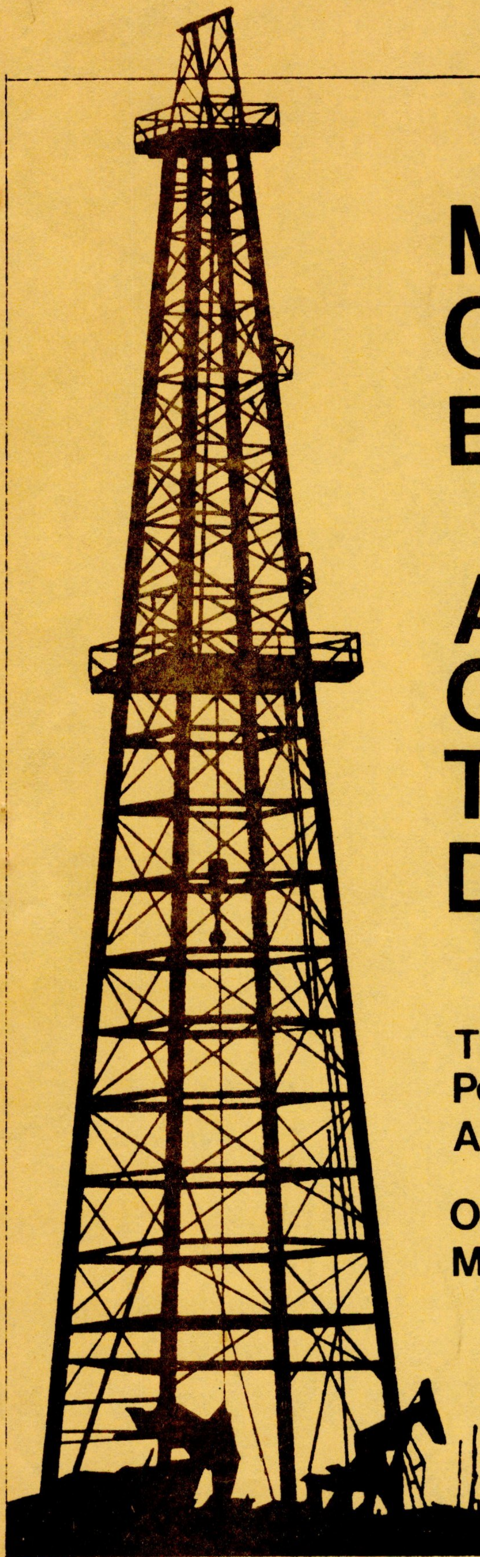

MODERN CAPITALIST ECONOMY:

A Contribution To The Discussion

The Theory Of The Permanent Arms Economy– A Critique

Oil and The Theory Of Monopoly Price

David Miller

INTERNATIONAL SOCIALIST DISCUSSION PAMPHLET .25

THE THEORY OF THE PERMANENT ARMS ECONOMY -- A CRITIQUE

by David Miller

Michael Stewart's document, "The Decline of American Imperialism", draws what appear to be the correct conclusions regarding the present period. With some possible amendments, the resolution could be supported. However, the theory of the PAE upon which MS relies (it is a moot point whether it is the real basis of his argument) is so defective, and more, so dangerous, that mere amendment can hardly eliminate the source of the difficulty.

Instead, I shall argue:
(1) that the so-called contradictions of the PAE are not real.
(2) that capitalism, when it engages in arms spending, does so for political reasons, not economic ones. That alternative economic forms of government expenditure are more advantageous to capitalism, and that, in fact, even U.S. capitalism has been steadily shifting to such non-arms forms of government expenditure precisely for such reasons.
(3) that a real <u>theory</u> of the PAE (as distinct from the <u>fact</u> of arms expenditure) is fundamentally an underconsumptionist theory, with all the great reformist dangers implicit in such a theory.
(4) that the PAE theory leads to the expectation of developments which are contrary to the fact, i.e. that the PAE is not useful for explaining either the boom or the bust.
(5) I shall offer an explanation of the boom more soundly grounded in the corpus of Marxist theory.
(6) I shall discuss the role of Keynesian state intervention and its contradictions.

WHAT THE DEBATE IS <u>NOT</u> ABOUT.

No one questions the "fact" of massive arms expenditures by the U.S., or, that for the U.S. arms must have a permanent character. The real question is the significance of arms expenditures, their effect upon the economy, and their relation to the problems of contemporary capitalism. In short, there is a great difference between the "fact" of arms expenditures and a theory which makes arms the stabilizing mechanism, the source of boom and bust in the post-war world.

THE "CONTRADICTIONS" OF THE PAE

The PAE as a theory has at first glance such an obvious reformist potential (What's to keep it from being a permanent counterweight to crisis?) that the revolutionist [1] who uses it is forced by his revolutionary will and dialectical tradition to

1. The logic of revolutionary politics reveals numerous cases of revolutionists to the end who based their revolutionary optimism and practice upon false theories. For most, such a contradiction is a mortal threat. But not to all apparently. One

establish the existence of contradictions within the PAE.

In our movement (the PAE is not ours alone) Kidron has provided us with these "contradictions". Unfortunately, a close look will reveal that they are non-existent. As a result Kidron is helpless, logically, in the face of the reformist thrust of the PAE theory.

Contradiction # 1. That, as the arms economy proceeds, arms production becomes more capital intensive and less labor intensive. As a result, its effect on sustaining employment declines.

But (a) Kidron gives no logical reason why this must happen -- the meaning of a "contradiction". Marx tells us why such a tendency must exist in the economy as a whole -- because of competition the organic composition of capital tends to rise, i.e. production becomes less labor intensive. But why must this happen in arms (otherwise it is not a contradiction inherent in the PAE) ? In fact, the course of labor intensity in arms varies a great deal and depends less upon economic circumstances than it does on the political situation -- whether we are in a shooting or talking phase of the cold war. In the former case (Korea, Vietnam), arms production is more labor intensive because more is spent on bullets, shells, planes, etc. and relatively less on research and technology. The course of labor intensity in arms expenditure could then easily be cyclical or even indeterminate (exclusively political).

(b) But even if this "contradiction" were true (if arms were really increasingly less labor intensive), Kidron's conclusion that it results in less employment still would not necessarily follow. Let us assume that at the start, Period 1, one billion is spent on arms, half of it on capital goods and half on labor. Now if at a later date, Period 2, the distribution of that one billion is different, i.e. three quarters spent on capital goods and only one quarter on labor (i.e. less labor intensive), then nothing need necessarily change. For the three quarters now spent on capital goods may only mean that some of the labor formerly spent directly on arms is now spent indirectly, that is more labor was now being used in Period 2 in making the machine tools for arms, the capital, instead of as in Period 1, labor being consumed directly in using the already produced capital, machine tools. In either case, the total employment can be the same. The real determinant on employment may therefore be not how it is distributed among labor and capital goods, but rather how much is spent. In any case, if the capitalist class believed in the need for the PAE, it would be easy to checkmate Kidron's "contradiction". All they would have to do is arrange that arms expenditure be more labor intensive. This could be done by producing more labor intensive weapons, or simply increasing the size of the army.

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has only to recall Lenin's theory on the Russian Revolution which logically led almost all his followers, before Lenin's return, to adopt a Menshevik line on the provisional government. Or take the case of Rosa Luxemburg. Or Trotsky on the Russian question, etc.... The list is all too painfully long.

So Contradiction # 1 is really no contradiction at all.

Contradiction # 2: As the PAE advances (we are told), the technological spin-off from it into the economy at large tends to decline, resulting again in a decline in the stabilizing effect of the PAE.

But again: (a) there is not even an attempt to show that this must be so. No logical connection is established between arms expenditures through time and the inverse spin-off. (There might well be a connection between spin-off and the size of the PAE, but Kidron does not argue this.)

