steel are certain to come. Rubber companies also depend to a huge extent on auto purchases. And meanwhile, as workers in these and other industries hit the streets, their purchasing power will decline and consumer goods industries will be all the further affected. This will be even more severe, however, because this recession is inflationary. Not only do consumers reduce purchases because wages have declined (or ceased) but also because prices have risen. For the first time to a significant degree a U.S. recession is being accelerated by inflation.

Again the auto industry, which accounts for more than 10% of the U.S. gross national product, is an example. According to Business Week magazine September 14, "For 1975, customers will be paying from $200 to $1,400 more per car, with the average increase more than $450 above the 1974 models. That is on top of an almost equal increase for the 1974 models."

It is the combination of the inevitable overproduction crisis with seemingly uncontrollable inflation that uniquely characterizes the current recession. The next sentence in the just-quoted Business Week magazine states that "Ford Motor Co. President Lee Iacocca laments, 'Two years ago we warned people they might have to pay $3,000 for a Pinto (one of the lowest-priced U.S. cars — D.R.), and now, by God, they will be paying $3,000 for a Pinto.'"

One might well wonder at Iacocca's position. With Ford sales off more than 30%, the nation's second largest auto maker announced a third reduction of capital spending plans in December. But at the same time it continues to raise prices.

This is because the source of inflation is not in the first place the pricing policies of monopoly but the massive extension of the money supply, through the extension of credit at all levels of the economy, and especially through the deficit spending of the federal government. As prices rise throughout the economy no corporation can resist the temptation to pass on its own higher costs (and then some) to consumers by raising its prices. After all, as Karl Marx explained, capitalist pricing policy is aimed at meeting an expected return on capital.

Furthermore, the capitalists undoubtedly believe — and the auto industry is lobbying for this — that the Ford administration will soon be forced to turn toward heavier deficit financing. (As will be seen, there are strong suggestions that such a turn is already under way.) Once purchasing power is sufficiently raised by new rounds of inflationary government deficits, the auto makers will get their profits in the higher priced cars they believe they can sell.

The contradictory combination of inflationary and recessionary threats produces increasingly frequent swings at the governmental level in economic policy-making. Government economists focus their attention first on one and then on the other of the contradictory poles of the crisis, proposing in turn incompatible regulators to stem the slide. At one moment the fear is that further recession will produce unacceptably high unemployment levels — unacceptable, that is, in the costs of rising worker discontent and the slump in consumer purchasing — and possibly provoke a worldwide depression. At the next moment the concern is that antirecessionary spending will spur further inflation that will trigger bankruptcies, the closing of banks, and possibly the collapse of international credit.

Meanwhile all the machinery for imposing wage controls is kept in the wings. Committees have already been formed and the necessary Congressional legislation passed in order to impose wage freezes whenever this course is chosen. At the same time the propaganda is incessant that prices can be controlled despite the clear lesson of President Richard Nixon's "New Economic Policy" that the capitalist government can never control prices.

Business Week magazine released a special issue October 12 warning of the consequences of the gigantic U.S. debt: "The U.S. economy stands atop a mountain of debt $2.5-trillion (thousand thousand million) high — a mountain built of all the cars and houses, all the factories and machines that have made this the biggest, richest economy in the history of the world. The next biggest capitalist economy is that of Japan, but it would take a sum more than one-third the gross national product of Japan to pay this year's interest on the U.S. debt.

"The U.S. is the Debt Economy without peer. It has the biggest lenders, the biggest borrowers, the most sophisticated financial system. The numbers are so vast that they simply numb the mind: $1-trillion in corporate debt, $600-billion (milliard) in mortgage debt, $200-billion in state and local government debt, $200-billion in consumer debt."

Business Week believes that deeper recession could provoke a situation in which a number of corporations could not sell their goods and consequently not pay off their debts. At the same time further inflation can make interest rates so high that corporations could not afford to borrow and thus could not finance the inventories of goods they have been unable to sell. Both threaten to burst the credit balloon. And this is not to speak of their concern that one of the weaker imperialist nations including its government and industry — Italy, and perhaps even Britain — might default on its debts.

But when it gets down to actually doing something about inflation and ceasing to pour money into the ever expanding balloon, the capitalists are equally without recourse. For some months the Ford administration campaigned around the slogan that "inflation is the number one enemy" and attempts were made to trim down the massive $315-billion U.S. budget. There was even talk about cutting the war expenditures, which stand at over $100-billion, and are by far the largest government expense. But the United States government is incapable of halting its manufacture of weapons. From one side the war industry is too central in the economy of a given state or metropolis for any representative in Congress to go along with cuts in the military program when it gets down to the specifics of a given locale. From the other side the necessity of the United States to police world imperialism leaves little room for maneuver. When budget cuts are made, the programs for health, education, and social welfare, as minimal as they are, go first.

Yet the very existence of a recession makes it difficult for the government to collect the high levels of taxation that would be required to eliminate deficit spending and bring the inflation under control. On top of this, those who fear that the recession may go too far seem to be getting the upper hand in the administration. There is increasing talk about a substantial tax cut to prime the economy in 1975. On December 20, Washington announced that the budget deficit for the next fiscal year, beginning July 1, might reach the startling level of $35-billion, by far the biggest deficit since the second world war. So much for the "inflation fighters" at the White House!

## Skyrocketing prices

Prices have risen at a rate above 12% for the whole year, above 13% for the last three months. The perspective is for even faster price increases in the near future. At a certain point, however, the recession will so undercut wages and purchasing power that a slowing down of the price rises is inevitable. This chaotic throwing of workers into the streets and robbing their dinner tables is the only way that inflation can be ultimately stemmed by any capitalist government. For the ruling class it is essentially a question of how much unemployment they can get away with.

While Washington pretends that such pump priming as it is now being forced to undertake is partially a measure of "international cooperation" in response to requests from abroad (Ford has met with French, West German, and Japanese officials only recently), Congress has just passed trade legislation aimed above all at protecting the U. S. market against foreign imports. In as diplomatic a language as possible under the circumstances, Paul Lewis of the Financial Times of London wrote for the New York Times that "The Congressional mandate is both protectionist in approach and restrictive in detail and the difficulty with which it has been extracted from the Legislature points all too eloquently to the underlying mood of the people."

Washington could, from a certain theoretical standpoint, help prevent the slide of international economies toward depression by opening up its markets and pegging the dollar at some "equitable" rate in comparison to foreign currencies. From the same standpoint it could have done this in the 1930s. But in the 1930s what it did was to pass the notorious Smoot-Hawley tariffs, which precipitated world trade warfare, and leave the gold standard. Today, with protectionist measures increasingly emanating from Congress and the dollar floating in world money markets there is little indication that it will do otherwise than before. This is because the interests of foreign capitalist rivals (not to mention all workers) are emphatically subordinate to the interests of the U.S. ruling class.

## Initial workers' responses

For the most part the trade-union bureaucracy is acting as though it were shell-shocked by the massive layoffs and paralyzed from taking any action against them. Along with token pleas for a public works program, the response of the AFL-CIO hierarchy has been to demand more protective barriers against imports and to escalate its racist, xenophobic campaign against the so-called "illegal aliens." Charging that these workers without proper documents, mostly Mexicans, are taking more than one million "American jobs," the AFL-CIO brass is calling for harsher repression and more deportations of these superexploited workers.

For its part, the hard hit United Auto Workers (not affiliated with the AFL-CIO) has launched an advertising campaign to encourage people to buy cars, while UAW President Leonard Woodcock echoes the auto magnates' insistance that prices cannot be lowered because profit margins are "slim."

To the extent that any direct actions against the layoffs have been organized, it has been by Black community organizations. A potentially explosive situation is building up in the ghettos, where the jobless rate reaches 30, 40, or 50%. Demonstrations and rallies of up to several hundred workers have been held in Chicago and Detroit, and a national demonstration in Washington has been called for January. In addition, the recently formed Coalition of Labor Union Women has gone on record in favor of the shorter workweek as a measure to provide jobs for all.

Most encouraging from the standpoint of the struggle against the rulers was the three-week-long strike of 120,000 mine workers. Pivotal in the global strategy of the ruling class is the drive to maintain high world energy prices. The production of vastly increased amounts of coal in the U.S. is a key part of this strategy and the oil trusts (which own a majority of the biggest mining companies) hope to slam a policy of drastic speed-up and other "rationalization" schemes down the throats of coal miners.

What was most problematical to the bosses was that in this case the United Mine Workers, for the first time in the history of their union, had a rank-and-file vote on the contract.

The strike won a partial cost-of-living clause for the first time. Unfortunately it has a "cap" on it meaning that workers will be compensated for price increases up to 8% a year but no higher. Nevertheless the full potential wage increases for three years stand at 37% in this contract compared to 26% in the 1971 contract.

Another encouraging aspect of the strike was the increasing tendency of workers to associate their problems with broader social problems. The miners were quite aware that their enemies in this case were the same energy trusts that perpetrated the "energy crisis" hoax last winter and drove up everybody's heating and driving costs.

