

January 13, 1975

To the Steering Committee of the Leninist Trotskyist Faction

Dear Comrades,

Enclosed is the rough draft of the economic resolution that will be discussed at the IEC meeting.

Comradely,

Mary-Alice

COPY

New York
January 2, 1975

Dear Ernest,

Enclosed is our further working up of the IEC draft resolution on the current capitalist economic crisis.

Joe asked me to be sure to remind you to add a section on the size and importance of the massive armaments budgets in the major industrialist countries. He discussed this with you briefly before we left.

Comradely,

s/Jack

Resolution on Capitalist World Economic Crisis
United Secretariat Draft for January 1975 IEC

For the third time in the twentieth century the basic contradictions of monopoly capitalism as described by Lenin have taken the center stage of world politics. Imperialist capital, in its insatiable drive to capture domestic and foreign markets, has led, as was inevitable, to a redivision of world markets between the major capitalist powers. Similar conditions at the opening of the century produced World War I, and when they reappeared in the 1920s they led to a worldwide depression and World War II. Despite all the postwar years of propaganda that a world capitalist crisis would never occur again, today precisely that threat faces international capitalism.

While a third interimperialist war is unlikely because of the overwhelming military superiority of the United States, the danger of smaller scale wars has by no means subsided. In fact a fifth war in the Middle East is threatened. And the 1973 Middle East war showed the potentiality of such a war touching off the nuclear powder keg.

The capitalist world has slipped into its first generalized recession since World War II. While it is too early to forecast that world unemployment levels will rise as high as in the 1930s, they will rise in a palpable way in the forthcoming period. A heightened offensive of capital against wage labor is underway everywhere. No long-term respite from inflation is possible in any of the major powers.

Throughout much of the semicolonial capitalist world inflationary and recessionary conditions have already reached the point of mass starvations.

1. The generalized recession of the international capitalist economy has long been predicted and explained by revolutionary

socialists. Between 1948 and 1973 capitalist world production increased three and a half times at an average rate of 5 percent a year. In 1974 there was no growth. By the last quarter of 1974, industrial output of all major imperialist countries except Germany was declining. The United States is in its deepest postwar recession with the Gross National Product (GNP) down 2 percent from 1973 and falling fast. The GNP fell 3 percent in Japan, following 25 years of expansion.

Only some of the minor capitalist countries have as yet escaped the immediate effects of world recession (Sweden, Switzerland, Norway, Austria), either because of exceptional circumstances (the discovery of North Sea oil for Norway), or because of their particular relationship to the world market. Countries specializing in exports to West Germany, for example, will only suffer a recession after a prolonged downturn in the West German economy.

World inflation disguises the impact of international recession on world trade, which may rise in money terms while actually shrinking in physical volume. Furthermore there is a tendency of the major powers to accelerate their foreign sales, if possible, in order to counteract the domestic effects of recession. Whether there will be an absolute contraction of the volume of world trade, as occurred so drastically in the 1930s, depends both on how long the downturn lasts in the major countries (above all the United States, West Germany, and Japan), and on the degree of protectionist measures undertaken by the competing powers.

While the actual fall in industrial output is still modest (except in the United States) the rise in unemployment is much more pronounced. Indeed, the level of unemployed in the imperialist countries for the winter of 1974-75 might exceed 15 million. This would certainly be the case if in addition to those listed as

officially employed account were taken of those who work only part-time but would work full-time if they had the opportunity. Unemployment might attain 8 to 10 million in the United States; 1.5 million in Italy; 1 million each in West Germany, France, and Britain; 1 million in the minor imperialist countries of Western Europe (Benelux countries, Spain, Denmark, etc.); 1 million in Japan; and 1 million in Canada, Australia, and New Zealand.

The reasons for this disproportionate increase in unemployment are two-fold:

(a) The present world recession comes after a long period of rapid technological progress (automation) in which productivity rose quickly, especially in Western Europe and Japan (this occurred earlier in the United States). The technological advance was accompanied as always by a slow erosion of the rate of profit, in which capital attempted to offset the effects of this decline through speed-up, "rationalization" and other methods of lowering labor costs. But when the increase of productivity is high, only a high increase in output can avoid massive unemployment. If there is only a small decline or even just a stagnation of output, unemployment will be high.

(b) Since World War II, there has been a dramatic increase in the number of women seeking employment throughout the imperialist countries. This has two main sources. One is the fact that the average male wage (whether industrial or "white collar") is more and more insufficient to satisfy the normal needs of a working-class family. The other source is the trend toward greater economic and social independence of women, reflected internationally in the women's liberation movement.

