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international capitalist economy

WAITING FOR THE UPTURN

britain ON THE EDGE OF THE ABYSS

FRANCE probable up-turn on a crisis basis

central america, brazil, u.s.a.

inprecor international press correspondence

N° 40/41 18 december 1975

This issue of INPRECOR is the third of our twice-yearly special issues on the international economy. The first, "The Generalized Recession of the International Capitalist Economy," was our January 16, 1975, issue, No. 16/17; the second, "The Recession and Prospects for the International Capitalist Economy," was our June 5, 1975, issue, No. 27/28. Following this issue, there will be a two-week year-end break. We will resume our regular fortnightly schedule with the issue of January 22, 1976, No. 42.

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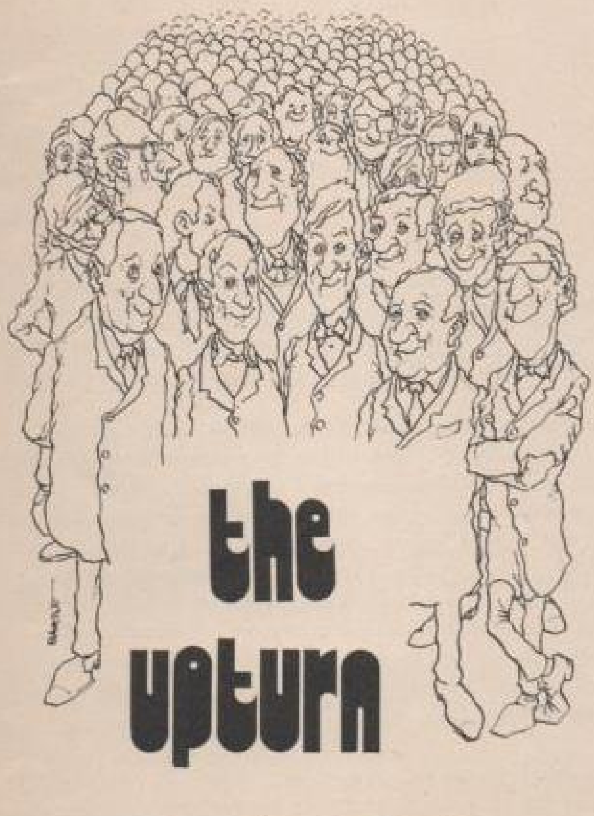
international capitalist economy: waiting for the upturn



by ERNEST MANDEL

At the end of 1975 the international capitalist economy is still dominated by recession conditions. Granted, there were many signs of upturn in the economy of the United States during the third quarter. Economic activity in West Germany and Japan has ceased to decline. A small new rise in the prices of certain raw materials may reflect the beginning of a reversal of the trend in international trade. But the persistence of very high unemployment rates and, most important, the stagnation of productive investment in all the imperialist countries have put the brakes on any genuine upturn so far. These factors even threaten to cause a "rupture" in the upturn in the United States. The overall verdict is clear: the inflationary "pump-priming" measures of most of the imperialist governments have not had the desired effects within the time lapses counted on. A real general upturn of the international capitalist economy will probably not take place until well into the first half of 1976, perhaps not until the third quarter of 1976.

RECESSION & UPTURN

During the summer of 1975 industrial production continued to drop in all the imperialist countries without exception, driving home and intensifying by its cumulative effects the nature of the 1974-75 recession as a generalized economic recession. During autumn, industrial production turned up in the United States and registered a slight upturn in West Germany and Japan. While the fall in industrial production remains broadly inferior to the decline that occurred during the 1929-33 crisis and while the decline will be of shorter duration (which justifies designation of the present conjunctural phase as "general recession" rather than "slump"), it nonetheless goes considerably beyond any reductions in industrial production registered since the end of the second world war:

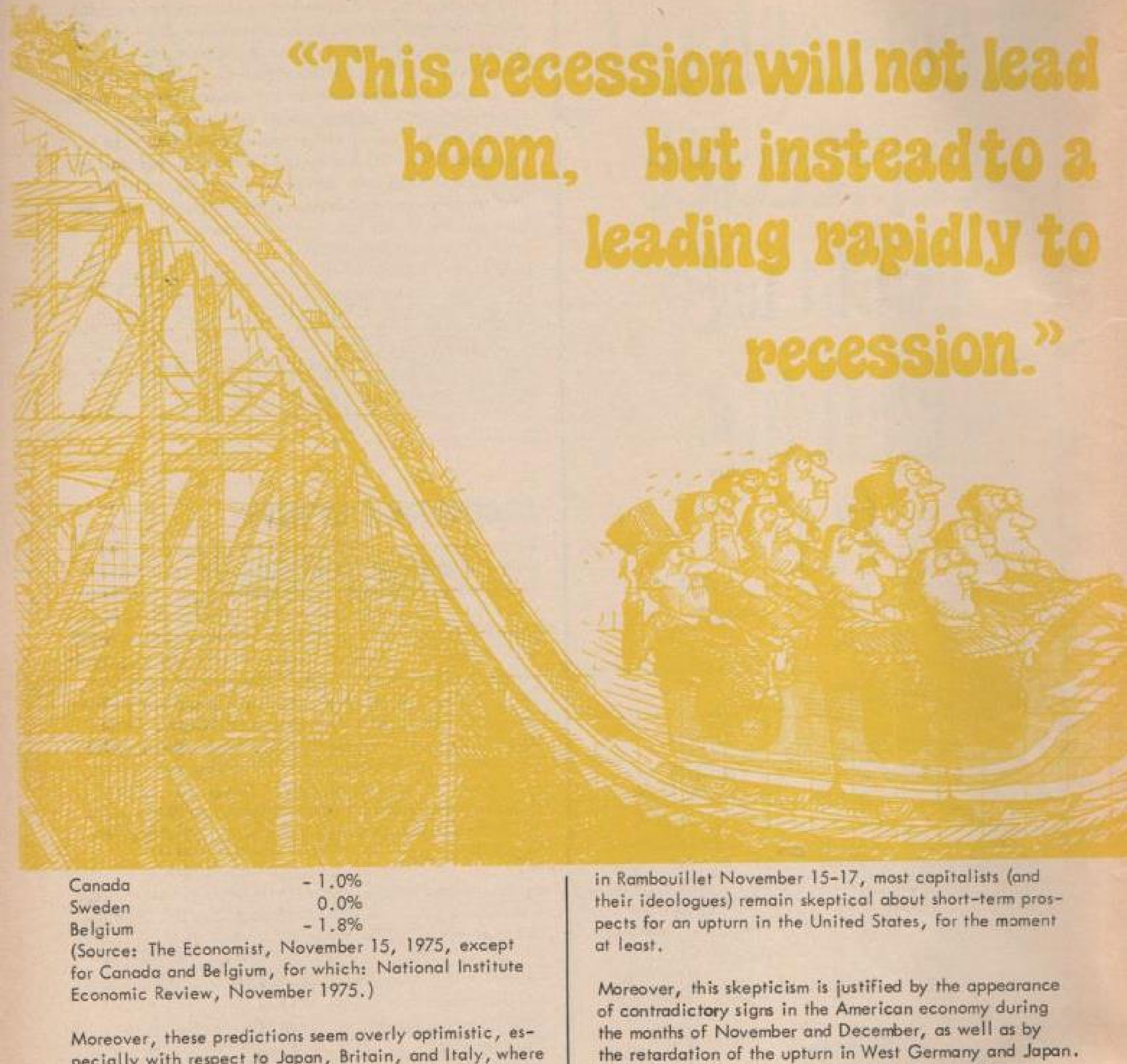
Fall in Industrial Production During the Year (in %)

	in August 1975	in November 1975
United States	- 12.5	- 8
Japan	- 14	- 10.5
West Germany	- 12	- 3
France	- 9	- 3
Britain	- 6	- 9
Italy	- 12.2	- 15

As of November 1975 forecasts on gross national products (in real terms) for the whole of the year 1975 were as follows:

United States	- 4.0%
West Germany	- 3.5%
Japan	+ 1.5%
France	- 2.0%
Italy	- 3.0%
Britain	- 0.7%
Netherlands	- 2.5%

"This recession will not lead boom, but instead to a leading rapidly to recession."



Canada	- 1.0%
Sweden	0.0%
Belgium	- 1.8%

(Source: The Economist, November 15, 1975, except for Canada and Belgium, for which: National Institute Economic Review, November 1975.)

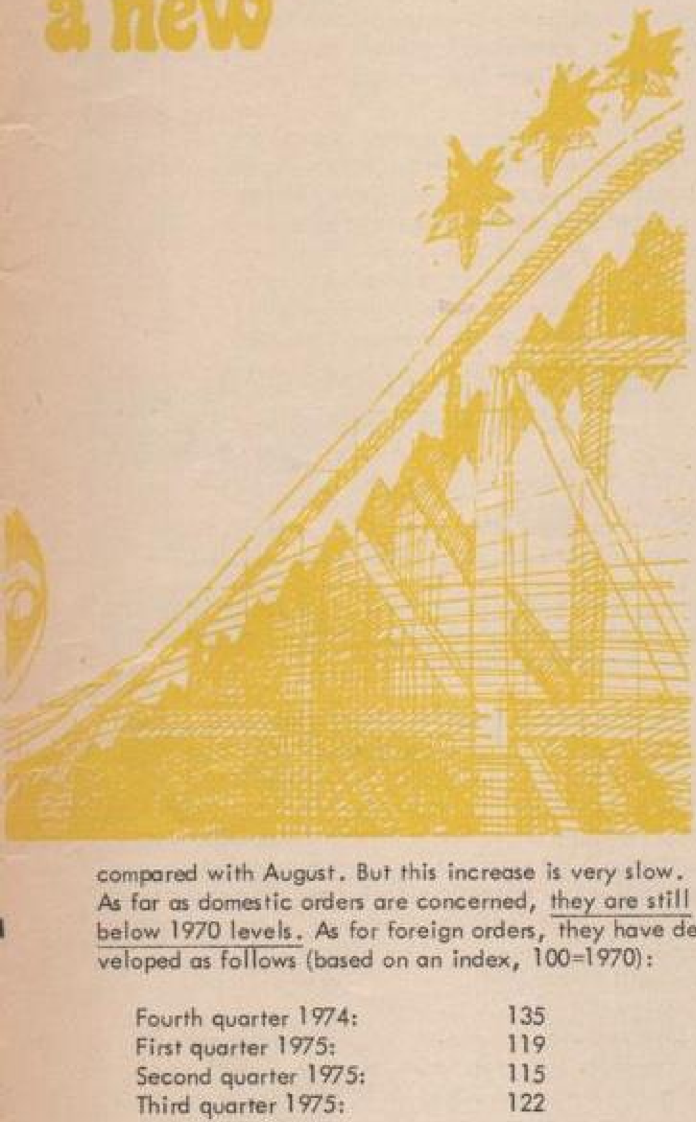
Moreover, these predictions seem overly optimistic, especially with respect to Japan, Britain, and Italy, where there have been no signs of a recovery of the GNP during the last few months of 1975 that would be sufficient to neutralize the much more sharply pronounced rate of decline in economic activity during the first half of the year.

Granted, the upswing was lively in the United States during the third quarter of 1975. There is talk of a GNP growth rate of 11% between July and September 1975. But half of this increase results from so-called technical factors — that is, a deceleration of industrial inventory liquidation — and not from an increase in sales to the "final consumers." In spite of Gerald Ford's victory cries at the summit conference of the imperialist world in Rambouillet November 15-17, most capitalists (and their ideologues) remain skeptical about short-term prospects for an upturn in the United States, for the moment at least.

Moreover, this skepticism is justified by the appearance of contradictory signs in the American economy during the months of November and December, as well as by the retardation of the upturn in West Germany and Japan. In the United States, consumer demand ceased to grow during the autumn. Retail sales amounted to only $50,000 million in October (and $26,000 million for the first two weeks in November), compared with $49,000 million in July. The volume increase in comparison to October-November 1974, when the recession was at its height, was only 4%.

In West Germany, industrial production increased slightly; it was 2% higher in September 1975 than in August 1975 and 1.5% higher for the two months August-September than for the two months June-July. (These indices are adjusted to eliminate seasonal fluctuations.) Industrial orders increased 12% in September

to a powerful
limited upturn
a new



compared with August. But this increase is very slow. As far as domestic orders are concerned, they are still below 1970 levels. As for foreign orders, they have developed as follows (based on an index, 100=1970):

Fourth quarter 1974:	135
First quarter 1975:	119
Second quarter 1975:	115
Third quarter 1975:	122

In Japan, production increased 6% from March to September but remained far below its 1974 level.

The pump-priming policies of various governments have had incontestable effects. These policies have erected a backstop to the classical cumulative development of the crisis of overproduction. They have permitted a certain upturn in domestic consumption. This has especially been the case in the United States, Japan, West Germany, and France, less so in the other imperialist countries. This priming of consumer expenditures has permitted some upturn in the automobile industry, one of the two key branches racked by the recession. In the United States auto sales of 8.5 million are forecast for 1975. In West Germany auto sales on the domestic market are expected to exceed 2 million units, close to the record year of 1973. Auto production in West Germany in September 1975 was 25% higher than in September 1974; for the first nine months of 1975, however, it was still 4.6% below the figure for the first nine months of 1974. Production also increased in Japan in 1975 (by 14%), but a 10% decline is anticipated for the first half of 1976 because of strong price increases.

The automobile industry is in more uncertain condition in France and Italy. In Britain it is in crisis. Imports are gaining a growing share of the domestic market, but exports are progressing at nearly equivalent proportions. During the first nine months of the year, imports increased 50%; exports grew 41% (in large part, however, due to sales of trucks and spare parts). As far as private cars are concerned, production has fallen back to 1962-63 levels!

On the other hand, the second branch that acted to detonate the recession, the construction industry, continues to founder in pronounced stagnation. For the moment, this branch is being hit by both sides of the coin of slumpflation, the coincidence of recession and inflation. The recession is giving rise to caution among the middle classes and the best-paid layers of the proletariat, and this is reducing orders for housing construction. (Treasury difficulties and the fall in company profits are having similar effects in the realm of construction of industrial facilities and office buildings.) Moreover, inflation is maintaining long-term interest rates at high levels, which weighs down on mortgage credits.

Thus, in October 1975 the number of housing units on which construction had begun (1.46 million) was 15% higher than the October 1974 level (but was still far below the record level of August 1973, which was 2 million units). Nevertheless, the number of construction permits had fallen from a monthly average of 1.26 million during the third quarter of 1975 to only 1 million in October 1975. (Neue Zürcher Zeitung, December 2, 1975.) The October 20 issue of Business Week commented: "Except for a very modest upturn in single-family houses — from a horrendously low base — the real estate market is still deeply depressed. Apartment starts this year will be at their lowest level in fifteen years. Unsold condominiums amount to 150,000 to 200,000 units and, by one estimate, are still being completed faster than they can be sold. Millions of square feet of prime office space are going begging in cities like New York, Atlanta, Houston, and Los Angeles. Half-finished or half-empty shopping centers, hotels and housing developments dot the country. . . . Condominiums and apartments represent the most serious problem area. Demand exists for rental apartments, but high interest rates push required rentals far beyond what the market will support."

It is only in Japan that a serious upturn is taking place in the construction of private housing.

A NOTE ON TERMINOLOGY

Marx presented the process of capitalist commodity production as a unity of two distinct processes — the labor process through which labor-power produces use-values, and the valorization process through which labor-power produces additional value over and above its own value. This surplus-value, created during the process of production, must be realized through the sale of commodities before capital can appropriate it and therewith actually increase its own value. In the English translation of Capital, the term referring to this process (Verwertung in German) is usually rendered "self-expansion of capital." This is misleading, because it abstracts both from the labor process that materially creates value and from the process of realization that is necessary if capital is actually to achieve its "expansion," which is not at all self-created. The term "valorization" is thus used instead of the term "self-expansion."

A similar problem arises in the English rendering of Entwertung, the process whereby capital loses a part of its value, which takes two main forms during a capitalist crisis. First, as a result of the decline in value (price of production) of commodities, the capital invested in these commodities loses value. Second, as a result of commercial bankruptcies and firms going out of business, much of the value of their capital is destroyed. This capital was part of total social capital, which thereby loses part of its aggregate value. The German expression Entwertung may be translated simply as "devaluation." But since this term may easily be confused with the devaluation of currency (a different phenomenon), and since "devaluation" does not convey the sense of oppositeness to "valorization" (present in the German), the term devalorization is preferable.

The English edition of the book Spätkapitalismus (Late Capitalism, by Ernest Mandel, New Left Books, (7 Carlisle Street, London W1, Britain) 1975, £9.50) contains an extremely useful glossary, from which the above notes have been adopted.

The same disparate image emerges from a branch-by-branch examination of the major industrial sectors. Petrochemicals (and especially synthetic fibers) have been experiencing a certain upturn for several months now; but this branch had suffered a particularly serious fall in production during the first half of 1975. The textile and clothing industries also seem to be benefiting from the upturn in consumer spending. On the other hand, the electrical appliance industry continues to suffer the effects of the stagnation in construction and of the tendency for consumers to hold off on nonessential spending out of fear of future income declines. The machine-tool industry is suffering the effects of the sharp decline in productive investment. The persistent recession in these branches causes a serious crisis in the steel industry and in most of the nonferrous metals sectors as well. Thus, the conclusion here confirms the results drawn from a country-by-country examination of the situation: Although there may be signs of upturn, it cannot yet be said that the recession has been overcome.

In general, government predictions have sinned by blind faith in the automatic character of the pump-priming effects produced by classical neo-Keynesian techniques. The growth in the volume of demand was supposed to be more or less immediately proportional to the increase in the money supply, and was then supposed to rebound favorably on overall economic activity by acting as a multiplying factor. But as we have often stressed(1), there are quite a few channels out of this complex of interconnecting pipelines; consequently, a more or less considerable portion of the expec ed growth in national income through the simple inflation of the money supply can escape without producing significant effects on the level of economic activity.

In the first place, a portion of the supplementary monetary incomes placed at the disposal of consumers may not be consumed immediately, but instead saved up for postponed consumption staggered over time. This has actually happened in nearly all the imperialist countries, where the savings of lower-income layers have increased rather than diminished since the recession began. (Should the recession continue and provoke a pronounced fall in the mass of real wages, this effect will obviously disappear.)

Second, upturns in domestic consumption may not be companied by proportional increases in economic act ity if they are accompanied by declines in exports. In a period of recession and of decline in the volume of world trade, the imperialist countries cannot all increase their exports simultaneously. It has been this factor in particular that seems to have prevented a real upturn in West Germany during the second half of 1975.

Third, priming of domestic consumption leads to an upturn in productive investment by capitalist enterprises only if it is accompanied by the prospect of an expanding market and a rise in the rate of profit. Now, in this area the existence of high excess production capacity constitutes an obstacle that is less easily overcome than the bourgeois and reformist economists generally imagine.

Finally, even when productive investments are primed under the impetus of state aid, this priming may not contribute to a cumulative move toward upturn if what are involved are rationalization investments that eliminate more jobs than they create in the sectors of machine construction and production of raw materials. In that event, the persistence of high unemployment levels can lead to a rapid ceiling on the growth of the domestic consumption that was supposed to be generated by the expansion of productive investment.

It is significant that all these truths (rather commonplace on the whole), which had long since been developed by the Marxist critique of Keynesian and neo-Keynesian conceptions, have suddenly been discovered by bourgeois economists in the midst of a generalized recession. These economists have confessed their theoretical impotence in handling the problems of slumpflation. The bankruptcy of bourgeois economic theory seems to be even deeper than the crisis of the capitalist economy itself.(2)

ACHILLES HEEL OF THE UPTURN: EXCESS CAPACITY & PRODUCTIVE INVESTMENT

It clearly appears that the existence of exceptionally high excess capacity in most industrial branches in all the imperialist countries now constitutes the major obstacle to an upswing in capitalist productive investment, postponing the upturn in consumer spending that occurs under the impetus of the antirecession policies of governments.

Thus, in the United States, investigators for McGraw-Hill expect that expenditures on private investment in 1976 will grow by only 9% compared with 1975, which represents a stagnant volume of investment if the expected rate of inflation for capital goods is taken into account. An inquiry undertaken by the Lionel D. Edie Co. even predicts a declining volume of investment, since expenditures will grow by only 5%, according to this study. (See Neue Zürcher Zeitung, December 2, 1975.) In West Germany, private investment rose by 2% for the second quarter of 1975 after having fallen 1.5% during the fourth quarter of 1974 and 5.5% during the first quarter of 1975. But the volume of private investment still stands 6% lower than the quarterly average in 1970!

In Japan, the volume of private investment dropped 1.8% between April and September 1975. The government expects an upturn of 5.4% for the period October 1975-March 1976. But the Structural Industry Council, which conducted an inquiry of 1,886 leading firms, forecasts a 3.8% decline in total private investment for the period April 1975-March 1976. (Neue Zürcher Zeitung, November 28, 1975.)

As for Britain, the situation there is even more desolate. During the third quarter of 1975 capital spending fell 6% in manufacturing industry; this came on top of successive declines of 8% and 7% respectively during the first and second quarters of 1975. Other estimates speak of a decline of 11.5% for 1975 as a whole compared with 1974. (Financial Times, November 28, 1975.) Under these conditions, the machine-tool industry is experiencing a dangerous recession. One of the directors of British Leyland expressed himself with brutal frankness: "Unless the present downward trend of the British machine tool industry is arrested, there could be a very real danger that British machine tools will no longer be available." (The Times, December 2, 1975.)

The scope of the excess capacity, which causes a decline in investment, is considerable; in fact, it often goes beyond anything ever seen in the past. In the United States excess capacity for the whole of manufacturing industry reached 35% in the middle of 1975; it was still 28% during October. Fiat in Italy claims that it is running at only 60% of capacity. (Business Week, November 10.) Time magazine (November 17) affirms that Italian industry as a whole is working at less than 70% capacity. The November 28 issue of the Far Eastern Economic Review cites the same percentage for Japan. Exxon (formerly Standard Oil of New Jersey), the world's largest oil refiner, is working at 77.6% capacity (and only 60% in facilities outside the United States), according to the July 14, 1975, Business Week. The two major Japanese steel companies, Nippon Steel and Nippon Kokan, have respectively reduced their production to 30-40% and 28% beneath maximum capacity. (Newsweek, November 17.) According to the November 8 issue of The Economist, "not one of Britain's six yards that construct oil platforms has a follow-on order to replace the platforms already being built." The September 1, 1975, Business Week refers to a similar tendency on a world scale. Capitalist shipyards now have a total of 167 million tons of ships under construction, compared with 227 million tons in October 1974; but new orders are so low that for the first three quarters of 1975 in Britain they cover only 4.7%(!) of the tonnage under construction during the first nine months of the preceding year. (The Economist, October 25, 1975.) And even in the United States, where, according to the August 25, 1975, Business Week, half of all tonnage under construction depends on orders from the U.S. Navy, net profits have fallen from 5% to 2% of annual turnover. In the chemical industry excess capacity rates of 40-50% are mentioned for Höchst (The Economist, September 13, 1975) and of 30% for Dupont de Nemours in the United States (Business Week, July 7, 1975).

Under these conditions, there is something of the unreal in the discussions of "capital shortage" opened by sensationalist studies by two teams of American economists — Bosworth-Duesenberry-Carron for the Brookings Institution and Brinner-Sinai for Data Resources, Inc.(3) — and later taken up by both U.S. Treasury Secretary William E. Simon and certain commentators claiming to be Marxists.

Of course, there is never "absolute" overproduction of capital under the capitalist system. Overproduction of

capital always relates to the immediate possibilities of valorizing this capital. Overproduction — and overcapacity is simply a manifestation of overproduction — always means that there is too much capital to rake in the anticipated average profit.

But that said, excess capacity rates of the scope mentioned above obviously reflect an enormous excess and not some kind of "shortage" of productive capital available for investment. The ideologues confuse shortage of capital with shortage of surplus-value, that is, shortage of profits. There will be a serious upturn in capital accumulation, that is, a new "boom," only if the conditions for valorizing capital (that is, the total mass of surplus-value relative to the total mass of capital) improve dramatically. And there can be no question of this in the short or medium term. Cautiously, The Economist, which had predicted a new boom for 1976, has already pushed its prediction back to 1977. Since the rise in productive investment has yet to occur, even this 1977 boom becomes increasingly open to question.

PRIMING & UNEMPLOYMENT

A capitalist crisis of overproduction has a twofold objective function in improving the conditions for the valorization of capital. It is supposed to permit a new rise of the rate of profit, first by massively devaluating total accumulated capital, second by causing a net increase in the rate of surplus-value (that is, of the rate of exploitation of the productive workers)(4).

Let us first examine this second condition. It is incontestable that from the standpoint of the class struggle, any serious overproduction crisis appears as a massive aggression by capital against wage labor. Massive layoffs, lack of jobs for youth leaving school, and the fear of unemployment that takes root among the working class are supposed to permit a freeze on, if not reduction of, real wages, greater "labor discipline" in the factories, and an intensification of the labor process.

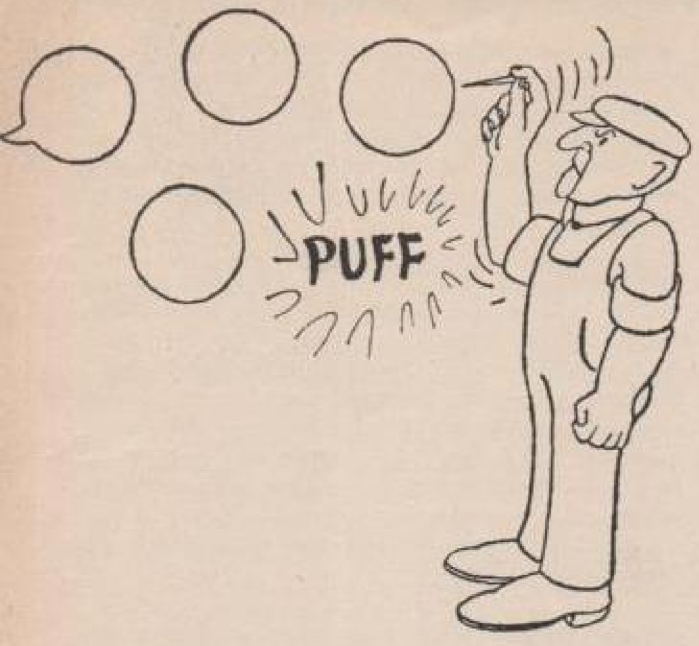
But above all, during the recession the exacerbation of competition impels companies to step up their efforts in the realm of rationalization investments. In fact, each capitalist firm tends to aim investment at reducing the labor force rather than at creating new jobs.