The coming year does not include as many important wage negotiations as 1974 but the conditions are increasingly explosive. New York's leading financial newspaper, the Wall Street Journal, complained December 18, "The nation's economic misfortunes will make extra trouble at labor-management bargaining tables next year. Most of the conflict won't be earthshaking, but many negotiations may resemble hand-to-hand combat.

"Although 1975 is considered a light year for major industrial bargaining, the combination of unwhipped inflation and deepening recession guarantees some pretty fierce bargaining.

"'The economy may seem to have imposed . . . an insoluble problem,' declares W.J. Usery Jr., director of the Federal Mediation and Conciliation Service. Workers will be seeking 'very substantial wage increases' because of inflation, and they will be seeking job security because of the recession, he says. At the same time, he adds, employers will require 'lower unit labor costs and greater flexibility in managing the work force.'"

The coal miners' strike will undoubtedly give a boost to the impending struggles for cost-of-living protection, as well as against the effects of speed-up and other "rationalization."

Noteworthy was a full-page advertisement placed in leading newspapers by the Oil, Chemical and Atomic Workers Union whose contract expires in January. Attacking the oil companies for their profit-gouging price hikes, the ad calls for opening the books of the oil trusts. "We're going to open one of the most secretive industries in America to public scrutiny," OCAW states. "We're going to tell you why oil prices are so high. How the oil industry causes the inflation that robs our paychecks. And . . . what we can do about it." The ad goes on to blast oil company profiteering, and there is not one word in it blaming the Arab regimes for higher oil prices, despite one of the most massive propaganda campaigns around this issue in the capitalist media in recent history.

The year 1974 opened with a strike by independent truck drivers demanding a rollback in diesel fuel prices and an immediate audit of oil companies' books. A good way to start the new year would be a renewed struggle against the energy czars in support of the oil workers' demands.□

# BRAZIL, ARGENTINA, MEXICO: industrial structure and conjunctural problems

by PIERRE SALAMA

The capitalist economies have entered into crisis. There is no longer any room for doubt. France, Germany, Italy, Britain, Canada, the United States, and Japan — that is, the six major countries of the Organization of Economic Cooperation and Development — have together suffered a decline in their gross national products of 0.25% compared with 1973. To be sure, this general decline has been unevenly distributed among the seven countries (Japan: -3.2%, U.S.A.: -1.7%, as against a 4.7% increase for France and Italy), but the new feature is that each of these countries has been experiencing a sag in its growth rate since the second half of 1974. Synchronization of the crisis has become a reality. That is what makes things so serious. Consequently, one cannot but recall the crisis of 1929-37. This reference point is all the more interesting if it is recalled that the crisis of the 1930s provoked a certain loosening of the ties of the most developed capitalist economies with the so-called underdeveloped, exporting capitalist economies. Certain Latin American countries were thus able to profit from the crisis of imperialism. There was a vigorous rise in industrial growth in Brazil, Mexico, and Argentina, for example. It thus could be thought that this new crisis, like the one of 1929-37, could serve as the origin of an expansion of the productive forces in certain countries subjected to the imperialist centers, thus altering the socioeconomic contradictions that now reign there. Although a judgment of the possibility of this development can be advanced only very cautiously, the statistical data seem at first glance to suggest that it might occur again.

But to understand the present conjuncture, to foresee the future conjuncture, and to grasp the framework within which the projects of the governments of these countries are inscribed, it is necessary to detail the industrial structure of these countries and the forms that capital accumulation takes there. In doing this, we will deal particularly with Brazil, which in its excesses and limits sheds light on the contradictions suffered by the Mexican and Argentine bourgeoisies.(1)

## Industrial structure

The industrial structure of the economies of these countries is special:

*First there is the nondurable consumer goods industry. It is there that the most archaic industrial structures are found, where wage levels are lowest, (2) and where the strongest concentration of native capital exists. In other words, it is there that the multinational firms have the weakest grip. In the past, just after the crisis of 1929-37, this sector was the dynamic one; today it is "vegetating," if not declining. Its function is to respond to the effective demand of the workers, unskilled laborers, and partially unemployed.

*Second there is the sector producing durable consumer goods, which today is the dynamic sector. Very, very rare is the native capitalist who is accumulating in this sector by controlling his own factory. That is, this sector has been both the prey of foreign capitalists who since the middle 1950s have taken over the enterprises issuing from the 1929-37 crisis, and the place in which the multinational firms have reinvested a significant portion of the profits they have realized within this sector (construction of new factories). The example of the automobile industry is the most striking. In that sector today, unlike in the past, the wage structure is more diffuse (there is a higher proportion of technical cadres among the total personnel).

*Third there is a very important state sector, centered above all around branches in which the organic composition of capital is very high, the initial outlay of capital is large, and the rotation of capital is weak. This sector essentially concerns the infrastructure, the energy industry in certain cases, the semifinished products industry, and certain equipment goods. This sector tightly complements the second sector, distributing many of its products and thus permitting it to realize substantial rates of profit. The function of the state sector is thus to guarantee the best conditions for accumulation in the sector producing durable consumer goods, the sector essentially controlled by the multinational firms.

This sort of economic structure is unusual. It is first of all the product of the contradictions of the world economy (the crisis of 1929-37, the second world war). Secondly, it constitutes the more or less easiest way by which capital has resolved to its benefit the ceaselessly growing contradiction between itself and Labor.

More precisely, at the end of the war the process of replacing imports of light consumer goods was exhausted. To continue accumulating, the capitalists had to move to local production of equipment and semifinished products, given the impossibility of importing all the commodities they needed to transform their money into capital. Since the prevailing context was determined by the end of the crisis and the war, the local bourgeoisies found themselves once again subjected to the merciless law of profit on an international scale; they were thus compelled to use modern productive techniques. But these techniques wound up creating a productive capacity that increasingly exceeded the volume of effective demand. The result was the development of idle productive capacity (more than 50%!) and a fall in the rate of profit, although a smaller fall than would have resulted from refusal to utilize the modern productive techniques developed in the imperialist centers. Because of this economic contradiction, the native bourgeoisie had to ally itself with foreign capital (to avoid trouble) and develop a state that would be politically capable of reducing certain costs: those represented by wages. Thus, the economic contradiction found its immediate expression at the sociopolitical level.

The resolution of this contradiction was not easy. In Brazil it required a coup (1964) that broke the workers organizations. In Mexico it required a strong repression against the workers during the 1950s. In Argentina it required a succession of coups, and it still cannot be said that big capital has been able to succeed in carrying out its plans — precisely because of the Argentine proletariat's traditions of struggle.

The coup in Brazil permitted the reduction of the minimum wage by 55% between 1964 and 1974; in addition, thanks to a consumer credit policy and a fiscal policy generous to the large enterprises, it guaranteed sufficient effective demand and reduction of costs for the enterprises producing durable consumer goods. The dizzying rise in the rate of exploitation in the productive sector permitted the accelerated development of an unproductive capitalist sector, the one financing the other. In the period 1960-70 the trade sector grew at an annual average of 5.6% (in contrast to 1.7% in Argentina), while the service sector grew by 4.1% (in contrast to 2.9% in Argentina).

An increase in the rate of exploitation, when it reaches the heights it did in Brazil, constitutes the precondition for significant development of a durable consumer goods industry. On the one hand it reduces costs without reducing effective demand, because the workers, given the low level of their income, cannot buy these products. On the other hand, thanks to the redistribution of income effected by the swelling of the unproductive sector (capitalist commerce, state expenditure), which is permitted by the high rate of exploitation, it furnishes effective demand for its products. Moreover, the big expansion of the durable consumer goods industry, and the role that it progressively is led to play as a motor force, modifies the wage structure. Technical cadres become proportionally more numerous. Because of their salaries, they are customers for a part of this sector and thus constitute an additional factor favoring the realization of high rates of profit in this sector.

Thus, there is a reconcentration of wages: Between the richest 5% and the poorest 50% a significant intermediary pole appears and constitutes what is too often referred to as the "middle layers." The emergence of this third pole thus makes it easier to adjust demand to productive capacity in the durable consumer goods industry.

One can thus better understand both the deeper origin of the Brazilian "miracle" and the difficulties of accumulation in Argentina and Mexico. The huge rise in the productive forces is brought about through the capacity to guarantee that the durable consumer goods industry will act as a motor force. This is accomplished through a political capacity to strongly repress (or integrate) the working class.

To assure a high rate of profit decisive action is also required by the state in the sectors of equipment goods, semifinished products, and the infrastructure.

The reason there was no Argentine "miracle" is that it was impossible to carry out repression on a great enough scale, despite the succession of coups. To be sure, wage rates were held very low. Wages' share in gross product passed from 50% in 1950 to 38% in 1960 to 42.1% in 1970 to 35.9% in 1972; recently, without Perón, it has risen back to 42%. These low wages were especially pronounced in 1955-68; in the latter period a state economic policy that directly represented the interests of big capital was carried out (K. Vasena under the Onganía regime). It was also a period marked by the Cordobazos — and for good reason. The inability to break the opposition of the workers was later to lead the bourgeoisie to recall Perón, with the avowed aim of taking advantage of the mystification he could exert over the popular masses in order to deflect their combativity. Perón's premature death opened the road to a different solution: violent repression.