This long-term trend, together with that of strong seasonal appearances of students on the labor market, increases the potential supply of labor power in the job market independently of the cyclical

fluctuations of the economy. The fact that layers of potentially employed workers are at the same time sexually, racially, and nationally oppressed (in the United States, Blacks, Chicanos, and members of other oppressed nationalities; in Western Europe, immigrant workers) has allowed the imperialist powers to reconstruct a large actual or potential industrial reserve army of labor, despite high levels of employment.

2. The present international capitalist recession marks a profound turn in postwar development.

(a) It is the first generalized recession since World War II.

There have been many recessions since the war: Indeed, there are no means by which capital can avoid cyclical fluctuations of its economy, anymore today than in the past. But the unsynchronized character of these recessions (for example, the absence of a recession in West Germany, Japan, Italy, and France during the severe 1957-58 U.S. downturn) led in the whole postwar period to a limitation of the breadth and depth of the particular recessions. A country with shrinking internal markets could ship surplus goods and capital abroad.

But with all the major imperialist countries simultaneously struck by recession this vital safety valve is closed. Nor can the drive to increase exports to the bureaucratized workers states and the oil-exporting countries of the Middle East provide a sufficient outlet. Those potential markets are minimal compared to what is needed.

Consequently, the present simultaneous international recession can have a cumulative effect, with each recession deepening the other, combining to make the crisis much graver than any post-1940 recession. The danger is particularly great if the U.S. recession lasts through 1975. The United States produces nearly as much as

all the other 23 member nations of the Organization of Economic Cooperation and Development (OECD), a group comprising all the major capitalist economies. The massive size of the U.S. economy tends to draw the other economies into its orbit.

(b). The present international recession clearly confirms the end of the long postwar capitalist boom.

During the long period of accelerated economic growth, cyclical fluctuations continued but they were shorter and less deep than during the interwar period. The social consequences in unemployment and the reduced purchasing power of wages were much less dramatic. In addition to the impulse given to world capitalism by the markets created in the rebuilding of Europe and Japan from the ashes of World War II, the "Keynesian" countercyclical policies of the imperialist governments tended to soften economic downturns.

Particularly important was (and remains) the permanent armaments economy of the United States. Year after year Washington has poured colossal sums into the national and world economy to purchase weapons to arm and finance military forces in the United States and abroad, and to pay the increasingly large interest on previous military debts. Incurring at the same time increasingly large deficits to carry out these operations (the startlingly high figure of \$35-billion is now mentioned for the U.S. budgetary deficit in the fiscal year beginning July 1975), the U.S. government has also permanently inflated the dollar.

But government deficit spending in order to prime economies was not limited to the United States. By 1973 all the major capitalist powers were simultaneously engaged in deficit spending by massive amounts. The rapid expansion of credit on a world scale drove up prices everywhere.

Moreover, each successive recession required increasingly

massive doses of inflationary deficit spending to prevent it from turning into a grave slump. This has proved to be a vicious circle.

The inflated dollar led to a series of crises and ultimately to the collapse of the international monetary system set up at Bretton Woods in 1944 (the gold-dollar-fixed-exchange standard), definitively marking the end of the postwar boom.

The short inflationary boom on 1971-73 was merely a bridge between the end of the long-term boom and the clear manifestation of a new long-term period of deeply increased contradictions of world capitalism, including much slower growth, that is signaled by the present world recession.

3. The present recession is fundamentally a classical crisis of overproduction, caused by the inner contradictions of the capitalist mode of production. It is not an accident, supposedly caused by the "oil sheiks," any more than the 1929 depression was caused by "speculation" in stocks, or previous serious economic crises were caused by "overextending" railway construction or overseas trade.

To be sure, each crisis of overproduction appears as an expression of general phenomena, linked to the very nature of capitalist production, and particular phenomena, coming to the fore at a specific phase of its worldwide expansions and convulsions. But the very fact that these "accidents" occur with a regular periodicity, that they can be foreseen and predicted, and that they have a whole series of features in common, confirms that they are structurally linked to capitalist ownership itself and the drive for private profits. Neither pre- nor postcapitalist economies undergo these cyclical fluctuations of employment, industrial output, and national income.

Likewise, the deepest causes of the present world recession are the inner tendencies of capitalist production laid bare by Marx.

After a period of economic growth, the tendency of the rate of profit to decline necessarily comes to the surface. This is all the truer the longer the period of growth and the faster its rate. The organic composition of capital increases the more automation and semi-automation reinforce the preponderance of machinery and other forms of stored up "dead labor" in production. The classical avenues for offsetting the effects of the rising organic composition of capital are more and more obstructed.