Right from the moment that all the imperialist governments (including those administered by the Social Democratic leadership) proclaim that the number one long-term goal remains "the struggle against inflation" and not the struggle against recession, we see the tacit abandoning of the myth of the priority of full employment, which had dominated economic and social policy in the imperialist countries since the end of the second world war.(5) The priming measures (which feed inflation) remain limited to a level at which the elimination of unemployment is not even aimed at any more, let alone achieved. The turn in imperialist economic policy has been universal on this score.

Good liberal souls are upset by this. In an article in the October 15 Le Monde analyzing the Giscard d'Estaing pump-priming plan, Edgard Faure, Speaker of the National Assembly, cried, "Employment (has been) attacked!" And this is true everywhere. Although the recession is no longer worsening and the first signs of upturn are appearing, unemployment is nonetheless getting worse in all the imperialist countries. Here are the estimates for winter 1975-76, compared with the situation during winter 1974-75:

Number of Total Unemployed (in millions)

	winter 1974-75	winter 1975-76
United States	7.5	8.2
Britain	0.8	1.5
Japan	1.0	1.5
Italy	1.5	1.5
France	0.8	1.3
West Germany	1.0	1.2



Canada	2.0 (total for all three)	0.7
Spain		0.6
Small imperialist countries		1.2
All imperialist countries	±15.0	±17.5

If the figure for part-time unemployment is added in (despite the lack of rigor in this addition), the threshold of 20 million unemployed in the imperialist countries would be rapidly attained if not surpassed. It is certain that the delay in reabsorbtion of unemployment will powerfully retard the industrial upturn and that this retardation will in turn slow down a return to a boom.

And here we hit upon the real dilemma of the capitalist governments, which reflects a real contradiction of the capitalist mode of production. "To turn the cycle up again, the rate of profit must be improved," some say. And they are not wrong. From this they conclude, a bit too hastily, that austerity must take hold in the hearts (and the stomachs) of the working class. That is the ideological function of the "great fear of capital shortage." "No," respond the reformists of the workers movement and the bourgeois reformers of all stripes, "to reabsorb excess productive capacity, consumption by the 'final consumers' must be jacked up and not held down." And they are not wrong either. The trouble is that both sides are half right, which means that they are both wrong. A genuine capitalist boom requires both a serious upturn in the rate of profit and a serious expansion of sales to "final consumers." It is not easy to bring about a coincidence of these two conditions, especially when capital markets are weighed down by enormous excess capacity and by a combative working class that is not demoralized.

It must also be added that nothing guarantees the success of the worldwide offensive of capital against the living and working conditions of the industrial proletariat. There is no automatic link between employment levels on the one hand and wage levels and workers combativity on the other hand, not in the short term at least. The interaction between these two factors is mediated by other specific factors, such as: the degree of organization of the working class; the workers' average level of consciousness; their degree of confidence in their own strength, resulting notably from the past duration of unemployment and from the outcomes of previous workers struggles; the scope and weight of the broad vanguard; the weight the revolutionary Marxist organization has already acquired within the working class and the organized workers movement, etc.

Taking all these factors into account, we predicted, from the very beginning of the recession, that this recession would not be accompanied by a general ebb in workers combativity.(6) Up to now, events have proven us right.

The working class of the imperialist countries has not rested with folded arms, neither in the defense of real wages nor in the struggle against unemployment. The reactions have been much more massive and effective and have reflected a much higher level of consciousness than those of the 1929-32 period.

Granted, there has been a temporary ebb in workers combativity in West Germany, and, after a period laced with struggles, disarray and temporary retreat have marked Britain for six months now. But signs of a new rise in combativity are beginning to be seen in both countries (notably in the powerful demonstrations against unemployment: more than 50,000 in Dortmund in early November and more than 20,000 in London in late November). And although the upturn in struggles and in trade-union radicalization remains modest in the United States, its existence is nonetheless undeniable. In conjunction with the explosive rise of struggles in Spain, Portugal, and Italy, with the new rise of the strike movement in France, Japan, and Australia, and with the growing resistance of the Belgian, Dutch, Swedish, and Finnish trade unions to any form of freeze on or reduction of wages, these phenomena give an overall picture of the major difficulties the international bourgeoisie faces in carrying out its plans through the present recession.

The rising cycle of workers struggles is still in its initial phase. Its culminating points lie ahead of us, not behind us, even if this or that country may be an exception to the general rule. And the signs of the transformation of this ascending march of workers struggle into an explosive social and political crisis are rapidly multiplying in several countries.

INFLATION AND DEVALORIZATION OF CAPITAL

The second objective function of a crisis of overproduction is the devalorization of capital, which is supposed to permit an increase in the rate of profit, with the mass of surplus-value remaining more or less unchanged (the increase in the rate of surplus value compensating for the reduction in employment). In practice, such devalorization of capital occurs through:

a) The sharpening of competition, which eliminates the less profitable firms at an accelerated rate;
b) The fall in the value of commodities and plant and equipment.

Incontestably, these two phenomena have occurred during the present generalized recession of the international capitalist economy. The number of bankruptcies has increased by more than 30% in the United States and by more than 60% in Britain. There were 7,500 bankruptcies in West Germany in 1974 and 8,600 in Japan in 1975, which represented a considerable increase. Raw materials price scales and the wholesale prices of a fair number of manufactured products have dropped. We have previously mentioned the crashes of some banks and finance companies, in general caused by speculation.(7) To this must be added some no less spectacular failures of big trusts: W.T. Grant & Co. in the United States (the biggest U.S. bankruptcy since the collapse of the Penn Central railroad company — more than a thousand million dollars in debt); the Japanese textile trust Kohjin ($500 million in debt), and its subsidiary, Sakamoto Spinning Co. ($213 million in debt). Moreover, it is known that an even larger trust, the automobile corporation Chrysler, is in serious difficulty. We may also mention the difficulties of the Slater Walker financial group in London and Singapore and of Hutchinson International Limited in Hong Kong. Even the venerable and mysterious Crown Agents, who manage the London holdings of some ninety foreign governments, lost £129 million in imprudent loans.

Nevertheless, what is striking in examining the overall effects of this recession is precisely the relatively small dimensions of this process of devalorization of capital in light of the considerable scope of the fall of production and profits. It is not difficult to discover the explanation for this apparent paradox. Inflation, which is continuing full force during the height of the recession, contributes to attenuating the effects of increased competition on the less solid trusts. The banking system continues to extend credit. "If we weren't living in a country that so totally respects secrecy when it comes to business, the press would long since have been writing that Rhône-Pouleuc would have trouble meeting its obligations were it not for the banking cooperation that continues to be extended," asserted Paul Fabre in the November 6, 1975, Le Monde. The state and the central banks are continuing to bail out companies in danger of going under. The case of Kohjin is especially illustrative. This corporation is still doing business as though nothing had happened. Enormous credits were granted a company that had in fact failed. As far as the European automobile trusts are concerned, some of which were in a very bad way, let us note a no less forthright statement by Christian Gobert of the French Ministry of Industry to Business Week (September 1): "Indeed, the guarantee of the state is already implicit now for all large European car manufacturers. The governments cannot abandon them."

The consequence of this is twofold. First, there is more and more pronounced indebtedness among the great trusts, which obviously slows down the rise of the rate of profit. For nonfinancial companies in the United States, the proportion of sources of internal financing to sources of external financing was 2-to-1 in 1968; in 1975 the proportion fell to 2-to-3. This means that for each dollar of nondistributed profits, there are now three times as many external resources for financing current investments as there were seven years ago. (See Business Week, September 22, 1975.)

Ten years ago, the stock-exchange value of these companies was more than four times the size of their debts. Today, the volume of these debts, the total of which now stands at $1.3 million million (200% higher than in 1965), has already risen to more than 50% of the stock-exchange value of nonfinancial companies, and the proportion is rising rapidly. In 1959 service charges on debts represented only 9% of gross receipts of companies; today they represent 33%. (Bulletin du Credit Suisse, April-May 1975.) In West Germany, the proportion of the debts of firms to their capital passed from 1.5-to-1 in 1968 to 2-to-1 in 1975. Nevertheless, German companies — virtually alone in all imperialist countries — were able to increase their rate of self-financing (although at a low level of investment), from 72% in 1970 to 94% in 1975. In the year 1974 alone, the 700 largest Italian companies had to borrow a sum equivalent to 57% of all they had borrowed during the entire period 1968-73.

Second, there is ever greater pressure on the banking system each time a big client can no longer pay its debts. The bankruptcy of W.T. Grant cost the system dearly, for this trust had borrowed $640 million from the banks. The firm's debts to three of the major banks in New York, Chase Manhattan, First National City, and Morgan Guarantee Trust, amounted to nearly $100 million to each bank.

It is thus understandable why after the near panic provoked last year by the collapse of the Herstadt banking house in Cologne, there was even greater near panic this autumn when the threat of bankruptcy of the city of New York loomed on the horizon. The twelve major New York banks hold more than $4,000 million in "bad debts." ($2,000 million in obligations of the city of New York; $1,000 million in loans to airlines; $400 million to loans to W.T. Grant; more than $500 million in loans to other municipalities threatened by bankruptcy). To this are added nonguaranteed real estate loans on the order of $7,600 million and loans of $4,000 million to real estate investment trusts in difficulty.

If it is kept in mind that available reserves for losses through unpaid debts are only $1,800 million and the resources of the banks themselves are only $9,500 million, it can be seen that the risks of a collapse of the credit system are real. That is why Ford had to come to the rescue and promise that the federal government would bail New York out. In the case of some banks, the total amount of operating capital plus reserves available to cover lost loans is less than the obligations held from the city of New York and the real estate investment trusts. (Chemical Bank and Bankers Trust are two examples.) Midland Marine has already suffered an absolute loss for the fourth quarter of 1975. Other "bad loans" held by the big New York banks include loans to airline companies (several of which may go bankrupt) and loans granted to finance the construction of giant oil tankers. The Federal Reserve Board has promised to aid all big banks and is closely watching nearly 546 banks, most of them small ones, that hold portfolios of New York municipal bonds in amounts exceeding 20% of their operating capital. The losses of the banks arising from the real estate investment trusts alone could run as high as $600 million-1,800 million.

The situation of the British banking system is scarcely any better. According to The Economist of August 9, 1975: "The collapse in the property market posed a bigger threat to Britain's financial system than the withdrawal of deposits from the secondary banks. On realistic property valuations, a number of banks are insolvent in all but name. . . . By the end of 1974, bank lending to the property and construction industries had reached £5 billion. That's more than half(!) the banks' commitment to all of British manufacturing, although the ratio had been a little more than one-fifth early in 1970. . . . How much property is overhanging the market? Over £1 billion at 1973 values, including the portfolios of the private Stern and Lyon groups, and the quoted Guardian Properties (Holdings), which collapsed last year, is probably in the hands of receivers and liquidators."

This time, the banks managed to squeak by. As we had estimated in our analysis at the end of the first half of 1975, the reserves of the capitalist system in the richest imperialist countries have not yet been exhausted by inflation. They still enable the merry-go-round of "indebtedness-inflation-greater indebtedness" to make a few more turns.(8) But by the same token, the recession cannot play the objective role it is supposed to play. The devalorization of capital remains marginal. The increase in the rate of profit will be mediocre. The conclusion is clear: This recession will not lead to a powerful boom, but instead to a limited upturn leading rather rapidly to a new recession.

PRIMING, INFLATION, AND THE INTERNATIONAL MONETARY SYSTEM

The priming of internal consumption and the bailing out of firms in difficulty through budget subsidies (and deficits) means priming through inflation. Bourgeois opinion, which rejoiced at a certain slowdown of inflation during 1975, seems not to be aware of the fact that the continuation of the increase in the cost of living in the midst of a recession, coinciding with a reduction in material production on the order of 5-10% in most imperialist countries, in itself constitutes an extremely serious phenomenon that suggests that there will be a new inflationary explosion as soon as the cycle is seriously turned around.

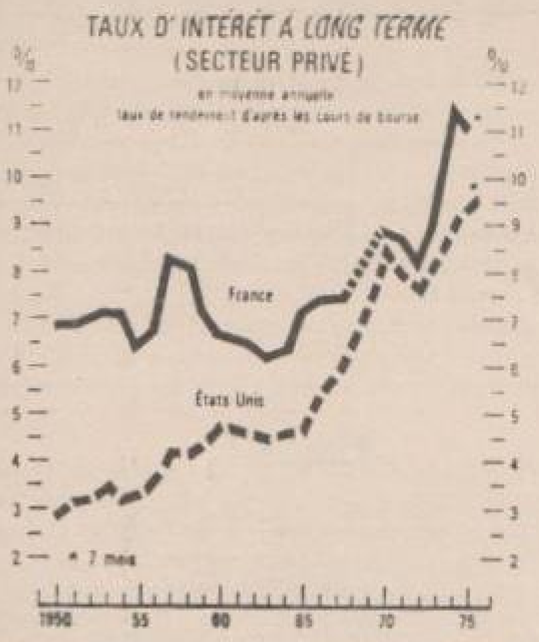
TABLE I

Retail Price Increases (in %)

	From 2nd quarter 1974 to 2nd quarter 1975	From Sept.1974 to Sept.1975
United States	9.7	7.8
Canada	10.2	10.6
Japan	13.2	10.3
France	12.7	10.7
West Germany	6.3	6.1
Italy	19.8	13.0
Britain	24.8	26.6
Belgium	13.5	10.8
Netherlands		10.4
Sweden		12.0
Switzerland		5.4

But priming through the vehicle of increasing public expenditures has another effect on the conjuncture. Enormous budget deficits have appeared: some $70,000 million in the United States; $35,000 million in West Germany; $20,000 million in Britain; $10,000 million in Japan; $9,000 million in France; the total for all imperialist countries probably comes to something like $160,000 million! Covering these deficits necessitates a growing volume of borrowing on capital markets. In Japan alone, nearly $18,000 million in public loans are expected. Hence, at the very moment when the growing indebtedness of capitalist firms obliges these firms to increasingly resort to financial markets in order to finance their investments, this market is under pressure from demands for capital on the part of governments. This provokes an increase in long-term interest rates before the industrial upturn has really taken hold.

Moreover, this increase in long-term interest rates corresponds to inflation, that is, to the appearance of a nominal interest rate that in reality represents in addition of the real interest rate plus the rate of inflation. Thus, Conjuncture, the monthly economic bulletin of the Banque de Paris et des Pays-Bas, published the following graph in its October 1975 issue showing the evolution of the long-term interest rate for credit in the private sector:



Long-term interest rate (private sector) in average annual rate of return according to market prices. Etats-Unis=United States.

Furthermore, the attack on real wages is being accompanied by enormous pressure from the bourgeoisie for a "pruning down" of public spending, which is reflected primarily in a reduction of social spending, which means yet another attack on the standard of living of the toiling masses.

The strongly discordant inflation rates among the major imperialist powers has influenced the reciprocal relationships among the major currencies, which continue to be governed by the system of floating exchange rates. The dollar has been strengthened relative to other imperialist currencies; this is also true of the French franc and the Italian lira, although to a lesser extent. On the other hand, the Japanese yen and the Belgian franc have declined somewhat, and the pound sterling is in free fall. The pump-priming policy of the Japanese government, after first being subordinated to the imperative of stabilizing the balance of payments and the yen, is now turning toward boosting exports. In this context, a certain decline in the yen in comparison with the dollar is obviously not displeasing to the Japanese ruling class.

Rates of Major Currencies as of July 17, 1975

	compared with monetary accord of Dec.1971	compared with Feb.15, 1973
US$	- 14.85%	+ 1.6%
German mark	+ 13.83%	+ 11.53%
Japanese yen	+ 0.24%	- 12.23%
French franc	+ 6.37%	+ 2.91%
£ sterling	- 32.48%	- 18.59%
Italian lira	- 29.18%	- 23.89%
Dutch florin	+ 8.03%	+ 5.96%
Belgian franc	+ 2.52%	+ 0.56%
Swiss franc	- 26.11%	+ 18.77%
Can$	- 4.26%	+ 1.60%
Aus$	+ 5.99%	- 3.45%
Swedish crown	+ 3.70%	+ 2.49%

(Source: Neue Zürcher Zeitung, August 19, 1975.)

But the imperialist powers remain deeply divided over the future of the international monetary system and over the effects that the monetary disorder resulting from the collapse of the Bretton Woods system has on the capitalist economic situation as a whole. The American and British imperialists generally remain advocates of the system of floating exchange rates. This system above all permits the dollar to be maintained as an exchange reserve in central banks outside the United States while simultaneously avoiding a return to the dollar's convertibility for gold. Many European imperialist powers, beginning with France and Switzerland, oppose the system of floating exchange rates for that very reason. They believe that this system introduces more and more disorder and speculation into international trade and that it progressively puts the brakes on the expansion of trade. In addition, they see this system as a permanent source of inflation, since it permits the United States to maintain a balance of payments deficit ad infinitum. The flow of depreciated dollars to the rest of the world, which results from this, feeds and swells inflationary pressures everywhere.

The system of floating exchange rates has not at all prevented violent fluctuations in currency exchange rates. (The dollar fell by nearly 25% in 1973 relative to the German mark and the Swiss franc; this was followed by a complete reestablishment of the rate six months later.) This has stimulated both speculation and the elimination of "bad speculators." But as was noted in a February 1975 bulletin of the journal Banque: "The damage wreaked by this aspect of the generalization of floating exchange rates is measured not only in the figures of losses registered . . . or in the disappearance of some banks, but above all in the deterioration of the general atmosphere of confidence between bankers and their depositors."

The discussions that preceded and took place during the "imperialist summit" at Rambouillet in large part revolved around this debate. The results were mediocre. The November 19 Le Monde observed that the Western leaders were "counting on a more stable dollar." In practice, this would mean that France pretty much gave in to the United States. Nevertheless, the imperialist governments also decided to reduce the amplitude of the fluctuations in exchange rates, that is, to adopt an intermediary solution between the systems of fixed and floating exchange rates. It seems too risky to rely exclusively on the stability of the dollar in view of the financial situation of American capitalism as we have outlined it above and as it is certainly viewed by the international bourgeoisie.

In truth, the difficulty in bringing "order" to the international monetary system derives above all from the fact that there is still no alternative to the dollar. The "ECU," the European-wide currency that was supposed to be born of a more advanced monetary and financial integration of the Common Market countries, is still but a dream. Under these conditions, regardless of all the pressure of the American government, the plans to "demonetarize" gold have scarcely any chance of being applied in practice, even though a good number of governments support such plans, or at least give lip service to them. In the absence of a means of exchange and payment universally accepted by the private owners of commodities and creditors and in the absence of a "world bourgeois government," which is unrealistic under conditions of interimperialist competition, which is still going on full steam, gold continues to play its role as a last-resort means of payment and refuge value (the major means for hoarding). The violent fluctuations in the price of gold — including, at times, downward fluctuations (the price of gold fell from $200 an ounce at the end of 1974 to $126 at the end of September 1975, after the decision of the International Monetary Fund to sell 25 million ounces of gold; it rose back to $146 an ounce at the beginning of November) — far from demonstrating the elimination of this metal from the international monetary system, demonstrate the opposite. The government of the United States will have to give in on this point, having already admitted that the central banks that desire to do so (especially those of capitalist Europe) have the right to mutually exchange gold at market prices and not at an artificially low price.

Further, we are now witnessing a significant reversal of the trend toward the hoarding of gold. The London precious metals brokerage firm of Samuel Montagu and Company, Ltd. estimates that 55% (that is, 800 metric tons) of the total quantity of metal placed on sales markets last year was absorbed by European speculators and that unloading is now going on in India and other Asian countries, traditional hoarders of gold. This fact further strengthens the trend toward the return to gold as a last-resort objective base for the international monetary system.

THE CONTRACTION OF WORLD TRADE

According to a report of the GATT (General Agreement on Tariffs and Trade), the volume of world trade declined 10% during the first half of 1975 compared with the volume during the corresponding period of 1974. We do not yet have figures on trade volume for the third quarter of 1975, but everything indicates that it continues to stand at a lower level than during the third quarter of 1974, even though the differential may well be smaller. In any case, the exports of the major imperialist powers have not yet returned to their pre-recession levels, as is shown by the following figures:

TABLE II

Exports (in thousands of millions of $)

	USA	W. Germany	Japan
3rd quarter 1974	23.4	22.0	15.0
4th quarter 1974	27.1	24.2	16.5
1st quarter 1975	27.2	22.5	13.3
2nd quarter 1975	26.7	23.6	13.6
3rd quarter 1975	27.0	22.2	13.4

Taking account of the fact that the prices of the manufactured products mainly exported by these countries have continued to rise, the fall in the volume of exports is even greater than the decline by value.

Nevertheless, the various sectors of the world market have evolved unevely during the last half of 1975:

The U.S. market is expanding under the effects of the beginning of upturn. Imports are increasing slightly and certain branches are clearly profiting from this. For more than six months, European and Japanese automobile manufacturers (especially Volkswagen, Toyota, and Datsun) have been able to sensationally increase their share of the American market, which has risen from 15% to 20%. It is true that toward the end of 1975 this share dropped back to about 15%. But it is not certain that this was due to the greater competitiveness of American "subcompacts." It is possible that inventories and transport were simply unable to keep up with demand. (Moreover, Volkswagen is once again considering its project of manufacturing automobiles in the United States for sale on the U.S. market.)

The markets of the major imperialist countries of Europe and of Japan are continuing to stagnate, although small signs of expansion began to appear toward the end of the year. In most of these countries, the share of imports relative to gross domestic product tends to stagnate or even decline. This was especially the case for Japan. The exception is Britain, where foreign competition (especially from Europe and Japan) is more effective because of the explosion in the sales prices of British products. The contraction of the Japanese market has been a disaster for the capitalist countries of Asia, for whom the Japanese market constitutes the buyer for one-third of their exports. Thus, Japanese imports (other than oil) had diminished by nearly 30% during the first quarter of 1975. In August-September Japan still imported 20% less iron ore and 33% less wood than during the same months of the preceding year. (Far Eastern Economic Review, October 31, 1975.)

The market in the semicolonial countries that are not oil-exporters is contracting seriously because of the fall in the prices of raw materials that took place throughout the second half of 1975 through the month of November (see table 3).

TABLE III

Prices of Major Raw Materials

	Sept.23, 1975 compared with Sept.23, 1974	Sept.9, 1975 compared with Aug.23, 1975	Nov.25, 1975 compared with Oct.25, 1975
Index in $			
All products	- 9.4%	- 2.8%	zero
Food products	- 11.7%	- 2.0%	+ 0.1%
Industrial fibers	- 9.7%	- 2.4%	- 0.2%
Metals	- 20.5%	- 7.7%	- 1.1%
Index in £			
All products	+ 2.6%	+ 0.2%	+ 1.4%
Food products	zero	+ 1.1%	+ 1.5%
Industrial fibers	+ 2.3%	+ 0.6%	+ 1.2%
Metals	- 10.0%	- 4.8%	+ 0.3%

(Source: The Economist, September 27 and November 29, 1975.)

Obviously, it is the prices in dollars that are significant; the prices in pounds sterling reflect the devaluation of this currency, which exceeds the amplitude of the fall in the prices of raw materials.

The fall in the prices of the major raw materials, combined with the contraction of the volumes exported as a result of the fall in demand resulting from the recession, has severely reduced the buying power of the countries that export raw materials on the world market, with the exception of the oil-exporting countries. These countries have been compelled either to seriously increase their debts in order to pay for imports or to reduce the volume of their imports. Some big orders from the imperialist countries that had been anticipated have thus disappeared temporarily. The total trade deficit of these countries, which had already risen to the impressive figure of $40,000 million in 1974, threatens to rise still higher in 1975.

The markets of the oil-exporting countries have expanded more rapidly than expected, since these countries have spent a greater portion of their oil revenue than originally expected on imports in various forms (arms, infrastructure development projects, industry and agriculture, luxury consumption, etc.). In fact, the combined balance of payments surplus of all the oil-exporting countries was no more than $17,000 million for the first half of 1975 (Neue Zürcher Zeitung, September 19, 1975), compared with a surplus of more than $33,700 million for the second half of 1974. Estimates of the U.S. Treasury Department evaluate the value of these imports as rising from $20,000 million in 1973 to $37,000 million in 1974 to $55,000 million in 1975. (The Economist, September 20, 1975.) The rise of these imports has been such that certain oil-exporting countries are even in debt once again, the balance of payments surpluses have been practically exhausted. Other countries have had to re-examine some of the projects that had already been initiated, which has inflicted some setbacks (perhaps temporary) on the exporting imperialist countries.(9) We should also mention that oil production itself diminshed 14% during the first half of 1975 compared with the first half of 1974; the decline even reached 27% in Kuwait and 41% in Libya, according to the September 1975 Middle East Economic Review.

The market in the bureaucratized workers states is continuing to expand from the standpoint of foreign trade with capitalist countries. But the expansion has been more modest than anticipated, notably because the recession has reduced the absorbtion potentials of the capitalist markets for products coming from the countries of the East and because these countries are beginning to experience serious shortages of western currency. Several of the workers states have had to resort to the capital markets of West Europe to finance import projects; they have generally been successful in these endeavors.(10) We should also mention the tendency toward long-term barter agreements, which are designed to guard against too strong fluctuations in world market prices. The barter of American wheat for Soviet oil and the barter of Japanese steel for Chinese oil are examples.

Generally speaking, the atmosphere of recession and sharpened interimperialist competition has stimulated a rise of nationalism and economic protectionism in all the imperialist countries. In the United States unfair competition suits have been initiated against importers of automobiles and of European and Japanese steel products, while watch manufacturers are attacking importers of digital and electronic watches. In the Common Market countries, accusations of dumping have been made against importers of Soviet trucks and Japanese steel. In Japan the "liberalization" of automobile import rules was held up by so many bureaucratic obstacles that the Common Market ordered Japan to open its borders or the EEC would begin to place restrictions on the import of Japanese autos. Australia set import quotas on automobiles, which resulted in the reduction of these imports by 55% during the period July-October 1975. Britain accused Spain of dumping its steel products. Sweden placed restrictions on shoe imports, and the Common Market retaliated by enacting restrictions on the import of Swedish paper. France imposed restrictions on the import of Italian wines, contrary to the spirit of the Treaty of Rome. And so on.

The most typical case can be seen in the steel industry. This industry has been especially hard hit by the recession, as is indicated in the following figures:

Decline in Steel Production

During the First Eight Months of 1975

Belgium	- 29.0%
West Germany	- 21.0%
United States	- 18.4%
France	- 18.0%
Japan	- 11.6%
Britain	- 10.1%
Other capitalist countries	- 12.8%

More generally, Britain is preparing to introduce controls (and thereby limitations) on imports. And as was written in a recent supplement to the review Eurépargne, published in Luxembourg: "Manifestly, in the present situation it is improbable that the principle of Free Exchange such as it is practiced by the western countries alone will be able to be preserved without corrections" (September 1975.)