Thus, since it was not possible to sufficiently increase the rate of exploitation, even though wage costs were initially rather high (higher than in Brazil), the durable consumer goods sector was unable to guarantee itself the same rate of profit in Argentina that it had in Brazil; it was thus unable to play the same dynamic role in Argentina that it did in Brazil.

## The conjuncture

The growth rate of the gross domestic product in Argentina is not comparable to Brazil's. Although much lower, it nevertheless remains substantial: 3.6% in 1972, 4.5% in 1973, and 6% (estimated) for 1974 in real terms. (The sources for Argentina are Mercado Annuario, Guia de Consulta 74 (el economista) and Cronista Comercial.) Exports increased from $1,935 million in 1972 to $2,920 million in 1973, while imports stagnated ($1,895 million, compared to $1,930 million in 1973). The opening toward the countries of the East is expanding and has been concretized by a loan from the Soviet Union of $400 million (at the rate of 4.5% over ten years!), by the purchase by the workers states of wheat, rice, etc., by a loan from Poland of $100 million, and so on. The evolution of prices is much more irregular. During the first five months of 1973 — that is, until Cámpora came to power — prices rose 41.5%, that is, a daily increase of 0.27%! Then measures were taken to reduce this rate (it was -2.6% in June, 0.1% in July, 1.7% in August, 0.7% in September, 0.6% in October, 1.5% in November, and the same in December).

Growth has been more rapid in Mexico than in Argentina, but much slower than in Brazil. Between 1970 and 1973 the rate of growth of the gross domestic product averaged 6% a year (7% for industry), (3) a rate slightly inferior to that of the preceding decade, which was 7% (and 8.8% for industry).

A particularly recent and important fact for Mexico is that this growth has been accompanied by a strong rate of inflation. Between December 1972 and December 1973 retail prices increased 21.4% and wholesale prices 25.2%. It is known that a higher rate of increase for wholesale prices than retail prices indicates the existence of a strong cumulative process and thus reflects exacerbated contradictions in the process of accumulation of capital. These contradictions were reflected in the workers' response to the student revolt of 1968 (even though the trade unions were integrated into the state apparatus). This divergence increased for some time (29% for wholesale prices as against 25% for retail prices between the first quarter of 1973 and the first quarter of 1974) and then turned around between April and June 1974 (0.5%, 0%, and 0.3% for wholesale prices, 1.41%, 0.9%, and 1% for retail prices). This reversal in the tendency resulted both from a deliberate anti-inflationary policy by the state and from the integration of the trade unions and the agreements that the unions reached with the employers — agreements that are still being contested, and for good reason.

Concurrent with this increase in production and prices, there has been a heavy expansion of exports: Between January and November 1973 the value of exports increased 31.8%, as against 22.1% for all of 1972. As in Brazil and, to a lesser extent, in Argentina, this essentially affected manufactured products. (Sales of the transforming industries increased 54.5%, compared with 17.1% for agriculture and a decline of 6.2% for the extractive industries.)

In Brazil the rate of growth of the gross domestic product for 1973 was 11.4%. (The source for the statistics on Brazil is Conjontura Econômica, August and November 1974.) The growth rate for the transforming industries (excluding construction) was 15.25% in 1973 and 14.32% for 1974 (estimate as of August) in real terms. Concurrently, prices soared. Between July 1973 and July 1974 the increase was 31.5%, as against 15% between July 1972 and July 1973; there were very high increases in March (4.7%) and April (5.1%). And while exports of basic products sagged (declining 7.2% between the first half of 1973 and the first half of 1974), export of semimanufactured products took an unprecedented leap (up 48.5%), and export of manufactured products increased even more during the same period (68.5%).

It seems, nevertheless, that there will be a turn in Brazil. The model based on the dynamism of the durable consumer goods sector is beginning to reach its limits. This can be seen in the reappearance of inflation and in the balance of trade.

There was a balance of trade deficit of $2,488 million during the first half of 1974, as opposed to a $182 million surplus for the whole of 1973. This deficit is essentially due to a decline in the export of certain so-called basic products and to a swelling of imports of equipment. That is the essential problem!

Growth based on the durable consumer goods sector requires growing imports of equipment and semifinished products. Now, taking account of interest on debts (which today are in the neighborhood of $20 thousand million), the amortization of these debts, and the repatriation of the dividends of the multinational firms, it becomes increasingly necessary for this type of economy to have a positive balance of trade — precisely in order to be able to afford this outflow of currency.

The contradiction is thus as follows: A considerable increase in imports of equipment, semifinished products, and energy results in the need for even larger increase in exports. Two new factors therefore emerge: 1) the necessity of exporting more manufactured products and of pursuing a policy aimed at inducing the multinational firms to export a growing portion of their production; and 2) the necessity of utilizing 90-95% of productive capacity in the equipment and semifinished products industries.

Unlike the 1964-67 period, there is no longer any margin of unused productive capacity. A recent inquiry conducted among Brazilian capitalists showed that the obstacles limiting their production in the consumer goods sector were 30% attributable to insufficient productive capacity (therefore, of machinery) and 35% to insufficient supply of raw materials and semifinished products, as against only 25% to insufficiencies in the size of the market. In other sectors, the figures were as follows: 16% and 35% as against 7% for the machine and accessories sector; 27% and 13% as against 8% for the building materials sector; 34% and 14% as against 21% for other semifinished goods industries.

Thus, the contradiction is shifting. The vigorous rise of the durable consumer goods sector is no longer clashing with the insufficiency of the market but rather with the inability of the existing industrial structure and trade balance to provide equipment and semifinished products. This is what explains why Brazil's second development plan (1975-79) heavily stresses the development of the production goods sector, thus returning to Kubitschek's "plan of objectives" of the end of the 1950s, with all the contradictions it involves.

The general framework in which these restructuring projects are being carried out is leading some ministers (S. Gomez, for example) to call for a substantial modification of the model of growth, relativizing the role of the durable consumer goods sector and stressing expansion based on the internal market. The loosening of the vice that is implied by growth based on durable goods thus means granting wage increases; the 20.76% raise in the nominal minimum wage decreed in May by Geisel, the 10% bonus in October, and the modification of the calculation of wage increases (now calculated over twelve months instead of twenty-four) may constitute the first steps.

But these wage increases — while they cost hardly anything economically, given the scope of the wage reductions of the past ten years and the inflation — could encourage and even reawaken the latent combativity of the workers.

The present situation of the Brazilian, Argentine, and Mexican economies is thus very different from that which prevailed during the 1930s. The crisis of the 1930s allowed for "detours of production" thanks to the process of substituting for imports. The industrial structure today, while it is unusual, is integrated on the whole. Thus, one cannot expect the same sort of mechanism to operate again. The accumulation of capital in the equipment sector requires growing state intervention, cannot help causing the emergence of extensive idle productive capacity (given the "technological dependence" of these countries), and accelerates the rate of inflation, leading to the exacerbation of social contradictions.

But if it is taken into account that the present crisis is manifesting itself in a massive export of capital by the United States, Japan, and Germany, the principal recipient of which in Latin America is Brazil, it could be thought that the short-term emergence of a new international division of labor could be expected: Brazil, Mexico, and Argentina specializing in production of durable goods for export. Nevertheless, this does not seem a credible prospect in the short run. The clouds now gathering on the horizon originate more from internal problems than from the crisis currently racking the imperialist centers.□

December 27, 1974

Footnotes:

1. For more details, see "Amérique Latine: Accumulation et Surexploitation" and, more particularly, our article "Vers un Nouveau Modèle d'Accumulation" in issue No. 16-17 of Critiques de l'Economie Politique. (Editions Maspéro, Paris.)
2. In Argentina during the years 1965-70 an unskilled worker in the most backward sectors (food, textile) made 25% less than an unskilled worker in the more modern sectors (durable consumer goods). The latter made slightly less than a skilled worker in the more backward sectors.
3. The figures for Mexico come from the review Comercio Exterior. Let us add that the growth rate of industrial production between the first half of 1973 and the first half of 1974 was 9.7% (9.1% for manufacturing industry), with pronounced inequalities among the various branches: food 7.5% (1.2% in 1972), textiles 5.5% (so-called backward sectors), as against 14.8% for steel and 23.5% for the transport industry.

# repercussions on the east european economies

by TED HARDING

The expanding East-West trade that has occupied the headlines of bourgeois newspapers for the past year or so is symptomatic of a new pattern of relationships between the Comecon countries* and the advanced capitalist countries. For the capitalists, whose economic system has been in decline since the end of the 1960s, trade with the East offers a potentially vast and noncyclical market for their industries, long-term favorable trade balances, and a secure alternative for some raw materials. The capitalists are willing to "do business with the Reds," to lift some export restrictions and import discriminations, as a consequence of the crisis of their system. They sang a very different tune in the 1950s in the days of the postwar capitalist boom.

Politically, of course, détente is all the more necessary in a period of capitalist decline, in order to secure Moscow's aid in maintaining the imperialist status quo against the advance of the world revolution.