High unemployment levels make it increasingly difficult for capital to significantly raise the rate of exploitation (the rate of surplus value) of the working class.

The very attempts of capital to cheapen raw materials create a trend toward disproportion between manufactured goods and raw materials output, which prepares a radical change in the relation of raw materials prices to finished goods prices.

The decline in the rate of profit combined with an intensification of competition, in turn creates the need for borrowing a larger and larger part of the capital needed for additional investments (a trend intensified by inflation, which makes the costs of borrowing all the higher, rationing credit in favor of the largest corporations). This is the source of the increasingly severe "liquidity crises" on national and international scales.

But even the biggest corporations can meet insurmountable difficulties in raising the funds required for profitable investment. At a given point of development all these forces pressing down on the rate of profit must lead to a growing number of capitalist firms being threatened by bankruptcy or actually becoming bankrupt, to an overall decrease in the volume of investment (of capital accumulation), to a massive curtailment of output, to massive layoffs, which by their cumulative effects create a generalized downward movement

of economic activity.

On the other hand, there is an intrinsic trend in capitalist production to extend productive capacity beyond the limited purchasing power of the masses, which is determined in the last analysis by the antagonistic class relations and the resultant contradiction between production and distribution within bourgeois society. Each capitalist boom creates a tendency toward overcapacity and overproduction and the consequent stockpiling of unsellable commodities in key sectors of the economy. The greater this overcapacity and overproduction, the more will current output and employment be curtailed and the graver will be the crisis.

In the present recession, the detonator of overproduction appeared in the automobile industry and the building trades. It spread rapidly to electric appliances, petrochemicals (plastics and synthetic fibers), textiles and clothing, the tourist trade, and aviation industries. It has now even reached the steel industry which a few months ago was still in the midst of one of its biggest booms resulting from the drastic concentration and centralization of capital in that industry in the late 1960s.

4. While stressing the general structural causes of the present world recession, the analysis should include its special aspects that differentiate it from previous overproduction crises, especially the big slumps of 1929-33 and of 1937-38:

(a) The main distinguishing feature is world inflation. A sharp increase in prices has coincided with the recession. The world capitalist economy has passed from an inflationary boom through "stagflation" toward "slumpflation." In the past sharply downward price movement if not an actual price collapse occurred in depressions. Inflation coincided with crises only in exceptional circumstances -- lost wars, civil wars, complete disruption of the

economy and output; and then only for a short time.

Today world inflation is continuing (and in certain countries like the United States, Britain, Italy, France, even increasing!), in spite of a downturn in output and employment. This throws out of gear the "normal" function of the overproduction crisis. It is supposed to restabilize the economy by eliminating the more backward firms, clearing the overproduced inventories, and increasing the rate of exploitation, thereby paving the way for renewed investment.

But the inflationary expansion of credit prolongs inventory buildup, disguising the actual weaknesses of firms. For a time the increase in nominal wages disguises an erosion of real wages. Artificial purchasing power is created -- artificial for firms that ultimately will not be able to remain competitive; artificial for workers who simply cannot repay debts once the lowering of real wages and outright unemployment has reached a certain point. Thus the expansion of credit can go too far. It prepares the way for sudden bankruptcies and the chain-reaction closing of banks; in other words, precisely the kind of credit collapse nationally and internationally that did characterize the depression of the 1930s. The imperialists themselves do not rule out this danger.

(b) Another distinguishing factor of the world recession is the combination of recession in most sectors of output, including key raw materials, with an acute shortage in two central sectors of the world capitalist economy: energy (especially oil and petrochemical products) and food (especially grain and sugar).

This combination is not a result of "natural catastrophes," nor does it express the "limits of growth" of the productive forces on earth. It is a result of disproportions created by monopoly competition.

Relatively low prices of raw materials lead to an outflow of

capital from this sector compared with other sectors. Shortages are a means for increasing profits and attracting new capital. This objective process, in turn, can be accelerated by the subjective deliberate decisions of monopoly.

The international petroleum cartel (the seven "oil majors") deliberately curtailed refinery capacity and oil production in order to drive up world energy prices and profits. There has also been a deliberate curtailment of output in the food sectors by U.S., Canadian, and Australian "agribusiness" in order to provoke a price and profit explosion. This is the root cause of the current famines in the African Sahal countries and the Indian subcontinent.

These specific features of the world recession have to be taken into account in order to evaluate its economic, social, and political effects on various countries, parts of the world, and social classes. But they in no way change the estimate of the world recession as a deep crisis of the capitalist system as a whole.