MORE LONG-TERM PROSPECTS

The more long-term development trends of the international capitalist economy — unless all the present factors are overturned by the breakthrough of the socialist revolution in West Europe — may now be sketched out.

It appears certain that because of the decline in the average rate of profit, the economies of the imperialist countries will no longer experience the average growth rates they did during the 1950s and 1960s. Some major monopolies are already acting on the basis of such a prospect, which tends to make it a self-fulfilling prophecy. For example, according to the October 21 Le Monde: "In steel, as elsewhere, something has changed in the past year. The ambitious extrapolations based on a planned growth of 5% and more have been abandoned without a real consensus being reached . . . on a progression figure." And the Japanese Ministry for International Trade and Industry predicts a 2.1% per year increase in domestic demand for private cars and trucks for the period 1972-1985, compared with a 15% annual increase for the period 1965-1972. (Far Eastern Economic Review, November 28, 1975.)

Those branches especially affected by the turnabout in long-term trends will experience a "pruning down" through the elimination of a series of less adept competitors. In spite of the intervention of governments, this "pruning down" is now inevitable, notably in the automobile industry. The reaction of the most "dynamic" monopolies (especially in Europe) will be to move in the direction of diversification. Classic automobile trusts like Fiat and Renault are counting on carrying out slightly less than 50% of their total turnover in the auto industry itself. U.S. Steel already draws 43% of its profits from sources other than steel.

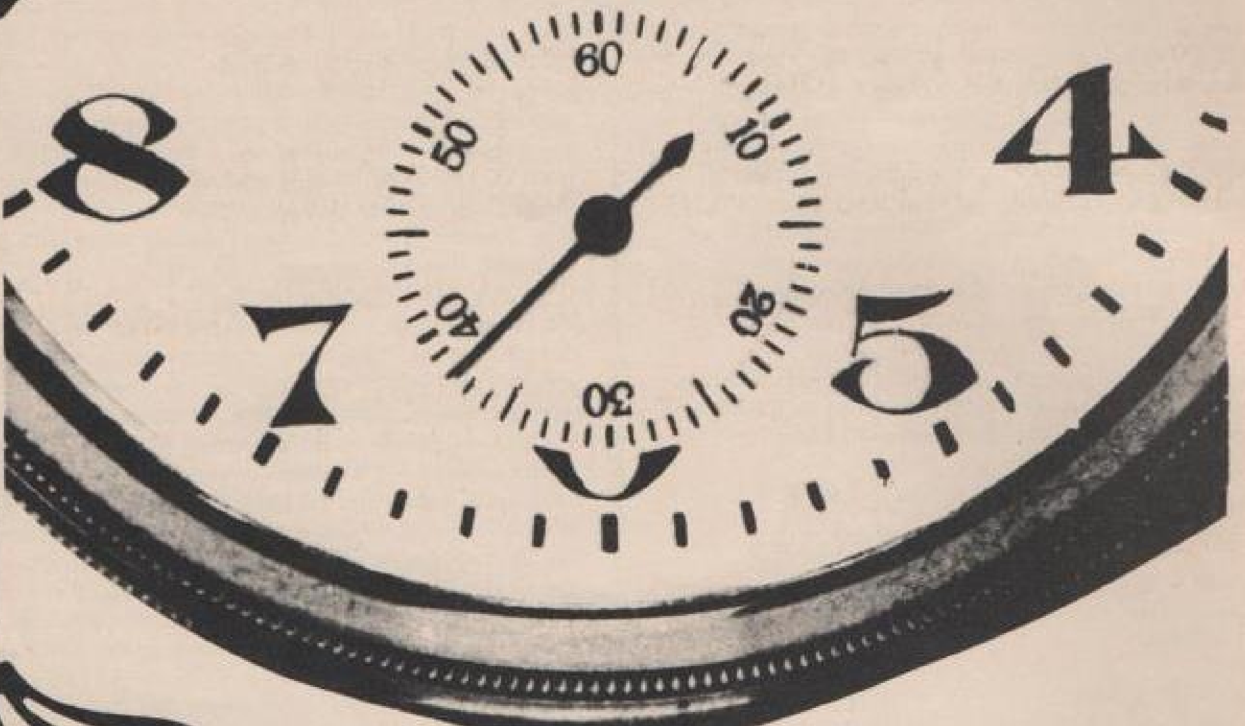
The branches that have experienced exceptional growth rates during the "long wave of the tendency toward expansion" of 1940(1948)-1967 will now experience less rapid expansion. They will lose the exceptional rates of superprofits they have enjoyed up to now. The most important case will undoubtedly occur in the computer industry. Competition has been particularly lively in this field ever since the recession began.(11) The market for large-scale calculating machines is increasingly saturated. The giants, IBM above all, which have up to now left the market for mini- and microcomputers to weaker competitors so that these competitors could take the field against one another and destroy themselves in a price war, will begin to penetrate this field in force. Expansion will no longer be able to be sustained through mass production and sales, that is, through small-sized models.

But the growth rate will fall rapidly in this domain as well. According to the March 5, 1975, Financial Times, the following expansion of world production is anticipated: from 23 million units in 1973 to 34 million in 1974 (+50%) to 50 million in 1975 (+47%) to 67 million in 1976 (+34%) to 86 million in 1977 (+27%) to 92 million units in 1978 (+8%).

Efforts to bring off spectacular "innovations" at costs of hundreds or even thousands of millions of dollars in preparations will be redoubled with the amplification of the capital surpluses that result from the long-term slowdown in growth. Many of these projects will be financial failures, as was the case with the Concorde supersonic aircraft, and as was the case with the attempt of the Gulf Oil and Royal Dutch Shell trusts to join forces and go into the nuclear industry. Some projects seem to promise a medium-term "breakthrough": the electric car, for which Britain is well placed; the "video disk," the major "innovation" of the electrical appliance industry in which, unlike the case with television, the Americans will no longer be alone in starting. From the initiation of mass production, Philips (Netherlands), and perhaps Decca-Telefunken, will accompany RCA.

The Japanese antipollution mechanisms industry seems headed for brilliant expansion; according to the November 28 Far Eastern Economic Review, "anti-pollution equipment has now become the second biggest and most profitable item for Japan's machinery makers. . . . Investment in preventing or curbing pollution in key

UPTURN



industries . . . has more than doubled, from US$1,615 million in fiscal 1973 to $3,380 million in fiscal 1974, according to a . . . MITI (Ministry of International Trade and Industry) survey. . . . The report predicts further steep growth in outlays for pollution control to $4,820 million for fiscal 1975."

The prospects for the nuclear industry are less clear and seem less expansive than had been thought several years ago. Spectacular accidents, the increased costs of supplementary security measures, the downward revision of the "energy deficit" forecast on the basis of imprudent extrapolations of increases in production and population — all these factors are now giving rise to greater caution as to the number of atomic power plants that will be operating ten years from now.(12) Nevertheless, this branch, as well as the electro-nuclear installation branch, will remain an important expanding sector.

From the geographic standpoint, the oil-exporting countries will continue to experience better than average economic growth rates for several years, thanks to the financial resources they have already accumulated. The export of capital goods to these countries will thus also increase more than proportionally with respect to world trade as a whole. But once the first series of factories is constructed, they will threaten to eliminate jobs in the countries that export machine tools if the slowdown in economic growth and the perturbations of world trade continue as predicted. Britain hopes for a turnabout in its balance of payments as a result of North Sea oil. Japan and West Germany are continuing to expand their direct capital exports abroad. The penetration of the countries of the Pacific and of Latin America by Japanese capital is especially spectacular. Between April 1973 and March 1975 Japanese investments were authorized in the following amounts: $685 million in Brazil, $360 million in Peru, $272 million in Bermuda, $218 million in Australia, $174 million in the Middle East, and $165 million in Canada. This is in addition to the nearly $2,000 million of investments in the traditional markets of East Asia and the $1,300 million in investments in the United States. (Financial Times, November 12, 1975.)

On the whole, all the characteristics of a "long wave of reduced growth," and even of predominant stagnation, are progressively taking shape. Because of the strength of the working class, this implies a determined struggle for the modification of the rate of surplus-value, the only means capital commands to definitively reverse the long-term tendency of the rate of profit to decline, given the irreversible character of semiautomation and automation (that is, given the considerable rise of the organic composition of capital). Thus, all proportions guarded, the "economic atmosphere" is coming close to the atmosphere that prevailed at the beginning of the 1920s. The end of this long cycle of intense class struggle will be either the victory of the socialist revolution or real catastrophes for the human race, as was the case a half century ago: bloody dictatorships and murderous wars.

December 10, 1975

"The end of this long cycle of intense class struggle will be victory of the socialist revolution or real catastrophes for the human race."

FOOTNOTES:

1. See especially chapter 14 of our book Late Capitalism (pp. 446-7 of the English edition, New Left Books).

2. On this subject, see especially: Victor Barrett and Richard Black, "The Deflation of the Economists," in Euromoney, April 1975.

3. A very good summary of this new exercise in extrapolation, which will experience the same fate as similar exercises in the recent past, can be found in Business Week, September 22, 1975.

4. See especially Karl Marx, Capital, Volume III, Chapter 15.

5. This turn in all the imperialist countries is being accompanied by a "counteroffensive" by liberal-conservative economists of the von Hayek type. Here is a characteristic formula from Professor Harry Johnson: "The answer (to inflation) . . . in the long run . . . depends on the willingness of society to retreat from the welfare state. . . ." (The Banker, August 1975.)

6. See INPRECOR, No.16/17, January 16, 1975, p.12.

7. Ibid, pp. 10-11.

8. An additional threat of the collapse of the international credit system arises from the uncontrollable expansion of the Euro-exchange market. In this regard, here is the view of a well known international banker, Mr. Rennie: ". . . the overall strength of the world's monetary system depends too much on the reasonable soundness of each part for any such major collapse (in the Euro-markets) to be allowed to occur, without every effort being made, on an international scale, to avoid it. . . . If, despite maximum international cooperation, a major default were to occur, it could, in my opinion, erode the viability of the Euro-markets and remove them from their position of importance in today's world financial scene." (The Banker, August 1975.)

9. This is especially the case for Algeria, which, because of the aggravation of its trade deficit, has placed a question mark over several industrial projects involving large orders from France. (Le Monde, October 15, 1975.)

10. According to the November 25, 1975, Financial Times, the USSR Foreign Trade Bank has borrowed some $750 million in the West since the beginning of the year. To this must be added the loans of Poland, Hungary, and Cuba, for a total of $590 million, the loans of the Comecon Investment Bank for a total of $430 million, and the loans of the German Democratic Republic of $35 million.

11. Rank-Xerox has had to leave the branch. Rockwell is in trouble. Texas Industries has so far failed in its entry into the field of minicomputers. Siemens is clinging to the sector, despite the dissolution of Unidata, its merger with Philips; it now seems to be allying itself with the Japanese trust Fujitsu. In fact, it is expected that there will be a reduction of 12% in the value of the computers sold in the United States this year.

12. See the study published in the November 17, 1975, Business Week.

RECESSION

& THE CRISIS OF SPANISH CAPITALISM

by PEDRO GARCIA

Introduction

Toward the middle of 1974 it became clear that a recession had just broken out in Spain and was developing rapidly. The internal contradictions of the capitalist mode of production were reflected in an overproduction crisis, as was also the case for the other links in the imperialist chain. Today, in the autumn of 1975, it can be said that the crisis is not only continuing, but has even worsened. There is no sign that capitalism will soon turn upward again.

The structural characteristics of Spanish capitalism, the political impasse in which the bourgeoisie has been caught since 1969, and the rise of the mass movement lend this overproduction crisis specific characteristics that ought to be examined. The crisis in Spain broke out in a context that may be summed up as follows:

- The economic crisis has developed parallel to the aggravation of the political crisis, which worsens from day to day.

- It develops at a time when the mass movement is going through an extraordinary rise, which has prevented Spanish capitalism from increasing the rate of exploitation of the working class at a time when this would have to be done if the effects of the oil crisis and of world inflation were to be countered.

- It has affected different groups of capitalists in varying ways, at varying times, and with varying intensity. The impact of the oil crisis hit some branches, like automobiles, harder than others. The backward branches, with a lower organic composition of capital, were harder hit by inflation and wage increases than was big capital. The internal contradictions of the capitalist mode of production in Spain were decisively aggravated by the unfolding of the crisis.

After the boom, which began in 1971 and resulted in rapid growth in 1972 and 1973, the internal dynamic of Spanish capitalism itself would have provoked an overproduction crisis in any case. But that crisis was rendered more profound and more rapid by the effects of two additional factors:

1) The simultaneity with the cycle in the rest of the imperialist economy as a whole, both in its ascending and descending phases, aggravated by the oil crisis.

2) The rise of the mass movement, which not only dashed the hopes of Spanish capitalists and prevented them from increasing the rate of exploitation, but was also able to prevent the adaptation of production and resources to the new prices of oil and raw materials from taking place at the expense of the workers.

Because of the dialectical interaction of these three factors, it is extremely difficult to separate them in the analysis. In what follows, we will not deal with overproduction on a world scale and will instead center the analysis on the effects of this worldwide overproduction on Spain.

Evolution of latest cyclical phases

The preceding phase of reduced economic activity for Spanish capitalism may be situated in the middle of 1971. Then came the boom, which, for the first time, coincided in all the imperialist countries of the world. The boom attained its culminating point at the beginning of 1974, and then developed into a new recession toward the middle of that year. All this may be summed up in the following figures:

Average Rate of Growth of GNP (in %)	
1961-70	7.6
1971	4.5
1972	8.9
1973	8.4
1974	5.0
1975 (est.)	1.0

The boom that began in the middle of 1971 was stimulated by:

- The evolution of the world economy, which was marked by the progressive rise of the rate of inflation and by a rapid upswing in world trade, thus provoking a considerable increase in demand for the products of Spanish capitalism and a clear improvement in the balance of payments, which in turn enabled the government to apply an expansive policy without fear of future devaluations of the peseta;

- The progressive absorbtion of stocks and the reestablishment of the rate of profit at a time when demand was increasing for nearly all products, when inflation was continuing, and when the organization and combativity of the working class was rising rapidly.

In 1973 economic activity remained at a high level, which was reflected notably in:

- a very high level of employment, which sometimes approached full employment; there was a shortage of skilled labor;

- big difficulties in obtaining supplies of raw materials, which were rendered increasingly scarce by the boom of the international capitalist economy;

- an increased level of utilization of productive capital, which nevertheless began to diminish with 1973 (slowly falling beneath the utilization level of more than 90% attained at the end of 1972);

- an acceleration of inflation: Although the official figure for the rise in the cost of living was 8.3% in 1972, it rose to 11.5% in 1973. Inflation, which was to accentuate still more later on, undermined the buying power of the masses and accentuated the trend toward depression of consumption. Since the level of organization of the masses was rather high, this became an additional factor in mass mobilization, which culminated in autumn 1974 in a wave of struggles that seriously affected industrial production.

All these factors were to lead to the overproduction crisis that appeared in 1974. But the recession would not have been so strong and its effects would not have been so persistent had it not been for the coincidence of two further factors: the international crisis and the rise of the mass movement.

It must also be noted that the anti-inflationary policy applied by the government beginning with the end of 1973, which was characterized by significant monetary restrictions, intensified these depressive tendencies. Inflation and the oil crisis further threatened the international positions of Spanish capitalism. The bourgeois state, which had never expected the crisis to be so grave, tried to correct this state of affairs by depressing the economic situation. But this policy was scarcely workable, and Spanish capitalism had to change its economic policy on several occasions during 1974, each time events themselves belied the predictions of the state apparatus. This led to a growing lack of credibility on the part of successive governments. When the ministers appealed to the patriotism of the capitalists, as was done recently, this did not even manage to halt the decline of the stock market. This was a clear sign that the exceptional form taken by the bourgeois state since Franco was not only no longer useful for the faction of the bourgeoisie out of power, but had even ceased to be useful for the faction of the monopolies represented by this form of state.

The culminating point of the boom may be located toward the end of 1973. But the great inertia of the Spanish economy; the fact that order books were still filled and that stocks had been accumulated through speculation on new increases in the prices of raw materials; and the change in the economic policy of the government, which sought to pull through the beginning of 1974 by trying to prevent inflation and the oil crisis from reducing consumption (in order to eliminate one of the causes of increased workers combativity) — all these factors resulted in a continued high level of economic activity during the early months of 1974, thus postponing the outbreak of the recession to around the middle of the year. After that, however, the recession intensified, hitting hard at investments and exports, private consumption and public spending.

Role of the workers movement

The rigidity that characterizes Spanish capitalism and the capacity to alter the volume of employment in the event of recession (because of the existing laws) prevented unemployment from going up until a few months after the beginning of the decline in economic activity. During a boom period, overtime hours pile up rapidly before new hiring takes place; in periods of recession, on the other hand, overtime is cut out before layoffs are ordered. Because of the absence of any adequate unemployment insurance, there are no "free layoffs," in view of the rapid rise of social conflicts that would otherwise result. In fact, during an initial phase, the cost of making adjustments in the volume of employment falls on the capitalists, whereas in other countries it falls on the state, which has to cover growing deficits in social security. The inefficiency of the Francoist bureaucracy is especially manifest in this regard. It undermines the competitive capacity of Spanish capitalism, which consequently suffers a major puncturing of its profits during times of crisis.

From the beginning of 1974, unemployment began to rise rapidly, even before overall economic activity began to fall. The tendency of official statistics to underestimate the number of unemployed is well known. In general, economists agree that the official figures have to be multiplied by two (at least) to arrive at a more realistic figure. Between January and December 1974 the officially declared figure on unemployment rose from 160,000 to 250,000. The reason for this was the European recession: more than 35% of the rise in unemployment in Spain resulted from the return of immigrant workers who could no longer find jobs in the other countries of West Europe.

Spanish capitalism tried to make the working class bear the costs of the adjustments required by the international crisis and the new prices of oil and other raw materials, the aim being to maintain the rate of profit. But workers struggles were able to prevent this. In 1974, for example, wages increased nearly 30%, that is, clearly more than the cost of living. This fact, which had a greater effect on the more backward branches (because of their lower organic composition of capital), had a strong influence on the fall of the rate of profit and at the same time prevented the transfer of resources abroad (essentially toward the oil-exporting countries), thus rapidly placing the Spanish bourgeoisie in positions inferior to those of its main competitors because of a growing debt and a higher rate of inflation. But however important the wage increases may have been, the manner in which they were won marked an important qualitative change from the past. In addition to the wage increases called for in the contracts, the workers movement also succeeded in winning a reduction in the workday, broke through the limits on wage increases imposed by government decisions at the end of 1973, and in many cases even obtained equal wage increases for all!

In addition, the workers movement once again succeeded in demonstrating the ineffectiveness (from the standpoint of the capitalists) of the exceptional form of bourgeois state in Spain, which was unable to halt the mobilization even by making use of all its repressive capacities. The workers movement broke through the policy of wage freeze; it forced the government to grant compensation to neutralize the reduction in mass consumption, notably through action on inflation that prevented its full weight from falling on the working class. Hence, the fall in the rate of profit was accentuated. In attempting to contain the progress of workers struggles and to attenuate an acute social crisis, the bourgeois state objectively played a role opposite to what was needed by the monopolist groups the state represents.

The importance of the rise of workers struggles in the evolution of the crisis of Spanish capitalism may be measured by the fact that this rise wound up seriously influencing the level of industrial production. The highest point of workers struggles, attained during the autumn of 1974, coincided with a sharp decline in industrial production, which all commentators attribute to the social situation:

Percentage Increase in Index of Industrial Production
(relative to same quarter of preceding year)

1973:	1st quarter	+17
	2nd quarter	+14
	3rd quarter	+16
	4th quarter	+14
1974:	1st quarter	+15
	2nd quarter	+14
	3rd quarter	+ 8
	4th quarter	+ 1
1975:	1st quarter	-11
	2nd quarter	- 9

Although the overproduction crisis is manifested in both the imbalance between the two sectors of the capitalist economy and the fall in the rate of profit — that is, the fall in the rate of capacity utilization and the fall in the volume of accumulation are results of the two factors — we will separate them in the analysis in order to make the analysis easier.

A. The disequilibrium between the two sectors is manifested in the fact that the demand for goods rose less rapidly than productive capacity.

1. Consumption experienced a pronounced deceleration in real terms, although one cannot speak of an absolute decline; for the whole of the year, it is questionable if growth will exceed 5%. During the year, companies' order books declined, stocks accumulated, and prognoses became increasingly pessimistic. The rate of utilization of capital fell from 87% at the end of 1973 to 80% for the last quarter of 1974. In 1975 this trend continued; unutilized capacity rose to 23%, a figure that had not been reached since 1967. The cause of this must be sought in the impact of inflation on the buying power of the masses, even though the success of workers struggles reduced this impact relative to the impact of inflation on the rate of profit.

2. Investments were hit belatedly, but when they were the fall was much sharper than was the case with consumption. This is normal in a declining phase. For the same reason, the priming of investments takes more time than the priming of consumption. While investments still increased 7% for the whole of 1974, this did not prevent a continuous fall in orders for investment goods as the year went on; at the same time, stocks increased, although less intensely than the stocks of consumer goods. The rate of utilization of capital did not decline strongly (falling from 89% to 85% for the year as a whole); the decline took place more particularly at the beginning of 1975.

3. Construction was the sector that made the biggest contribution to unemployment. Adaption of the volume of the work force to current production is much easier in this branch because of its heavy utilization of part-time workers. During 1974, this created an atmosphere of crisis in this branch, which scarcely contributed to improving prospects for the rest of the economy.

4. The repercussions of the international crisis undoubtedly constituted the most important factor. The increase in the prices of oil and of other raw materials had uneven effects on the various branches of the capitalist economy. The importance of this may be measured by the fact that 70% of the increase in the trade deficit was due to increases in the price of oil. As for the effects of the contraction of world trade, it is sufficient to mention that the deterioration of the balance of payments (without taking movements of capital into account) reached 6% of the gross national product, which did not happen in any other imperialist country. The overall result may be estimated as a loss of $770 million for the Spanish economy, despite the increased foreign debt to which the government resorted.

B. The fall of the rate of profit.

All these phenomena contributed to the fall in the rate of profit. For capitalism, a moderate rate of inflation contributes to the realization of surplus-value, because it permits the maintenance of demand at a high level and at the same time permits the workers struggles to be "integrated" in part. But when the rate of inflation becomes galloping, the resulting workers demands and price increases set in motion an inflationary process that affects various branches of capitalist activity unevenly and aggravates the internal contradictions of the system. This was especially true in 1974, since inflation increased the costs of industrial production much more than it increased sales prices. For the first time, wholesale prices rose even more than the cost of living! The following factors influenced the fall in the rate of profit:

a. The effects of inflation on the most backward sectors, especially agriculture. Spanish agriculture is marked by a pronounced structural imbalance. Certain products, like wheat, rice, citrus fruits, and wine, suffer permanent surpluses with no domestic or international outlets. For other products, like sugar, there is a permanent shortage. In the case of livestock breeding, profitability is problematical because of the shortage of feed that results from the protection the regime accords production of wheat. Average agricultural productivity is low. All this results in a constant increase in the agricultural balance of trade deficit, while 25% of the working population is engaged in agriculture. Spanish agriculture thus acts to accentuate the effects of inflation on the capitalist economy throughout the Spanish state. These tendencies intensified in 1974. The deficit in the agricultural trade balance doubled. The price for the food component of the cost of living index rose 19%. The official policy of "blocking prices" in some precise cases through subsidies granted farmers prevented the basic imbalance of agriculture from having even more serious effects on the cost of living.

To sum up, we may report that for Spanish capitalism the backward state of agriculture represents:

- A permanent stimulant to the rise in the cost of living. By increasing the prices of food for the workers, a negative effect is exerted on the rate of exploitation of the working class in the most advanced industrial sectors and also acts to constantly stimulate demands for wage increases;

- A permanent source of increase in the deficit in the trade balance, with losses of exchange reserves that result in a threat of devaluation when the upturn comes, because of the increase in the costs of necessary imports.

b. The increase in labor costs, to which we have already alluded, and which is compounded by the increase in employer contributions to social security. The increase in the wage fund (30%) was superior to that of the GNP in current prices (19%), which implies only a very slight increase in nominal profits, if not an actual stagnation.

c. The rise in the prices of raw materials and oil, the effects of which continued in 1974, although in varying ways in different sectors. The prices of imports rose 50% on the average during 1974.

d. Speculation on stocks, which occurred in the expectation of further price rises in raw materials, accentuated the fall in the rate of profit, because a reduced profit was made with a capital increased by the value of these stocks.

Sectoral imbalances and the fall of the rate of profit acted in a dialectical manner throughout 1974; their joint action wound up by seriously affecting accumulation and clearly showed that the crisis of overproduction was a fact that could not be resolved within the space of several months. The internal logic of the capitalist cycle was brought into play, aggravated by the specific features of Spanish capitalism.

Amplification of the crisis

During 1975 no symptom of a short-term upturn in the situation appeared. In fact, industrial production fell 10% during the first five months compared with the same period of the preceding year. The index of apparent investment declined 6%. Official unemployment rose to 300,000; according to the "Inquiry into the Working Population" of the National Statistical Institute, the real figure was 610,000 as of June 1975. Inflation continued at the same rate as 1974, despite the fact that this time there was no increase in the price of oil. In August 1975 the cost of living was more than 10% higher than it had been in December 1974. Forecasts continue to be pessimistic, which is reflected in polls of employers and in the continuing fall of the stock exchange, which had dropped 27% since April 25, 1974.

Banking credit in the private sector has slowed down following a decline in the growth rate of investment. This growth rate dropped from an average of 25% in 1974 to 15% in July 1975. The foreign debt, which was still very low back in 1967, has risen to $4,500 million. Debt servicing now absorbs 9% of the export revenue of the Spanish state; in 1967 it absorbed only 1.8%.