Equally important, nothing is said about the possibility that the same capital allocated elsewhere in the economy, say by a direct or indirect subsidy to corporate research, might (as it has in Europe) easily have produced greater technological innovations, since military research is notoriously wasteful in being often too specific and inapplicable to civilian production.

In fact, we know of not one attempt to demonstrate empirically that in reality the net technological effect of arms expenditure must be positive. Quite the contrary. The work of the economists, Seymour Melman (Our Depleted Society), and Amitai Etzioni (Moon Doggle) suggest an actual negative effect. Consider just the vast, mostly government-paid-for Research and Development programs in the U.S. ($17 billion in 1965, two thirds on arms and space), and the simultaneous slow rate of growth of productivity in the U.S. compared to Europe/Japan. More stringent support for the Melman/Etzioni charges would be hard to find.

The consideration of alternative allocation of capital to areas yielding possibly greater technological innovation is not just a formal theoretical possibility. A splendid example close to home is current U.S. policy on oil, whereby most oil corporation profits will be in effect returned to the corporations for investment in the technology and development of new fuel resources.

But, of course, most prominent evidence is the case of the Japanese government' intervention through guaranteed and directed loans to industry. It was such government policies which fueled the modernizations and technical superiority of today's Japanese steel, shipbuilding and auto industries. And in the works is a similar effort in the field of computers.

So Contradiction # 2 goes out the window.

But if these contradictions disappear, then what is really left of the PAE as a theory -- not just as a feature of the division of GNP by U.S. imperialism? Even worse, in the absence of contradictions, we are left exposed to the PAE as a potentially permanent stabilizer of capitalism.

There are contradictions in the use of arms. But, as we shall see, only when arms expenditures are perceived as part of a real theory of postwar capitalism.

CONSIDER THE PAE AS A NON-THEORY.

There are those who, while calling themselves PAE theorists, actually do not work with it as a theory at all. These are comrades who maintain that while the key force may be the role of government expenditures (with arms just a special case), in practice arms are the central form which this government intervention does and must take.

In this case the search for the focus and contradictions now becomes the contradictions of government expenditures, not the arms economy as such. This would be a firm step in the right direction, but this half-way house away from an arms expenditure theory is still inadequate and requires rebuttal.

MUST CAPITALISM CHOOSE ARMS ABOVE OTHER FORMS OF GOVERNMENT EXPENDITURES?

We will consider six arguments offered in defense of this proposition.

(1) Kidron suggests the domino theory of arms expenditures. Government expenditures have the effect of raising the social costs of production and creating the danger that the country's economy will suffer a loss of competitiveness relative to another country with less government expenditures and therefore lower social costs of production. But arms expenditures, says Kidron, do not suffer from this defect. For arms are the only government expenditure which has the effect of forcing other countries to engage in similar expenditure or run the risk of military subjugation. (One does not have to compete in welfare expenditures). As a result, all parties tend to suffer simultaneously increased social costs of production, without any one country getting a competitive advantage over the other. How to have your cake and eat it too.

Unfortunately, this suggestion suffers from two fatal flaws.

(a) The U.S. does not want other countries (in western Europe) to arm themselves beyond a skeleton force, an internal, anti-revolutionary police force, and certainly not to include atomic weapons. The U.S. seeks a monopoly of military power (even more so today as its economic power wanes).

Of course there are contradictions in this posture by the U.S. For, as a result of the balance of payment difficulties, the U.S. has had to insist that Germany commit herself to buying non-nuclear arms from the U.S. (making the U.S. arms industry more efficient) instead of buying from its European partners, or making its own.

(b) The second flaw is the fact that the only power for whom Kidron's argument is at all relevant is the USSR. But the USSR is hardly an economic competitor of the U.S. Consequently, the effect of arms on the U.S. economic competitive position is not at all consonant with Kidron's theory. The effect of arms is, from

the start, harmful to the U.S. economy in that it results in one-sided increases in the relative costs of production unbalanced by comparable increased costs among its real competitors.

(2) A second popular notion is that private capitalists prefer government expenditures to be on arms because they fear state competition in their own areas (shoes, cars, etc.). The argument is correct (they do not want government competition), but it is also irrelevant. For it assumes that the only way for the state to stabilize capital investment is by direct investment in building plants for producing goods.

This is hardly the case. For there are a vast number of ways in which government expenditure can encourage industrial investment without entering into competition with private firms. It is true that direct state intervention in "competing plant" was a feature of the immediate post-war world in Europe for both economic and political reasons. But since then, state intervention, largely non-arms, has continued in other ways, as it does in the U.S. today, through:
--- the state-built infrastructure: roads, energy, research, etc.
--- state subsidies to investment (and research) which can easily amount to as much as 50% of the capital costs under the current U.S. program.
--- state refusal to tax corporations or the wealthy (a negative form of state capital-subsidy intervention). This is most prominent in Europe where the value-added tax, a concealed sales tax, is the major tax and where income taxes on the rich are notoriously low and ignored. In the U.S., the oil depletion allowance is more notorious than it is exceptional (research and investment subsidies are now replacing the direct 22% depletion allowance. That's okay with the oil giants. It is the smaller "independent" oil corporations who will lose by this change because they lack the resources to compete with the giants in new technology, capital for shale exploration, etc. No doubt the economists in our ranks will find many more ways in which government expenditures contribute to capital accumulation.)

The alleged preference for "arms expenditure" on the grounds that only "arms" avoid competition with the private capitalist simply doesn't hold water.

(3) Consider a third, and in many ways most bizarre argument why capitalists allegedly prefer arms expenditure to other government expenditures.

It is generally accepted that "non-arms" government expenditures tend to decrease profits, because such expenditures do not bring into play productive labor (only "unproductive" clerks, teachers, advertizing, police -- for more on this, see page 17). But this thesis has been challenged in so far as it relates to arms by von Bortkewicz, who maintains that arms expenditures (luxury goods) tend to slow down the decline in the rate of profit. It will not be debated here. Another comrade is writing on the subject.

But it is not inappropriate to wonder if anyone really believes that that is why capitalists prefer "arms" to other forms of government expenditures. The capitalists and their economists do not hold this theory. They no more follow the arcane logic of von Bortkiewicz than they do Kidron's theory that arms expenditures will not cause difficulties about their competitive position. (If they know anything at all, their theory suggests the opposite. Fortunately for them, they do not read Kidron or von Bortkiewicz.)

But, we will be told, the capitalists do not recognize the labor theory of value either, and yet it governs their behavior. Yes, because there is a mechanism which compels them to do so -- the market, and the competitive and declining profit structure (both cyclical and secular). But no one has even begun to demonstrate the existence of a mechanism which compels the capitalists to adhere in practice to von Bortkiewicz's theory, which they consciously reject.

(4) Tony Cliff argues for the "preferability" to capitalists of arms over other government expenditures by pointing to the multiplier effect of arms expenditures (the theory that the expenditure of $1 in arms results in more than a $1 increase in Gross National Product (GNP)).

This argument suffers from two defects: First, it is not just arms that have a multiplier effect. All expenditures, government and private, have a multiplier effect. Second, Cliff ignores the fact that arms have a lower multiplier effect than other government expenditures. It is particularly lower than the multiplier effect of funds which directly or indirectly encourage capitalists to invest in production. The "arms" multiplier is relatively low because while arms expenditures stimulate demand for and production of consumer goods (through increased wages), the arms themselves are not commodities, not real new values. Therefore the net additional values (commodities) produced as a result of "arms" is equal to the increased GNP (arms plus consumer goods) minus the arms costs.

On the other hand, government investment for capital (indirectly, of course) or for commodities (directly) causes an increase in GNP without any deduction (all the goods produced in this situation are commodities with real value).