5. Theoretically and technically, a transformation of the present world recession into a 1929-32-type depression is not excluded. It could occur if the governments of the imperialist countries fail (for objective or subjective reasons) to apply the type of economic policy that would tend to counteract such a catastrophic crisis. Technically a 1929-32-type depression would occur if aggregate demand in the key imperialist countries were simultaneously cut by strong reductions of government outlays and a decisive curtailment of credit coinciding with strong increases in unemployment and strong declines in wages and profits.

Such an occurrence would imply:

(a) Either that for some objective reason outside of the control of capitalist governments (for example, a collapse of confidence in paper money, including the dollar, the DM, etc., leading

to a sudden return to gold as the only final means of payment for international operations) there is a strong deflationary trend in money and credit coinciding with overproduction. This is what happened in 1929-32, ultimately provoking international bank failures.

(b) Or the capitalist governments could deliberately trigger off a general deflation of the volume of money and credit in order to radically "cure" inflation even at the price of 30 to 40 million unemployed on a world scale.

While the second course is technically possible (because of the ability of central banks to drive up interest rates) it is highly unlikely. Even an unemployment level of a half or a third the scale of the 1930s is frightening to governments and causing them to renew inflationary policies (as is already the case in Washington and Bonn).

The world recession occurs at a moment in the cycle of the class struggle when the level of working class organization and the capacity for resistance are immensely stronger than in 1929 or 1937. It occurs at a moment when the world relationship of forces between imperialism and its various antagonists is much more unfavorable to world capital than before World War II. Under these circumstances a catastrophic economic depression of the 1929-32 type would create an explosive social and political crisis not only in Western Europe but also in Japan and North America.

What would happen if there were, say, unemployment levels of above 15 million in the United States, 5 million in West Germany, 5 million in Japan, or 3 million unemployed in Britain, France and Italy? And especially if this occurred simultaneously? The intense anger and explosive reaction of the working class, each learning lessons from abroad, could rapidly take a revolutionary anticapi-

talist character. The existence at the same time of large-scale noncapitalist planned economies which, whatever their bureaucratic deformations, could avoid unemployment and inflation, would be an additional factor to undermine the legitimacy and "right to exist" of the private profit system in the eyes of the Western working class. A repetition of a 1929-32 type of depression would, under present international and national sociopolitical relationships of forces, clearly initiate the gravest crisis of the capitalist system since its inception.

In order to avoid such a catastrophe for themselves, imperialist governments will step back from the ruthless kind of deflation of money and credit volume that made the 1929-32 depression unavoidable. This leaves them with no alternative but to continue in their characteristically pragmatic, and sometimes even panicky way, to attempt to alternate between anti-inflationary and anti-recessionary measures in such a way as not to trigger off "too much" unemployment or "too high" prices. They can stop neither. The inflationary recession that is under way will be deeper than any since 1940.

Nevertheless the question can legitimately be asked: Is it possible that even the key imperialist governments will completely lose control over the situation? It seems obvious that inflation cannot continue indefinitely without losing its antirecessionary effects and even transforming itself from a motor into a brake on capitalist economic growth. The collapse of the speculative boom in 1973 and early 1974; the bankruptcies of several important banks; the huge losses to currency holders; the drop of raw materials and building land values; the collapse of stock prices in the main stock exchanges throughout the capitalist world: All these were ominous signs of a potential worldwide panic. The tremendous

extension of the Eurodollar market (additionally fueled by petrodollars); the threat of a massive balance of payments deficit of nearly all imperialist countries (with the exception of West Germany) as a result of the steep increase in their oil import bill, provoked the threat of a sudden collapse of confidence which could have led to a worldwide run on the banking system.

Following the collapse of the Franklin National Bank in the United States and I.D. Herstatt of West Germany, major central banks formed syndicates to rescue the depositors and, to a certain extent, they will attempt to do this in other cases to head off a crash. But both cases also illustrated the limits of such operations. When West Germany refused at first to back Herstatt deposits, the United States retaliated by threatening to freeze West German assets and brought the international monetary system grinding to a halt until the secret deals were arranged. The European-American Bank which was formed to take over Franklin National has warned that it will take almost none of Franklin's foreign accounts.

In the same category, the United States has recently warned all U.S. banks to review their medium- and long-term loans to Italian industry and to the Italian government itself. One of the reasons for anti-Arab and anti-Iranian propaganda around "petrodollars" is the attempt of the imperialist banking powers to force the oil-exporting nations into international credit rescue operations that the imperialist powers themselves are unwilling to undertake.