Because of all this, order books continue to be sparsely filled, stocks remain high, and underutilization of capital reached 24% in June 1975. It is clear that the cycle is continuing to head downward, the only unknown factor being the evolution of consumption. The small and middle-sized companies have been hard hit. The figure of liquidations and bankruptcies is going up; in a later stage, these effects will also be felt by monopoly capital. As far as banking capital is concerned, the deceleration of credit in the private sector, along with the fall of the stock market, is also hitting hard. Economic policy has done nothing to improve the situation. A decree-law promulgated on November 14, 1975, practically froze wages, no longer permitting increases greater than the official rise in the cost of living, while priming building construction. Because of the reigning social tensions, the short-term effects of these measures will be practically nil. No conjunctural improvement can be expected before the summer of 1976, things being what they are. □

Finance Minister Sträng

When our last issue on the international capitalist economy appeared (June 1975), Sweden (along with Norway) was only just beginning to be affected by the generalized international recession. For most branches of the Swedish economy, 1974 was still a boom year. Industrial production increased 7.4% over the year, and all the major export-oriented companies reported big increases in both profits and sales. This was in stark contrast to the prevailing situation in the major imperialist countries.

Several factors explain this "exceptional" character of the Swedish economy, some of them structural, others purely conjunctural:

1. The Swedish economy is strongly dependent on exports, which is shown by the fact that 40-45% of industrial production is sold on foreign markets. The export-oriented industries are mainly comprised of two different sorts of production: raw materials and semifinished goods on the one hand and highly specialized metal and engineering products on the other. In both these

Sweden: an End to an Exception

by **BENNY ÅSMAN**

sectors, the international recession developed in a way that was favorable for the Swedish capitalists. There was a special conjunctural lag in iron, steel, and paper pulp production, which postponed the downturn in Sweden. The same goes for the highly specialized products of the metal and engineering industries; the products of these industries had fitted into the markets in countries with the least bad conjunctural situations. These factors have smoothed out the conjunctural ups and downs of the Swedish economy ever since the second world war.

2. The rate of inflation during 1973 and 1974 was among the lowest in the imperialist countries (along with Germany and Switzerland), varying between 7% and 9%. In 1974, exports were divided in the following way:

EFTA (European Free Trade Association)	22.3%
of which:	
Norway	10.4%
Finland	7.1%
EEC	48.0%
of which:	
West Germany	9.8%
Britain	13.2%
USA/Canada	6.7%
Others	23.0%

Developments in the two biggest markets for Swedish exports aided in delaying the downturn in Sweden. The ongoing boom in Norway played an important role, which is shown by the fact that in 1975 Norway replaced Britain as Sweden's single biggest export market. And the favorable evolution of the exchange rate in relation to the German mark helped Swedish capitalists to increase their share of the shrinking British market at the expense of their principal competitors (West Germany, for example). This, along with relative "labor peace," which made it possible for the Swedish capitalists to hold strictly to contract delivery dates, gave them yet another advantage over their competitors during the beginning of the recession, another factor that delayed the downturn.

3. The situation of the internal market has also had an effect. After the rather deep recession on the domestic market in 1971-72 (which was out of phase with the international situation), private consumption increased during late 1973 and throughout 1974; this was reflected in a 4.5% increase in the gross national product in 1974 (compared with a 1.7% increase in 1973). In 1974 only one major branch was hit decisively by the international recession: the wood industry. Some 70% of production in this branch is exported, and beginning in late 1974 the sharp downturn in construction internationally threw this branch into its deepest crisis since 1945.

Bourgeois illusions and hard reality

By the middle of 1974, all the representatives of industry, as well as bourgeois economists, members of the Social Democratic government, and representatives of the trade unions were asking one big question: Would the international recession end rapidly enough for the Swedish export industries to be able to tough it out until the next upturn or not? Nearly all these people misjudged the international situation. As of autumn 1974 they began predicting an upturn in early 1975. But these predictions (held in common with not a few international pundits) proved to be pure wishful thinking. In fact, the ongoing international recession, with its decline in the absolute figures of world trade, has now hit all the important sectors of Swedish industry, just as the wood industry was hit as long ago as 1974. The recession has arrived — and much more violently than had been anticipated. This is reflected in many indicators:

1. Exports declined at an accelerated pace during the first three quarters of 1975. In the first quarter, they were down 7% compared with the first quarter of 1974; the decline in the second quarter was 12%; for the third quarter it was 20%. For the whole of 1975 this will represent a decline of 8-10% in export volume. The depth of the downturn is shown by the fact that this will be the first year since 1952 to register a decline in export volume compared with the preceding year. This will result in a decline of about 3% in industrial production. The growth rate of the GNP will be zero (for the first time since 1951); it is only domestic consumption, which remains rather high, that will prevent the drastic fall in exports from causing an actual decline in the GNP.

2. Signs of this downturn could already be seen at the end of 1974 and the beginning of 1975, when the order stocks of the export industries began to fall. The second quarter of 1975 showed a decline in new orders for all sectors, a decline that has continued drastically. In the middle of November, one-seventh of all metal and engineering companies reported that they were planning to institute short workweeks or retraining programs for their employees. Hopes of hitching onto an international upturn in early 1975, which were reflected in the very small reduction in production and a consequent enormous buildup of inventories, faded away during the spring and summer of 1975 and resulted in a rapid decline of production during the autumn. This will in turn result in increased unemployment during the next three to six months.

3. The varying inflation rates between Sweden and its main trade partners disappeared during the summer of 1975, and the Swedish rate of inflation increased to a yearly rate of 13.9% during the third quarter. This, combined with the drastic fall in sales on foreign mar-

BASIC FACTS ABOUT SWEDEN

Population (as of 1974): 8,177,000

Total number employed: 3,900,000

Percentage distribution of employed by sector:

	1970	1974
Agriculture, forestry, and fishing	8.1	6.7
Mining and manufacturing	28.8	29.6
Construction	9.6	7.4
Trade	14.4	14.1
Transportation	6.9	6.8
Banking and insurance	5.0	5.4
Public administration and other services	27.2	30.0

Unionization: 90% of manual workers are members of unions affiliated to the Landsorganisationen (LO — Trade Union Confederation), and more than 50% of salaried employees belong to unions that are members of the TCO (Central Organization of Salaried Employees).

4.4 Swedish kroner = US$1.

kets, forced reconsideration of profit prognoses for the main export industries. Every single one of them had made overly optimistic predictions at the beginning of 1975. This goes both for the well-known companies like SKF, Volvo, Saab, Alfa-Laval, and LME and for the primarily nationally based companies like LKAB (iron), ASEA (high-power electrical equipment), SCA (a pulp and paper trust).

This is the picture as it appears at the end of autumn 1975, and it is a picture nobody had painted eight months ago. The duration of the generalized international recession finally took its toll and swept away one of the exceptions.

The downturn by sector

The downturn occurred over a twelve-month period, working its way from sector to sector, with a consequent cumulative effect on the domestic market for investment goods.

1. The wood industry was the first branch to be hit, a result of the big international decline in housing and industrial construction in 1974 and a similar decline domestically. During 1972 and 1973 the prices of wood products were marvellously high for the capitalists; then they tripled. During the winter of 1974-75 production was able to be kept up to levels that were not disastrous because of international speculative stock building, especially in Britain. When this came to a halt, exports to Britain came to a virtual standstill in May 1975. Prices dropped heavily, declining from 600 kroner per cubic meter in September 1974 to 360 kr per cubic meter in September 1975, which is reported to be 80 kr per cubic meter below production costs. Total production will thus fall 30% during 1975, and a large portion of current production is going into stocks.

2. Raw materials exports (such as iron ore) and semi-finished products (pulp, paper, wrapping paper; iron and steel), the traditional backbone of Swedish industry, have also been hit. For raw materials, the decline in incoming orders began during the first quarter of 1975; for the semifinished products industry it began during the second quarter of 1975. Incoming orders for the paper industry in May 1975 were down 60% compared with May 1974.

3. In September 1975 the metal and engineering companies were hit by a very rapid decline in incoming orders from foreign markets; they were also affected by postponements or cancellations of investment plans in the previously mentioned sectors. During the first half of 1975 this sector was still able to register a 3% increase in production compared with the same period of 1974. For the second half of 1975, this will turn into a decline. Since this sector accounts for 43% of total exports, the bottom of the recession has not yet been reached, and this will in turn result in an increase in unemployment in this sector.

Comparative strength and stability

Overall industrial production began to decline only during the second half of 1975, which will probably result in an overall yearly decline of 3%. By international standards, this is a small decline. And from other points of view, it could appear that there is no real recession in the Swedish economy. The rate of unemployment, for example, is low by international standards. As of November, there were about 70,000 unemployed, about 1.7% of the work force registered for unemployment insurance. This figure is not significantly higher than the 1974 figure. And for the whole of 1975, industrial investments will increase in volume by 5-7%.

There are several reasons for these apparently paradoxical facts:

1. The situation of the domestic market has partially compensated for the effects of external markets. Private consumption increased 3% during the first half of 1975, with, for example, a 10% increase in automobile sales for the first seven months of the year compared with the corresponding period of 1974.

2. The relatively small decline in industrial production can be explained mainly by the extraordinary buildup in stocks among all branches of export industries. During the first six months of 1975 stocks of industrial products increased by 2,500 million kronor (in 1968 prices), and most of the big export companies are now holding inventories at levels 20% higher than normal. This policy was determined by the hope that an international upturn would be just around the corner and that it would

thus be cheaper to go on producing stocks and to avoid laying off workers who might soon be needed again. This practice has been strongly stimulated by another factor, which is the economic policy of the Social Democratic government.

3. For the Social Democrats, it has traditionally been very important to hold down the rate of unemployment. This is one of the major historical merits of the Social Democracy in the eyes of the workers. The Social Democrats have tried to do this by granting direct support to the capitalists, especially in the export sector. This has been combined with big efforts to shift workers away from stagnant sectors, the textile industry for example, and letting such industries meet their fate. During the past year, the traditional battery of subsidies has been augmented by an extra set of subsidies.

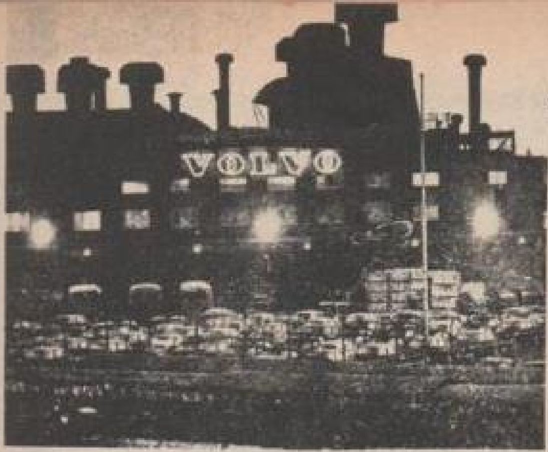
When all the big companies reported extraordinary profits for 1974, Finance Minister Gunnar Sträng took the wind out of the sails of critics and blunted trade-union demands by proposing a way of "cutting superprofits." All companies with more than 1 million kr in profits, he proposed, should be forced to set aside 15% of their profits in a special investment fund. Naturally, this plan was hailed by the capitalists, who could avoid paying taxes on that part of their profits and simultaneously add to their liquidity. A big part of this capital was used during the first half of 1975, which helps to explain the still rather high industrial investments for 1975.

In October, when definite signs of a downturn in all the major sectors became clear, the government presented a special "support package" to keep employment up. It amounts to a total extra direct support of 2,000 million kr. The bulk of this is divided in the following way:

a. 200 million kr in increased support to stock building, plus additional guarantees for bank loans;
b. special support to stock building in the wood industry (paying for up to 20% of the stock);
c. 250 million kr in lower taxes on energy consumption;
d. 140 million kr for energy-saving investments;
e. 300 million kr for additional state jobs;
f. 300 million kr for advancing the dates of already planned public investments.

As of the autumn of 1975, these three factors have held back the fall in production and the increase in unemployment. But this selective pump-priming was based on the assumption that the international recession would end much sooner than will actually be the case. Thus, when these hopes were dashed, there was a wave of reports (during November and early December) that companies, especially metal and engineering companies, were canceling planned investments in productive capacity and were preparing layoffs. Taking account of the extremely high levels of excess capacity both nationally and internationally, it seems very unlikely that the optimistic prognosis made by the Konjunkturinstitutet (Conjuncture Institute) for 1976 — an 11% increase in exports — will be realized. Further, and this is certain, the present high excess capacity in Swedish industry (especially metal and engineering) and the extraordinary large inventories will lead to an almost total lack of increase in productive investments for 1976.

The obvious result of the still high domestic consumption and the rapid fall of exports is a large balance of payments deficit. The deficit was 4,495 million kr in 1974; for 1975 it will be on the order of 9,000 million kr. This figure should be compared with the most pessimistic prognosis that had been made at the beginning of the year: a deficit of 7,000 million kr. For 1976 there will be a further worsening of this deficit, resulting in a total 1974-76 deficit of about 20,000 million kr. Up till now, this deficit has been covered by heavy loans on foreign credit markets.



A long-term structural problem

During the first week of December the finance department presented its "five-year plan," that is, the prognosis for 1976-80. The central goal is to increase productive investment in the export industries (thus leading to increased exports) and concurrently to hold down the increase in consumption by lowering wage increases and enacting no new social reforms. The balance of payments deficit is supposed to be overcome in this way. In itself, this plan is an irony and constitutes the clearest exposure of Social Democratic rhetoric about controlling the development of the capitalist economy. It is a plan that is almost identical to the one presented in 1970 for the period 1971-75, which set the main goal as eliminating the balance of payments deficit by increasing the competitiveness of the export industries. This plan was so realistic that it ended up producing the biggest balance of payments deficit since 1945. Behind this development lie some structural problems for the Swedish economy. The government's prognosis is based on two major assumptions:

1. That the capitalists in the export industries are prepared to increase productive investment to counter the deficit in the trade balance; that is, that there will be a sufficiently rapid increase in productivity and a sufficiently low increase in production costs to create expanding production in Sweden for profitable export for the capitalists;

2. That the workers, both in the export industries and in the home industries, will accept an increase in living standards lower than that to which they are accustomed.

Both these assumptions appear unrealistic, because they do not take account of non-conjunctural trends that undermine them.

First, most of the big companies in the export sector are increasing their investments outside Sweden faster than their investments in Sweden. Political uncertainty about the state of foreign markets, however, may slow down the expansion of this investment. In 1961 direct foreign investments amounted to 150 million kr. They have exceeded 1,000 million kr in every year since 1970. In 1974 they reached 2,600 million kr. In 1970 Swedish companies employed 180,000 people outside Sweden. By 1973 this figure had risen to 260,000 among the twenty-five largest foreign investors alone. Of the fifteen largest foreign investors, all except Volvo and ASEA have more than 50% of their employees outside Sweden. And this development has not been accompanied by an increase in employment in Sweden. On the contrary. The number of workers employed in industrial production has decreased. During the period 1970-73 the total number of hours worked decreased 5% in the manufacturing industries. This trend has been countered by increases in productivity, but these increases have been much lower than those registered during the middle and late 1960s.

Second, the possibilities for expanding exports on the world market have been vastly overestimated. The present international recession is seen as a serious but "normal" one, and business is expected to be back to usual soon. In fact, however, the much slower expansion of world trade today compared with the 1950s and 1960s and the resulting sharpening of interimperialist competition will hit both the traditional export products and the specialized metal and engineering products and make rapidly expanding exports less probable.

Third, the possibility of holding the increase in imports below the level of exports and of thus eliminating the balance of payments deficit is undermined by the rapidly rising number of people employed in nonproductive sectors, primarily the so-called public sector. The number employed in state and communal apparatuses increased 74% between 1960 and 1970 (from 420,000 to 736,000); average annual increase during the 1970s has been 43,000. This is to be compared with the decrease of the number of employees in the manufacturing industries (by about 70,000 during 1965-73) and in construction (35,000 during the same period). Obviously, this undermines any fall in the rate of increase of the import of consumer goods, which in fact can be achieved only through a direct attack on the real living standards of the working class.

Thus, the prognosis that must be made is that once again the "plans" for the Swedish capitalist economy will fail. Instead, there will be a progressive erosion of the strength of Swedish capitalism in coming years. Neither the prospect of rapidly increasing exports and strengthening the competitive position of Swedish companies on the world market nor the prospect of having the working class accept a much slower increase in living standards is likely to be realized.

The very slow progress of industrial production and new productive investment in all the imperialist countries today and the prospect of a slow upturn during the coming six months will render the pump-priming measures and the government support to Swedish industry insufficient. The rate of unemployment will increase rapidly during the coming six months, especially in the metal and engineering industry. The only branch for which there is an immediate prospect for a relatively rapid increase in exports is the wood industry, for construction is beginning to rise in foreign markets. But this will in no way alter the present trend of the economy as a whole. The bottom of the recession in Sweden has yet to be reached.

BRITAIN ON THE EDGE OF THE ABYSS

by ALAN JONES

The current indices of the economic crisis of British imperialism are of great simplicity. Industrial production, having fallen 8% during the past year, is now at a lower level than in 1970. Productivity has fallen 4.4% in one year. Inflation has been running at 26%. Unemployment stands at 1,125,000 (5%); the balance of payments deficit was £3,660 million last year and is running at a rate equivalent to £1,500-2,000 million this year. Compared with its main West European competitors, British imperialism's situation as is follows (November): (See Table I.)

In short, although the decline in production and the rate of increase in unemployment are slowing up, on virtually every major index the position of British capitalism is the worst in West Europe.

But the state of the British economy is such that the figures on inflation, unemployment, industrial production, or the balance of payments are no longer the crucial indices. These are merely the symptoms of a far more profound crisis of profits and of the rate of exploitation, the ramifications of which are felt throughout the entire organization of the economy. This is what has produced a situation in which, as one of the bourgeoisie's chief theoretical organs, The Economist, put it "During the last two years Britain's financial system has trembled on the brink of collapse." (November 29, 1975.) It is at this level that the underlying elements of the crisis, and the solutions to it, must be sought.

TABLE I

	Industrial Production	Prices	Unemployment(a)	Foreign trade (exports as % of imports)
W. Germany	+3%	+ 4.3%	5.0%	115.0%
France	-2%	+10.0%	5.0%	85.6%
Italy	-5%	+ 8.0%	5.8%	101.0%
Britain	-5%	+13.0%	4.4%	85.0%

Note: Figures for industrial production and prices are monthly, extrapolated over year.

(a) Figures not strictly comparable due to different bases of calculation.

I. THE CRISIS

1. The crisis of profits

The chief specific cause of the exceptional severity of the crisis of British imperialism lies in the fact that the British working class has not suffered a qualitative defeat for more than forty years — since the outcome of the crises of 1926 and 1931.(1) As a consequence of this, British imperialism never achieved the huge increase in the rate of profit that developed in the rest of West Europe and Japan under conditions of fascism and/or Nazi occupation. In the postwar period conditions of full employment , numerical expansion of the proletariat, and development of the organizations and militancy of the working class have prevented any significant improvement in this situation for the ruling class. The result of capitalist accumulation under conditions of an unfavorable relationship of class forces has been to produce an historically unprecedented (except in Germany after World War I) decline in the rate of profit. While there are considerable difficulties measuring this decline in absolute figures, all investigations reveal the sharp downward trend.(2) This is despite quite extraordinary concessions on the tax field designed to alleviate this trend. Even the most extreme conclusions as regards absolute figures agree that the share of profits in the economy approximately halved in the period from the early 1950s to the early 1970s(3), and that the rate of profit fell by approximately the same amount. After-tax figures present a more complex picture, but the general indication points to a decline of between one-fourth and one-half. The following table

probably represents the best computation of the decline of the rate of profit up through the early 1970s (bearing in mind that there is greater agreement on the trend than on the absolute figures):

Rate of Return on all British Companies, Before and After Taxes (in %)

	Before*	After+
1956	15.6	13.0
1957	14.4	12.6
1958	13.9	13.1
1959	15.0	14.7
1960	15.7	15.2
1961	13.5	13.6
1962	12.3	12.6
1963	13.4	13.7
1964	13.5	13.6
1965	12.7	14.6
1966	10.7	11.4
1967	11.1	12.4
1968	10.8	12.4
1969	8.6	10.4
1970	6.6	8.9
1971	6.4	9.8
1972	6.4	9.8

*Calculated less stock appreciation and capital consumption as % of net capital stock at current replacement cost.

+Calculated less stock appreciation, capital consumption, and taxes on income and property, plus investment grants as a rate of return on net capital stock at replacement cost.

(Burgess and Webb: Lloyds Bank Review, April 1974.)

On top of this general historic decline, however, it is clear that an extraordinarily accelerated process of decline set in after 1972. While calculations for this period are rendered more complex because of the accelerated rate of inflation, which causes problems in estimating stock appreciation, nevertheless the general trend is clear. Taking account of taxation, stock appreciation, and interest payments, money profits fell by 42.5% during 1973, declining to a mere 37% of their 1963 level. Deflating by the retail price index as a rough measure of inflation, after-tax profits for 1973 were 42.5% down compared with 1972 and 79% down compared with 1963. Estimates of such falls in relation to the total development of the economy vary somewhat (according to the basis of calculation), but all indicate a general decline of at least half.

In short, between the early 1950s and the early 1970s the share of profits in the GNP and the rate of profit declined by approximately half pre-tax and by perhaps one-quarter to one-half post-tax. In the period 1973-74 a further fall of one-third to one-half took place, with a corresponding fall in the rate. This is the scope of the crisis of profits which today afflicts British capitalism.

2. The crisis of financing

The result of such a decline in the rate of profit is that any check in output sends the private sector plunging into extraordinary debt. Again, exact figures are disguised by innumerable capitalist accounting methods, but the qualitative proportions are clear:

Capital Account of British Industrial and Commercial Companies

1971(a)	1972(b)	1973(c)	1974(c)
+£32m	+£215m	-£539m	-£3649m

(a) Bank of England Quarterly Bulletin, June 1973

(b) Bank of England Quarterly Bulletin, March 1975

(c) Bank of England Quarterly Bulletin, September 1975

(The figures are not exactly comparable due to revisions on computation and problems concerned with stock appreciation, but indicate the clear trend.)

Taking a more exact breakdown on the same computational base, the trend is even clearer.

Capital Account of Industrial and Commercial Companies

1972	2nd quarter	+£ 62m
	3rd quarter	+£ 134m
	4th quarter	+£ 245m

1973	1st quarter	-£ 19m
	2nd quarter	+£ 15m
	3rd quarter	-£ 190m
	4th quarter	-£ 345m
1974	1st quarter	-£ 744m
	2nd quarter	-£1101m
	3rd quarter	-£1069m
	4th quarter	-£ 735m
1975	1st quarter	-£ 349m

(Bank of England Quarterly Bulletin, September, 1975.)

It is readily seen from these figures that British industry fell into extraordinary deficit during 1974. Furthermore, the recovery in the last quarter of 1974 and the first quarter of 1975 reflects not an improvement in the underlying situation but simply the degree to which stocks have been cut back and investment abandoned. During this period, gross domestic capital formation fell by £850 million, from £2,060 million to £1,210 million per quarter.

It is this gigantic deficit, which will total around £5,000-6,000 million for 1973-75 (about six times the deficit for the period of the recession of 1969-71), that is bringing about a virtual revolution in the internal equilibrium of the British capitalist economy.

3. The crisis of relations between industrial & financial sectors

In order to understand the present internal crisis of organization of the British economy, it is necessary to grasp that the relations of finance capital and industrial capital in Britain differ radically from those in the rest of West Europe. Primarily because of their orientation to foreign operations, the extremely powerful British banks are hardly oriented to financing industry in Britain. In Britain, about 70% of external finance of companies has come from the stock exchange and only 30% from the banks, a proportion approximately the reverse of most major European countries. There is no British equivalent of the holdings of the Deutsche Bank, Dresdner Bank or Commerzbank of West Germany; of the Compagnie Financière de Suez or the Compagnie Financière de Paris et de Pays-Bas of France; the Société Générale or the Bruxelles-Lambert group of Belgium, etc.

Financial deficits on the scale of 1973-74, however, virtually close the stock market as a source of funds. During the thirty-two months preceding January 1975, the value of shares fell by 73%. This was a more rapid fall than occurred even at the beginning of the crash of the 1930s, and means that share values in real terms fell to a level lower than that of 1940 — at the moment when the German army reached the Channel!

There are various ways of calculating this blocking off of the stock market, but they all show the same dramatic trend: considering equities only, the fall in three years was more than 90%, from £640 million in 1972 to £137 million in 1973, and £43 million in 1974. Taking net figures and including other forms of stock finance other than equities, net issue of long-term loan capital by companies in Britain totaled £333 million in 1972, £56 million in 1973, and minus £14 million during the first eleven months of 1974.

The first inevitable result of a simultaneous collapse of internally generated funds and of access to the stock market has been to dramatically push industry into debt with the banks. In the second quarter of 1974 industrial and commercial companies had a total borrowing need of £1,510 million, compared with only £441 million a year earlier. Some £1,333 million of this was met by bank borrowing (compared with bank loans of £585 million raised in the same quarter of 1974). Interest payments by companies in the second quarter of 1974 were £1,074 million, compared to £774 million a year earlier. Taking 1974 as a whole, loans to manufacturing industry were up £2.7 thousand million — an increase of 41%. Taking the funds of industry as a whole, the percentage of bank borrowing in funds increased from 12% in 1971 to 32% in 1973.

The extraordinary deficits created by the decline in the rate of profit of British industry have thus created an acute crisis of the internal financial organization of the economy. Not only are the sums involved huge by any standards; in addition, British finance institutions are not geared to long-term financing of industry. The huge deficits are financed primarily by short-term borrowing, which is obviously untenable for any length of time. With deficits of this size, the possibility of repayment is not altogether good. This was fully confirmed during 1975 as major manufacturing firms — such as British Leyland, Chrysler, Alfred Herbert — followed Court Line, G. Stribbe, and London Indemnity and General Assurance toward the point of collapse.

It is in fact this latter process that indicates the second key change that must take place in the relation of the various sectors of the economy. While it was the banks that took the initial strain of the profits collapse of 1973-75, it is quite clear that this situation cannot continue for any prolonged period of time. The present sums involved (with no guarantees on repayment) are beyond the capacity of the banks. It is this intolerable situation that has already helped to produce the great crisis of the so-called secondary banking system (despite the modest name, there were in fact very big operations, accounting for a fifth of the increase in the major banks' own advances) and that has now placed the primary financial institutions themselves under colossal strain.

It is in this way that the working through of the crisis of profits can be seen to affect the entire internal organization of the economy. The decline in the rate of profit creates huge financial deficits. The deficits overturn the traditional forms of finance and drive industry into an unprecedented reliance on the financial institutions. These institutions are incapable of bearing the strain — particularly when, as discussed below, this is coupled with gigantically increased demands of the state expenditure — and turn to the state, which, as we shall see, occupies a central role in the economy out of all proportion to anything seen in the past.