It should be added that, if arms are spent in an economy in which there is already full employment, then the net increase in values through arms production is zero. Indeed, since labor, etc. is then necessarily withdrawn from producing other goods, the net effect on total goods produced is even negative.

Arms expenditure is therefore potentially more inflationary than non-arms government expenditures. This is because there is a smaller increase in goods for sale to meet the increased wages, and because the "arms" multiplier is lower, so that the net increase in goods is also lower.

(5) We are told further that an advantage of arms expenditures is that they

affect industries most affected by a slump -- the capital goods industries. But, clearly, we have already indicated alternative, non-arms forms of government expenditures which also directly work on the capital goods industry. Furthermore, in these non-arms cases of capital encouragement, the multiplier effect is greater than it is in arms. Consequently a smaller expenditure is required for the same goal. And, in addition, one must consider that the non-arms expenditures are less inflationary in impact. So this argument (Cliff's, I believe) has little to substantiate it.

(6) Arms expenditure, it is contended, do not add to productive capacity (to the capacity for producing commodities), and therefore there is less danger of unsaleable, surplus commodities, i.e., less danger of overproduction. In other words, arms expenditures slow down the growth of social capital. A reasonable argument were it not again for two difficulties: (a) is it really true that the problem of Britain, or the U.S. today, in the age of the PAE, is the need to slow down the accumulation of capital? Or is the problem really one of capital shortage? (b) Do we really hold to the view that the source of capitalist crisis is under-consumptionism (or the other side of the coin, overproduction) and surplus commodities? (But more on this later).

We have argued that the PAE as a theory can not be defended. We have also argued that, theory apart, there is no economic reason for the capitalist to prefer arms to other forms of state interventionist stabilizing techniques. That indeed, there are many economically preferable methods, i.e. less inflationary, less effect on the falling rate of profit, and, in the short run, generative of more stable class relations. And, indeed, the European capitalists do pursue precisely this method (to the degree that resources permit). In the case of the U.S., its need for imperialist hegemony has required it to partially (and significantly) surrender the advantages of non-arms state intervention and accept the disadvantages of arms expenditures. The thrust for U.S. arms expenditures is therefore not its technical economic advantages, but the "economically unfortunate" political necessity for U.S. imperialist hegemony.

BUT IT WOULD BE IMPERMISSIBLE TO PROCEED without at least taking note that there is a PAE theory which does deserve the name of a theory in that it is linked organically, logically to some over-all central conception of the nature of capitalism and its contradictions.

It is the theory best represented today by Paul Sweezy. For Sweezy, arms are a necessary expenditure for U.S. imperialism, (a) for the obvious political reasons we all share, and (b) because monopoly capital generates vast surpluses of capital which can not be reinvested (and therefore can not be realized) due to the lack of demand -- underconsumption. Therefore, the capitalist solution must be government expenditure to make use of, to realize, the surplus either by arms or other forms of expenditure.

But to Sweezy, government non-arms investments pose two difficulties. First, the capitalist will object to "competition" from the government (discussed above). Second, and more important, non-arms investment would only increase the already huge, unmanageable surplus profit of the monopoly capitalists by further increasing productive capacity and the capitalist's inability to sell his goods. Therefore, to Sweezy, "arms" are the way.

Sweezy's underconsumptionist theory of crisis and arms is paralleled by his underconsumptionist theory of stagnation -- in place of the theory that stagnation is due to the lack of capital to invest, due, in turn, to the falling rate of profit. In his underconsumptionism, Sweezy also parallels Luxemburg. For her, colonies and imperialism were needed to provide a non-capitalist market for goods (due to the workers' inability to buy back all their product). To Sweezy, this is best done by making arms, a non-commodity, perform the same function.

This is not the place to criticize Sweezy's underconsumptionism.[2] It may be (is) an incorrect theory, but at least it is a theory, not just a description. Sweezy's PAE theory is raised here because (1) it shows what a serious PAE theory would look like -- its underconsumptionist premises, and (2) because views similar to Sweezy's on the nature of crisis in capitalism are held by the outstanding leader of our movement today, Cliff, who tells us, "The basic cause of capitalist crisis of overproduction is the relatively low purchasing power of the masses compared with the productive capacity of industry". A classic formulation of the underconsumptionist thesis that the world is in crisis because of over-production, instead of because of capitalist inability to accumulate sufficient capital to maintain the dynamic necessary for capitalist society.

It is curious, and no accident, that Sweezy's revolutionary will requires him in recent years to totally contradict the core of his own theory (without, unfortunately, admitting it). Thus, he has written persuasively and cogently about the liquidity crisis (capital shortage), and increased debt, despite the fact that these views are totally inconsistent with his theory of the nature of capitalist crisis in the age of monopoly capitalism.

In a similar way, Comrade Cliff ignores the reformist logic of the PAE as a theory. His long career as a revolutionist permits us to feel confident that, at least in his case, this contradiction will not turn out to be his Achilles heel.

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2. The debate is around the theories of underconsumption vs. underinvestment due to the tendency for the rate of profit to fall. These two may appear just opposite sides of the same coin. Not so. The true opposite side of underconsumptionism is overproduction; not over/under investment. For an exceptionally lucid analysis of this problem, see, Strachey, The Nature of Capitalist Crisis. ($2.00 from I.S. Book Service)

The theory of the PAE can only point to illusory contradictions within the arms economy. But the contradictions between the PAE theory and experience are far from illusory.

Thus, the steady decline in arms as a percentage of the GNP during the past decade is universally acknowledged. What conclusions, if any, should PAE theorists have drawn from this fact?

1. The PAE leads one to believe that the relative decline in arms during the '60s should have produced a slump and stagnation. But, instead of the slump, we got an overall capitalist prosperity during the same decade which peaked at the end of 1972. Or will it be maintained that the crisis in the U.S. today is really a belated response to the decline in arms expenditures (which at this moment, in fact, are temporarily (?) rising in the U.S.)?

2. A decline in the PAE should have caused a tendency to a decline in inflation. (either because real commodities were produced instead of arms, or as a result of the incipient slump). Instead, if anything, there appeared to be an inverse correlation. The decline in the PAE was paralleled by increased inflation throughout the '60s. (We are not suggesting a causal correlation; that is for the PAE theorists).

3. A declining PAE should relieve the pressure on capital availability and the liquidity crisis. Who can claim that this is the case today? (or would they say that the liquidity crisis would be even worse with the arms expenditure low?)

4. The declining PAE leaves its Marxist adherents with nothing but the business cycle as the source of capitalist crisis and destabilization. (See the I.S. (U.S.) 1973 Tasks and Perspectives document.) In doing so, the PAE decline provides us with only a simplistic analysis of destabilization. One consequence of that is that the PAE theory has discouraged real analysis of today's capitalism -- the role of Keynesian and state economics -- as if the capitalists had learned nothing in the past 30 years.

It is worth noting, however, that many of these difficulties, these faulty expectations stemming from the PAE as a theory, disappear once one is aware that at the same time that the PAE was declining, the share of other government expenditures in the GNP was actually rising. There was thus a net increase in government expenditure as a share of GNP. In that case, our real expectations would be the very opposite of those which the PAE theory would suggest. With government intervention, not arms, as the key to the situation, the actual course of events during the 1960s and the theory come together (once, that is, the PAE theory is placed in its proper category as just one form of government intervention.)

PAE -- The Theory of Boom and Bust?

It is argued that the PAE is the only theory which can account for the great boom of 1950-70, as well as the bust to come. As for the latter, we have already suggested that the PAE contradictions which could cause a "bust" (not counting Sweezy's theory) are non-existent, and that, in fact, a good case can be made for the reverse, i.e. that during the '60s, as arms as a percent of GNP fell, the economy boomed. Indeed, it would be easy to demonstrate that in Great Britain the relation between arms and real prosperity (not the feverish episode of the last year and a half) was an inverse one. The same could be shown for the U.S. as its vaunted hegemony suffered, if only from the obvious loss of competitiveness with other industrial countries (partly a result of the arms expenditures).