All of these examples illustrate the fact that the self-interest of national capitalism places severe limits on the degree to which central bankers can alleviate the international crisis. From a technical standpoint the United States could have underwritten European finance in the 1930s and certainly eased if not entirely stopped the impending depression. But Washington refused

to do this. The notorious Smoot-Hawley tariff act protecting the U.S. market from foreign imports was passed in 1931 despite the fact that monetary experts were virtually unanimous in warning the U.S. Congress that the tariffs would provoke trade warfare, which it did. As the present world crisis deepens, protectionist measures are also increasingly emanating from the North American, West European, and the Japanese governments.

Thus, while it can be stated with certainty that steps will be taken with greater urgency now than in the 1930s to head off a world depression, it is not at all certain that the present heads of world capitalism will prove more successful than their predecessors.

The deeper and the longer the inflation, the more the danger grows that the volume of speculation, debts, and liquidity crises of the banking system will become so large that a total collapse of that system as a result of a panicky run on the banks could trigger off a catastrophic crisis. That is why the world bourgeoisie is so worried about inflation. That is why it tries to create such a change in the relationship of forces between the classes as to make a suppression of inflation through radical deflationary measures possible at medium-term range.

6. What makes the present situation so grave for world capitalism, however, is not so much the fact that the economic crisis is the worst in thirty years -- it is still much milder than those between the two world wars -- but the combination of a deeper world recession with an exceptionally high level of working class organization, objective strength, and militancy. This combination appears now precisely because this is the first generalized recession of international capitalism after two decades of relatively high economic growth, of a relatively high level of employment, of a strengthening of the world proletariat both through extensive (Japan, Italy, France, Spain,

Canada, Australia) and intensive (United States, West Germany, Britain) industrialization and a general increase in the level of skills and education (even if very unevenly spread throughout the class, and accompanied by massive dequalification and marginalization of others). Additional subjective factors strengthen the position of the working class. These include the worldwide radicalization of youth and women, the effects of the advances of world revolution in the semicolonial countries from China to Cuba, the appearance of a new generation of workers who did not experience the decades of defeats of world revolution that took place between the October 1917 victory and the upsurges sparked by World War II, the crisis of Stalinism, and a rise of generalized opposition to imperialist war.

This means that the present social crisis for the world capitalist system, which the Fourth International has consistently stressed since the May 1968 events in France, will be seriously and significantly extended through the present recession, and that the shift toward a central role of the working class in this crisis will be accentuated.

But it also means that the general trend will be one of increasing tensions and explosive conflicts between capital and labor, of increasingly explosive political crises in key imperialist countries. We will see a significant decline in the attempts of the capitalists to "buy off" workers and an increase in the attempts to inflict serious defeats upon the working class, in order to "solve" the crisis at the expense of workers, by imposing large reductions in real wages to gain a new rise of the rate of profit. Such an onslaught on the living standard and level of employment of the working class is impossible without serious reductions of the democratic rights of the working class (statutory wage controls, government arbitration of labor disputes, strong restrictions on the right to strike, antiunion

legislation, etc.). Experience has shown, however, that as long as capital cannot succeed in significantly changing the existing relationship of forces between the classes, the attempts to apply such policies generally fail.

This does not exclude short-term attempts to head off revolutionary victories through reforms and concessions. But, as in the 1930s, these would only be stop-gap measures. The aggravation of the world economic situation does not leave scope for a period of decreasing tension between the classes. It brings overall class confrontation nearer. The broad perspective posed before the workers of the world is: Either the revolutionary overthrow of capitalism, or grave defeats of the working class which will enable capitalism to apply its solution for its structural crisis -- as in the 1930s.

7. Contrary to the 1929-32 depression, the present world recession occurs after a period of gradual strengthening of the proletariat and not after a period of gradual decline and weakening of the strength and militancy of the working class. Also unemployment is not of such scope and duration as to seriously weaken working-class militancy.

Massive unemployment for a long period generally has a demobilizing effect on workers and tends to reduce workers struggles while it lasts. The most favorable moments for workers actions are either when unemployment starts (that is why the international bourgeoisie is so afraid of the shock effect that massive unemployment could immediately provoke in the proletariat) or when it begins to decline after the economic revival has started. But while mass unemployment lasts several factors tend to favor a decline in the number and duration of strikes: workers' fear of losing their jobs, the divisions in the class between employed and unemployed and between partially and fully employed, between those who have a relative high level of job security and those who fear losing their jobs, etc.

But unemployment of a still limited nature as presently exists in the major imperialist countries, has none of these demobilizing effects, especially if it is combined with inflation and with the growing level of organization and militancy of the working class. Therefore it is safe to predict that the immediate effects of the world recession on the international class struggle will be to strengthen the upsurge of workers' struggles, with the short-term exception of West Germany, for specific reasons linked with the whole postwar cycle of class struggles and class consciousness in that country.