The only way out for the capitalists is clear. The rate of profit must be dramatically increased, which, with the given state of stagnation of accumulation, can be carried out only by cutting the real wages of the working class. Simultaneously, a new form of relation of state and financial capital must be developed. The entire situation presses in the direction of an assault on the working class and a shift to a new relation of industrial, finance, and state capital. The sole remaining question for the bourgeoisie is how, under what political conditions, and in what form this transformation is to be carried out.

II. THE EFFECTS

1. Growth of the state sector

Under the conditions of collapse of profit rates that have prevailed in British industry, it is quite evident that the private capitalist sector of the economy can scarcely sustain even a constant level of production, let alone a real growth. Above all, investment is insufficient to undertake a serious expansion of output. The international comparison in terms of total investment shows the situation clearly:

Investment as a Percentage of Gross Domestic Product

	range from 1960-72
Japan	30-35%
West Germany	23-27%
France	20-26%
Britain	16-18%

(The Economist, March 31, 1973.)

The situation in private industrial investment is even worse. Since the mid-1960s industrial investment has declined almost continuously. In 1966 it was 8% of GNP; it fell to 7.8% in 1967, 5.7% in 1970, and 3.2% in 1973. There has been a sharp and continuous decline in investment throughout 1975; the decline was 8% in the first quarter, 7% in the second, and 6% in the third. Total investment in manufacturing is down 10% compared with the same period of 1974.

In a context of decline in working class consumption and a decline in world trade, the result of this decline in investment is that only a vast expansion of the state sector prevents the economy from falling into a nosedive. The following estimates — certainly overoptimistic — of the National Institute for Economic and Social Research (NIESR) indicate the position clearly:

Forecast of % Change in Components of Gross Domestic Product

	4th quarter 1975 over 4th quarter 1974	4th quarter 1976 over 4th quarter 1975
Consumer expenditure	-3.2	-0.4
Public authorities	+4.4	+2.2
Gross fixed investment	-6.1	-0.6
Exports	-1.7	+4.0
Imports	-8.4	+3.6
Gross Domestic Product	-2.1	+1.9

(Projection by National Institute for Economic and Social Research, August 1975.)

Already, in common with all imperialist states, public sector expenditure in Britain has increased almost uninterruptedly in the postwar period. In a recent study Barratt-Brown calculated the following:

Public Expenditure as Percentage of GNP

1948	1953	1958	1968
40.2	44.5	40.6(a)	52.1

(a) This fall is almost entirely accounted for by reduction in armaments following the end of the Korean war.

(Barratt Brown, From Labourism to Socialism, p. 78.)

However, in the period since the current recession began, a development on an entirely different scale has started. State spending for 1974 rose to 57% of national income and for 1975 the projected level is 60%. (The Economist, April 19, 1975.) As any attempt to finance this through taxation would depress all other elements of the economy still further, the result is a qualitative increase in the state budget deficit. (This deficit amounted to 6.9% of GNP in 1973, 9.8% in 1974, and will probably reach 12-13% in 1975.) In short, merely to prevent unemployment rising above 1.5 million and to hold the fall in industrial production at 8% a year, it is necessary to run a budget deficit greater than one-tenth of the economy and that exceeds the level of industrial investment by a factor of three or four!

The possibilities of getting out of this situation without some qualitative shift in the economy are nil. Any attempt to finance this deficit by simply printing money would send inflation, which ran at 25% this year, through the roof. Borrowing funds to finance it — the present policy of the government — maintains interest rates (currently running at 11½% minimum lending rate) at levels that both drain industry of funds on its current borrowing and present an immense obstacle to any increase of investment and export financing, even during an economic upturn. Any cut back in the deficit, however, means both dismantling whole sections of the "welfare state" and allowing unemployment to rise even beyond the 1.5 million to which it is presently headed. Furthermore, under conditions of the present decline in profits, there is no guarantee that such measures would produce a serious upturn in production without a major increase in exploitation and depression of real wages — with all the consequences of a confrontation with the working class which this poses. But this is the only serious perspective for the ruling class; it provides the background to the current Healey measures.

2. The Healey-Wilson measures

Although a few rather senile left Social Democrats may have been under the illusion that there is a capitalist solution to the crisis other than an attack on the working class, the bourgeoisie itself has no such illusions. The Economist, which speaks for the dominant sections of industrial capital, speaks bluntly: "Britain cannot have a faster rate of growth until it devotes 5-10% more of GNP to risk-taking investment and it will not get this until 5-10% more of GNP takes the form of rewards for risk-taking investment. Foreigners listen with bewilderment as British politicians, commentators, Neddy (the National Economic Development Council) and even establishment figures pretend that it can really be done in some other ways, such as by setting up new investment banks to provide new loans that will presumably never be repaid. . . . This schizophrenia is not compatible with the continued existence of a market system. The next few months may be British capitalism's last chance to begin to pull back from the abyss." (The Economist, November 29, 1975.)

The debate within the ruling class on how to achieve a shift in resources to alleviate the capitalist crisis at the expense of the working class was given a particular edge by the severity of the defeat suffered by the bourgeoisie with and following the fall of the Heath government. The response favored by those sections of the bourgeoisie most closely tied to finance capital (Sir Keith Joseph, chief "theorist" of the Thatcher leadership of the Tory party; Samuel Brittan, influential economist of the Financial Times; the Institute for Economic Affairs, etc.) was to raise unemployment through drastic reduction of state expenditure to the point where it would break the militancy of the working class. The problem here was that no one could predict in advance what this necessary level of unemployment would be. The level of 1 million was certainly not sufficient, and it was feared it might be necessary to go to 2 million, or even, on some speculations, 3 million. Such an increase was unacceptable to the main representatives of capital — both because it would entail a recession so deep that Britain would be unable to benefit from any upturn in the world economy, and second because it would at

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one stroke overturn the entire postwar political situation and might create an uncontrollable working class response.

The second alternative — the one adopted — was to allow inflation to rise to a new height, to cut real wages through the imposition of an incomes policy, and to postpone the most savage state expenditure cuts for a certain period in order to stop a more precipitate decline of production. While no measure was taken in the spring (in order to avoid any threat of a wrong outcome on the EEC referendum), inflation was beginning to cut the living standard of the working class even during this period. The effects of the early success of the working class in driving up its living standard and the consequent decline in this living standard under the impact of inflation are clear from the following figures:

Index of Real Take-Home Pay
January 1974 = 100

1973		1974						1975		
Oct	Dec	Feb	April	June	Aug	Oct	Dec	Feb	April	June
105	106	99(a)	100	103	106	106	108	106	103	99

(Labour Research, September 1975.)

(a) artificially depressed even below declining level by 3-day week.

Equally clear are the consequences since the imposition of the £6 limit on pay increases set last July. The volume of retail sales, which account for nearly half of consumer sales and constitute the clearest advance indicator of shifts in living standards, fell by 3.1% between the second and third quarters of the year. The full further decline in real wages, for which estimates vary between the officially projected 2.5% and a more realistic 4.5-6% (Labour Research, September 1974), will depend on the exact fall in the rate of inflation.

3. Attack on the "welfare state"

The focus of the second round of attacks on the working class is the slashing of public "welfare state" expenditure. The April 1975 budget already made cuts in the 1976-77 public expenditure program of 1.5% in current spending and 10% in capital spending, amounting to £1.1 thousand million at present prices. On top of this the government is preparing a further round of cuts which will probably total around £1.5 thousand million. On longer term projections it appears likely that a zero increase in spending is projected for 1976-78. It is impossible here to go into details about what these cuts will mean for the "welfare state," but it is worth noting the main conclusions of a recent comprehensive study. ("Cutting the Welfare State — Who Profits?," published by Counter Information Services and the National Community Development Project. The facts in this section are from this study unless otherwise stated.)

a. On Health

Already the situation with regard to hospitals is appalling. Three-quarters of all hospital beds in Britain are in hospitals built before 1918, and only 41 of Britain's 2,300 hospitals (i.e., 2%) were built after 1945. The situation with mental hospitals is even worse: two-thirds were built before 1891. Despite this, the capital building program of the health service is to be reduced as follows:

1972-73	1973-74	1974-75	1975-76	1976-77
£362m	£355m	£286m	£308m	£284m

(Labour Research, December 1975.)

This entails a cut of 29% between 1972-73 and 1976-77. Together with the cutbacks in nurses and other staff already taking place, this means yet a further inadequacy in all forms of health treatment, and there are already waiting lists of, for example, four months for a hysterectomy, twelve months for general gynecology, eighteen months for a tonsillectomy, etc. A serious possibility now exists of the creation of a two tier medical service, with an efficient private sector for the bourgeoisie and "middle class" and a patchwork "charity" service for the working class.

b. On housing

Budgeted expenditure on housing is to be cut from £571 million to £271 million during 1975-76, and to £230 million by 1979.

c. On education

Capital spending of £930 million in 1972-73 will have fallen to £629 million in 1974-75.

All this is in addition to a whole range of other cutbacks on a wide field. For example, revenue support from local authorities to local bus transport will fall from £123 million to £91 million this year; capital expenditure on social security will be cut by 38% between 1974 and 1975.

III. THE PERSPECTIVES

Despite the severe declines in working class living standards, the scope of the recession is such that profits, investment, and production continue to fall. On profits some alleviation is occurring thanks to cuts in real wages, but the shift is as yet still downward. Under such conditions, investment is in a complete trough. In the vital machine-tool sector some companies are now down to 30% capacity utilization. In general, new orders in *engineering were down 20% from the highest levels of* 1974 to a level almost down to that of 1972, and with a further fall of 3-4% anticipated for 1976. The Department of Industry estimates that manufacturing investment as a whole will fall 11.5% in 1975 and a further 5% in 1976. This would mean that in the fourth quarter of 1975 manufacturing investment would be 17.5% lower in real terms than in the fourth quarter of 1974. (Financial Times, October 7, 1975.) The fall in investment is affecting an economy in which industrial output is already at a lower level than in 1970.

Industrial Production
Production 1970 = 100

		All Industry	Manufacturing
1974	3rd quarter	108.4	109.9
	4th quarter	105.3	106.1
1975	1st quarter	104.4	105.7
	2nd quarter	100.1	100.2
	June	99.5	99.6
	July	100.0	100.3
	August	99.1	99.4

(Financial Times, October 11, 1975.)

This, however, greatly understates the fall in key sectors. Steel production in September was down 25% from the peak levels of the first nine months of 1973. Even in 1974, construction output was already 2% down from the level attained in 1970, with private house building starts down from 215,000 in 1973 to 105,000 in 1974; building in the public sector was down 20%. New orders in the construction industry were down 25% in 1974 compared with 1973 and fell a further 6% this year. The result is that by autumn 1975, some 171,000 workers in the construction industry were unemployed, one-seventh of the total unemployed work force. In the automobile industry, in addition to the crisis in British Leyland, Chrysler UK, which is bankrupt, could project a mere eleven days' work on its best-selling Avenger model during the two months preceding Christmas.

The result of this depression in production and investment is that even after the Healey measures, bourgeois forecasts of economic prospects are universally gloomy. The following are the three most influential predictions regarding the course of the economy in the coming year.

Predicted Percentage of Change
Year 1976/Year 1975

	NIESR	LBS	P & D
Public Authority Consumption	+ 2.2	+ 2.5	+ 2.8
Exports	+ 1.7	+ 3.5	+ 3.8
Imports	+ 2.7	+ 0.2	+ 3.6
Stockbuilding (millions of £) Year 1976	-172	-119	+20
GDP after adjustment to factor cost	+ 0.3	+ 1.4	+ 1.4
Inflation	10.0	15.4	15.5
Balance of payments current account Year 1976	-2509	-1131	-1600

NIESR — National Institute of Economic and Social

Research
LBS — London Business School
P & D — Phillips and Drew

(The Times, December 4, 1975.)

While the particular severity and especially the longevity of the recession in Britain is unacceptable to the ruling class and forces it to seek a new way out through attacks on the masses, it also places the working class in a radically new situation compared with its entire postwar experience. The effects on cuts in living standards and attacks on the welfare state have already been noted. But the most dramatic effect of all is the end of the state of so-called full employment that has existed since 1945. The implications of this fact — that so long as capitalism continues to exist the working class will never again enjoy the conditions of employment that have shaped its entire postwar experience — have not yet been fully grasped by the labor movement.

During the decade 1965-75 the bourgeoisie, by dint of considerable exertions, succeeded in increasing the rate of increase of productivity in manufacturing to 4% a year compared to 3% during the previous decade. (This was the bourgeoisie's only real success during this period; and even here it must be noted that the 4% figure is low compared with the 6% average for West Germany, Italy, and France.) However, industrial production only rose 15% during that decade, well under half the increase in productivity. Instead of an increase in output, workers were simply laid off: Industrial employment fell 14% during the decade. Relative full employment was maintained only through an expansion of non-industrial employment relative to industrial employment.

This occurred on a vastly faster scale in Britain than elsewhere. Furthermore, the overwhelming bulk of this increase was in the state sector, with only a 7% increase in jobs in the (primarily private) services sector, but with a 14% increase in employment in the central government and a 53% increase in local government. (Sunday Times, November 2, 1975.) This was the social corollary in terms of the composition of the working class of the vast economic increase in the state sector. But once the state sector is checked, the whole mechanism cannot function. Any attack on the working class must attempt to drive the increase in productivity over the 4% average of the last decade; but with projected growth rates in industrial output of 1-2%, this means that industrial unemployment must increase still more rapidly. However, the cutbacks in the state sector mean that the one area that had previously absorbed unemployment is now blocked. The sole perspective is one of a permanent and sharp increase in the rate of unemployment. In his budget, Healey claimed that the unemployment peak would be 1 million by official figures; but that has already been exceeded, and this winter he upped the figure to 1.2 million for this winter and 1.5 million for winter 1975-76.

The Financial Times (July 16, 1975) claims that as long ago as July the estimates the Treasury was working with were 1.5-2 million unemployed. The latest estimates of the influential Phillips and Drew projections is up to 2 million. The research unit of the union ASTMS has predicted 2.25 million, although this is probably exaggerated. The most likely estimate seems to be on the order of 1.5-2 million, with the probability of the upper figure increasing to the extent that the upturn in the world economy is delayed and the government makes any further cuts in state expenditure.

But while there is as yet some possible argument about the exact level to which unemployment will rise, nevertheless two things are clear. First, the level of unemployment rising to 1.5 million on official statistics means a real level of unemployment of 2-2.5 million, which will strike with devastating effect against all super-oppressed layers and affect sections of the work force with no previous experience of unemployment.(4) Second, there is no clear perspective that this level will ever be seriously reduced.

The implications of this fact have not yet been really grasped within the British workers movement. The whole postwar experience of the working class is geared to cyclical bouts of unemployment at worst. A squeeze on real living standards has always been followed by a return to relatively full employment. Today, however, the situation is radically different. The very conditions that actually drive down the living standards of the workers — a successful increase in the rate of exploitation through the Healey-Wilson measures coupled with a productivity drive — will not allow unemployment to be overcome but will even provoke a further exacerbation of it. To put it in quantitative terms: Without a policy that begins to make radical inroads into capitalist domination of the economy, unemployment in Britain is unlikely ever to fall below 1 million again. How the working class reacts to this — through a fall in militancy and intimidation or through a renewed round of struggle on a qualitatively higher programmatic level on which the general question of the organization of the economy can be tackled — will be a crucial determinant of the middle-term development of the situation in Britain.

On this point, however, the purely economic analysis halts. The development of the economy out of the impasse depends not primarily on purely economic elements but on class consciousness, the relation of class forces, and politics. With the present relationship of class forces, British capitalism cannot seriously recover from its present recession. Even a successful imposition of the Healey-Wilson measures would merely allow the economy to stabilize at a level of 1.5 million unemployed, a 10-15% rate of inflation, a 3-5% fall in working class living standards, a fall in industrial production of 10%, and a rate of investment lower than in 1970. It would still leave no room for a real economic recovery of British capitalism. To actually bring about a serious new expansion of the economy on a capitalist basis something much more fundamental is required: an elimination of the major part of the economic gains made by the working class since 1945. It is this path that the British ruling class has now embarked upon. Success would mean a major shift in the relationship of forces against the working class. A defeat for the bourgeoisie would plunge Britain into the deepest economic crisis seen in any imperialist country since 1929. Economic forces have placed the British class struggle at a turning point. It is working class struggle and politics that will decide the outcome.

December 8, 1975

FOOTNOTES:

1. See Mandel, Late Capitalism, p. 179 f., as well as a whole series of empirical studies, of which Glyn and Sutcliffe, British Capitalism: Workers and the Profits Squeeze, is the best known. There have been various attempts to refute this view, notably by D. Yaffe in Class Struggle and the Rate of Profit (New Left Review, July 1973) and by P. Bullock and D. Yaffe in Inflation, the Crisis and the Post-War Boom (Revolutionary Communist, November 1975). However, despite the fact that Yaffe's work is in general the most significant contribution to Marxist economics presently being made in Britain, and despite the fact that theoretically Yaffe, and Bullock and Yaffe, utterly destroy the arguments of Glyn and Sutcliffe, Gough, Hodgson, Steedeman, and the other neo-Ricardians now dominating radical economics in Britain, on this point Yaffe et. al. unfortunately commit two basic methodological errors. First, in their correct assertion of the historical truth that it is a rising organic composition of capital and not a declining rate of exploitation that causes the fall in the rate of profit, they fail to grasp that at the moment of the onset of conjunctural crisis, notably when the process of accumulation falters, it is perfectly possible, indeed inevitable, for direct struggle over the rate of exploitation to function as the cause of the onset of overt crisis. That is, Yaffe, et.al. are guilty of reductionism in confusing the determinants of the decline in the rate of profit in the final analysis with the concrete causes of a particular crisis. Second, another example of a reductionist method, Yaffe confuses the question of the development of capitalism in general with the question of the development of any particular economy. The development of capital as a whole determines the development of any particular capitalism, but the development of a particular capitalism is not reducible to the development of capitalism as a whole. (For example, Trotsky's classic analysis of why the combination of elements of the crisis of 1929 produced an overwhelming specific crisis of German capitalism.) There is nothing contradictory whatever in understanding that in the final analysis the reason for the decline in the rate of profit is the changes in the organic composition of capital and in understanding that in a particular capitalism, in a particular time, the dominant element in the crisis is played by a direct struggle between the working class and the bourgeoisie over the rate of surplus-value. Whether this is or is not the case cannot be determined by reference to the development of capital in general, but only by an investigation of the specific combination of this crisis in the case of a particular capitalism. On this, Glyn and Sutcliffe in particular have made a real contribution.

2. It is of course well known that none of the bourgeois computations calculate the rate of profit in Marxist terms. However, great difficulties exist, particularly under highly inflationary conditions, in calculating the "rate of profit" even in capitalist terms. It depends, among other things, on whether calculation is pre- or post-tax; on the way in which state aid to industry is balanced against taxation; on the basis on which stock appreciation is calculated; on whether or not stock appreciation is included; on whether the rate is calculated on an historic-cost or replacement-cost basis; on how nationalized industries, whose rate of profit is subject to extreme political determination, are treated, etc. These differences help explain the divergences among the six major studies of the rate of profit in British capitalism carried out in the last period: Glyn and Sutcliffe; Hughes, Profit Trends and Price Controls, Spokesman pamphlet No. 41; Panic and Close, Profitability of British Manufacturing Industry, Lloyd's Bank Review, July 1973; King, Profit Crisis That Isn't, Guardian, November 14, 1973; Burgess and Webb, The Profits of British Industry, Lloyd's Bank Review, April 1974; Merrett and Sykes, How to Avoid a Liquidity Crisis, The Economist Supplement, August 3, 1974, plus a series of articles by the same authors throughout the summer of 1974 (notably Financial Times, September 30, 1974). To show the significance of these different methods of calculation we may merely note that for one single year, 1969, the calculated figures on the rate of profit by different methods arrive at estimates as widely varied as 16.8% (calculated by one method of Burgess and Webb) to 4.7% (Glyn and Sutcliffe).

3. Stuart Holland, in the major Bennite work The Socialist Challenge, claims that the major British monopolies are in a position to regulate their rate of profit (p. 55) and that no crisis of profits exists. This "argument" is notable for the fact that not one single figure, in a book of over 400 pages, is produced to support it! This is despite the fact that literally hundreds of pages have been written on the question of the rate of profit in Britain in the last five years and all of them show the exact opposite of what the Bennites claim.

4. As usual, unemployment hits the most oppressed workers hardest. Unemployment among immigrant workers has been rising more than twice as fast as the national average. At the other end of the scale, however, unemployment has developed among groups that used to be virtually immune. In September, for example, 5,200 teachers were registered as looking for work (Financial Times, October 14, 1975).

France a probable upturn

on a crisis basis

by P. SALAMA & A. LIND

Just for the fun of it, we could cite some of the erroneous economic forecasts made by those who govern us. More interesting, however, are the observations currently made by the economic magazine Entreprise: "France's performances in 1974 (in the realm of the profitability of companies — INPRECOR) are nothing but the last spasms of a dying man who sees his friends hit before him. . . . The indications that we now have for the first half of 1975 seem to confirm this pessimistic judgment." (November 1975, p.91.) More disquieting were the latest statements of Ceyrac, the president of the employers' association, published in the same issue of Entreprise: "Today Europe is suffering shock after shock. A boxer who takes punishment without dishing it out will not last fifteen rounds. We have to start over again. This will not be done peacefully, without political confrontation." (p. 191.)

It is all very clear and logical. These speeches represent the first conscious threats of a bourgeoisie that is preparing to deal with a long-term aggravation of the economic and political situation. The reason is that the crisis now racking capital is a deep one, even if its first symptoms are still timid and even if a slight upturn is forecast for the coming months. The bourgeoisie is thus trying to endow itself with political instruments capable of dealing with that crisis. The crisis results from the exhaustion, first slow and later sudden, of the factors that counteract the tendency of the rate of profit to fall. That is what we will demonstrate in the first part of this article. Because the crisis is not a fleeting one, the action of the state takes on some importance. Hence, in the second part of the article, we will show how the state tries to use the crisis to modify the apparatus of production, increase the rate of exploitation, and redress the rate of profit such that the conditions for the capitalist system to reproduce itself as such may be guaranteed in a lasting manner. But we will also show how the sudden scope of the crisis and the political dangers entailed in it force the state to take all necessary measures, to initiate a pump-priming plan.

The crisis comes from afar

The INSEE (National Institute of Economic Studies and Statistics) recently published a series of studies that throw new light on the evolution of the profitability of the economy and its major sectors as well as on the substantial changes that have occurred in the productive apparatus during the past ten years or so.(1)

These studies explain the diagnosis we mentioned above. What is involved is a typical crisis of overaccumulation of capital* such as has not been seen since the second world war. The rate of profit is falling under the effects of several factors(2): a very strong rise in the organic composition of capital; a substantial increase in indebtedness of companies and a consequent buildup in financial charges; a division between profits and wages that has favored the workers for some time, that is, a forced slowdown in the rate of exploitation. This decline in the rate of profit entails a partial hibernation and an increasingly important destruction of capital (unused production capacity, many bankruptcies), as well as growing unemployment, and an attempt to devalorize the work force. We will examine these factors.

1. The rise in the organic composition of capital

The entry of France into the Common Market in 1959 required that capital make sweeping changes, changes that only a Bonaparte (de Gaulle) was able to impose on a formidable working class. Concurrently with the lengthening of the workweek (which reached its peak, 47.2 hours, in 1963), there was a strong increase in the organic composition of capital. This rise can be seen in the increase of "gross productive fixed capital per capita." This figure grew at an annual rate of 3.4% between 1950 and 1957; the growth rate then rose to 5.3% a year from 1957 to 1964, only to explode to 7% a year from 1964 to 1973.(3) From 1964 to 1973 "gross productive fixed capital per capita" grew twice as fast as it had between 1950 and 1957! This accelerated rise in the organic composition of capital has its origin in the capitalists' desire to bolster their competitiveness in the international arena and thus to reduce costs.

But increases in the organic composition of capital very quickly become less and less effective. The "productivity of capital" — that is, the proportion between total production and the "capital" engaged in the productive process — very rapidly begins to decline. It increased 0.7% annually between 1957 and 1964, but declined 1% a year between 1964 and 1973. (See figure 1.) Granted, the increase or decrease is uneven according to sector, as we shall see. But it does reflect the increased difficulties met by capital in its search for profits. In fact, although the increase in productivity per hour worked accelerates concurrently with the rise in the organic composition of capital (this productivity rose from an annual increase of 4.7% between 1961 and 1967 to 5.7% between 1967 and 1971), the total effect of this increase becomes less and less positive when added to the total effect of the decline in the "productivity of capital." In fact, average annual increase in the "total productivity of labor and capital" fell from 3.5% between 1957 and 1964 to 3% between 1964 and 1973. The accelerated rise of the organic composition of capital thus begins to have effects opposite to those hoped for by the capitalists. Its effectiveness declines, which induces the author of one of the INSEE studies to say: "Everything seems to be happening such that on the average, a supplementary investment effort in comparison with that of the preceding years produces no beneficial margin of effectiveness." (Sautter, p. 10.)

Effectiveness and rate of profit must not be confused. But the fall of the former indicates growing problems for the latter. Because overaccumulation takes shape, grows sharper, and threatens the rate of profit. We will see this more precisely further on.

2. And its effects on the rate of profit

The year 1964 was a turning point for the "productivity of capital." But it was only beginning with 1969 that the rate of gross remuneration of capital started to decline. (See figure 2.) From 1964 to 1969 the negative effects of the fall of the productivity of capital — interrupted from 1968 to 1969(4) — on the rate of remuneration of capital were counteracted by two factors. Up to 1968-68, the capitalists managed to grab a larger share of the pie for themselves, thus accentuating social inequalities and raising the rate of exploitation; at the same time, they managed to play on prices in such a way that the prices of the commodities they produced rose faster than the prices of investment goods. (See figure 2.)

The fall of the rate of remuneration of capital beginning in 1969 thus results from the negative action of the accelerated rise of the organic composition of capital after 1964 and from the exhaustion of the positive action of the two factors mentioned above. On the one side, it became increasingly difficult for capital to grab a growing share in the division of income between profits and wages. This division was increasingly effected to the detriment of the capitalists(5), a result of May 1968 and the continued combativity of the working class. The rise in the rate of exploitation was thus slowed down by the resistance of the workers and therefore no longer exercised sufficient force to counteract the negative effect of the rise in the organic composition of capital. On the other side, the rise in relative prices of value-added in comparison with investment goods was no longer sufficient. The positive action of these two factors was exhausted. Hence, the gross rate of remuneration of capital declined, beginning in 1969. This decline her-

* Overaccumulation may be defined as a state in which there is a significant mass of excess capital in the economy that cannot be invested at the average rate of profit normally expected by owners of capital.

aided growing difficulties for capital, difficulties that are now asserting themselves as an overt crisis.