But how about the great boom? How explain that if not by the role of the PAE?

"It is true", it is argued by many, "that the PAE was not characteristic of Europe/Japan. But U.S. arms formed the foundation for their prosperity nevertheless".

But how does one demonstrate this "truth"? Of course, the U.S. arms economy had economic consequences, but one needs to do more than show how U.S. arms orders created jobs in Japan, or that U.S. preoccupation with arms gave the others openings in the American market.

Consider an alternative view of the boom.

The boom in Europe and Japan was based upon the radical restructuring of their economies made necessary by the immense destruction of World War II, and made possible by the capitulation of the CP-SP to their bourgeoisies after the war. As a result, we witnessed for a long time a sharp decline in the class struggle, and a working class which was highly productive (labor productivity in Japan rose 20% in 1973 alone), and at very low wages to boot. This resulted in an immense amount of surplus value, profit. (It was not until the late '50s that wages in Europe/Japan began to boom -- helping to set the stage for the present crisis).

At the same time, the negative effects of the PAE (not on jobs -- that is debatable) but at least on the competitive productivity of American industry threatened disaster for the U.S. were it not for the fact that the U.S. has engaged in an unparalleled exploitation of Europe for the past fifteen years. This is manifested in several ways.

(1) During this period, there has been a vast net capital drain by the U.S. upon the European economy. (We sometimes forget that the inflow of profits from U.S. investment abroad exceeds the annual outflow of capital). This is the major consequence of the rise of the multi-national firm whose major arenas are within the industrial nations, not in the colonies -- the distinguishing feature of contemporary imperialism. It has reached the point where the foreign holdings of these firms provide a greater and growing proportionate share of profits for these U.S. giants than do their domestic investments.

(2) Add to this the notorious fact that for a decade the 80 billion Eurodollars has meant that the U.S. was transferring its own inflation on to the backs of the Europeans (a negative form of tribute to the U.S.) and that the existence of those dollars constituted an interest-free loan of 80 billions, i.e. an 8 billion dollar gift in the form of non-interest payments, another indirect forced subsidy to U.S. imperialism. Compared to all this, the Marshall Plan was peanuts.

The net effect of the arms economy was then to serve as a halter about the neck of U.S. capitalism. It was a necessary one, however, and one whose consequences were concealed by European tribute, which was, in turn, an overall deterrent to the European boom. (A tribute to the U.S. which was only partly compensated by the decline in the relative costs and competitiveness of U.S. production.)

But all of this, of course, was the unavoidable price for maintaining the hegemony of U.S. imperialism and all western capitalism. Neither the European or American capitalists had much choice in the matter. At best, U.S. arms production probably did contribute to the <u>leveling out</u> of the economy, but little to its overall direction.

In this process of capital flow, and exploitation through the instrumentality of the multi-national corporation, we see "repeated" in embryo the development of the U.S., gradually, into a "rentier state"[3] (paralleling England) whose power and wealth increasingly have their origin in income from abroad and not from domestic industry. This is a situation which lends itself to a mobilization of the European states as a counter force which could even conceivably enter the stage of re-nationalization of "their" industry, in one form or another.

Seen from this perspective, arms are essentially a political necessity (ultimately, of course, economic in origin) imposed upon the U.S. -- an expenditure which poses a real threat to the U.S. and is the rationale for Nixon's moves toward the detente and the SALT talks. For the arms have contributed (they are not alone) toward a <u>relative</u> decline in U.S. welfare with all the consequences for the class struggle which this portends. They have contributed to the soaring inflation which can not permanently be displaced upon the Europeans and Japanese, and have contributed most of all to the relative decline in U.S. industrial strength, with all the inevitable consequences of that development.

But the ability of the Europeans to restore their economies was in turn dependent upon still another consideration which underlay all else -- the role of the Keynesian state.

In the immediate aftermath of World War II, every major European state, under conservative bourgeois control, nationalized (or refused to denationalize)

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3. The negative effect of this tendency toward a rentier state upon U.S. industrial technology is documented by Melman (op. cit.)

enormous sectors of the economy. When the same thing occurred in Britain, under the Labor Party, i.e. with a different rhetoric, it seemed that Marxist anticipations of rapidly evolving state-capitalist societies (along the lines projected by Bukharin) were on the order of the day. But this tendency soon came to a halt (in the advanced countries).

Instead, we witnessed two different major developments:

(1) Changes in the form of imperialism -- an end to overt political colonialism, and a radical reduction in the relative importance of colonies to Europe; and the full flowering of U.S. imperialism directed primarily not toward the "colonies", but toward Europe itself. U.S. imperialism now took the form, predominantly, of integrations of a huge section of European capital into American capital via the multi-national corporation. (Only the Nazis during World War II approached this development).

(2) Instead of Bukharinist forms of overt state capitalism, we witnessed a halt in this tendency, and instead we saw the fullest utilization of Keynesian techniques by world capitalism.

The main functions of these techniques are: (1) the dampening of the class struggle; (2) the stabilization of the economy by smoothing out the cycle; (3) the intensification of the accumulation of capital so desperately needed.

As for smoothing out the cycle, a host of fiscal and other compensatory devices were developed, well known to us all, such as: unemployment compensation and other "welfare" items, a business cycle related tax structure, the "incomes policy", and, of course, the use of arms expenditures. None of these were new, except for the scale of their use and the consciousness with which they were used. Even the market mechanism of international trade has been partly "levelled off", smoothed out to some degree. Note the unparalleled multi-billion dollar loans to Britain to enable her to avoid a devaluation which could shake the international trade markets.

As for the facilitation of capital accumulation, that, too, is hardly new. What is new is the immensity of the need for capital, as capitalism's capacity to generate new capital on the scale required declines. New, too, are the qualitatively better techniques available to modern states to accelerate capital accumulation. Some examples:

(1) the socialization of losses (as distinct from protection and creation of new industry) is not new except for the scale on which it is practiced today (Amtrak, Lockheed, Penn Central, U.S. Merchant Marine).

(2) the tax structure is used consciously by the state to encourage capital accumulation -- see the present debate on oil; tax rebates for new plant and equipment; the giant sums spent by the U.S. government for research and development.

(3) the guaranteeing of corporate debt by the state.

(4) government loans at home and abroad to guarantee markets for U.S. corporations.

(5) national monetary policy whose aim is to balance the consequences of the enormous rise in fictitious capital (see page 15).

It is these measures and expenditures and the new circumstances of the post-war world (the new form of U.S. imperialism; the betrayal by the CP-SP which allowed the restructuring of European capitalism) which are the sources of the stability and the boom in western capitalism till now. Destabilization first became evident only with the 1968 French general strike.

In this context, arms are reduced to a special, often negative, case of the actual process which fueled the boom.

IT IS THEREFORE AMONG THE CONTRADICTIONS INHERENT IN KEYNESIAN "SOLUTIONS" AND IN MODERN DAY IMPERIALISM THAT WE MUST SEEK THE CAUSE OF AND PROSPECTS FOR THE CURRENT CRISIS.

The outline, but just the bare outline, of such an analysis exists. The eight points which follow are hardly original. But their elaboration and extension constitute the major theoretical economic problem facing American Marxists.

(1) <u>Effect of State Expenditures on the Rate of Profit</u>: Because the vast bulk of state expenditures are payments to "non-productive labor", these expenditures (rising rapidly as a share of GNP) are a powerful accelerator to the tendency to a declining rate of profit, and thus a drain upon the capital needs of the economy. (For an explication of this theme, see the appendix).

(2) <u>State Intervention on a National Scale is Qualitatively More Advanced than on an International Scale.</u> And for good reasons.