In Western Europe, the recession will lead to a sharpening of class struggles and class tensions especially in those countries in the forefront of the working-class upsurge: France, Italy, Britain, Spain, Portugal, and also in minor capitalist countries like Denmark. It will tend to shift attention more and more away from partial struggles to generalized struggles, and to force increasing emphasis on the search for overall political solutions to the deep-going social crisis of capitalism.

Especially important is the question of whether the effects of the generalized recession will accelerate the upswing of working-class radicalization and militancy in the United States and Japan (as well as Australia, New Zealand, and Canada), thereby tending to extend to the other major sectors of world imperialism what has already been occurring with the proletariat in Western Europe since 1968. Generally the answer must be yes, although it is still too early to predict the forms and rates this process will take. But, in the coming years, the more the Japanese, American, and Canadian working classes join the present upsurge of struggle in Western Europe, the bigger will be the impact on the world proletariat as a whole and the more difficult it will be for world capitalism to "solve" its present

crisis at the expense of this or that sector of the world working class.

For example, in the United States, in contrast to Western Europe and Japan, the American ruling class was able to impose both wage restraints (under the "New Economic Policy") and inflation at the same time so that real wages have declined by 8 percent in the last two years, according to official statistics. This domestic success, in turn, gave U.S. imperialism freer room for maneuver in world markets, where the New Economic Policy succeeded in substantially improving the U.S. position. It seems extremely unlikely that this trend will continue without provoking major class battles in the United States.

8. The turn toward world recession has intensified interimperialist rivalry. Far from responding as a whole in ways that would tend to ward off a world recession and possible financial collapse, the competing capitalist nations have mainly pursued narrow policies of self-interest. This, moreover, occurs when no specific imperialist power or group of imperialist nations, including the United States itself, which is the most powerful of all, can succeed in imposing its own competitive interests on all sectors of the world bourgeoisie as imperative guidelines for action. The consequence has been that interimperialist rivalry has deepened the recessionary trend.

From the point of view of the overall interests of international capitalism, simultaneous anti-inflationary (mildly deflationary) policies in all major imperialist countries obviously do not make sense. Increasing unemployment on a world scale can only drag international capitalism deeper into the economic abyss.

But from the point of view of each competing nation deflationary policies are more and more critical in the effort to stem the inflation in that particular country and to thereby increase its

competitive ability in world trade. Here there are three concerns: to keep foreign goods out of the domestic market by keeping the prices of domestic goods lower; to penetrate foreign markets to a greater degree because prices of foreign goods are higher; and to stabilize the domestic currency by maintaining a less rapid rate of inflation. Thus, in the era of simultaneous world inflation, the fight to keep one's "own" rate of inflation lower than the rates of competitors becomes a central preoccupation of the competing bourgeoisies.

West Germany, for example, maintained deflationary policies right up to December 1974, when the specter of world collapse had already been haunting stock exchanges for most of the year. This was so despite the increasing pressure of its competitors for a "reflation" of the Deutschmark since West Germany is the only major imperialist country which is not suffering from a balance of payments deficit as a result of the increase in oil prices.

A strong reflation of the West German economy would mean that German exports (which by now have overtaken those of the United States) would suffer seriously, while the West German internal market would yield a larger share to exports of its British, French, Italian, Japanese, and U.S. competitors.

But when unemployment reached 3.5 percent in West Germany and threatened to go to 4 percent, Bonn dropped its anti-inflationary program. Pump-priming government expenditures were announced, the central bank's discount rate was lowered, and West German capitalism will now try another round in gambling against the rates of inflation elsewhere.

The 1973-74 oil crisis marks a shift in the interimperialist relationship of forces in favor of U.S. imperialism, especially because the United States is less dependent on oil imports than the other

major imperialist powers and because West European capitalism has been enjoying cheaper energy costs than the U.S. for some time.

Meanwhile, however, the stepped-up export drive especially of West Germany and Japan has partially annulled the results gained by Wall Street in the two dollar devaluations of the New Economic Policy and the higher oil prices. However, France, and especially Britain and Italy, have been less successful with their export drive and as a result bear a large share of the worldwide burden of higher oil prices, bringing both Britain and Italy into very severe economic and financial difficulties.

Furthermore, the inability of West European capitalism to seriously advance their economic integration during the present recession, even threatening the collapse of the Common Market, puts the West German and West European capitalists in no position to seriously bid for alternative leadership of the world capitalist system.