Moreover, it must be stressed that efforts to modernize led the capitalists to increased borrowing.(6) The rate of self-financing fell. Debts grew. According to Entreprise (No. 1009), the proportion of long- and medium-term debt to capital proper rose from 0.34 in 1963 to 0.61 in 1972. This increase in debt is accompanied by an increase in the charges for debts. Financial charges per unit produced increase, thus limiting the possibilities of self-financing and making the conditions of reproduction of capital more difficult for small companies, and even for big companies in some sectors.(7)

It is thus understandable that the state would set itself the objective of alleviating the charges that weigh on the rate of profit of companies, mainly by diminishing the charges represented by taxes and by increasing subsidies. (See figure 4.) The various fiscal measures taken by successive governments — among them the elimination of forfeiture payments on wages in 1968 — have reduced fiscal charges per unit produced in nearly all sectors. It is also understandable that the state would try to redress the situation prevailing in the realm of the profits-wages division, "setting an example" by refusing to increase the wages of government employees (as in the postal strike in 1974, the Renault strike, etc.). We will return to this point later.

3. By way of a synthesis

Various indicators may be cited to give an idea of the overaccumulation that was first latent and then present in the development of the crisis. The INSEE calculates what it calls the real surplus of nonagricultural enterprises. (See figure 3.)(8) This index exhibits a declining trend.

The real surplus is appropriated in four ways (figure 4). First, it serves to pay for the increase in the wage fund due to the wage increases over one year and to the variation in employment; second it finances taxes (minus subsidies); third, it pays for various charges; finally, the remainder constitutes the net income of capital (interest, dividends, and gross savings of companies).

It may be observed, as we have already noted, that the cost of the work force grows, that net taxes on subsidies decline (except in 1972), and that the net income of capital falls beginning in 1969-70.

Several rates of profitability may be deduced from these indications. It is sufficient to place the net income of capital — before or after taxes — in the numerator and net productive fixed capital in the denominator. It will then be seen that the real rate of profitability before taxes (at 1959 prices) decreases after the year 1964, while the same rate after taxes decreases only after 1969-70. The divergent evolution of these two rates of profit from 1964 to 1969-70 demonstrates the effectiveness of the government policy of fiscal reductions; but it also demonstrates the limits of that effectiveness. Above all, it indicates the road the state will take, a road that has now been confirmed by the fiscal reductions called for in the 1975 pump-priming plan.

Inasmuch as state intervention is increasingly selective, it is interesting to make a quick sectoral analysis of the evolution of nominal profitability and of the efficiency of each sector. The nominal rate of profitability takes account of the evolution of prices, both of investment goods (in the denominator) and of commodities produced (in the numerator). From 1959 to 1969 five sectors have nominal rates of profitability and efficiency ratings (evolution of the productivity of capital and labor) that are higher than average. These five sectors are: automobiles, machine construction, chemicals, electrical construction, and clothing.(9) These five sectors are the ones that had the strongest growth rates, the greatest increases in their exports, the slowest increases in their prices, and created the most jobs, despite the rise of the organic composition.

These five sectors constitute the motive-force sectors of the economy. Today, the crisis is hitting all sectors, but this very crisis should in turn strengthen the relative weight of these five sectors, on the one hand because of the very process of the crisis (only the strongest can resist, or can at least recover more easily and feed on the crisis) and on the other hand because of the intervention of the state. That is the point we will examine next.

State policy

The crisis of overaccumulation of capital, larval for several years and overt recently, requires growing intervention, both quantitative and qualitative, by the state apparatus in the economic domain. The crisis reflects the necessity for capital — and therefore for the state — to fundamentally reorganize the conditions of production and the relations of exploitation. But in a period of crisis, this growing state intervention depends more particularly on the political capacities commanded by the state. The state — "ideal collective capitalist" (Engels) and therefore guarantor of the reproduction of the relations of production — has to favor this or that sector at the expense of this or that other sector.(10) Hence the "pruning" measures taken by the state, and hence the many bankruptcies that accompany these measures. This function of valorizing some capital at the expense of other capital narrows the social base on which the state rests; at the same time it affects the workers movement in such a way as to strengthen the combativity and determination of this movement. The narrowing of the social base and the exacerbation of the class struggle thus explain why the state attempts to endow itself with a powerful repressive apparatus, both legal and illegal. These same factors also explain the state's economic difficulties in fully implementing its choices; further, they underlie the maneuverist character of state policy.

1. Up to the pump-priming plan of september 1975

Before the pump-priming plan, the state's policy consisted of slowing down inflation (credit restrictions) in order not to damage the competitive position of French companies and of allowing unemployment to develop. The companies whose nominal profitability was weakest suffered most from this policy. For the first ten months of 1975 the number of bankruptcies and court-ordered liquidations increased 25% compared with the same period of 1974! This policy was aimed at strengthening the motive-force sectors. Its function was to reduce the wage fund paid by companies and to thus improve their already highly compromised conditions of profitability. On the one hand, the state fostered the spread of unemployment (many laws on unemployment were passed aimed at inducing firms to reorganize working conditions and lay off workers; many companies went bankrupt); on the other hand, through its own wage policy in the public and nationalized sector, the state urged companies not to give in to workers' demands. This policy of reducing the wage fund was accompanied by a policy of direct aid to the motive-force sectors of the economy and to other sectors such as energy and steel.

This selective policy, aimed at redressing the rate of profit in certain sectors and at partially destroying capital in other sectors, had to quickly reach its limits, both economic and political.

In a context of world recession, the downturn in demand consequent to the moderate progression of the wage fund and to the increase in savings(11) inevitably and rapidly increases unused productive capacity and swells stocks of unsold products, thus worsening the conditions of profitability in industries producing durable and nondurable consumer goods, conditions that are already heavily compromised. The failure of exports to go up (maintenance of the West German recession), combined with heavy financial charges (debts), and the considerable increases in unused productive capacity inevitably induced capitalists to cut down on their orders for investment goods, thus pushing the crisis forward and intensifying it. On the social and political side, the aggravation of the working and living conditions of the working class, the dizzying rise in unemployment, the maintenance of workers combativity, the penetration of the factories by revolutionary Marxists and the propagation of their slogans inevitably created real dangers for the government.

These two factors — aggravation of the economic situation and threats on the social and political front — explain the belated but preventive turn made by the Giscard government.

2. The pump-priming plan and the upturn

Since last summer, the French economy has entered a phase of stabilization. The crisis seems to have bottomed out. The bottom-out point was low, for the index of industrial production in August 1975 was 14.7% lower than it was in August 1974. Unused capacities varied between 20% and 40%, depending on the sector. The volume of productive investment fell 8-10% for the whole of 1975. Official unemployment passed the 1 million mark (the real figure was about 1.5 million), and partial unemployment multiplied; only the increase in prices slowed down compared with the rate of increase in previous months (0.7% in August, 0.8% in September, and 0.8% in October).

The pump-priming plan is intended to reverse the priorities. The official objective is to end the crisis and slow down the advance of unemployment on the chance that price increases will accelerate. Unlike the German and American plans, the French plan does not give priority to priming consumption, but instead sets the objective of breathing life into the industries most heavily affected by the crisis: construction, public works, durable consumer goods. This is to be done through improving credit conditions. State orders and large-scale public works will thus amount to about 15,000 million francs. In addition to these state orders, there will be a fiscal rebate of 9,600 million francs. This fiscal rebate is in fact selective, for it affects only companies that had made a profit, which means the biggest companies, and is therefore of no use at all to the "ugly ducklings" hit hard by the crisis.

The effects of the pump-priming plan cannot be immediate; in addition, they will inevitably be weak. The effects of aid to private consumers (5,000 million francs) and of lower-cost consumer credit will be attenuated by the increase in precautionary savings. This type of savings reflects the workers fears of future unemployment and explains the weak effectiveness of the pump-priming plan in a country like West Germany. The large-scale state projects will begin to have effects on the upturn of economic activity only toward February or March. The tax rebates for companies are not extensive enough to sufficiently improve company profits, especially since demand (both foreign and domestic) is increasing only slightly, except in some sectors (automobiles, household appliances).(12) It can thus be concluded that the expected increase in investment will inevitably be small and that the capitalists will prefer to utilize their unused capacity before making new productive investment. It can also be concluded that unemployment, far from being absorbed, will continue to increase, and then will stabilize at a high level for several months. On the other hand, the necessity for companies to reconstitute their profit margins will probably impel them to raise their prices further. This slight acceleration of inflation will eat into the competitive position of French companies just at the time when an upturn, even if only a weak one, will give rise to an increase in imports.

On the whole, the pump-priming plan is grafted onto an economic situation that is insufficiently healthy for capital. That is why its effectiveness is likely to be small. The upturn is likely to be moderate and of short duration, because the rate of profit is falling, for reasons we have outlined above. In this sense, both the pump-priming plan and the measures previously taken in the realm of wages and subsidies to companies (Citroën, for example) are only indices of the government policy to come.

The crisis has been coming on for a long time now. Overcoming it will require not only the fiscal reductions already agreed upon and the subsidies now being handed out, but also a partial destruction of capital and a devalorization of labor. It is becoming increasingly vital for capital to find ways to sufficiently raise the rate of exploitation — and fast. It is for this reason that the present crisis, despite the upturn, is of such a character as to quickly pose serious social and political problems.

November 30, 1975

FOOTNOTES:

1. The studies of the statistical institute are useful in many ways, even though the indices coined by the INSEE do not correspond to those used by Marxists. Indeed, it must not be forgotten that although the bourgeoisie needs indices and figures for fooling the working class (the price index, for example), it also needs to know some things about concrete reality, even if only in order to act upon that reality.

2. The rate of profit is the proportion of surplus-value to variable capital plus constant capital. It can be expressed in the mathematical formula:

$$s/v \text{ divided by } 1 + c/v$$

wherein s=surplus value; v=variable capital; c=constant capital; s/v represents the rate of exploitation and c/v the organic composition of capital.

3. See "L'Efficacité et la rentabilité de l'économie française de 1954 à 1974, by Ch. Sautter, Economique et Statistique, Series E, June 1975.

4. The "productivity of capital" grew significantly from 1968 to 1969. In fact, the wage increases that followed the Grenelle accords were reflected in an increase in costs and acted unfavorably on the rate of profit; but they also led to a more intensive utilization of capital than would otherwise have been the case (utilization of previously unused capacity) and this acted favorably on the "productivity of capital" and the rate of profit.

5. It would be an error to believe that a division of income more favorable to wages necessarily means a fall in the rate of exploitation. In reality, the wages of unproductive workers are counted in, but these workers are actually paid out of surplus-value. (On this point see the article by Robert Langston in INPRECOR, No. 27/28, June 5, 1975, and our book Un procès de sous-developpement, Maspero, second edition, Chapter 2.) It must also be added that the unfavorable evolution of the wages/profits division from the standpoint of the capitalists leads the capitalists to resist wage increases and to "trim down" their factories by maximally reducing the false costs represented by unproductive workers.

6. The various borrowing facilities (offering relatively low rates, considering the acceleration of price increases) constitute a means by which capital pays less dearly for investment goods and thus improves its rate of profit. On the other hand, for the workers who loan out their money (through their own bank deposits), the interest paid does not compensate for the increase in prices. In this regard, the advertising slogan of the banks could be: "Lend money to be robbed less."

7. Taking inflation into account, borrowing acts favorably on the rate of profit. In time, however, as a result of the growing increase in debt, it acts unfavorably on the net rate of profit. In the United States, for example, company debt compared with net adjusted profits increased twofold between 1969 and 1974 and mounted by a factor of 1.7 between 1972 and 1974. (See "The Falling Share of Profits," Brookings Papers on Economic Activity, No. 1.)

8. The real surplus is determined in the following manner: Take gross value-added (in constant 1959 francs) and subtract the sum of the cost of renewal of capital plus the cost of renewal of labor. The cost of renewal of capital is equal to yearly amortization (in 1959 francs), and the cost of renewal of labor is the total number of employees in a given year multiplied by the average cost (in 1959 francs) of each person employed during the preceding year.

9. On the other hand, seven sectors had rates of profitability and efficiency inferior to the average. These were the following sectors: food, glass, nonferrous metals, textiles, construction materials, leather, and paper.

10. For more details on state intervention during periods of crisis, we enthusiastically recommend the collection of articles in L'Etat contemporain et le marxisme, published by the journal Critique d'Economie Politique, Maspero, 1975.

11. The government wage policy has hardly been successful as far as the capitalists are concerned. The capitalists have conceded substantial wage increases, which is a reflection of the combativity of the working class. This is what explains the fact that the wage fund has increased slightly.

12. The index of automobile production rose 4.9% between June and July-August. The upturn in this sector should continue, but on the basis of a low production level. On the other hand, there was no upturn in October for the machine-tool industry, and the same is true for chemicals. Since October, there seems to have been a slight technical upturn in the steel industry.

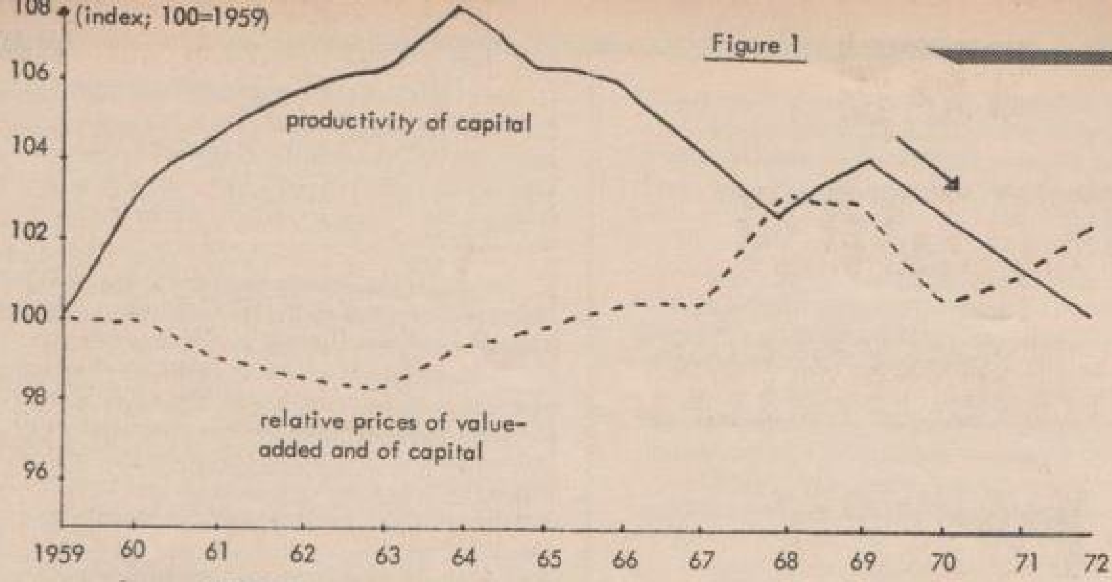


Figure 1

Source: INSEE, Series E, No. 27, Fresque historique du surplus productif, p. 68

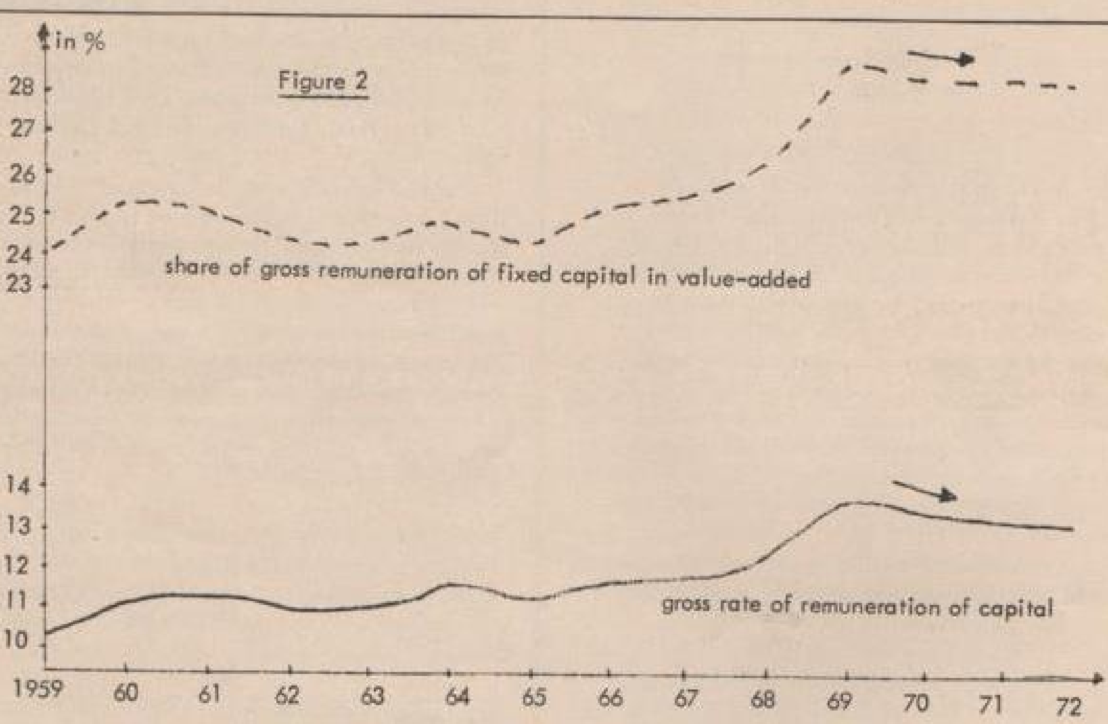


Figure 2

Source: INSEE, Series E No. 27, Fresque historique..., p. 68

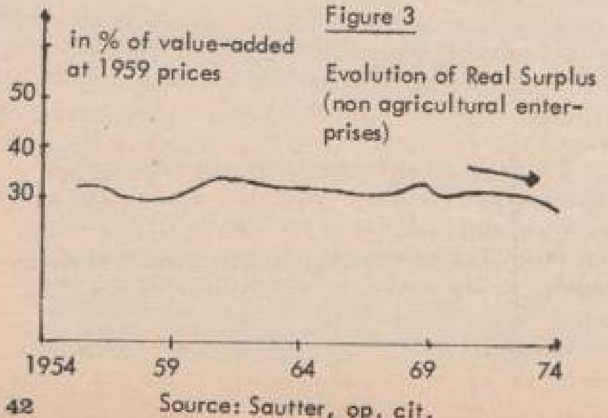


Figure 3

Evolution of Real Surplus (non agricultural enterprises)

Source: Sautter, op. cit.

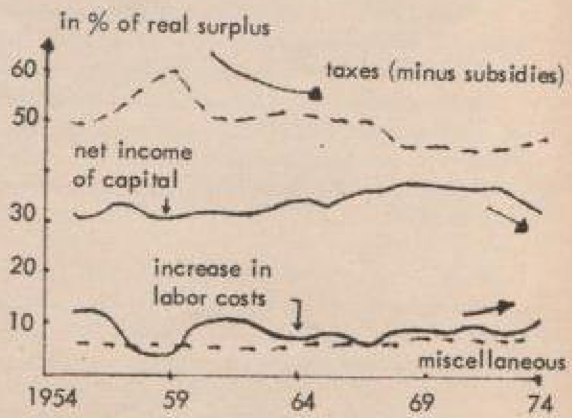


Figure 4

Source: Sautter, op. cit.

Allocation of Real Surplus (nonagricultural enterprises)

THE ITALIAN COMMUNIST PARTY & THE CRISIS

by ETTORE SALVINI

The Italian economy shows no sign of improving.* Industrial production is down 12-13% compared with last year and even down compared with several months ago. In a capitalist world whose overall situation is far from brilliant, Italy is locked in a battle with Britain for last place. The country is suffering not only from the effects of the crisis racking the entire capitalist world; it is also suffering from the aggravation of the effects of that crisis caused by the structural contradictions peculiar to its own history. The capitalist crisis is especially acute in Italy. It is virtually certain that Italy will emerge from the conjunctural crisis later than the other capitalist countries and that the Italian upturn will be of shorter duration than the others. The Italian capitalists consequently feel a special need to make the workers bear the especially high costs of the crisis, even though the relationship of class forces is not very favorable to the bourgeoisie.

So it is not accidental that economic problems once again occupy stage center in the Italian political scene. An additional reason for this is the fact that contract battles are now shaping up, and the demands of the workers aimed at defending their living standards inevitably crystallize around such battles.

The advances made by the left in the June 15, 1975, elections, the crisis of the Christian Democracy and the consequent crisis of the Christian Democracy's system of rule on the local level, and the situation of the Aldo Moro government, at the end of its rope but nonetheless buoyed up by the support of the PCI (Partito Comunista Italiano — Italian Communist party), with its broad array of "red councils" (the local and municipal governments controlled by the PCI) constitute the political framework within which the economic debates go on.

In this context, the regional conferences on employment (held in Turin and Milan) and the debate opened by PCI leader Napolitano in the pages of the CP weekly Rinascita do not represent unimportant factors or pure and simple maneuvers by the reformists; rather, they constitute an important political warning. They are initiatives through which the PCI intends to press for its major objective: the historic compromise, that is, PCI participation in the government along with the Christian Democracy. This objective, like the PCI's economic proposals, is a medium-term and not a short-term goal.

More immediately, these initiatives are a means by which the PCI and the trade-union bureaucracy intend to work out a platform for the coming contract negotiations. The aim is to maximally reduce struggles, which in a social situation as tense as the one that now exists in Italy, could lead to "frontal confrontation," the permanent nightmare that haunts the ex-revolutionary PCI.

It is consequently necessary to convince the employers that the PCI is a "serious" and "responsible" party that

* See "The Myth of the Upturn," INPRECOR, No. 30, July 3, 1975.

does not attack the sacred principles of "entrepreneurism." But it is equally if not even more necessary to convince the workers that the recipes of the PCI correspond to their interests.

From this standpoint, it is extremely important to analyze the discussion that has been developing in Rinascita and also to take a look at what was said at the conference on employment.

Some of the contributions to this discussion (not those made by members of the PCI) presented a critical examination of the experience of the "center-left" government. These contributions correctly stressed that the objective bases available today for broad reformist operations such as those put forward in the "medium-term program" proposed by the PCI are much narrower than they were at the beginning of the center-left experience. In fact, the center-left government took office at the height of an economic boom. The unfounded hope that there could be a capitalism without crisis gave rise to the notion that extensive reforms could be financed without a redistribution of the national income and therefore without stepping on the toes of any social group; or, as it was rather pompously put at the time, by means of a "broad range of alliances."

If this hypothesis turned out to be illusory for the 1960s, what must be thought of a reformist strategy that aims at even broader alliances today, during a period of extremely grave economic crisis?

But thinking about the center-left cannot do away with the problem of the "link in the balance of payments," that is, the phenomenon whereby with the smallest increase in consumption or investment (or both) the weakness of the productive base compels increasing resort to imports, which in turn generates a massive deficit in the trade balance, that is, the already delicate equilibrium between imports and exports.

During the period of the center-left, this phenomenon, which was combined with exports of capital, periodically provided occasions for "tight credit," which diminished investment, increased unemployment, and thus intensified exploitation.

Naturally, this problem arises only if one has no intention of overstepping the bounds of the "free market," that is, the world capitalist market.

And naturally, Communists are the first to assure the employers that this is not their intention. But the leaders of the PCI become a good deal less loquacious when it comes to defining how the reforms and the "medium-term program" they advocate can be compatible with maintaining equilibrium in the balance of payments. Some PCI leaders mutter about an ill-defined plan to redirect exports toward "newly developing countries," without bothering to explain whether they are talking about countries like Chad or Bangladesh, which would be happy to increase their imports but unfortunately have no money with which to pay for them, or subimperialist countries like Iran or Brazil, which have plenty of money and are eager to import — especially arms. Is that the industry on which the PCI wants to base its "new model of development"?

Or perhaps they want to orient foreign trade toward the workers states? This solution would pose both economic and political problems that would not be easily overcome, especially while remaining within the framework of the market economy. (Economically, there is the problem of the lack of foreign currency of the workers states; politically, there is the problem of relations with the bureaucracies in power in the workers states.)

In all honesty, it cannot be said that there is very much new in what the PCI is saying. More exactly, there is almost nothing new in what the Communist party requests from the bourgeoisie. There is, however, a good deal that is new in what the PCI offers in exchange, namely, mobility of the work force in the factories, a struggle against absenteeism, the taxation on the social security system. The novelty lies not in the vague abstractions that are requested but in the reality of what would be given in exchange. But let us not jump ahead; we will return to the offers of the PCI.

As for the requests: "The struggle for democratic programming represents . . . an essential moment in the initiation of the struggle. . . . There is difficulty in connecting the struggle against the increase in exploitation and the decline in employment to the attainment of measures of economic policy in the direction of structural reforms. . . . This is what must be achieved: full employment of the work force, reform of the fiscal system, reform of credit and public administration . . . the formation of a democratic distribution network . . . urban reform . . . the formation of a transport network that aids in economic development." Who said this? Napolitano in Rinascita, Libertini in Turin, Lama in Rimini? No, it is a quotation from the preparatory document for the 1965 congress of the CGIL (Confederazione Generale Italiana del Lavoro — Italian General Confederation of Labor).

Today, ten years later, Napolitano, Libertini, and Lama are not saying anything more or anything better.

Granted, they say that more attention must be paid to agriculture, technological innovation, and exports; but nothing more. Or better yet, as is usual in Italy, a few terminological innovations are tacked on; instead of "structural reforms" we have "new model of development," "compatibility," "links," and the "retributive jungle."

It is also true that a few more steps to the right have been taken: for example, the rejection of the "definition of a great national plan" as a "road that failed during the 1960s," in favor of "successive partial approximations." But what must be examined above all is not each individual proposal, but rather the logic that forms the backdrop to all these proposals.

Logic of reformism

Crises are inevitable under the capitalist system because they are provoked by the very functioning of the system itself, which, because of competition, the search for maximum profit, and the falling rate of profit needs a periodic destruction of value in order to be able to continue to function.

This is one of the most important conclusions of the Marxist analysis of capitalism, confirmed by more than a century of empirical observation of the actual functioning of the capitalist system. But the reformists, from Bernstein to Berlinguer, reject this analysis, closing their eyes to reality and proposing a completely different schema. The "distortions" of the system, they claim, worsen the conditions of the toiling classes. Thus, the objective is not to destroy the system, but to "correct" its functioning. When they are feeling especially euphoric (or when they are driven to the wall by the masses), the reformists add that this is the way to lay the basis for the transition to socialism, which obviously will be peaceful and parliamentary.