The collapse of the Bretton Woods monetary agreements and the further weakening of NATO by the oil crisis are only the most important examples of the consequences of the lack of an international state. This lack not only projects all the contradictions of classic capitalism onto the scene, but even intensifies some of them.

Today, for example, no state can really even pretend to tackle domestic inflation on its own. The unparalleled ease of flow of capital across frontiers makes national planning harder than ever, and makes the rate of interest, which used to influence decisions, a less effective instrument for doing so.

The conflict between the national and international needs of the capitalist class reflects the continuation of the most fundamental contradictions of capitalism -- the conflict between social production (now increasingly international) and private appropriation (national).

It is this contradiction which lies at the root of the "collapse" of the European Common Market structure every time a crisis breaks out. At these moments we are forcibly reminded that, under capitalism, the interests of the various national

capitalist classes (or at least of the dominant layer in each country) still dominate over the desperate economic need for a single United States of Europe.

This higher level political and economic unit is one of the preconditions for a new Industrial Revolution, i. e. for a qualitative increase in capital development which is the only real answer to inflation and the needs of the people of Europe.

Furthermore, state intervention on a national scale comes into conflict with the normal international competitive market mechanism. For example, today, attempts to encourage domestic production via lowering interest rates can have an effect opposite to that intended. It can produce an exodus of capital, worsening the balance of payments and brining with it the threat of monetary collapse. Or, attempts to control domestic inflation, by say, curbing wheat prices, or forbidding its export, run up against the needs for exports, at high prices, to aid the international balance of payments.

It is for such reasons that state expenditures and the "planning" which goes with them cause domestic economic crises to be deflected into the form of international monetary crises.

(3) Inflation. Today's government expenditures tend in part to take the form of deficit financing and are inflationary, especially when the deficit is for arms, and when the expenditures occur in a period of relatively full employment, characteristic at least of Europe for the past 20 years. The "solution" is to compensate for the deficits by taking it out of the working class. Since the late 1950s these attempts at home and abroad have been met with an aggressive response by the working class. But in the U.S. during the last few years, the relative submission of the working class to the freeze and to pressure for increased productivity has been marked. (Perhaps this partly explains the currently lower rate of U.S. inflation relative to Europe).

(4) The tendency for a drain in the mass of profits available for capital accumulation (a result in part of the government expenditures) results in a policy of deliberate inflation as well. Inflation when modest, if it can be contained, serves to cut wages and thus increase available capital. But raging inflation can have quite the opposite effect.

(5) The oligopolistic character of the U.S. economy introduces the phenomenon of "administered prices". These prices are not essentially arbitrary impositions of higher prices by the corporations. In actuality they are reflections of the general inflation, of the decline in the rate of profit, and the decline in the competitive position of U.S. capitalism -- all of which compel attempts to increase price, but at the same time limit them. To the extent that administered prices are used by monopolies as a putative but in fact often illusory source of capital accumulation, these efforts can only further contribute to the inflationary tendencies already present. (For an elaboration of this problem, see my "Oil and the Theory of Monopoly Price".)

(6) The dampening of the business cycle by state intervention has its own contradictions. For the business cycle is the major self-correcting mechanism in capitalism whereby individual, inefficient, socially useless (i.e. fictitious) capital is eliminated. The cycle is therefore a process which restores the profitability of the system as a whole through destroying inefficient capital and permitting prices to be once again equal to values, i.e. to reflect truly socially necessary labor. The dampening of the business cycle by curbing the self-correcting tendencies is thus another contributing element to inflation which is organic to Keynesianism.

(7) The vast expansion of debt (government, corporate, private) totalling some $2 trillion is an integral part of a policy of state intervention. Like inflation, some credit is essential to grease the capitalist mechanism. But, clearly, just as inflation can reach a point when it changes from a "stimulant" to a threat to stability and growth, so with debt. At some point, indefinable today, a similar qualitative change can appear as the debt soars.

Much capital based upon debt is actually fictitious capital, i.e. capital which does not represent real goods or productive capacity. (Common examples are: watered stock; or much of the value of any capital which produces goods at a price higher than socially necessary -- destroyed during a depression; or stock market values, particularly stocks such as those of conglomerates.

But not all debt is fictitious capital and inflationary. Some debt represents merely the transfer of values (in the form of capital) from one capitalist or bank or government to another capitalist, or to government in the form of loans -- a "redistribution" of income, with no necessary effect on its size. Such debt may not be inflationary, but it can have other equally devastating consequences under capitalism:

(a) on an international scale, the redistribution of income can mean great changes in capital available in each country (usually a shift of interest money from a poor to a rich country);

(b) on an international scale, the "income redistribution" between advanced countries can mean an increasing tendency for a country to move into a position of being a rentier state, with all the negative consequences for that country's future as a viable, commodity-producing not just consuming economy. (U.S. today, Great Britain even yesterday).

(c) Internally, domestically, debt results in a "mere" redistribution of income on an economy-wide level, but to the individual capitalist firm, the debt structure can be so devastating as to precipitate crises for itself and the economy as a whole.

(d) Internally, too, it goes without saying that the "redistribution of income", due to debt, is normally a flow from the workers to the banks.

But not all debt represents simply a case of transfer of income. If the increased debt of any kind is due to bank-created "new money" (a form of printing money) or due to state deficit financing, then the effect of the debt can be highly inflationary. How inflationary, in turn, depends largely on whether or not the debt/deficit is incurred in a situation of full employment or not.

In the case of less than full employment, the deficit can result in some increase in commodities produced, since the new money can help get more labor involved in production. In this case, increased debt can, in principle, "equal" increased production, minimizing the inflationary consequences. The degree to which such debt is inflationary depends upon how the new money is spent -- spending on arms and other non-productive uses, government employees, etc. are all, to different degrees, inflationary. Spending on direct or indirect capital investment is normally less inflationary. All this under less than full employment.

But where, more realistically, the increased debt occurs in a situation of relatively full employment, then the increased debt is largely inflationary. It is this situation which characterized Europe/Japan in the post-war world. In the U.S., debt for a generation has been increasing at a rate twice the rate of growth of the debt-stimulated economy. Consequently, today, debt, manifested often as a "liquidity crisis" in the corporate world, is profoundly inflationary.

But if the effect of increased debt is so dangerous, why is it pursued?

The interests of individual corporations or industries are not identical with those of the economy at large, or of the capitalist class as a whole. To the corporation, in a period when its capital needs are not being met by profits, debt (and "speed-up") are the only choices. No debt, no capital, means inability to remain competitive on the international if not national market.

BUT IN THAT CASE, WHY DOES THE STATE, THE AGENT OF THE CLASS AS A WHOLE, TOLERATE THE GALLOPING DEBT? Why does it, in effect, pursue a policy of easy money -- to Milton Friedman's distress?

(a) Given the relative strength of the working class in the past decade, there is no alternative. Incomes policies have not succeeded among major industrial countries (with the possible exception of the U.S.) The situation of Great Britain indicates that the present state of class relations is volatile, and hardly a permanent one.

(b) Today, international ties are so interwoven that no country is able to maintain real control over its domestic anti-inflationary policies. As a result, policies based on attempts to control the rate of interest or supply of money (thus controlling debt and inflation) are only more difficult, but also more ineffective than ever before.

(c) The multi-national corporations, paralleled by the international banks, make evasion by corporations of government intentions relatively easy.

The increasing ineffectualness of Keynesian operations on money by national states therefore opens the door in the coming period to the need for an international state and/or strong state-capitalist economies (not the same as the present day Keynesian states).

-- APPENDIX --

Effect of State Expenditures on the Rate of Profit

The concept of non-productive labor (most civil service, advertizing, salesmen, police) is central to Marxist economic analysis. Were such personnel considered productive labor in the sense of adding value to commodities, then the addition of such personnel (labor) would add to the value of commodities, and therefore be a powerful antidote to the law of the declining rate of profit. This is particularly true when one considers the fact that most non-productive labor is usually not accompanied by heavy capital investment and therefore would tend to decrease the average organic composition of capital. This, in turn, could even under some conditions cause an increase in the rate of profit.