For the bureaucracies of the East, who witness a maturing economic and social crisis of their own societies, trade with the West offers a temporary alternative to domestic economic reform, with its

*Comecon countries referred to in this article are the German Democratic Republic, Poland, Hungary, Czechoslovakia, Rumania, Bulgaria, and the USSR.

uncertain dynamic. This trade plays a strategic role not only in their efforts to modernize their industry, but also in their attempts to build themselves a social base against a potential challenge from the working class: By importing consumer goods, they can partly satisfy the appetite of certain sectors of the intelligentsia for these goods and bind the interests of these layers to those of the bureaucracy.

But the legacy of the Stalinist model of economic development — of "socialism in one country" — has meant that the East European countries, with their backward industry (compared to the West), can enter into a trade partnership with capitalism only on a dependent basis, at unfavorable terms of trade. Unable to export their manufactured goods to capitalist markets, they have to pay for imports by exporting raw materials and by going into debt. Neither method represents a stable basis for expanding trade with the West. Thus, the capitalists will succeed in finding a major opening for their products in the East only if the bureaucracies continue to accept this dependent relationship.

For the capitalists it has become clear that massive investment cannot continue without some concessions from the Eastern European countries on questions of control. Already Japanese and American capitalists have indicated that before thousands of millions of dollars are sunk into Siberian oil development, independent geological surveys will have to be made, and participation in the planning and administration of this project will be necessary. In view of the delays in the USSR in the installation of new plants (for example, the Anzerskaja mine, which took 248 months to open instead of the planned 52), and in view of escalating costs (most investment projects end up costing twice the amount anticipated), the capitalist demand for concessions on control "is not just a political act but (also) a move of economic prudence."* With the unfolding of the capitalist crisis and its manifestation in high interest rates, credit squeeze, etc., these demands will be all the more necessary.

To date, few Comecon countries have been prepared to make these concessions. Only Hungary and Rumania have significantly liberalized foreign investment regulations, giving capitalists ownership of up to 49% of capital invested. While the Soviet bureaucracy has made important internal concessions on the question of Jewish emigration, it has refused to accept even minority ownership, and is very disinclined to allow participation in the administration of plants. The concession on Jewish emigration can of course indicate a trend. Whether this is the case remains to be seen.

*H. Ticktin, "The Relation Between the Economic Reforms and the Soviet Détente," Hessische Stiftung Friedens und Konfliktsforschung.

The capitalist crisis impinges immediately upon Eastern Europe and the Soviet Union through one of the particular forms that the crisis has taken: a sharp rise in the price of some raw materials. While this increase has favored the Soviet Union, the major supplier of raw materials to the Comecon bloc (filling 60% of Comecon needs), its impact will have a detrimental effect on the "peoples democracies."

In analyzing the effects of raw materials prices on Comecon, we must dismiss the myth propagated by some "Marxists" that the Comecon countries form an insular "socialist market" that can withstand the shock waves of changes in the capitalist world market. Intra-Comecon trade prices for a given five-year plan are based on world market transactions during the immediately preceding five-year period that have been "cleansed" of monopolistic distortions. In effect, average world prices that express "relative scarcities" experienced on world markets in the past are employed to assess intra-Comecon trade values.

In the past this procedure produced serious distortions in trade relations among Comecon countries, straining the political relations. The distortions, which have undeniably favored the Soviet bureaucracy, have led to accusations of "exploitation" of the "people's democracies" by the Soviet Union. The fact of the matter is that the use of world market prices inevitably introduces an inequality between the countries involved. Although this situation has been considerably aggravated by Soviet political-military hegemony, which has meant that Moscow could impose favorable terms of trade on its neighbors, distortions will persist as long as exchange of goods takes place at world prices.

The possible impact of the changes in world market prices on intra-Comecon trade (60% of trade in the Comecon countries is between member countries) can best be illustrated by a quick look at what has happened in the past. During the Korean War (1950-53) prices of raw materials rose to very high levels. The average prices for intra-Comecon trade established for the five-year plans in 1955 and 1960 included the very high prices caused by inflated demand during the Korean War. Consequently, the "people's democracies," which received their raw materials primarily from the Soviet Union, were paying prices considerably higher than the current world prices. The Soviet Union was charging these countries higher prices than it was charging capitalist countries for equivalent purchases, since these were made at current world prices.

However, when the world market prices for raw materials began to climb again during the late 1960s, the "people's democracies" were in some cases paying less than the current world market prices for raw materials. Thus Czechoslovakia, for example, in its five-year oil contract with the USSR (which expires December 31, 1975) was paying 32 rubles for a ton of oil, which at the time of the signing of the contract was higher than the world market price (1 ruble is roughly equivalent to US$1). Today Czechoslovakia is still paying that price, even though the price of oil per ton has risen spectacularly in the past four years — for example, the Libyan delegation visiting Prague recently demanded $300 a ton for oil.

Beginning in the early 1970s, the Soviet Union began to inform its East European trading partners that the present Comecon prices were obsolete, and it began to push for much higher raw materials prices. It is absolutely certain that for the next five-year Comecon plan (1976-80) the "people's democracies" will have to pay much higher prices for Soviet raw materials, prices reflecting the world market situation.

Given that the prices for 1976-80 will reflect the present world market conjuncture, the Soviet Union as the main supplier of raw materials stands to benefit, since the present increase in raw materials prices on the world market is higher than the increase in the prices of finished products. (Most of the exports of the "people's democracies" to the Soviet Union consist of finished products.) If, however, after 1976 the increase in the prices of finished products on the world market is considerably higher than the increase in raw materials prices, the "people's democracies" will still be at a disadvantage and the Soviet Union in an advantageous position, since the Soviet Union will be paying less for its finished products relative to world market prices, the price for these products having been based on an earlier conjuncture. Whether the "people's democracies" will be the victim of a "price scissors" in their trade with the Soviet Union, which also implies a heightening of political tension between them and the USSR, will depend on what happens to world markets after 1976.

An important fact peculiar to intra-Comecon trade in raw materials in short supply is that prices are not the sole criterion for trade. A supplier country selling products in high demand on the world market usually demands that the buyer country pay with other goods also in high demand. The result is a bilateral barter agreement: for example, crude oil is exchanged for equally desired nonferrous metals, both valued at world prices. Furthermore, whenever the quantities desired exceed those agreed to in the five-year trade pacts (and they generally do), the prices applied are those established on the basis of bilateral bargaining at the time when the annual trade protocol is drawn up. These prices almost always are higher than the world prices employed by Comecon for the five-year plans. In addition, whenever world market prices significantly exceed the Comecon level, the Comecon countries, which are usually in chronic short supply of hard currencies, are moved to sell their surpluses on the world market at premium prices rather than on the intra-Comecon market at Comecon prices. The result is a disorientation in intra-Comecon trade, the less endowed Comecon countries being forced to purchase on world markets products identical to their Comecon partners' surpluses, which causes a drain on their hard currency reserves that they can ill afford.

The increases in raw materials prices will deal a threefold blow to the "people's democracies":

1. As importers of raw materials, they will pay more for both Soviet and capitalist imports. With the exception of Poland (which exports coal, the price of which has gone up), most of these countries' raw materials exports to the capitalist countries are in items that have not significantly increased in price on the world market (food, tobacco, wood, etc.). Yet they must pay for their imports with the revenue from precisely these low-priced exports.

2. Their economies are too weak to pass on the cost of an increase in raw materials prices to an increase in the prices of manufactured exports. The manufactured products are of too low a quality to compete successfully on the world markets. Most of those exports in any case go to the Soviet Union, and it is up to the Soviet Union to decide whether it is willing to pay higher prices. Given the present conjuncture in world market prices, which will be reflected in the new Comecon prices, a substantial increase in export prices is highly improbable. The only solution for the "people's democracies" is to absorb the increase in the cost of raw materials domestically.

3. Advanced capitalist countries will now have to devote more of their manufacturing capacity to paying for more expensive raw materials, leaving fewer products available to sell to the "people's democracies" on the basis of easy credit terms. Furthermore, the effects of capitalist inflation will be felt as more money will have to be spent to obtain the same quantity of goods.

The "people's democracies" will have to export more to both the Soviet Union and the capitalist countries to pay for the increased costs of raw materials. But in a period of universal decline in growth rates (taking Comecon as a whole, the national income growth rate declined from 10% annually in 1955-60 to around 8.5% in 1961-65, to 4.20% today), this drain will imply domestic shortages as a greater part of production goes into exports. There will also be an increased differentiation in the working class as workers in the export sectors (already getting much higher bonuses) are offered higher incentives for the overfulfillment of export targets.

On the other hand, rising import prices will involve some sort of subsidy as factories incur heavy deficits. (The United Chemical Works in Hungary, for example, one of the largest chemical factories in the country, saw a 300-400% increase for some basic materials in 1973, resulting in a deficit for the factory of 600 million forints.) Subsidies can take the form of reduced taxes, lower interest charges, etc. These direct or indirect income transfers or subsidies must be covered by other sectors. That probably means consumers will again be hit by higher turnover tax or some other form of contribution that will be felt most severely by the working class, and we can expect to see a rise in working-class discontent.