This is how they justify their alliance with more or less broad sectors of the bourgeoisie, sectors that are willing to struggle against the "distortions," but certainly not against the system itself. The reformists thus end up subordinating their own policy to that of the bourgeoisie, exactly as the PCI has done.

More concretely, in Italy today the PCI's logic is based on the idea that all the country's troubles stem from one particular "distortion," namely, Italian capital's "reluctance" to invest. This is a time-worn thesis which the PCI has borrowed from the bourgeois economists of the postwar Keynesian school.

Seeing as the Italian capitalists, if left to themselves, will not invest in productive activity but will instead put their money into "parasitic" sectors (personal consumption, speculation, export of capital to Switzerland), it is up to the workers movement to spur them on, to force them to become "modern" capitalists, and to overcome their "backwardness." This is the "national function" of the workers movement.

In reality, this reasoning is completely false and profoundly dangerous. It is false to consider Italian capitalism as "young" capitalism that can still evolve and thus correct its birth defects. Italian capitalism — like all capitalism in the epoch of imperialism — is an "old" capitalism, because the world system as a whole is "old"; the only way to modify this system is to destroy it. In other words, a bourgeois-democratic revolution is no longer possible; only a socialist revolution is possible.

To see this it is sufficient to recall that in Russia in 1917 (certainly more backward than Italy today) the only possible revolution turned out to be a socialist revolution. The same was true in Yugoslavia, China, and Cuba. Or perhaps the PCI, in common with some members of the bourgeoisie, thinks that the socialist revolution applies only to backward countries?

Thus, there are general theoretical grounds (based on theory that has been confirmed by more than half a century of history) for being certain that it is impossible to correct the "distortions" of Italian capitalist development, including the "distortion" of the Italian capitalists' feeble propensity for productive investment.

Another turn on investment

But it is necessary to more concretely examine why the PCI's thesis is wrong and harmful. In fact, we do not intend to utilize general theoretical conceptions (what is reformism and what is revolutionary policy) as magic formulas capable of exorcizing the bourgeois demon or as pass-keys capable of opening every door. We are sufficiently convinced of the correctness of our theoretical conceptions to believe that it is always to our advantage to deal with concrete reality.

In its capacity as flattener of humps, the PCI wants to open the way to the development of a "clean" capitalism, a capitalism that, while preserving its most important virtue for the employers (a "fair" profit) would no longer be afflicted with the defects we know so well: unemployment, low wages, taxes at the expense of the workers, on-the-job accidents, and so on. And what about the root and basis of all the other defects of capitalism: exploitation? Here the PCI prefers to remain silent. We will not spend any time demonstrating that such a capitalism has never existed anywhere, not even in Sweden.

Let us see what are the obstacles, according to the PCI, that bar the way to this brilliant future, a future that is so brilliant, while remaining capitalist, that it is hard to see what is the use of socialism. The obstacles have changed with time. Ten or fifteen years ago it was mainly the monopolies that were the bad guys, preventing the free play of the market. Today, however, it is instead the parasitic classes that are developing precisely on the basis of the spontaneity of the market. There is much less talk of the monopolies, although their economic strength does not seem to have diminished in the meantime.

In attaining the objective set by the PCI, an essential function is supposed to be played by "public" capital, that is, state capitalism in all its forms. The method of transition must be control of investment, control that is increasingly democratic, parliamentary, and now even trade-union based. Public capital, says the PCI, is supposed to "shift the profits" from old sectors to the new sectors in which development is desired. The national parliament, the regional governing bodies, and the municipal administrations create the conditions for this and make sure it actually happens. Voilà, ladies and gentlemen, there is the new model of development! Easy, isn't it?

In fact, investment plays a very important and delicate role in the capitalist process of reproduction. It is the

FROM BERNSTEIN TO BERLINGUER

point at which the employers direct their profits (which they have appropriated through the exploitation of the workers) toward new opportunities of exploitation in order to make even greater profits. It is clear that the capitalists will invest in those sectors (not necessarily productive ones) in which they see the possibility of making the maximum profit. To attain this goal the capitalist is willing to walk over the dead body of his mother; would he stop at laying off a worker?

Crises are precisely the moments in the capitalist reproduction process at which, the rate of profit having fallen, the capitalists decline to invest (look at the fall in investments this year, for example, much greater than the fall in production). In clarifying this, we clarify an important aspect of the problem that concerns us here: The capitalists invest only if there is an "interest" in investing, that is, if it is possible to extract maximum profit. Thus, when faced with two investment possibilities, the capitalist will choose the one that guarantees the greatest profit. The investment decision is tightly linked to the rights of capitalist property. Serious control over investment would thus mean decisive attacks on capitalist property rights, which would be fine. But the reformist parties and the trade-union bureaucracy propose controls that are a joke, that cannot possibly work. It is against this conscious mystification that we fight.

In fact, it must be one of two things: Either "new benefits" are created for the capitalists to make them invest in the sectors proposed by the reformists, and in that case no struggle around investment is necessary; it is sufficient to stimulate profit rates in the desired sectors. Or else there is a struggle, but a struggle in which it is clearly understood that to real control of investment requires the overthrow of the capitalist system.

Since the second possibility — that of the struggle for power — is decisively rejected by the reformists, all that remains is the first, better known under the name "incentive policy." Better known but not very effective. This is the policy that has been applied in Italy for the past twenty years in attempting to industrialize the South. And everyone knows how well that worked out.

Who controls whom?

Why did this policy fail as miserably as it did?

A big discussion about this is now going on. There are those who say that the incentives techniques were mistaken because they favored only industries with high capital intensities and low numbers of workers; there are those who say that the fault lies with the Cassa del Mezzogiorno, which fell into corruption; there are those who blame the inefficiency and incompetence of the Treasury Ministry and the Ministry of Industry. There is some truth in all these accusations. But the whole truth, the truth that sums everything up, is that all the state structures — the Ministry of Industry, the Treasury Ministry, the Cassa del Mezzogiorno, the institutes, and the rest — are structures of a bourgeois state functioning (as inefficiently as the case may be) in the interests of the rule of the bourgeoisie and as instruments of this rule.

The tight linkup between the bourgeoisie and this state apparatus is effected through the Christian Democracy, directly on the level of personnel. The fact that this tight linkup is now showing signs of crisis (which should not be overestimated), that the state apparatus has fallen into such rack and ruin that it is not even able to effectively serve the interests of the bourgeoisie itself, in no way means that it is possible to use this state apparatus in the interests of the working class.

It was not a revolutionary, but an intelligent reformist, Ruffolo, who, in making a self-critical analysis of the center-left, very clearly affirmed the "incompatibility of these projects of generalized programming with the structure of the state and with the interests of the parasitic social groups linked to this structure."

If that is how things stand with the state apparatus, to speak of parliamentary control is simply ridiculous.

In reality, the faith of the workers in parliament is continuing to decline. The prestige of this body is now virtually nonexistent. The PCI, while obviously not revising its strategy, now generally prefers to speak of "representative assemblies," placing the emphasis on the regional and local administrations. In fact, however, up to now the local bodies have not done much better than the parliament, neither in terms of efficiency nor in terms of honesty, not to mention the interests of the workers.

These local bodies are in debt to the tune of 25,000 thousand million lire — no small thing. And in general the workers see no results from the spending that has produced these debts. The PCI often claims that part of this debt is due to the centralizing policy of the Italian state, which has not granted the municipalities the necessary financial resources. In any event, this is only partly true (it is clearly not the case for the debts of Rome, Naples, etc.), and to the extent that it is true it demonstrates that the local bodies do not count for very much in determining the economic life of the country.

It is true, at least in a general sense, that the performance of the administrations of the "red" cities and regions has been much better than the performance of those administered by the bourgeois parties. But has this prevented the economic crisis or layoffs from reaching Emilia and Tuscany?

It is possible to use the regions and cities in which the left won the elections of June 15 to hold conferences on employment, but it is not possible to use them to resolve the problem of unemployment (and it is criminal to sow illusions about this).

Obviously, it would also be possible to use the local administrations in a revolutionary manner, for example, systematically requisitioning closed factories, supporting housing occupations, and so on. But this would rapidly lead to clashes with the central state administration, which is something the reformists absolutely do not want.

Workers control & trade-union control

If our criticism were to stop here, the reformists would certainly accuse us of completely disregarding the "novelty" that allegedly characterizes the present proposals of the PCI and the trade unions. What is involved here is the combination of control of the productive choices from above and "from below" (by the trade unions), which would supposedly be entailed in the implementation of the "medium-term program."

In this regard, PCI leader Lama assures the reactionary petty bourgeois readers of the magazine Oggi that he has shed his youthful illusions: "We don't believe in fairy tales any more; we have already been burned by them many times. Two years ago we drew up agreements . . . for investments in the South, and then nothing happened. . . . These agreements became scraps of paper partly because the trade unions had no power to check and control the implementation of the commitments that were made." It is exactly these means of control that the trade unions are now supposedly demanding in their contract platforms.

In the meantime, the combination of structures of control "from above" and "from below" is not very convincing. It is not convincing because given the present structure of the state and given the weight and the ruinous condition of parliament, in the best of cases no control would be forthcoming from above; more likely, there would be systematic sabotage of the control from below.

Our concern mounts when we read what A. Reichlin writes in Rinascita (editorial in No. 42, 1975): What we are confronted with is an immense and complex system of state monopoly capitalism; it would be silly to think that such a system can be controlled and opposed solely 'from below.'" Here we have the usual bureaucratic reformist contempt for the stupid workers (and employees, technicians, and toilers in general), who are held to be incapable of ever controlling such an "immense and complex" system. What is possible, however, again according to Reichlin, is control by a many-tentacled armada composed of some parliament deputies, a few director generals from the Ministries, and, why not, a dash of representatives of the State Council.

The subordination of control from below to control from above must be rejected both for general political reasons (no dependence on the instruments of the bourgeoisie) and because of the disastrous and still declining state of the present Italian state apparatus.

But even limiting ourselves to control from below, it does not appear that the trade-union control proposed by Lama would be adequate to the tasks proposed. The information that the employers would have to give the trade unions under the PCI's plan is scarce and insufficient; moreover, the most important thing is missing: the workers right to veto employer decisions.

If that is how things are, we could be asked why the employers seem so ferociously opposed to the trade-union requests, so much so that they consider withdrawal of these requests a precondition for the opening of negotiations. Is our criticism perhaps of the "typical extremist" variety, asking for the moon, while the employers, very well aware of their own interests, scream objections to the "realistic" proposals of the trade unions?

First of all, it must be said that the employers always start screaming about any outside intervention in what they regard as their own sacred territory, that is, their "entrepreneurial activity." They do so for reasons of principle, quite apart from the damage they actually fear.

Then if we take a good look at what the employers are actually saying, we see that what they are concerned about is not so much the requests of the trade unions and the elements of trade-union control that would be introduced as the use that could be made of these demands by the workers of this or that factory who are too independent of the trade-union bureaucracy.

This can be clearly seen in the statements of Walter Mandelli, president of the employers' federation of the metal industry, at a round-table discussion published in Il Sole/24 Ore (October 11, 1975). What bothered Mandelli was not so much the idea of supplying some information to the trade unions, but rather the "pressures, the manifestations peripheral to the trade unions, including certain aberrations that have been taken as examples and have therefore been imitated." And then, even more clearly: "There is a big gap between what Lama says and what will actually happen in the factory."

We want this gap to be closed too, but in the direction opposite to what Mandelli and Lama would like to see. We would like to see it closed in such a way that the trade-union leadership bodies would be under the tight control of the rank and file and would implement the policy of the rank and file, that is, a class policy. A class policy on the question of control of employer decisions means the right and possibility of everyone to have access to all documentation relating to the management of the firm, without any limitation.

But even this is not sufficient, for a big part of the decisions of a company is determined by the financial situation of the company, and this is known only to the banks. It is thus necessary to immediately abolish secret banking and give the workers the possibility of examining the bank accounts of their employers. This measure would, among other things, lay the basis for effectively striking at fiscal evasions on the one hand and exports of capital on the other hand. In this manner, the basis would be laid for real workers control of investments. The basis, but not the control itself; the latter, if it is to be real, must coincide with socialism and thus requires the prior seizure of power.

Costs and compensation

Naturally, the demand to open the account books and abolish secret banking would touch off the most violent resistance from the employers. Naturally, in order to achieve these objectives it would be necessary to mobilize the masses for a determined clash with the employers, a clash that would rapidly pose the question of power.

The reformists want to avoid these difficulties, the dangers and unpredictable elements linked to such a general line. To do this, however, they propose objectives that are illusory and mystifying (control of investments) so long as they remain within the limits of the capitalist system and are also totally insufficient to satisfy the most elementary needs in the realm of wages and employment. In exchange for these illusory and miserable concessions, they offer quite a bit to the employers. They give in on three extremely important problems: absenteeism, mobility of the work force, and taxation of the social security system.

Absenteeism, as is well known, is in most cases a means of self-defense of the workers against superexploitation and the poisonous effects of the capitalist factory. Moreover, to give in on this question is to open the way for political repression against the vanguard, which is carried out precisely under the pretext of fighting absenteeism.

Mobility, given the illusory character of the idea of increasing employment through controlling investment, is a prelude to layoffs and thus a means of increasing exploitation.

Taxation of social security, in the absence of a radical reform of the tax system, means to make the workers bear the costs, through taxes, of an upturn in profits.

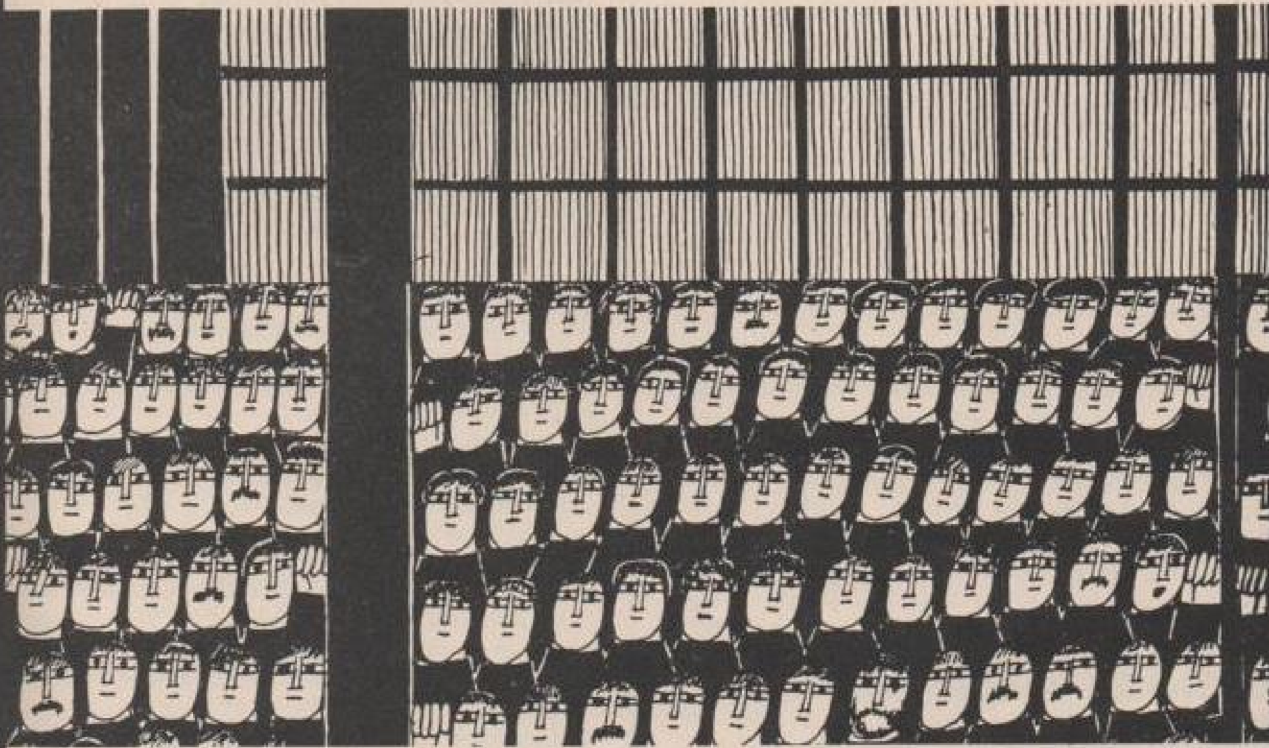
Furthermore, there is general reference to "other costs" that the workers would have to pay. This is mentioned not only by the Socialists Ruffolo and Giolitti, but also by the Communist Trentin.

When we reject paying these costs, we are not being demagogic, as the Socialists say and the Communists suggest. The fact is that we believe it is dangerous and wrong to pay these sorts of costs and especially to pay them in exchange for an illusory "new model of development."

When the working class takes power, it will have to carry through a profound reconversion of the country's apparatus of production, and this will obviously entail great costs, costs that will be all the greater if the delay in the development of the revolutionary movement in other countries leaves Italy in isolation. Then the workers will agree to pay the costs in living standards and austerity for a certain period of time. But only in exchange for the overthrow of the capitalist system and the power to control society themselves.

October 30, 1975

CENTRAL AMERICA:



THE FAILURE OF INTEGRATION

by SARA BENTON

An analysis of the repercussions of the present capitalist recession on the economic situation in Central America must begin with an examination of the changes introduced in the productive structure of the region by the Mercado Común Centroamericano (MCCA — Central American Common Market). Essentially, we may sum up these changes by observing that since 1960 there has been a dependent industrial growth in Central America based on a horizontal extension of the market (the "integration" of the five countries); this has permitted imperialist investment to flow preferentially to the sector of manufacturing industry.

Beginning in 1960 (the year in which Guatemala, El Salvador, Honduras, and Nicaragua signed the "General Treaty of Central American Economic Integration," to which Costa Rica adhered in the middle of 1962), the annual growth rate of industrial gross national product largely exceeds the annual growth rate of gross national product as a whole. Between 1960 and 1968 the industrial gross national product of Central America grew at an average annual rate of 10.0%, while the total GNP registered an average annual increase of only 6.9%. In 1960 the share of total GNP represented by industrial GNP was 13.2%; by 1970 the figure had risen to 17.5%. Nonetheless, this type of industrial growth was not at all based on a structural modification of the Central American economy, nor did it generate any of the classic effects that accompanied the industrialization process in the imperialist countries in the past. In addition, the overall figures conceal extremely uneven situations among the various countries of the region.

Reconversion of imperialist investments

The main characteristic of the new penetration of Latin America by the great international trusts is the relative abandonment of the sector producing raw materials, which had been the traditional favored terrain for imperialist investment, in favor of the industrial manufacturing sector. This overall phenomenon was also manifested in the Central American region, although with special features. In 1959 only 3.8% of total direct foreign investment in Central America was in manufacturing industry; by 1969 the figure had already risen to 30.8%. As for the national origin of this capital, of the 572 foreign companies with investments in the region, 413 — that is, 72% — were majority controlled by North American capital.

The tendency to invest in manufacturing industry corresponds not only to the economic interests of a strong sector of the imperialist bourgeoisie, but also to the political interests of imperialism. The rise of the class struggle under the impetus of the triumph of the Cuban revolution required that attempts to made to alleviate social contradictions and to present imperialist capital under the more acceptable guise of "development." As long ago as 1960, the Charter of Punta del Este recommended the adoption of "comprehensive agrarian reform plans," explicitly declaring that such steps could contribute to "political stability." Moreover, there were attempts to "stimulate economic growth through creating new norms of consumption and investment."

Integrating the elite

Nonetheless, the "modernization" of the Central American economy in line with imperialist interests did not even pose any reform of the agrarian sector. The attempt was made to resolve the central problem of the market through the creation of a free-exchange zone protected by common tariffs, simply linking together the thin layers of consumers of manufactured goods that already existed in each of the five countries. In itself, this vulgar arithmetical operation indicated the narrow limits of the famous "substitution of imports" around which the Central American Common Market was based.

More than 60% of the working population in Central America is concerned with agriculture. The agricultural sector is completely dominated by the twofold problem of the latifundio (large estates) and the minifundio (small-scale rural property). While the 80.9% of the agricultural population composed of landless workers and minifundistas accounts for only 41.5% of total agricultural income, the 5.3% composed of large landlords receives 56.8% of this income. As of 1970, per capita annual income among the landless workers and minifundistas fluctuated between $62 and $190. Even though it considers only the case of the rural workers, this brief description is sufficient to give a picture of the "depth" of a supposed economic integration that completely left out more than half the total population of Central America.

"Considered as an economic unit, the MCCA remains a market of reduced dimensions. In fact, a few small companies, often a single company, suffice to satisfy total Central American demand. . . . This facilitates cartel arrangements among the companies, with the conscious division of markets, price fixing, determination of quality, etc."(1) According to Edelberto Torres, an "optimistic" estimate would place the number of potential consumers of manufactured goods throughout Central America at 3 million.(2) The total population of Central America in 1970 was 15 million.

In sum, the possibilities opened by the MCCA permitted nothing more than a proliferation of light manufacturing companies and simple transformation industries that in many cases scarcely go beyond a purely handicraft stage. This is clearly reflected in the sectoral composition of industrial production. In 1970, some 76.2% of "industry" was concentrated in the "traditional" sector; 16.0% of industry was in the "intermediary" category, and 7.8% in "metal and machinery."(3)

Increase imports to try to reduce them

Assembly and packing activities, predominant in Central American "industry," involve not only the import of investment goods, but also a very high percentage of imported raw materials. According to the industrial census of 1968, in the sector of "traditional" industries, the percentage of raw materials imported from third countries (that is, from outside the region) was 45.8%; in the sector of "intermediary" industries it was 67.5%, and in the "metal and machinery" sector it was 91.0%.

As for the total per capita imports, according to United Nations data, these amounted to $47 in 1958-59, $59 in 1963-64, and $74 in 1968-69. This means that during these years the countries of Central America had higher per capita imports than the rest of the countries of Latin America or the countries of Africa and Southeast Asia. And this in the midst of a period of "substituting imports"!

According to the apologists for the MCAA, however, the Common Market also has the function of diversifying Central American exports. With this argument they claim to justify the exaggerated increase in "productive" imports. The reality, however, is just the opposite.

Central American industry is not sufficiently competitive to penetrate markets outside the region. The increase in the share of manufactured goods among total Central American exports is simply a statistical trick, because the qualitative difference between traditional exports and manufactured exports has been left out of account. While the former go to international markets, the latter are restricted solely to the Central American region. This means that only the traditional exports bring in currency; in other words, the ability to pay for imports derives solely from the export of traditional products. In sum, even after fifteen years of "substitution of imports," the expansion of the Central American economy continues to depend on the fluctuating world market prices of a few raw materials. Such a situation is constantly aggravated by the unfavorable evolution of the terms of international trade, which always raise the prices of industrial goods compared with those of raw materials. For Guatemala alone, there was a net transfer of income of $175.6 million (at 1960 prices) from Guatemala to the rest of the world between 1960 and 1970 as a result of changes in import and export prices.

As for the benefits allegedly derived from foreign investment, in Central America we have seen the development of one of the classic phenomena that accompany penetration by the monopolist trusts: The trusts take advantage of the possibilities of internal financing rather than bringing in their own capital. According to the rather conservative estimates of the World Bank, 33% of the loans granted by the Banco Centroamericano de Integración Económica were accorded to foreign companies. As for private banking, although the loans granted to so-called national companies doubled, loans to foreign companies tripled.

Moreover, with ever increasing frequency, foreign capital does not make new investment; it simply acquires already existing companies. In spite of the enormous difficulty in obtaining information, a recent study gives a list of fifty-one Guatemalan companies acquired by North American capital.(4)

What we have just pointed out about foreign capital immediately raises the problems of the balance of payments. In order not to spend too much time on a very well-known phenomenon, we will simply note that the net return on investment registered in the running account of the balance of payments produces a deficit for Central America as a whole: $11.7 million in 1960, $64.4 million in 1965, $115.4 million in 1970.(5)

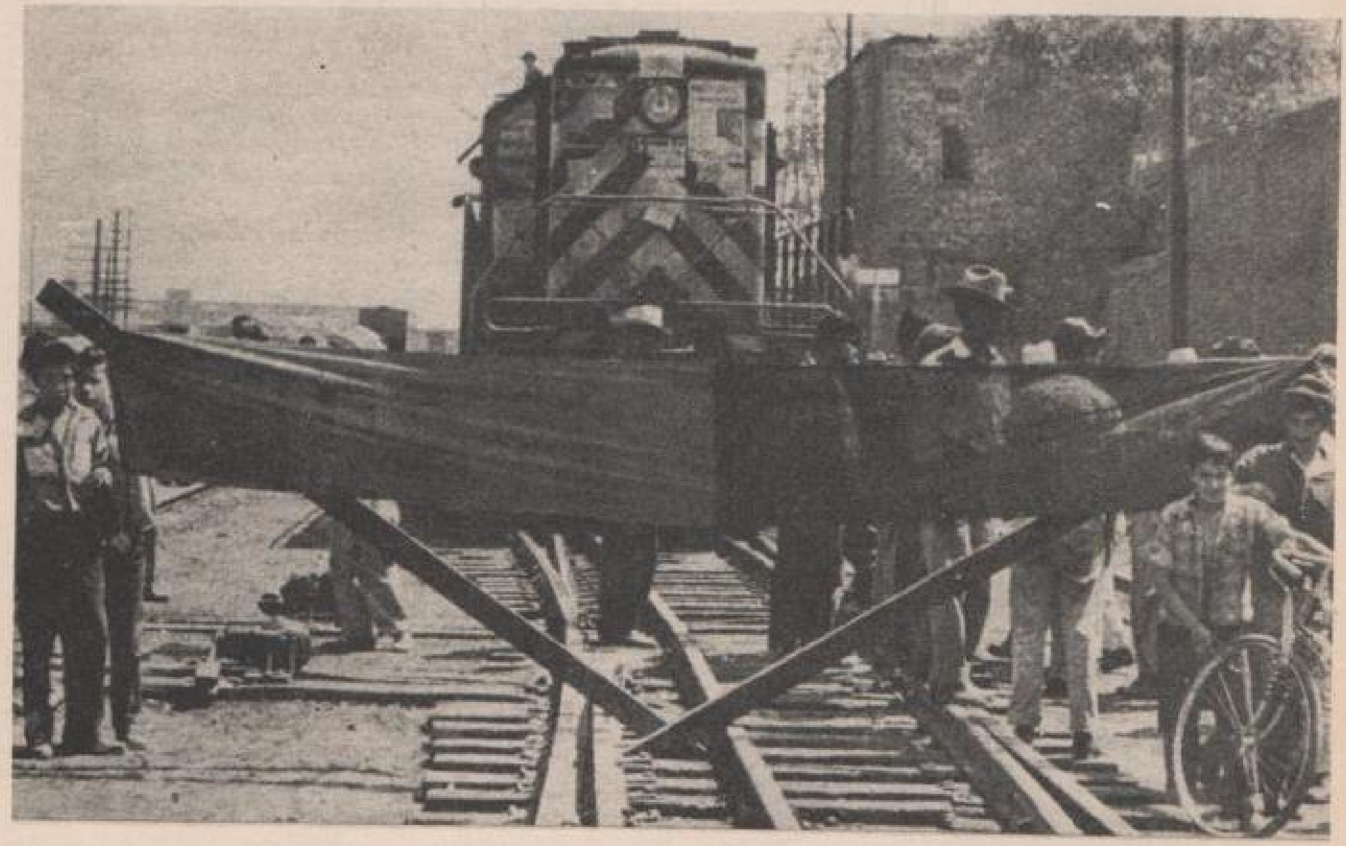
It is practically impossible to give an approximate total figure for the profits of foreign companies in Central America. Capital utilizes a variety of "technical" methods in order to conceal its pillage. But according to a calculation based on a sample of forty foreign companies, the average rate of return on social capital was 29%. The declared repatriation of profit rose from $23.3 million in 1960 to $78.6 million in 1969.(6)

What, then, were the goals achieved by the Central American Common Market? Very simple. Foreign capital and the Central American bourgeoisie associated to foreign capital were able to take possession of an already existing market, to utilize an abundant and cheap labor force, to escape most of the existing fiscal charges, and above all to protect their investments from the pressures of international competition. But the consequences of this ingenious operation sharpened the chronic crisis of the bourgeoisie throughout Central America. These are the effects of the MCCA that are of particular interest to revolutionary Marxists in Central America.