To Marxists the wages of non-productive labor are an overhead cost of production which comes out of profit, causing a drain upon potential capital accumulation. Of course, the fact that all countries have such services (government clerks, salesmen, etc.) means that the consequences for any one country, in terms of its competitive position, are partly balanced out. This does not mean that the decline in the rate of profit is overcome, but only that the decline is uniform for all, and therefore less obvious. But it is a decline nonetheless, which is manifested not by its immediate effect on competitive edge (the case if one country supported more unproductive labor than another -- partly the case in Japan), but by a more indirect effect, more long term, the consequent shortage of capital, liquidity crises, etc., which are compounded by the addition of costs of production which do not really add value.

There can be little doubt that arms fit into this category very well. They are a drain. And they require increased productive capacity in the economy as a whole so that enough surplus value is generated in the value-generating commodity sector of the economy to support the arms overhead. (England's abandonment of any pretense at arms parity -- unlike the technologically more advanced, healthier French economy -- is doubtless due mainly to her inability to afford arms, i.e. inability to generate enough surplus value).

It is therefore no accident, nor stupidity, that a keystone of the conservative bourgeois credo is "less government (expenditure)" -- except when it comes to socializing losses of industry. Arms are a tolerable expense if they are seen as indispensable for imperialist or other survival needs. But the same grudging acquiescence can be given to some welfare costs, as expenditures, if they are perceived, as at times they are by the sophisticated leaders, constituting a cost necessary for the system's survival.

The question arises: but doesn't arms production generate profit? And doesn't this add to the pool of total profit in the system? (The same, incorrect, argument can be made for welfare production, hospitals, etc., since there can be "profit" there, too, technically). No. The profits of arms are real enough to the individual capitalist, but they do not necessarily represent an increase in total profits of the system. For on a social scale, the profit of arms producers does not represent real profit, i.e. surplus. It does not represent the use of labor to produce values, real commodities under capitalism. Arms are economically (not politically) waste. Arms production profits are therefore socially speaking, for the economy as a whole, only transferred income from others, not real additional surplus. That is, the arms profit is fictitious profit (socially, but not to the individual). For if the total values do not increase, then the profit is just a bookkeeping device by means of which the class as a whole redistributes part of its real profit to the arms manufacturer (who will not produce the waste without a share in the capitalist class' profits). For the economy as a whole, the arms profits are a loss; for the individual capitalist, a gain at the expense of the class (or other classes).

The capitalists as a class understand this process very well. But (a) they have no alternative -- war is, after all, an overhead cost of imperialism. (b) The individual capitalist knows how to make a virtue (profit) out of necessity (the need for overhead costs). If the profits of arms are really redistributive in origin, then some capitalists do stand to gain from this redistribution (arms firms, education firms, etc.). But they make these gains at the expense of the class as a whole, to the extent that the arms costs are not shifted. It can hardly be otherwise under capitalism. But then the existence of contradictions between the interests of the class as a whole and individual sectors of it are not new to us.

Up to this point we have assumed that non-productive labor was being introduced into a situation of full employment. But what if the government employs non-productive labor in a situation of some unemployment?

Even in this case, if the cost of the workers producing arms, etc. is borne by taxes, i.e. by the transfer of a part of the GNP, then the effect is no different than the situation of full employment. Except that the economy's production mix -- what kind of goods it produces (guns or butter) -- would be different. But, what if the arms are set into motion not by taxes, but by government deficit? In that case, the expenditures would result, indirectly, in new values, since the wages of arms (and their non-productive laborers) would nowcome not from the economy's profit, but from the deficit. These wages would then represent additional new money available for spending on consumer goods (and would ultimately stimulate producer goods as well).

But, again, this is the effect of any government expenditure, not just arms, as argued earlier. Furthermore, the government debt is cumulative (because historically they are almost never paid off), and enormous (some $100 billion in interest payments alone). The consequences of this vast accumulation of debt have already been discussed above (page 15, point 7).

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OIL & THE THEORY OF MONOPOLY PRICE

by David Miller

The current energy crisis has many aspects requiring the attention of Marxist economists and politicians. Not the least of these is to explain the marked and sudden rises in the price of oil and gasoline. For the circumstances and extent of the increases have revived the common, populist notion that these price increases are all a plot, or, to the more academic liberals, a case of Administered Prices stemming from the monopolistic character of modern economy.

This liberal epidemic is so severe that radical and Marxist groups have been affected by the conspiracy theory. Even our own press (Workers' Power) has unfortunately not been immune.

The fact that liberals are prone to a conspiracy theory of economics, as they are to conspiracy theories of politics in general, is hardly enough reason to condemn their explanation for the recent price increases. It seems useful therefore to review and perhaps elaborate on the Marxist theory of monopoly price and its relevance to the oil problem.

To do so, it is necessary to start, however briefly, with the competitive theory of price, both its bourgeois and Marxist versions.

In the bourgeois theory, price is determined by the market mechanism. The capitalist has no choice but to accept the market price for any commodity or quit business, die. The reason for the lack of choice is that the competitive capitalist is presumably too small a producer to be able to affect price either by influencing the amount supplied to the market, or the amount bought from the market. As a result, prices can not be arbitrary or administered; they are independent of the will of any supplier or demander, of any capitalist.

As for the problem of value, to the bourgeois economist prices and values are synonomous. Distinguishing between them is empirically meaningless.

The Marxist theory of competitive price <u>ends up</u> in the same place as the bourgeois theory. But it gets there in a different way because to the Marxist value and price are logically distinct concepts, though related. The Marxist gets to price by first analyzing the <u>value</u> of commodities -- values determined by the amount of socially necessary labor required for their production. It is only under optimum, equilibrium conditions, i.e., in the long run, that <u>values</u> correspond to prices. The role of the market is a mediating one. It is a mechanism for adjusting supply to demand, thus assuring that price is indeed equal to value, i.e., a way of making sure that the amount produced is indeed socially necessary.

<u>But why go to all this trouble, this roundabout way, if the end result is the same as in bourgeois theory?</u>

The reason is that by starting with a theory of value, particularly with the labor theory of value, it is possible to do what a theory of price can not do. Starting with a theory of value it is possible to derive the dynamics of capitalism as a system, its contradictions, and not just predict the vagaries of price -- to deduce, as Marx did, the cyclical nature of capitalism, its tendency toward the concentration and centralization of capital, the notion that capital generates its own limits to the expansion of production, the tendency to the falling rate of profit, etc. Therefore, not only is price derivative from value to Marx, but price determination is a distinctly secondary goal of economics.

Any theory which starts its analysis with price instead of value can only produce static solutions. In fact, to start with price instead of value limits bourgeois price theory to being a special case, a degenerate form of Marxist theory. For prices equal values only under the special conditions of a static economy at equilibrium. In that case, Marxist price and bourgeois price come out the same numerical result (to the degree that either system can in practice really produce meaningful, accurate prices at all).

But what happens to all this theory in the age of monopoly?

Capitalist accumulation results in increased size of the firm (not only an absolute increase, but also an increase relative to growth of the economy). This growth increases the ability of the individual capitalist firm to significantly influence the actual amount supplied to the market as well as the amount demanded of the market. As a result, the market no longer appears as THE determining mechanism to which the capitalist is totally subject; the impersonal market no longer sets the price. Individual capitalist decision and prices may now be independent of the market. In short, we have "monopoly" or something approximating it.

Under these conditions there develops a tendency for supply to become less than it would under competitive conditions; for price to be higher than competitive price; and for profit to be higher than competitive profit.