It is clear that in the coming period the bureaucracies of all Comecon countries will be faced with a number of hard political decisions. Among the most important will be the following:

1. In the case of the Soviet Union the key decision will be whether to increase raw materials prices for its East European trading partners — an economic choice with sweeping political and social consequences throughout Comecon.

2. The second choice for the Soviet Union will be whether to continue exporting raw materials in greater quantities to the West to pay for imports or to supply these raw materials to Comecon countries. Although the USSR has increased its exports of oil to capitalist countries, it has not substantially increased oil supplies to Comecon countries. Any major reorientation of future supplies to the West will force the Soviet Union's Eastern trading partners to purchase equivalent supplies on the world market. Such a reorientation will not only aggravate the economic situation of these countries, but will also begin a process of disintegration of Comecon as external dependence becomes more marked.

3. For all the "people's democracies" the difficult choice will be either to cut back imports, reduce domestic consumption, and face the implied social consequences, or to continue to expand trade with capitalist countries on unfavorable terms and increasingly become client states. The only other alternative is to intensify Comecon integration, that is, dependence on the Soviet Union. Such an integration, however, cannot take place unless the Comecon market is fundamentally restructured. The pursuit by each Comecon country of "self-sufficiency" has created very similar industrial structures in all the Comecon countries, leaving little basis for trade among themselves. (Intra-bloc trade as a percentage of the total trade of the Comecon states actually declined from 63.09% in 1965 to 60.69% in 1970. Intra-Comecon trade in machinery in the 1960s grew at the same rate as in the 1956-60 period.) Profound economic reform would be required to expand the Comecon market. In the absence of this reform, all attempts to create a "second market" — a "socialist market" — have failed. At best what can be created is a protected trade zone in which prices continue to be determined by the world market, which furnishes this zone with its point of reference.

Finally, as to the Soviet Union, the internal effects of changes in world prices will be felt primarily in the agricultural sector. Just recently, the Soviet Union was prevented from buying up major quantities of wheat because the capitalists feared that this might drive up the world price of wheat even further. The USSR's inability to buy its wheat supplies freely on the world market will have deep domestic repercussions should another harvest failure occur as in 1972. The only solution left is to continue the sizable transfer of resources from industry into agriculture in order to raise agricultural productivity. Investment in agriculture has already grown much faster than all other investment throughout the economy. (Agricultural investment rose 58% in 1966-70 and a 59% increase in planned for 1971-75, as compared with increases during these periods of 43% and 42% respectively for total investment throughout the economy.) But the agricultural sector continues to be the poorest economic performer in the USSR: Fixed productive capital in agriculture rose by 320% in 1950-70, while output grew by only 120%. To remedy the situation, more concessions will have to be made to collective farmers, more capital investments will have to be made that drain resources from other priority projects, and trade with capitalist countries will have to be increased (especially in such items as fertilizers and agricultural machinery). The failure of Soviet agriculture might just provide the spark to fan the flames of mass discontent. The experience of Poland in 1970 — a workers revolt at food price increases — might be repeated in the Soviet Union.

In the short term the Soviet Union, rich in mineral resources, stands to benefit from the increase in raw materials prices. Particularly important is the increase in the world price of gold, which enabled the Soviet Union in 1972 to cover its overt balance of payments deficit of $1 billion with capitalist countries simply by selling almost all the year's gold production. Although its annual production of gold is difficult to estimate, it is thought to be 200-300 tons annually. The price increase in gold on the world market will to a large degree determine the extent to which the USSR can continue its deficit trade with the West. □

# the profits of famine

by A. UDRY

At the moment that the major imperialist powers have been hit by a classical crisis of overproduction, shortages are making themselves felt in foodstuffs (especially wheat) and in certain mineral raw materials. Contrary to what happened during the crisis of the 1930s, when there was a collapse of food prices, this time the recession is combining with an explosion in the prices of food products, with all the resulting social consequences, one of which is none other than the spread of acute famine throughout many semicolonial countries. In all probability, prices will not decline to their 1967-68 levels during the next few years.

This coincidence of recession and shortages makes the absurdity of a system led by the anarchic laws of the market more striking than ever.

## The security of food profits

It was in this context that the third world food conference was held in Rome. The optimism that had marked the two preceding conferences — 1963 in Washington and 1970 in The Hague — was no longer in evidence. The mystifications of the "green revolution" have petered out. The tragicomic aspect of this conference was painfully obvious. "Experts" estimated that on each day of the conference's sessions 1,000 people in Bangladesh died of starvation. But when Boerma, secretary of the Food and Agricultural Organization (FAO) asked the major wheat-producing countries to set aside 8-12 million tons of wheat during the next eight months so that India Bangladesh, Pakistan, Tanzania, and the countries of the Sahel could "avoid the worst," there was silence. The fact is that the most numerous group of delegates — sixty-nine of them — came representing agribusiness. Through their spokesman, who had the honor of presiding over the program of industrial cooperation of the FAO(1), the specialists of the agro-industrial complexes tried to propose measures most apt to guarantee maximum profits from the famine.

Apart from the 100,000 lire (less than $200) that the delegates poured into the collection taken up at the conference, the major decision made — application of which is problematical anyway — was to form a grain reserve of 500,000 tons to be reconstituted regularly and to establish an international system of food information and rapid alert. The proposal made by the FAO to develop a coordinated policy of stockpiling within the framework of an international agreement on food security was rejected. All these proposals, whether accepted or rejected, move in the same direction: assuring both the multinational firms exporting cereals and soya and the big capitalist farmers that prices will not go down in the medium term. The April 20, 1974, issue of The Economist wrote: "Farmers as well as financiers have begun playing the swings and roundabouts now that prices are unsettled; that means when the next downturn in prices does come, perhaps early next year if harvests go well, it will be as sharp as the rise since 1972." Nevertheless, for the immediate future, given the euphoria provoked by the skyrocketing prices, the big producers are opposing the constitution of controlled reserves at the governmental level (as recommended in the FAO proposal). Thus, the president of Cook Industries, Inc., one of the main American grain companies, exclaimed: "When reserves are held by any government, the uncertainty of how they will be used discourages planning." But in the context of a new overproduction — relative to effective demand — the constitution of these stocks, like the alarm system, acts to bolster prices and guarantee capitalist profits; it is not an effective response to the real needs of millions of hungry people. Thus, Roger Revelie writes: "Establishing a well-managed world food bank during the next three or four years could be helpful to famers in the principal exporting countries. With normal weather the U.S. can expect a succession of bumper crops, with a resulting downward pressure on prices."(2) The representative of one of the largest cereal broker firms, Piper, Jaffray, and Hopwood, confirms this judgment: "If any surplus begins to pile

# the absurdity of a system led by the anarchic laws of the market...

up and the prices dwindle, you will see some real pressure from the farm sector for the government to buy and hold reserves." (Business Week, November 12, 1974.)

These few remarks alone underline to what extent all the discussion about "world food security" and "responding to the famine" has to be located within the narrow framework traced out by the policy of the United States and the interests of the giants who dominate the food sector. Five companies control the essential part of the soya and cereal exports of the United States, which holds hegemony over food exports on the world market: Continental Grain, Cargill, Archer Daniels, Midland Bunge, and Central Soya. Thus, the essential concern of many representatives of the imperialist powers about the necessity of setting up food reserves can be summarized in this simple phrase: Beginning from effective demand, what are the best ways of trying to stabilize the prices of the various cereals and of soya at the highest possible levels over a prolonged period?

A great part of the work of the Rome food conference and of the two previous conferences can be explained when viewed in this light. Undernourishment, malnutrition, and hunger, with all their effects (the death rate of preschool-aged children who suffer from malnutrition is 30-50% higher than that of well-fed children; obstacles to the development of intellectual faculties, vulnerability to disease, and retardation of growth are other effects) are not at all the inevitable product of climatic conditions, drought, or population growth, but rather of the conditions of capitalist production and distribution, which create poverty side by side with abundance. This was explicitly admitted by an ex-president of the FAO Council who wrote on the occasion of the 1970 world food conference: "The objective for 1960 set in 1946 was the doubling of prewar food production. In 1960 the index of food production stood at only 155, not 200, for as soon as production approached quantities equivalent to effective demand, markets became clogged with alleged 'surpluses.' These annoyed governments much more than insufficient food levels did."(3)

## Crisis of overproduction

The bourgeois press has not missed any opportunity to scream about natural catastrophes or the wheat purchases made by the Soviet Union in 1972 as "explanations" of the explosion of cereal shortages and the famine. But first of all, famine was making itself felt, although less acutely, in a great number of colonial and semicolonial countries a long time ago. Second, the present shortage of cereals and other food products absolutely does not have the character of a "crisis of subsistence," of an underproduction of use values, as could have been the case during the sixteenth century in France or during the "dearths" that periodically marked the history of China. These types of crises express either insufficient development of productive capacities or limitations of the system of transport and exchange (famine in one province and abundance in another). The present shortage, with its terrifying effects for the people of many countries, is explained fundamentally by the overproduction relative to effective demand during the late 1960s. The present shortages are the result of a past overproduction of exchange values, of a relative abundance of cereals that could not be sold on the market, since there were not enough paying customers!