Under these conditions, the crisis of leadership of international capitalism is seriously compounded by the crisis of leadership of the bourgeoisies in each of the major imperialist nations. This will not change in the near future, all the more so as the intensification of the class struggle adds to the crisis in each country. The bourgeoisie that is first in succeeding to impose a major social and political defeat on "its" working class would, as in the 1930s, gain a significant margin for maneuver for audacious attempts at changing the world relationship of forces in its favor. But again: This is unlikely to occur in the near future.

The result will be that bilateral consultations, horsetrades, and secret deals will increasingly dominate the diplomatic stage (while occasional multilateral assemblies are thrown in to dress up appearances). Decisions will become all the more agonizing as the recession drags on and the risks deepen.

If the world recession does not end up in a major catastrophe, it will not be because the imperialist governments have succeeded in reaching jointly cooperative programs. Fundamentally it will be because economic revival begins in one or another major capitalist economy (for example, West Germany) and this succeeds in pulling the other economies out of the slump.

9. In the semicolonial countries, the effect of the world recession differs according to the relation of these countries to oil, grain, and sugar imports and exports. The ruling classes of those which are large exporters of these vital raw materials, and which have only a small deficit (or no deficit) of these high-priced commodities, have not suffered from the present recession so far. (But a collapse of sugar prices and a sharp decline of oil prices cannot be excluded if the recession lasts longer, although even in this case, the decline of oil prices will not be to pre-October 1973 levels.)

The ruling classes of the major oil-exporting nations have benefited the most. Higher oil prices brought them much higher revenues from their exports than they lost as a result of the general increase in import prices, or in the export trade, as a result of the recession itself.

In fact, the influx of income and gold-and-currency reserves to the oil-exporting countries expresses a redistribution of the surplus value produced by the world proletariat, including the proletariat of the semicolonial oil-exporting countries, in favor of the ruling classes of the oil-exporting countries and at the expense of the imperialist bourgeoisies. This redistribution (theoretically: the appearance of a strong mining rent appropriated to a large extent by the local ruling classes) is a result of the economic disproportions underlined above and of a political shift in the relationship of forces on a world scale.

Imperialism was forced to switch from direct to indirect rule over its former colonies after World War II because the anti-imperialist liberation movement became too strong and could not be beaten militarily on a worldwide scale. It tried first to transform the ruling classes in the colonies into junior partners without paying them a substantial economic price for this changed form of rule. Today, through the oil crisis, the check is being presented by history: Some junior partners are able to demand and obtain a significantly increased portion of the spoils.

While the world balance of forces does not favor an imperialist attack on the Middle East and while U.S. imperialism favors higher world oil prices to a much larger degree than it publicly pretends, no imperialism favors even the partial redistribution of its wealth to subalterns. The danger of renewed war in the Middle East is consequently very real, especially because of the explosive relations between the Palestinian liberation struggle, the Arab regimes, and Israel.

While the oil-exporting countries will generally strengthen their economic growth, including capitalist industrialization to a limited extent, for the other semicolonial countries the combination of the world recession with the sharp increases in oil, food, and fertilizer prices has become a major economic disaster -- the greatest to hit any part of the world since World War II. The countries of the Indian subcontinent are affected worst of all. The increased food, fertilizer, and oil bills; the decrease of their own exports as a result of their inability to compete with the imperialist powers in a period of intensified trade warfare sparked by world recession; the decline of their own industrial output triggered off by all these developments, which in turn leads to serious difficulties in buying the raw materials necessary for normal industrial production; the ruth-

less profiteering and hoarding of food reserves by the native ruling classes; the collapse of the "green revolution" as a result of the steep increase in fertilizer and energy costs: All these factors lead toward an explosive increase in misery, underemployment and unemployment, and outright starvation both in the countryside and the towns.

The elements for a social explosion are thereby assembled. But the crisis of proletarian leadership, which is nowhere near its solution, increases the danger that reactionary right-wing forces will take the initiative in profiting from the crisis, at the expense of mass slaughter and mass starvation.

10. The bureaucratized workers' states strikingly confirm the non-capitalist nature of their economies -- contrary to all the mystifications of the supporters of the theory of "state capitalism" -- by remaining outside of the vortex of mass unemployment and the absolute decline of output which engulfs all the major capitalist countries. On the other hand, those who stick to the parallel mystification of "socialism in one country" will encounter new difficulties when they come to explain why these supposedly "socialist" countries do suffer some consequences of the world capitalist recession and prove unable to cut their basic ties with the world market. The consequences can be summarized:

(a) The world recession reduces the export markets of the bureaucratized workers' states to capitalist countries (except oil, grain, sugar), export markets which these economies urgently need in order to increase their imports of modern equipment. The bureaucracy will try to compensate for this relative decline of its export markets by stepping up the search for loans for which it will be all the more willing to pay the political price of not exploiting the social crisis growing in the West. On the contrary, the bureaucracy goes out of its way to stress that it is not going to turn the recession into a revolutionary

crisis and that it will see to it that Communist parties keep the workers within the bounds of class-collaborationist reformism.