The contemporary liberal response to the problem of monopoly price -- the response of the Keynesians -- is that the relative disappearance of the market means that prices are now "administered". There are no rules; it is all done unilaterally, in principle. This theory appears to be a "natural" unavoidable conclusion. What's more, it seems easy to justify empirically. One can "see" it all around. The capitalist monopolists do appear to set prices. Indeed, in the absence of a market or of a plan, there appears to be no alternative explanation.

Not surprisingly then, the liberals draw some logical conclusions from this analysis. If prices are administered, fixed, then "unfix" them by imposing controls, or rationing. In short, the liberal solution to the problem of monopoly today is to move toward statism, or even state capitalism. (Obviously we are speaking of today's liberals who have largely rejected Adam Smith and his bust-the-monopolies position.)

But before proceeding to a Marxist critique of this liberal theory, it is necessary to express two cautions about the theory of Administered Prices.

The first is methodological. Is it really true that one can observe the fact of monopoly price fixing? Our ancestors, Hegel, Marx, Freud, taught us how easy it is to confuse appearance with reality -- easy not just for the observer, but for the actor as well. In fact, of course observers can not really observe prices being administered at all; we only deduce this fact from some theory. With a different theory, different "observations" might well follow. As for the actor, the monopolist, it is certainly possible that he can appear, even to himself, to be setting prices (indeed, it must appear so to him), since he does, technically, set the price, announce it), while in reality the monopoly price can be driven by transcending forces producing prices different from those intended by the monopolist.

In a way different from the competitive capitalist, the monopolist too may act, like it or not, as an agent of capital.

A second caution. Regarding the reality of administered prices, if prices are really administered, arbitrary in fact not just appearance, then how explain (1) the continuing tendency to decline in the rate of profit (or, to the critic, the failure of the rate to rise as it should under monopoly); the capital shortage appearing often as a liquidity crisis, which should not exist if monopolies set prices, but does in fact exist today, even for the giants. (2) How explain the fact that price rises continue today, in a period of at least temporarily rising and high profits; (3) or how explain the fact that prices of so many (indeed almost all) non-monopolist raw materials are rising at the same time, and to at least similar degree (100% in 18 months). Are all these prices administered? Are they all administered simultaneously, and together? Is the oil conspiracy just one part of a universal conspiracy?

What then is the Marxist view of the effect of monopoly on prices? Can we do better than an arbitrary, administered non-system?

To answer this we must come back to our theory of value. Just as we saw that by starting with value, not price, in competitive capitalism, certain enormous advantages accrued, so it can be shown that, unlike the liberal theory, the analysis of monopoly price will also gain if we start with value not price. In doing so, it will be possible to come closer to the real conditions behind monopoly price. We shall see that starting with value produces objective determinants upon monopoly price, or at the very least, sharp limits which fundamentally modify the seeming administered prices and indeed rationalize them. (We speak of "limits" because we take for granted that in practice, even under a market system of competitive capitalism, prices are never really fully determined by the market).

The Effect of Value on Monopoly Price

First, the effect of theory of value on monopoly profits in the system as a whole.

Monopoly, to the Marxist, can not effect the total social profit of the system. That profit is a function of the total surplus value generated which in turn derives from the total value of the labor hired -- i.e., the difference between wages and the value of the commodities. Therefore if there is no increase in total values produced (no increase in labor and therefore no rise in surplus value), then there can be no increase in the total profits in the system.

But since, in fact, under monopoly there is a tendency to a reduced supply and therefore reduced employment, then the probability is, if anything, that the total values of the system, and therefore total profits, will fall, not increase, to the extent that monopoly plays a role.

Therefore it follows that if monopoly can not cause an increase in total profits, higher monopoly profits can only occur by the redistribution of the profits of competitive sector of the economy.

But why should the capitalist of the competitive sector have to surrender part of his profits?

Because (1) While his costs rise, due to monopoly prices to him, he can not retaliate by raising his own prices. He can not pass on the price gouge because the competitive capitalist price is fixed by the market and beyond his control. (2) The wages he pays are based on socially necessary labor. This, even without the protection of the unions, prevents the competitive sector from taking it out on the worker (except by further technological change). (3) He can not shift his capital out of the low-profit sector in response to the "theft" of part of his profit by the monopolist because the size of the investments needed for monopoly firms and other forces prevent "free entry" into the monopolized sector.

Monopoly therefore has no effect on the basic parameters of the system -- it produces no increase in the profits of the system, and therefore no solution to the problems of capital shortage or of declining rate of profit for the system. Instead, monopoly introduces only an increasing new fetter upon production by reducing output below what it might otherwise be, revealing once again, in a new form, the historically regressive role of monopoly capitalism. It can not even guarantee to save the big corporations such as Penn Central, Lockheed, etc. (The effect of monopoly in producing a measure of stability in the system is outside the province of our present topic).

But it is not just the profits of the system which can be adversely affected. The individual monopolist's profits are similarly limited when one starts from value considerations, thus imposing further limits upon potential monopoly prices. How does this happen?

The monopoly economy, in eliminating the role of the market mechanism,

also ends up eliminating the possibility of price competition. The dangers of competing by price under-cutting are so great that some other device becomes necessary. Necessary, because competition does continue, due to the monopolist's (really, usually an oligopolist) need to keep the plant at optimum production for maximum profits. As a result, with monopoly production we witness the rise of "sales competition" (advertizing and other special selling costs) in place of price competition. As a result, a vast increase in selling costs arises (most of them unnecessary under competitive conditions). This results in a corresponding diminution of monopoly profits because the labor of selling is, to Marx, not socially necessary and therefore not value generating or profit generating. Instead, such costs are a drain on profits and cause profits to be less than monopolist expectations.

Increased selling costs are, of course, only one example of the waste that results in the reduction of profits. Actually, imperialist adventures and their cost in a strong and expensive state apparatus are an additional indirect "selling" cost of capitalism.

In short, just as total profits of the system are not increased by monopoly (due to the law of value), so also are the profits of individual monopolies not increased as much as one might expect. Thus the capitalist, in his attempt to escape the contradictions of market capitalism by way of monopoly, finds monopoly's ability to increase profits by administered prices to be in large part an illusion (due, again, to the law of value). Indeed, by redistributing profits away from the competitive sector, monopoly accentuates the crisis for all. Thus, monopoly capitalism, in attempting to evade the crisis, only intensifies it, bringing it in by the back door.

Even if this were the end of the road, it would be enough to demonstrate that we have here, through Marxism, an enormous improvement over the liberal theory of administered prices.

But further tendencies which act to further reduce monopoly price fixing ability exist, tendencies which bring monopoly prices far closer to the price and profit levels of competitive capitalism than is usually believed.

What are these tendencies (or counter mono-price tendencies)?

(1) Monopoly's ability to affect price and profits depends in part on how many monopolies exist in the economy as a whole.

Thus, to take the purest, simplest case, that of a single monopoly in an "indispensable" industry, the results on prices and profits are classic. The single monopoly is independent of the market; it exploits all sectors; it fixes prices by determining supply; it approximates the phenomenon of administered prices.

But, in practice, this situation is academic and irrelevant. For though it is approximated by many public utilities, the result is that the capitalist class as a whole, and a sophisticated state apparatus, can not tolerate such a situation. State control and even nationalization if necessary are the inevitable result to prevent real monopoly price from being implemented.

Considerably more likely and realistic is a situation of a single industry dominated not by a monopoly but by an oligopoly. The results here are similar to the ideal monopoly except for the now more limited ability to control supply (and therefore price), due to monopolistic "competition" within the industry. (Of course we are speaking of a real oligopoly, not a cartel, for if the oligopoly firms do cartelize, they are in effect reduced to the first case, of a pure monopoly and all the consequences which follow above).