Hence, faced with price declines, cereal producers reduced production drastically, and a reduction in investment was undertaken both on plantations (sugar, cocoa) and in the sector of cereal production, especially in Argentina, Australia, the United States, and Canada. In face of the development of a demand generated by the industrial boom of 1972-73, and with the addition of various other factors (drought, bad harvest in the Soviet Union in 1971-72, etc.), underproduction developed in the food sector beginning in 1973. This disproportion is an expression of the anarchic development of a system of production that operates not on the basis of real needs, but instead on the basis of the imperative of the highest possible profit. From 1969 on, international trade experts began to become uneasy about the excess of wheat and the decline of prices. Thus, the director of the London Center for Trade Policy Research wrote: "Wheat surpluses are growing rapidly. According to present trends they could reach 70 million tons within two years. The international cereal accord, concluded during the Kennedy negotiations, failed because governments were not prepared to apply its provisions concerning price maintenance. The price of wheat therefore fell. And with falling prices, wheat is going to be increasingly utilized for animal feed, which will further weaken the price of cereals now being used as livestock feed."(4)

The cereal exporters, the big capitalist farmers, obviously were not going to wait around for the formation of surpluses exceeding 70 million tons. The evolution of the wheat stocks held by the exporting countries (Argentina, Australia, Canada, the Common Market countries, the United States) clearly indicates the capitalist reaction to the formation of surpluses and the fall of prices.(5)

In its 1973 report on international trade, the GATT pointed in choice terms to the decline in investment in various agricultural sectors in the late 1960s and to the shortages that resulted, beginning in 1972: "For some agricultural products, in particular those with a long production cycle, . . . the 1960s and the early 1970s constituted a long period during which prices were relatively low, and certain indicators suggest that since the urge to invest was weak, the long-term production cycles passed to the bottom of their curves. Consequently, when demand increased toward the end of 1972 and during 1973, it was not possible to palpably increase production because of the long time lag between investment (planting) and harvest."(6)

## Stocking arable land

In the area of cereals, which are the major food resource exported on the world market, this movement can be clearly followed. The world export price of wheat had been diminishing noticeably since the middle of the 1960s. The price index (based on 100 in 1963) was 94 in 1969 and 90 in 1970.(7) Under these conditions, stocks as a percentage of world exports could only increase, as table 1 indicates. From that point on, the amount of land sown with wheat was strongly reduced. According to certain sources, between 1968 and 1970 Australia, the United States, Canada, and Argentina decreased the amount of land on which wheat was planted by 39 million acres.(8) According to a study published in the journal Challenge (March-April 1974), the area of land cultivated with wheat in Canada in 1970 was 50% of what it had been in 1969 — and that amount was already inferior to the acreage cultivated in 1967 and 1968. For the United States, wheat acreage in 1970 stood at 80% of its 1968 level and 74% of its 1967 level. This can be seen in the increase in the amount of reals that could have been grown on land that was left fallow in the United States, which according to the calculations of Lester Brown and Erik P. Eckholm(9), passed from 51 million tons in 1967 to 73 million

TABLE I

WHEAT (in millions of tons)

| Years | Stocks of exporters Total | U.S. share(1) | Canada share(1) | World Exports | World Production | Stocks of exporters as percentage of: World Exports | World Production |
|---|---|---|---|---|---|---|---|
| 1964/65 | 46.1 | 21.5 | 12.5 | 50.3 | 277 | 92 | 17 |
| 1965/66 | 46.2 | 22.3 | 14.0 | 59.7 | 267 | 77 | 17 |
| 1966/67 | 33.4 | 14.6 | 11.4 | 52.8 | 310 | 63 | 11 |
| 1967/68 | 35.1 | 11.6 | 15.7 | 47.2 | 299 | 71 | 12 |
| 1968/69 | 40.6 | 14.7 | 18.1 | 43.7 | 332 | 93 | 12 |
| 1969/70 | 60.6 | 22.3 | 23.2 | 48.1 | 315 | 126 | 19 |
| 1970/71 | 63.7 | 24.1 | 27.5 | 50.3 | 318 | 127 | 20 |
| 1971/72 | 48.8 | 19.8 | 20.0 | 51.2 | 354(2) | 96 | 14 |
| 1972/73 | 29.0 | 23.5 | 16.0 | 67.6 | 346(2) | 43 | 8.5 |
| 1973/74 | 20.7 | 11.6 | 10.0 | 64.7 | 378(2) | 32 | 55 |

(1) Open stocks
(2) Calendar years 1971, 1972, 1973

tons and 71 million tons in 1970 and 1971.(10) The effects of these restrictions are also reflected in the amount of wheat harvested.

TABLE II
WHEAT HARVEST
(in millions of tons)

| | 1969/70 | 1970/72 |
|---|---|---|
| United States | 39.7 | 37.5 |
| Canada | 18.6 | 9.0 |
| Australia | 10.8 | 7.6 |
| Argentina | 7.0 | 4.2 |

The overall evolution of land stocks — that is, land set in reserve — in the United States has also been calculated by some French authors. The results are convincing and totally confirm the tendencies stressed earlier as far as cereals are concerned(11):

TABLE III
LAND UNDER CULTIVATION
(in millions of hectares)*

| 65/66 | 66/67 | 67/68 | 68/69 | 69/70 | 70/71 | 71/72 |
|---|---|---|---|---|---|---|
| 7.3 | 7.1 | 3.6 | 5.0 | 8.1 | 9.5 | 7.7 |

*1 acre = .4 hectare

These severe restrictions in the area of land under cultivation in cereal in the United States, Australia, and Canada stimulated a price increase that was further accentuated by the combined effects of some additional factors: reduction of cereal production in the Soviet Union in 1971-72, which led the USSR to make large purchases on the world market; climatic changes that occurred throughout most of 1972 and whose effects were strongly felt in 1973; insufficient monsoons in vast areas of Asia causing reductions in production of rice and a growth in demand for cereals as replacements; strong demand in the imperialist countries in the context of the 1972-73 boom, etc.

Prices literally skyrocketed. The world price index for wheat rose from 90 in 1970 to 96 in 1971 to 110 in 1972 to 214 in 1973 (and to 253 in the third quarter of 1973, 292 in the fourth quarter, and 321 in the first quarter of 1974). A bushel of raw wheat on the Kansas City market sold for an average of $1.68 in the second week of March 1973; it later rose to $2.63 and then, by the second week of March 1974, to $5.57. In the third week of December 1974 the price "declined" and was set at $4.49 (in the third week of December 1973 it had been $5.17).(12) To be sure, speculation — by Japanese capitalists, among others, who responded to American imperialism by playing the game of massive purchases of basic products — stimulated this soaring of prices, but the speculation operated on the fertile ground prepared by the reduction of acreage cultivated in 1969 and 1970. Stocks were then placed on the world market at strongly remunerative prices. By the second half of 1973 in the major wheat-exporting countries stocks were reduced to the minimum and could not provide sources of supply (see table 1).

Stocks of secondary cereals (barley, corn, rye, oats) experienced the same fate. Their production rose to 57.20 million tons in 1971 and then fell to 32.40 million tons in 1973 (for Argentina, Australia, Canada, the original six Common Market countries, South Africa, and the United States). The price of corn went through the same dizzying increase. The index of its world export price (1963=100) reached 98 in 1969, 110 in 1970, 108 in 1971, 111 in 1972, 181 in 1973, and 231 in the first quarter of 1974.(13)

This price explosion could only encourage the capitalists to begin cultivating land that had been lying fallow. The American government then eliminated the traditonal land-quota system (passing a new law in 1972) in order to leave the producers complete freedom to draw maximum profits from the exceptionally high world market prices. In 1974, subsidies for leaving land fallow were eliminated. Thus, in Canada for the 1973-74 harvest the area cultivated increased 16%, but yield increased only 2%. In the United States the equivalent figures were 14% and less than 3%. There is no doubt that a new subsidy for fallow land will be enacted as soon as additional quantities of wheat threaten price levels dangerously.

## Long-term Malthusian policy

The bad harvests of 1972 worsened the shortage. In fact, world wheat production in 1972 was 2% less than it had been in 1971; rice production was down 4%. Likewise, corn production dropped from 305.61 million tons in 1971 to 301.39 million tons in 1972. Nevertheless, even if one combines the annual average growth in demand for cereal products (25-35 million tons) and the fall in production, one arrives at a figure that falls far short of the total losses due to the reduction of acreage under cultivation in the late 1960s and early 1970s. If during the period 1969-72 the United States, Argentina, Australia, and Canada had simply maintained a constant rate of cultivation, the supplementary production of wheat would have been approximately 90 million tons. (Washington Post, October 21, 1974.) To totally demolish all claims that the famine is a result of "natural calamities" produced by climatic conditions or population growth it is sufficient to compare this figure of 90 million tons with the 8 million tons of wheat needed during the next eight months by India, Bangladesh, Tanzania, and the Sahel countries — and refused by the exporting countries!