(b) The shortage of oil and grain upsets some of the economic plans of the workers states, especially for the heavy importers of these commodities like the German Democratic Republic (GDR) and Cuba. There it could cause a slowdown of the rate of economic growth. This would be exacerbated where it combines with a decline of exports to the West.

(c) The shortage of oil and grain, combined with the effects of the recession, creates new stresses and tensions in the relations between these countries. To sell oil at world market prices to other workers' states (GDR, Cuba, North Vietnam, Hungary, etc.) becomes so lucrative for exporting bureaucracies like the USSR, Rumania, and China that accusations of exploitation will occur.

(d) The change in the world economic situation makes the market for exported goods and the sources of raw materials in the bureaucratized workers' states increasingly appetizing to the imperialists. Big trade deals like the massive exchange of oil and natural gas of the USSR and China against pipelines, petrochemical plants, petroleum refineries and other equipment will increase. However, quantitatively, this is not large enough to offset the results of the dramatic deceleration in the growth of the volume of world trade which is occurring. Moreover the deals are of such a long-term character that their impact will only be felt over a period of years.

11. Given the general increase in social and political contradictions and tensions as a result of the worldwide recession of the capitalist economy, there will be a greater temptation for imperialism to block social explosions by at least local wars -- and to "absorb" some of the major effects of the long-term decline in the rate of growth by a new stepping up of rearmament. In spite of the policies of detente

and peaceful coexistence pursued with full sincerity by the Soviet bureaucracy, there are areas in the world where, for strategically obvious reasons, i.e., for reasons of self-defense, the bureaucracy cannot retreat indefinitely without endangering its own security. Factions of the bureaucracy that would be ready to adopt a policy of unlimited retreat before renewed imperialist aggression in those areas would probably be up against stiff opposition, in the first place from the command of the Soviet army.

The Middle East obviously is such a key area of potential conflict today. The spread of the economic recession throughout the international capitalist economy combined with the steep increase in oil prices has created a dangerous climate of political and economic war potential in this area. This is the first time since the 1949 recession that a serious aggravation of the economic situation of imperialism coincides with a sharp increase in international tension in an area where a direct military confrontation between imperialism and the armies of the major bureaucratized workers' states is possible.

Up to a certain point U.S. imperialism can combine maneuvers, horsetrades, and military blackmail with both the Arab ruling classes and the Zionist leaders in order to achieve a settlement in the Middle East essentially at the expense of the liberation struggle of the Palestinian masses and on the basis of retaining an essential element of control over Middle East oil. This last is to be accomplished through joint ventures with the Arab ruling classes and a massive investment of petrodollars in Western property which would make these ruling classes more than ever accomplices of imperialism to maintain the "economic order" of international capitalism for reasons of self-interest, by giving them a stake in that "order" even outside their own realm. What makes the war danger even more pronounced, however, is that the Zionist leaders are not simply stooges of imperialism but

have their own independent interests to defend. Seeing that time works against them, that the relationship of forces in the Middle East could become more and more adverse to the maintenance of an expansionist colonial settler state in the area, they could be tempted to exploit a temporary military superiority at a given moment by engaging in a preemptive strike against the Arab neighbor countries. And, in case of partial failure, confronting strong retaliation, they could have recourse to extreme measures, including the use of atomic weapons. This could lead to incalculable consequences through escalation of the confrontation between the two major military powers of the world.

The fact that the international working class and toiling masses, including in the United States, are strongly opposed to warlike adventures is a deterrent to such desperate adventures by the capitalist class. While not underestimating the dangers of immediate "local" war in the Middle East, it is unlikely that there will be a global confrontation between imperialism and the bureaucratized workers' states as long as the international working class has not suffered a disastrous defeat. Nevertheless, the graver the economic difficulties of world capitalism become, the more the social and political tensions increase, the more will certain sections of the capitalist class tend to intensify war preparations and play with military adventures. Either the war danger will intensify and the danger will grow of the establishment of forms of the "strong state" and anti-working-class dictatorships, or the proletariat will impose its own solution for ending the structural crisis of late capitalism: the conquest of power by the toiling masses, the victory of the socialist revolution.