But an economy with one monopoly or even oligopoly is hardly a useful model of analysis. Far closer, more realistic is a case of two monopolized industries. Here, while the results might appear to be similar to the first case, they are in reality far more complicated. For the analysis remains simple only if the two monopolies are totally independent of each other -- neither buys or sells from the other. An example of this might be monopolies in the production of coal and aluminum. Since aluminum does not depend for its power upon coal, but upon water power, the two are practically independent. But suppose the two industries were coal and steel. Then obviously they are interdependent, and, as a result, decisions on supply or price by either monopoly would affect the other. Thus the existence of two monopolies produces a decline in the ability of either to fix prices.

Clearly all these limits upon price determination which result from the existance of more than one monopoly are multiplied if each of the two monopolized industries is in reality an oligopoly, not a monopoly. For these limits are now imposed from within each industry (oligopolistic competition) as well as from without (from other monopolized industry). As a result, in this situation, the oligopolies are even less able to exploit the competitive sector of the economy (less able, not unable).

But the real world is hardly limited to two monopolies. The U.S. is a thoroughly oligopolistic economy in every major industry. As a result, the price-fixing capacity is increasingly limited, resulting in prices which are relatively modestly above those arising in the competitive sector.

We have here then a curious case of the change of quantity into quality. As the quantity of monopolies increases, its qualitative effect decreases and tends to reverse, & turn into its opposite the monopoly tendency toward administered prices.

All this, of course, does not prevent attempts at administered prices by the unknowing monopolist. But since these attempts may not correspond to the real possibilities of the situation, the attempt in a largely monopolized economy to implement "unrealizable" price increases, ends up as a major contribution to inflation.

(2) So far we have assumed a system which consisted entirely of one country. What are the consequences for monopoly price if we consider an international economy?

To start with, one can see this situation becomes a special case of countertendency number one. That is, internationalization means that there are even more industries monopolized, each of which further limits the other's independence and price fixing ability.

Furthermore, each individual, national industrial monopoly is weakened because its monopoly position within its own world industry is reduced since it is no longer alone within the industry, not to speak of within the economy as a whole. The clearest example of this is the one-time U.S. auto monopoly, which with world expansion, is no longer even a monopoly within the U.S., much less the world as a whole. Introducing the world economy therefore weakens the national monopoly effect.

The invention of tariffs was designed, in part, to counter, reverse this international effect, which placed further limits on monopoly pricing. But today, with world tariffs the lowest in history since World War I, the capacity to administer prices free of international interference has suffered a further blow.

(3) But there seems to be a simple solution to the problem of introducing the world economy as in (2) above: simply establish international monopolies within industries (or multinational firms, which, in addition, also reduce the total number of monopolies in the economy). Certainly the oil monopolies (oligopolies) provide a classic case of this "out". Unfortunately recent events point to the vast limits of such a course of action. We have all just witnessed a giant step by which the oil producing countries have partially (perhaps temporarily, but this remains to be seen) freed themselves from the old monopoly. In effect, they have broken it into two parts, both by the force of their position and through the weakness of a world imperialism cracking apart.

(4) The last countertendency to monopoly pricing is, of course, the one, perhaps the only one, recognized by classic bourgeois theory, the notion of "substitutability". Thus, oil has potential substitutes (coal, shale, nuclear and solar power) as a result of which, sharp limits are imposed upon the monopolist ability to limit supply and therefore administer prices. Just in recent months, a competitively priced motor oil has been announced. (To Milton Friedman this constitutes proof that monopolies are at best short run episodic phenomena, and that, in fact, the U.S. is today less monopolized than it was 100 years ago.)

The implications of all the above for the current oil prices is evident. But one must beware of an excessively hasty movement from the general to the particular. The actual determination of prices at any moment, particularly under conditions of monopoly, can only start with value, but does not end there. Theory

is a guide, a limit, but not a substitute for concreteness and expertise. In this case, the theory suggests the existence of deep forces at work raising prices, forces which find expression, under monopoly conditions, in the appearance of administered prices, and plots. (Of course, it goes without saying that monopolies, by their nature, can more easily take advantage of a real crisis, and in the short run, exploit that crisis and reap traditional monopoly benefits. Airlines, industrial pollutors, as well as oil corporations are examples of this possibility in recent days).

There are at least three underlying forces behind the recent oil price rises.

(1) The first of these is the tendency for the rate of profit to fall, particularly in the oil industry -- a tendency which finds expression in the enormous capital shortage which faces capitalism and the oil industry today. The enormous profits of the oil corporations can be and have been propagandistically seized upon. But for Marxists these profits can not be separated from their historic context: (a) the fact that they follow a near decade of low profits (relative to past industry profits and relative to the average rate of profit in industry as a whole), and (b) the vast capital expenditures and needs of the industry in this period. Thus even the unparalleled 2.4 billion dollar profits of Exxon only attain their real significance in the context of Exxon's projected 16 billion dollar capital expenditures over the next 4 years alone (equal to the total capital value of Exxon). It is this shortage which explains the refusal of the corporation to build additional refineries in the U.S. -- the rate of return being so much higher abroad -- and which constitutes at the same time the largest obstacle to the development of the new sources of oil in shale, sands, etc. The need for these developments is compounded by the determination of the Arab states to conserve the depletion of their oil.

(2) The world-wide inflation particularly in raw materials. Given this explosive inflation, is there really any need for any plot theory to explain the rise in price of oil? The real problem would seem to be to seek a solid explanation for the inflation (at a time when the arms budget is the lowest in 30 years). But that, of course, is beyond the intent of this note.

Few developments have been so dramatic as the recent reversal of the many-decade long terms of trade between the raw material producing countries and the industrial nations. However temporary, it cries for explanation, and there can be little doubt that that explanation is closely tied to the general source of inflation in the capitalist economy at large.

These changes in the terms of trade will, in the case of oil alone, result in a flow of some $40 billion in capital to the oil producers in 1974. The effect upon the balance of trade of the industrialized countries would be totally disastrous were it not for the fact that much of this capital will return to the industrial countries in the form of loans and investments. But this only means that these huge sums are being capitalized, i.e. converted into interest payments, worsening the long term balance of trade problem. Furthermore, the drop in capital

available will raise the price of capital and interest rates, intensify the liquidity crisis -- with concomitant effects of all these upon domestic investment.

It is worth noting, of course, that there is a bit of a silver lining in all this for the U.S. The rise in the price of oil increases the value of U.S. domestic oil reserves, and, of course, domestic oil prices and profits. In this sense, since U.S. losses are partially balanced out, the crisis will, as a by-product, help the U.S. position relative to Europe. (It is this which led Lutte Ouvriere to argue for a monopoly plot behind the oil price increases). Indeed, the U.S. is least hurt by the entire raw materials crisis since it is the only major capitalist power which is both an industrial and agricultural power.

(3) The last consideration in the oil inflation must surely lie with the evident decline in the strength of U.S. imperialism in the past decade, which it is Kissinger's virtue to have recognized.

One has only to compare the U.S. and European response to the oil crisis of 1952, when Mossadeq nationalized oil in Iran, with the current "competitive" responses. Then, by CIA force of arms, combined with control of the international oil sales apparatus, the imperialists could crush the nationalist bourgeoisie. In that case, too, the U.S. was able to force the British (primarily) to accept the U.S. lead, and pay for it. And when, in the 1956 Suez crisis, the Europeans attempted to act alone, they were quickly taught the facts of life.

Today, again for reasons beyond our present purposes, there has been a real change. The U.S. response has been mild, to say the least (even to the contemporary Mossadeq, Libya's Quadaffi), nor has it been able to hold its NATO allies in line, as each one scurries for its own deal.

It may be that these conclusions about monopoly price and the oil crisis will seem perverse to some. But unlike radicals and populists, Marxists hold the essence of monopoly capitalism to lie not in its ability to administer prices, but rather in its imperialist, expansionist logic.

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