The equation that explains the famine that is now affecting tens of millions of inhabitants of the Indian subcontinent and the Sahel is simple: Malthusianism in the imperialist countries plus the failure of the so-called green revolution in the semicolonial countries.

In examining the manipulations of the cereal sector during the past few years, it must be noted that during the past twelve years in the United States alone about 62.5 million acres of arable land were left fallow in the framework of the application of agricultural programs.(14) The United States plays a decisive role on the world food market: U.S. participation in world exchange of secondary cereals stands at about 60% of the total; for wheat the figure is 50%; it is 95% for soya and 56.6% for soya fodder (figures for 1972-73). But Malthusianism takes on a new dimension when one compares the areas withdrawn from production in the United States with those affected by the "green revolution" in the semicolonial countries. Thus, a study conducted by the Organization of Economic Cooperation and Development affirms: "The lack of dynamism of wheat export markets was also among the elements that led the United States to reduce by one-fourth the land under cultivation in 1968 and 1969. If to this is added the lands that were previously devoted to cultivation of other crops and have also been withdrawn from cultivation, the total comes to about 20 million hectares (about 50 million acres) withdrawn from production, which is, perhaps by an ironic coincidence, slightly more than the land cultivated with new varieties of crops in the less developed countries."(15)

Concurrently, in India or Pakistan increased commercialization of agricultural production under the effects of the "green revolution" is strengthening the effects of the world market on production itself, regardless of the actual needs of the population. Thus, between 1964 and 1969 rice stocks in the United States, Thailand, and Pakistan tripled, increasing from 358 million tons to 1,050 million tons. Immediately voices were raised denouncing overproduction and the risks of a fall in prices. (On the basis of 1963=100, the world export price index was 113 in 1969 and 97 in 1970.) Hence, at the beginning of the 1960s, investments were withdrawn, even in the countries affected by the "green revolution." This was recognized by the Far Eastern Economic Review, which wrote (April 24,1974): "The output fall (in rice production) of 1972-73, although largely the result of bad weather, was partly caused by a preceding downswing in prices brought on by still earlier surpluses." In 1973 the world export price index reached a record of 198!

This deliberate organization of underproduction at a time when the "world is courting famine," according to the expression used by many experts, has been carried out in other sectors as well. Thus, although the lack of animal protein and dairy products is one of the indications of underfeeding and malnutrition, the Malthusian policy developed within the Common Market was such that the number of milk cows passed from 22.1 million in 1968 to 21.2 million in 1971, and 21.4 million in 1972.(16) Examples could be multiplied. It is not at all an exaggeration to assert that the millions of human beings who are threatened with starvation during coming months will have been murdered by the profit laws of the market economy.

## Strangling productivity

According to FAO Secretary Boerma, the total number of people who are underfed (insufficient quantities of foodstuffs and thus of energy) or undernourished (insufficient nutritional quality of food) amounts to about half the world's population. (Le Monde Diplomatique, October 1974.) In 1946 the FAO published a study conducted by the League of Nations in 1934-38 which affirmed that average per capita consumption of food in the countries that then represented two-thirds of humanity was insufficient to maintain a human being in healthy condition. At the end of the 1960s the director of the FAO declared: "It is no exaggeration to state that two men out of three suffer from hunger."(17) Thus, even though progress in the realm of agricultural productivity has been fabulous, capitalism has proven itself incapable of even beginning to resolve the crucial problem of hunger. In addition to that, in the immediate future the disastrous effects of the increase in wheat, secondary cereals, and rice prices are going to hit the underdeveloped countries full force, countries whose dependence on the major capitalist exporting countries can only expand, as the following table of net imports and exports of cereals shows(18):

TABLE IV
CEREAL IMPORTS AND EXPORTS
(in millions of tons)

| | Africa | Asia | North America |
|---|---|---|---|
| 1934-38 | +1 | + 2 | + 5 |
| 1948-52 | 0 | -- 6 | +23 |
| 1960 | -7 | -34 | +39 |
| 1973 | -4 | -39 | +88 |

Thus, in 1974 India will have to increase its usual expenditures by at least $100 million in order to pay the new cereal import bill. Bangladesh has suffered a loss of 2 million tons of cereals following grave floods. At present prices, buying that quantity of cereal will cost nearly $1 thousand million, while the total currency reserves of the country amount to about $40 million! (Paradoxically, West Germany saved millions of Deutschemark in 1973 by buying wheat at European prices, which, temporarily, were less than those of the world market.)

In the present phase, the increases in food prices are being combined with increases in fertilizer prices. Thus, India will have to pay $500 million more in 1974 than in 1973 to buy nitrogen fertilizers. This increase in fertilizer prices, like the agricultural price increases, must be understood beginning from the imbalance that emerged between the growth of productive capacity of fertilizer factories during the 1960s and the effective demand on the market.

Thus, in 1971 the chemical industrialists declared: "The world fertilizer industry went on a plant building spree that resulted in massive overcapacity. Prices plummeted and profits disappeared."(19) In the United States at the end of the 1960s the nitrogen- and potassium-based fertilizer industries were working at 80% capacity. While in the middle of the 1960s growth in demand for fertilizer was 10% yearly, it was only 7% in 1969 and 5.5% in 1970. Hence, productive capacity was stabilized and even reduced. In 1971 the European nitrogen fertilizer cartel, Nitrex A.G., planned its production through 1975 on the basis of the productive capacity that had been installed before 1971, with no perspective of growth of productive possibilities.(20)

In the United States some companies have even closed. Through this method the monopolies of fertilizer producers were able to boost their profits again. The prices charged by the three major American fertilizer producers increased 65% during the last quarter of 1973. The world market price of a ton of waste-based fertilizer passed from $40 in 1971 to $260 in April 1974. (The Economist, April 4, 1974.) In the present period, the fertilizer production trusts are not prepared to rapidly redeploy their productive capacities. They do not desire to fall back into the situation of the 1960s, even though actual need — which cannot find expression sion, because of the prices — is gigantic. At present prices, only the food-exporting countries, which in any case pass on rising costs by increasing sales prices of cereals, are in position to buy fertilizer in quantity. This can only accentuate the unevenness in utilization of insecticides and fertilizers between the advanced and underdeveloped capitalist countries. Already today the former use 85% of all insecticides and 75% of all fertilizer, even though they have less than 30% of the land.

To be sure, fertilizer production plants were set up in the semicolonial countries as part of the "green revolution." Nevertheless, they were often controlled by imperialist trusts. This was the case with the Coromandel Fertilisers Ltd. complex, the first private complex set up in India, which was jointly controlled by a subsidiary of Standard Oil (Chevron Chemical Company) and EID-Parry Ltd, the largest producer and seller of fertilizer in India. Further, the transfer of technology as organized by the agribusiness multinationals can have the most disastrous effects on the agriculture of a country. India, for example, saw a rapid growth in its fertilizer production, which passed from 71,000 tons in 1951-52 to 3.9 million tons in 1973-74. But the type of fertilizer produced, which was decided by the Bank for International Reconstruction and Development, depends on oil. The increase in the price of oil, distribution of which is often concentrated in the hands of the same monopolies that control fertilizers, means that it is impossible for India to utilize the productive capacity of its own factories (due to the price and relative scarcity of naptha). Of an existing capacity of 2.1 million tons, only 1.5 million will be used in 1973.(21) Initially it was quite possible to set up fertilizer production based on coal, but that was not in the interests of the imperialist monopolies.

An additional repercussion of the transfer of technology according to the exigencies of the multinational firms lies in the utilization of fertilizers that endanger the existence of certain animal populations providing food that is qualitatively and quantitatively indispensable for guaranteeing adequate nourishment for the peasantry. The resulting nutritional deficiencies diminish the productivity of labor and have deleterious effects on all agricultural production. Thus, certain fertilizers used in the rice paddies kill fish, eliminating food that is qualitatively essential for the balanced diet of the rural population.

Nevertheless, it remains true that the created shortage of fertilizer, with the resulting price rises, tends to increase the gap in agricultural productivity between the advanced and underdeveloped capitalist countries, even though the effects of using fertilizer would normally lead to much higher production increases on nonsaturated land (in underdeveloped countries) than on saturated land (in developed countries).

Once again, when examined from the standpoint of fertilizers, the present famine is seen not to be a result of technological problems or accidental shortages, but of capitalist anarchy, of the impact of the "laws of the market" on production, distribution, and utilization of fertilizers. It could be added that utilization of the surplus productive capacity that has appeared today in the automobile industry (more than 25%) would permit the production of motors (designed to utilize the minimum of carbons) for irrigation pumps or tractors.

## Population, climate, Soviet purchases

Like a Wagnerian leitmotiv, three themes have been systematically taken up to "explain" and excuse the "responsibility" of the capitalist system in the exacerbation of the famine: population, climate, and massive wheat purchases by the Soviet Union.

It is not necessary to make lengthy commenrs on the first theme. According to the tableau drawn up by Colin Clark (which excludes possibilities of irrigating arid or semiarid land and artificial heating of the tundra, etc., but takes account of possibilities of fertilization), it can be deduced that the developed countries alone could satisfy the food needs of 11.2 thousand million human beings.(22) Taking account of the need to change fertilizers in order not to accentuate the destruction of the soil and to make adjustments in the realm of energy, a very recent study arrived at the conclusion that it is possible to feed between ten and thirteen times the present world population at an average daily level of 4,000-5,000 calories, that is, well above the minimum set by the FAO.(23)

As for climate, technological possibilities exist for partially modifying climatic conditions (e.g., the experiments in desalinating sea water for purposes of irrigation, etc.). But the solution is not of a technological order. René Dumont has written on this score: "From India to Bangladesh more than a third of rural labor is unused; but only 27% of cultivated Indian land is irrigated, as against 77% of Chinese arable land." (Le Monde, April 3, 1974.) In addition, the consequences of droughts or bad monsoons could be largely reduced if the utilization and distribution of harvests, and all agricultural production as well, were centrally planned on a continental or world scale. The response to drought in China was given on two levels: irrigation and planning of production and distribution of harvests. Thus, the situation was eliminated in which there would be famine in one province and relative abundance and speculative stockpiling in another, neighboring province.

Finally, what about the Soviet wheat purchases? Their impact on the reduction of stocks was not as great as that of the reduction in cultivated land in 1970. But these purchases gave rise to an extraordinary speculative operation favoring the monopolies that are the top cereal exporters in the United States. The negotiations between the USSR and the United States took place in July-August 1972. The Soviet Union promised to buy at least $750 million worth of wheat and received a $500 million credit from the United States. If world export prices are examined, it can be seen that they varied very little during these negotiations, but increased sharply with the end of the direct negotiations between the Soviet Union and the exporting firms (at the end of the first week of August). A large mass of farmers — those least closely tied to the big exporting companies and who thus did not know about the negotiations — delivered their harvest at relatively low prices. The companies (Bunge, Cargill, Continental Grain, Cook Industry, Louis Dreyfus, Garnac Grain, etc.) received government subsidies to replenish their stocks, subsidies that corresponded to the difference between the domestic price and the price fixed by the American government, a price that was close to the world market price. After having collected these subsidies, the companies could sell at a sharply raised price (after the negotiations were made public) that part of their previously reconstituted stocks that had not been sold to the USSR. The USSR bought the amount called for in the negoriations at a relatively low price ($60 a ton).(24) Thus, the purchases made by the Soviet Union permitted the companies that dominate the world cereal market to carry off a remarkable twofold coup that the hungry populations of Bangladesh and Sahel are now paying for!

## Failure of the "green revolution"

The two previous world food conferences were held under the sign of the "green revolution." The optimism of the technicians reigned. This time, it was the failure of this so-called revolution that provided the backdrop for the world food conference.

The failure of this revolution was proven by the figures for the Indian cereal harvest: 104.7 million tons in 1972; 95 million tons in 1973 (the year of a drought). The Fourth Plan, which ended in March 1974, called for a production of 129 million tons. The harvest of 1974 is estimated at 108 million tons, which is the level achieved in 1971, even though the population has increased each year. According to all available information, more than one-third of the 550 million inhabitants of India are in a very precarious situation. The present crisis brought out the classical contradictions of the "green revolution" much more sharply.

First, from the standpoint of agricultural technology, this revolution involved a very high rate of utilization of fertilizer and insecticides. While the rate of productivity for the special varieties of crops grown (rice, wheat, corn, etc.) was largely superior to that of the traditional varieties, they required a high level of culture and fertilization: more fertilizer and insecticides, a perfected irrigation system (for example, hybrid rice cannot tolerate submersion as can the long-grain rice grown in Cambodia or Vietnam), and a high level of professional technological training. An initial blow was dealt the "green revolution" by the price increases for fertilizer, oil (needed to run the motor pumps needed for irrigation), insecticides, etc. But because of these requirements, even before the price increases only rich and irrigated lands could make use of the new techniques. But these lands were in the hands of the big landlords (47% of families in India own less than one acre of land) or of capitalist companies that bow to the laws of the market and not to the food needs of the rural population, needs that are unable to make themselves felt on the market!

Second, the integration of agriculture into the market, including the world market of agricultural products, leads to an absolute decrease in the traditional rural exploitation of land; agriculture is buffeted by market fluctuations and price increases for supplies (manufactured products like fertilizers, pesticides, farm tools, etc.). Rural unemployment and underemployment increase. Result: stagnation or decline in the overall available buying power on the domestic market. Consequently, stimulants to investment outside the agricultural sector do not exist, because the markets for manufactured industry are quite limited and expand only very slightly. Thus, the relation between the growth of the rural population expelled from the land and the creation of industrial employment is in total imbalance. It's a vicious circle. In this context — determined by an agricultural system that more and more directly obeys the laws of the capitalist market and that is dominated by a castle of landed proprietors — increased use of tractors, for example, actually accentuates rural unemployment and does not induce an overall expansion of available foodstuffs. In India, despite the increase in the number of tractors, production of cereals and other food products has not grown in proportion to the potential productive contribution of the tractors.

Third, in regions like the Sahel forced introduction of crops according to the requirements of the world market (peanuts, for example) causes a reduction in food crops, all the more so in that in order to get hold of the cash necessary for the purchase of various supplies and for paying taxes, the peasants are in fact compelled to give up subsistence farming. Added to this was a destruction of the soil (by fertilizers) well before the drought (which allowed the pillage to be camouflaged) and an insufficient amount of fallow land (because of the requirements of peanut growing); that is what is at the root of the crisis of food production in this region. (25)

But the exigencies of the capitalist market are unlimited. While the Sahel was faced with a terrible famine, a capitalist offensive was waged there aimed at developing ranches designed to raise young oxen to be exported to the advanced capitalist countries! Why? Because the use of "international aid" for the purpose of assuring some level of irrigation and the use of a cheap labor force makes the total cost of raising oxen in Senegal, Niger, and Upper Volta twenty times less than in the United States! (See Afrique-Asie, December 2-15, 1974.) The circle of criminal absurdity into which capitalism has drawn the international economy in thus closed!

The present generalized recession has already contributed to shaking the "credibility" of the capitalist system. The combination of this recession with the skyrocketing of agricultural prices — with the resulting social consequences, even in the imperialist countries (about 7 million people are in food-aid programs in the United States itself) — will be yet another element objectively denouncing capitalist anarchy and its crimes.

The necessity of agrarian revolutions can only be felt with ever greater force: A part of the agricultural surplus (now consumed by landed proprietors or directed toward the world market) must be directed into productive investments; the national markets must be unified and controlled; rural unemployment and underemployment must be eliminated, and the level of consumption in the rural areas must be increased.

Given a world that is courting famine, it is an immediate historic necessity to set up on a world scale an economic system based on collective property in the means of production. In such a system, optimum growth will be considered beginning from the social and political necessity (also profitable economically in the medium and long term for the whole of the world economy) for a transfer of wealth from the "overdeveloped" to the "underdeveloped" countries, a transfer that will not at all involve a fall in the living standards of the workers of the most advanced countries, but will on the contrary lead to a qualitative and quantitative increase of those living standards.□

December 31, 1974

Footnotes:

1. See Erich H. Jacoby's article in Le Monde Diplomatique, December 1974.

2. Scientific American, September 1974, p.66.
3. Article by Michel Cépède in Le Monde Diplomatique, June 1970.
4. Ibid, article by H. Corbet.
5. Source: Rapport et perspectives sur les produits 1973-74, FAO, Rome, 1974. Cited in an article (manuscript) by J.P. Bertrand devoted to food reserves.
6. Le commerce internationale en 1973-74. General agreement on customs tarifs, Geneva, 1974, p.30.
7. Ibid, p.27.
8. Cited by E. Harsch, Intercontinental Press, December 16, 1974.
9. "Les problèmes des réserves alimentaires mondiales" in Problèmes Economiques, July 24, 1974, p.4.
10. A. Azkenazy: "Panorama de la production de matières premières" in Problèmes Economiques, October 28, 1971, p.23.
11. Cited by J.P. Berlan and J.P. Bertrand in a study entitled "Le marché mondiale des cérérales et du soja," text of a conference held in May 1974 before the Fédération nationale porcine, France.
12. Business Week index.
13. Le commerce internationale en 1973-74, op cit.
14. Problèmes Economiques, July 14, 1974.
15. Yudelman Montague, "La revolution verte" in L'Observateur de l'OCDE, June 1971.
16. Nouvelles de la politique agricole commune, mimeograph, January 1974.
17. Michel Cépède: La Faim, PUF, 1970, p.78.
18. Economia, December 1974.
19. Chemical and Engineering News, July 5, 1974.
20. Ibid.
21. Le Monde Diplomatique, October 1974.
22. Colin Clark, Abondance et famine, Stock, 1971, p.144.
23. Scientific American, op cit.
24. Cited by J.P. Berlan, op cit.
25. See Qui se nourrit de la famine en Afrique, Maspéro, Paris, 1974.



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