The crisis of the MCCA

The MCCA fell victim to uneven development, which is inherent in the system upon which the MCCA is based, the capitalist system of production. All the theses about the necessity for an integrated development, for an equal division of profits and charges through integration, were transformed into dead letters by the free movement of capital within the region. Subject to no logic other than that of profit, capital insists on investing wherever the best opportunities for obtaining profit exist. In the case of Central America, this phenomenon was reflected in a concentration of investment — and therefore of trade — in the countries with a relatively greater development: Guatemala and El Salvador. In 1970 the positive balance of these two countries in the realm of regional trade was $50.6 million; for Honduras alone the deficit was $21.8 million. In the area of trade of manufactured products alone — the sort of trade that the MCCA was supposed to develop — Honduras's deficit amounted to $24.5 million.(7)

In addition, the prices of manufactured goods within the region were considerably higher than the prices prevailing on the international market. According to the Honduran Minister Acosta, Honduras was paying between 25% and 100% more for its regional imports of industrial products.(8) Under these conditions, why pay such a high price for an economic integration that, far from according equal "development" possibilities for all and far from reducing regional inequality, instead leads to a sharpening of the regional division of labor? Decree 97, promulgated by Honduras at the end of 1970 and annuling all the integration accords, marked the end



of the formal economic "community," whose perpetual trade war had since been capped off by a war with rifles and cannon (the war between Honduras and El Salvador in 1969).

Nonetheless, trade among the Central American countries continues, but so do the conflict tendencies. At the end of 1974, the Central American press announced "extraordinary growth." The breakdown was as follows: "Guatemala: the most profitable country. El Salvador: favorable balance-sheet, with significant increases. Honduras: regional and general deficit. Nicaragua: alarmingly unfavorable balance. Costa Rica: $43 million deficit." During 1975 Honduran trade continued to be based on bilateral treaties; Costa Rica and Nicaragua imposed various protectionist measures and even closed their borders to certain products originating from Guatemala and El Salvador. In sum, the observable tendency was toward growing deterioration of any sort of integration schema.

What are the most obvious implications of this crisis?

The progressive contraction of the external market caused by the deterioration of the MCCA — a contraction that tends to be intensified by the increasing opening of the region to international competition — sharpens problems on internal markets. In countries in which the immense majority of the working population and the fundamental sectors of production are in the agricultural sector, to speak of the internal market means to speak of the transformation of this sector. The problem is not simply the low purchasing power of the population, but also the feeble extension of monetary relations, which are restricted by the existence of subsistence farming and the system of paying the work force in kind rather than in money.

The negative cost of the agricultural sector

But in addition, the agricultural sector has also proven incapable of responding vigorously to other requirements of capitalist development. The capacity to pay for imports — which, as we have pointed out, depends fundamentally on the traditional agricultural exports — suffers constant deterioration. Central American participation in world trade has diminished constantly. With the exception of sugar — whose price experienced an unprecedented boom, only to decline again later — the traditional products have suffered the negative impact of the present world recession. Exports of coffee, cotton, bananas, and meat, while they increased in absolute terms, were not sufficient to compensate for the increases in the prices of imports. For 1974, while coffee exports increased 9% compared with the preceding year, imports of raw materials and semifinished products increased 62.0%, consumer goods 45%, fuel 251.7%, and construction materials 91.6%. Obviously, results like this will be reflected in the balance of trade. In 1973 Guatemala was the only Central American country to register a balance of trade surplus: $36.9 million. Guatemala's deficit for 1974 amounted to $97 million.(9)

As for production of low-price food products, especially corn, beans, and rice (which constitute the basis of the popular diet), the situation is disastrous. The progressive deterioration of the minifundista sector, which is based almost exclusively on such products, has given rise to acute shortages. There has consequently been an increase in the prices of these grains, an increase official statistics evaluate at 100-200% for 1974.

In addition, domestic production of these foodstuffs is not sufficient to cover minimum needs, and it is thus necessary to import. That is, a good portion of available currency is alloted to the purchase of nonproductive consumer goods! The regional deficit in these grains at the beginning of 1975 was estimated at 33 million hundredweight. At the end of 1974 (calculated at then current prices), the deficit in basic grain in Guatemala (8.8 million hundredweight) required imports at a total cost of $115 million. If the cost for basic grain is added to the cost for oil, the two categories represent imports of about $800 million for all Central America. Before the fall in the prices of coffee, cotton, and meat, this meant that "more than 40% of the value of exports will have to be used simply to buy cereals and oil."(10)

The grain deficits have appeared in countries that traditionally produce these products. The shortage means not only an enormous deterioration in the standard of living of the great majority of the population, but also a sharp blow to those sectors of the bourgeoisie interested in the expansion of the domestic market.

What are the basic roots of this situation?

The Central American governments never run short of hurricanes and volcanoes in seeking excuses. But these fig leafs cannot conceal the real causes: the incredible degree of concentration/dispersion that characterizes the structure of land ownership; the fact that more than 52% of the land owned by the latifundistas lies fallow; the absolute surplus of agricultural labor and the resulting unemployment; the predominance of extensive methods of cultivation; the financial and technical abandonment of the small-scale producers, etc.

Impasse of the agrarian reform

The solution to the agrarian problem is a question that concerns the entire Central American bourgeoisie as well as the imperialist interests involved in the region. But the problem is not purely economic; it is also political and social.

Economically, it is easy to see the contradiction between the agrarian sector and the other sectors, especially industry. But the existence of this contradiction does not necessarily mean that there are also two separate and equally contradictory classes, one made up of the "traditional" landowners, the other made up of the various strata of the bourgeoisie linked to imperialist industrial and financial capital. Nor does it mean that the agricultural sector functions as a different structure, "archaic" and without precise links to the other sectors of the economy.

On the contrary, it is a question of the internal contradictions of a subordinate and backward capitalism fully reflecting the consequences of an uneven development among the various sectors. Although there is not sufficient information to precisely analyze the composition of and mutual relations among the ruling classes, all available evidence indicates that the model of industrial growth advocated by the MCCA and the penetration of foreign capital into manufacturing industry stimulate an even greater interrelation between the old landowning oligarchy and industrial capital. Further, the hegemony of imperialist capital has erased the last traces of a "national" bourgeoisie capable of carrying through its own economic projects.

But the chronic asphyxiation of the Central American economy is already intolerable, not only for the imperialist interests and their local allies, but also for the rise of the various layers of the petty bourgeoisie, whose future depends entirely on economic reactivation. Politically, this situation is expressed in the sharpening of social tensions, tensions that threaten the very existence of all the exploiters.

In their own way, the representatives of the bourgeoisie also are trying to break down this contradiction at its weakest link: the agricultural sector. This is the objective basis of the reformist inclinations now being manifested in the various countries, although in an extremely uneven manner.

Although the agrarian reform theoretically corresponds to the equally theoretical interests of the bourgeoisie, other factors intervene that break down this schema in practice. For the Central American bourgeoisie and imperialism, it is not only a question of attacking the immediate interests of the large landed proprietors. The Central American bourgeoisie has already had some experience with the dynamic that can be triggered simply by partially questioning one of the forms of private property.

In 1954 imperialism brought down the Jacobo Arbenz regime in Guatemala. Arbenz had promoted an agrarian reform whose declared objectives were: "to liquidate feudal property in the countryside along with the relations of production that gave rise to this property and to develop the capitalist form of exploitation and methods of production in agriculture and prepare the way for the industrialization of Guatemala."(11) Only unused land was supposed to be expropriated, and it was supposed to be paid for at an adequate rate of compensation.

The most obvious reason for the reactionary coup in 1954 was the expropriation of the unused land held by the United Fruit Company. But the basic motive was the enormous agitation that had been provoked by the agrarian reform; the invasion of land declared to be "unaffected" by the reform; the formation of agrarian committees representing the rural population, which did not agree to exclude cultivated land from the reform, land that had always been cultivated by the peasants and not by the owner. Not for the first time in history, the logic of the masses could not be held within the bounds of the logic of "stages." Once the class struggle began, each position won by the peasants could be consolidated only by winning new positions. And the agitation was not limited to the peasant milieu. Even before the agrarian reform, the young Guatemalan workers movement had taken on impressive dimensions. In the space of only ten years' legal activity, 107,000 workers joined a united trade-union federation. With the proletariat, there is no room for resort to purely partial expropriations. If the land should belong to those who till it, to whom should the factories belong?

A similar, although not identical, phenomenon is occurring in Honduras today. Because this country has been the main victim of the functioning of the MCCA and because it is the most economically backward country in the region, a sector of the army is attempting to press ahead with a very modest project of redistribution of land. Day after day the Central American press publishes news about peasants taking over land and about the growing organization of the Honduran peasants. Once again, the agitation is not restricted to the countryside. Urban struggles round out the framework of a general rise of the mass movement, which is widely overstepping the limits the army wanted to impose on the "change."

How has the Honduran bourgeoisie reacted to the plan that supposedly corresponds to its interests? The Partido Nacional (National party) and the Partido Liberal (Liberal party) — political representatives of the various factions of the Federación Nacional de Agricultores y Ganaderos de Honduras (FENAGH — National Federation of Farmers and Stockbreeders of Honduras) — have unleashed a virulent campaign of opposition to the military government, opposition centered around the question of the agrarian reform. The FENAGH (behind which is grouped the majority of the "private initiatives") has threatened to call a "general strike"(!) to protest the agrarian reform. The only political organizations supporting the military regime are the Communist party and the Christian Democracy. The regime is also supported by some sectors of the trade unions and other popular forces, but the military know very well that such support cuts two ways. In reality, the only more or less solid pillar is the army. And even within the army there is a clear contradiction between the young officers and the traditional hierarchy. In sum, it is an agrarian reform that objectively corresponds to the long-term interests of a supposedly national bourgeoisie in a country in which this bourgeoisie is not "national" any more than it is inclined to recognize such interests as its own today.

In the middle of April 1975 the Costa Rican government defined its agrarian policy in "fifteen points": time-honored clichés about the necessity of "protecting" the small-scale producers, of "educating them," of "guaranteeing" prices, of promoting cooperatives, and so on. There was only one categorical assertion: "The forces of order will drastically repress all those who engage in agitation and encourage land occupations and other acts that do not respect private property."

Somoza's declarations during the meeting of Central American presidents held in Guatemala at the beginning of November this year are sufficient to demonstrate the importance the eternal Nicaraguan dictator accords the agrarian problem: "It is perhaps because we do not have a great agrarian problem that some people do not know our plans on this matter."

In Guatemala, the National Development Plan is centered around the simple colonization of virgin lands, the creation of cooperatives among the minifundistas, and the improvement of the trade system for agricultural products. The Guatemalan planners consider "that an agrarian reform is incompatible with the existence of a constitutional state."(12) In El Salvador there is no extra land to be distributed without attacking the big latifundistas. In spite of the fact that as long ago as 1973 El Salvador President Armando Molina declared that: "It is indispensable to carry out an agrarian reform to increase production and productivity," nothing concrete has yet been done in this direction.

New rise of the mass movement

In sum, the Central American bourgeoisie has proven itself completely incapable of carrying out an internal transformation that, basing itself on a reform of the agrarian sector, could constitute a point of departure for relative economic growth. In face of the present crisis, there is at most talk of an "aggressive" extraregional export policy. But such aggressiveness cannot be based on the real competitive capacity of Central American "industry." The road chosen seems to be that of state subsidies, which cannot be granted without increasing fiscal burdens on the entire population.

Given the problems of the balance of trade, which originate from the dizzying rise of imports (which the bourgeoisie had dreamed of reducing), the usual "weapon" is being used again: increasing resort to foreign debt.

All the economic measures that have been adopted by the Central American governments in the vain attempt to end the crisis have given a new impetus to the inflationary spiral in the region. The most conservative calculations of the International Monetary Fund estimate that the annual increase in the cost of living is 25%. The popular response has not been long in coming: Various mass movements are beginning to appear once again on the Central American horizon, in spite of the repressive atmosphere prevailing in the region.

Revolutionary Marxists must pay particular attention to these embryonic manifestations of the mass struggle. In spite of the superficiality of the industrial growth induced by the MCCA, whose major features we have outlined above, it is a fact that the Central American societies today, although strongly marked by the weight of the agrarian question, are much more complex than had been the case in the past. Although the working class remains a minority compared with the peasantry, it is clear that the specific weight of the workers has increased in the same proportion as that of manufacturing industry; moreover, it is clear that the slow but gradual capitalization of Central American agriculture is constantly increasing the number and importance of the agricultural proletariat. Today more than ever, any variant of the notion of "surrounding the cities from the countryside" is completely ineffective in responding to the overall problems of the Central American societies.

The unevenness among the various countries with respect to traditions of struggle and degree of organization and political consciousness is an obvious fact of life in Central America. Nonetheless, signs of a clear rise in the class struggle are emerging everywhere; the advanced point today is in Honduras.

Revolutionary Marxists know that in spite of the strong will to struggle, the Central American proletariat today has not attained the level of organizatiòn and political consciousness necessary for a frontal battle against the bourgeoisie. But they also know that these are conditions that cannot be improvized, that a process of political education must be carried on, a process that begins from the present level of consciousness of the urban and rural proletariat and of the poor peasants and other popular layers, and demonstrates in practice the transitional links between the first battles and the final ones. The masses learn through struggle, and this education in turn serves to deepen their struggle.

The collective task of revolutionary Marxists in Central America is to elaborate this transitional strategy. To build the revolutionary party capable of implementing this strategy is undoubtedly the central task.

December 7, 1975

FOOTNOTES:

1. Eduardo Lizano, "Una reflexión acerca de la integración económica centroamericana," Guatemala, 1973, p. 34.

2. Edelberto Torres, "Desarrollo, Integración y dependencia en Centroamérica, 1970, p. 501.

3. Traditional: food, drink, tobacco, textiles, shoes, etc.
Intermediary: paper, coal, rubber, oil, derivatives, etc.
Metal-machinery: machines, electrical apparatuses, transport equipment
The census registers as "industry" all manufacturing establishments with more than five employees.

4. Davis Tobis, "La Falacia de las Inversiones Norteamericanas en Centroamérica, EDUCA, 1974.

5. Data from SIECA, "El Desarrollo Integrado de Centroamérica en la presente década."

6. Ibid.

7. Ibid.

8. Quoted by Susan Bodenheimer, "El Mercomún y la ayuda norteamericana," EDUCA, 1974.

9. Inforpress Centroamericana.

10. Ibid.

11. Article 1 of Decree 900, "Ley de Reforma Agraria."

12. Introduction to "Primer Plan Nacional de Desarrollo," 1970-75.

BRAZIL:

PRELIMINARY NOTES ON THE END OF THE

by JEANETTE McDONALD

Today, one year later than the imperialist countries and the oil-exporting semicolonial countries, Brazil is suffering the impact of the generalized recession of the international capitalist economy. This impact results in a rapid slowdown of the exceptional economic growth the Brazilian economy had experienced between 1968 and 1974.

The clearest expression of the deterioration of the economic situation is the catastrophic aggravation of the balance of payments. The deficit in the balance of current operations increased from $3,400 million in 1973 to $8,000 million in 1974. This year it should hit $9,000 million.

In 1973 it was easy to cover the deficit thanks to a gross capital entry on the order of $5,000 million. In fact, exchange reserves grew by $2,000 million that year. In 1974 gross capital entry, on the order of $7,000 million, was no longer sufficient to cover the deficit of current operations; exchange reserves diminished by $1,500 million. This year reserves will diminish by nearly $3,000 million, that is, they will have declined by more than 50% in the space of two years (falling from $6,500 million to less than $3,000 million).

must be emphasized that while the increase in the ice of oil is part of the cause of the rapid deterioration of the balance of payments, it is not at all the sole cause. First of all, the deficit in servicing loans is increasing alarmingly, rising from $1,600 million in 1973 to more than $3,000 million in 1975. Second, the cost of imports of machinery has increased more rapidly than that of imports of oil. Finally, the plans for "compensatory" increases in exports have failed on the whole, especially because of the international recession (fall in the price of sugar, sales difficulties for industrial products) and because of the disastrous coffee harvest.

The acceleration of inflation in Brazil during 1975, while inflation was decelerating in the imperialist countries, also weakened the position of the Brazilian economy on the world market. The dictatorship had succeeded in bringing the rate of inflation down to 21% in 1970, to 18% in 1971, and to 14% in 1972. It even tried to reduce the rate to 12% in 1973. But this objective was not at all attained; the cost of living rose 15% that year. The rate of inflation then rebounded to 34.5% in 1974; it will probably hit 25-30% for 1975 as a whole (forecast based on the figures for the first half of the year).

Finally, account must be taken of the growing weight of foreign debt, which is taking on increasingly disturbing proportions. Gross foreign debt was $12,500 million in 1973. It now stands at more than $20,000 million. Debt servicing already absorbs 25-30% of export revenues. If total export revenue falls into stagnation, the weight of debt servicing threatens to become intolerable.

In October of this year the dictatorship reacted to this situation with a series of measures announced in a television speech of President Geisel. The overall effect of these measures is to deal another and sharper blow to growth through a deflation of internal demand. The price of gasoline was raised 25%. Luxury taxes on imported products were doubled. Imports were penalized in general. All this means that the domestic market will contract at the very moment that the foreign market is stagnating.

The effects of this have already been felt in the automobile industry. Brazil had been the only capitalist country to escape the effects of the international automobile crisis in 1974. In 1975 the situation turned around. Sales on the domestic market declined in absolute figures. Inventories began to pile up. Wholesalers and retailers began to offer rebates. The profits of the big four (Volkswagen, General Motors, Chrysler, and Ford) seem to be disappearing for 1975, and this at a time when Fiat is launching a huge competitive enterprise in Belo Horizonte.

It would obviously be wrong to think that the recession that is now beginning to hit Brazil is purely imported. In large part it results from the particular form that had been taken by the accelerated growth of the preceding period. This resulted in a severe redistribution of the national income in favor of capitalist profits and the incomes of well-off layers of the petty bourgeoisie (that is, a total of less than 20% of the population). This occurred at the expense of the immense majority of the toiling masses.

Real wages of workers had suffered a catastrophic fall just after the dictatorship came to power in 1964. They improved a bit after the "launching" of the "miracle," only to descend again beginning in 1973. According to the commercial adviser of the French Embassy in Rio de Janeiro, the minimum wage would have had to be held above 1,500 cruzeiros a month to contain the effects of inflation; but the set minimum wage varies from 367.5 to 532.8 cruzeiros a month, depending on the state involved. The fall in buying power that this implies is easily grasped. Right now, a workers who makes the minimum wage in São Paulo has to work eight hours to make enough money to buy a kilogram of coffee (2.2 pounds).

From the outset, this results in a severe limitation on the domestic market, with obvious implications for the great branches of industry. Here is an example:

"One of the best studies, by an English economist, Mr. David Goodman, showed that from the middle of 1968 to the beginning of 1970, 69% of the urban labour force of 4.2 million in the north-east was earning on the average the minimum wage (now equal to about £27 per month) or less. Worse still, he calculated that 18% were earning from 1/4 to 1/2, and 22% less than 1/4 of the minimum wage; in all, that 42% of the urban labor force (that is, 1.8 million workers) were earning such extremely low wages that their physical subsistence could scarcely be guaranteed. Moreover, he calculated that about 12% of the urban labour force was either unemployed or underemployed. . . . The absurdities of the present model are evident. For example, the Brazilian footwear industry manufactured 120 million pairs of shoes last year. Of these, 27 million were exported, leaving 93 million for a population of 105 million, that is, less than one pair per inhabitant. Moreover, 70% of production for the domestic market were not proper shoes but sandals and others of the 'flip-flop' variety." (Financial Times, September 23, 1975.)

The limitation of the domestic market compels the regime to rely on exports. By the very nature of things, the policy of encouraging exports has to be "selective." Now, the exports encouraged require increasingly expensive imports, that is, they worsen the balance of payments deficit instead of improving it. In addition, they necessitate increasingly costly work on the infrastructure, which constitutes one of the main sources of inflation and entails considerable wastes and losses that in turn feed the inflationary spiral.

To cite the French commercial adviser in Rio de Janeiro once again: "The program of 'export corridors' launched with great fanfare two years ago has lost practically everything but its name. The trains carrying ore continue to be derailed virtually on a daily basis while running between the Minas Gerais iron mines and the terminals in Vitória or Sepetiba. It is estimated that up to 10% of the sugar harvest is lost because of the inadequacy of transport and stock facilities. Files of 300 to 500 trucks loaded with soya wait for the harvest before being able to unload onto ships anchored in the ports in the southern part of the country. Every day suburban transport around Rio and São Paulo present virtually Dantesque scenes that end in the death of travelers." ("Problèmes Economiques," June 18, 1975.)

Under such conditions, it is clear that the end of the "Brazilian economic miracle" is not a consequence of unpredictable accidents, but instead results from the very nature of the "miracle," which inevitably had to be of short duration.

Two seemingly conflicting trends characterize the economic scene in the United States today. Industrial recovery from almost two years of depression is underway. Automobile sales, normally one of the "advanced indicators" of the direction of the economy, were 23% higher this October than a year ago. General Motors registered third-quarter profits fifteen times higher than in the third quarter of 1974.

But New York, the country's wealthiest metropolitan center, came close to bankruptcy in November. President Ford's intervention to guarantee New York's bonds became a dire necessity for national (and international) money markets. It will postpone, at least temporarily, a New York default.

Yet the promise of financial rescue by the White House did not in any way alter the fundamental components of New York City's crisis. It came only after tens of thousands of city workers had been fired and other workers had been laid off, as municipal construction ground to a halt; after a three-year wage freeze had been imposed on city workers, tearing up their previously negotiated wage contracts without rank-and-file consultation; after educational, hospital, and welfare programs had been cut and in some cases eliminated altogether; and after the responsibility for all of these measures had been accepted by the Democratic party administration of New York State.

Moreover, it is certain that the people of New York will continue to suffer a sharp deterioration of living standards. The bipartisan antilabor offensive aimed at rescuing New York's creditors is only in the beginning stages.

Furthermore, New York is far from being the only American city in crisis.

In Detroit the process is further along. "Like other cities around the land," the July 25 Wall Street Journal reported, "Detroit has been confronted with a budget crisis. Old programs have been cut back or cut out. City workers have lost their jobs. Improvements in city facilities or services have little chance of getting off the ground. . . .

"Detroit's fiscal crisis came earlier than most cities' simply because its recession arrived earlier — nearly a year before the slump hit the rest of the country. The energy crisis in the fall of 1973 cut deeply into automobile sales, and the auto industry has never really recovered."

This article will examine these two countervailing tendencies — the beginnings of economic recovery and the crisis of cities in America — through the prism of the auto industry. Here the focus is more on Detroit than New York and specifically on the Black workers of Detroit. But this is precisely to suggest that there are important links between the present conjuncture of U.S. industrial production, the special exploitation of oppressed national minorities, and the crisis of the cities.

Auto sales turn up

There are signs that a "bottom" has been reached in the devastating two-year downturn of world automobile production.(1) Business Week magazine reported in its November 10 issue, "Sales throughout Europe, with the sad exception of Britain, are perking up. Japanese car makers are producing all that they can. And Brazil, a rising automotive power, will still enjoy a near-record year despite a severe slowdown from several years of 15% annual growth."

October marked the first upturn in auto sales in the United States in nearly two years. Third-quarter profits as a whole were up 123% for the U.S. auto-and-parts industry.

But the headlines from Detroit are contradictory: "Auto sales up," "Layoffs increase." Auto sales are increasing but auto production is still below year-ago levels and there continue to be episodic layoffs.

U.S.A. upturn & unemploy/ment

According to the October 28 Wall Street Journal, "Industry sources said that next month auto makers are planning to build about 594,500 cars in their U.S. assembly plants, down from 614,671 a year earlier. That appears to be generally in line with long-range schedules set before the current fourth quarter began. If anything, recent adjustments of these earlier rough schedules have led to a small net reduction, rather than an increase, in the number of cars Detroit will assemble this quarter."

The October 31 issue of the same newspaper reported that "Ford Motor Co., still struggling to control inventories of unsold cars, announced it will close assembly plants next week, temporarily idling 7,150 workers.

"Despite some upturn in U.S. auto sales, Ford and other automakers have been making a number of such production cuts."

The auto trusts are responding cautiously to the uptick in sales. Retail car deliveries in mid-October were above a year earlier — but the autumn and winter of 1974-5 saw auto sales at their lowest point since the end of the second world war. The auto trusts are still saddled with a huge inventory of "overproduced" cars — estimates of the unsold cars on the lots run to 1.5 million, the equivalent of 55 days' production at current rates. So automobile production is being kept at a lower level than last year, and this partially accounts for the continued layoffs.

The profit leap undoubtedly stems from the fact that the assembly lines are still operating with the reduced labor force resulting from two years of layoffs. In fact the evidence points to significant "rationalization" in the auto industry. Fewer workers are turning out more cars and profits are surging.

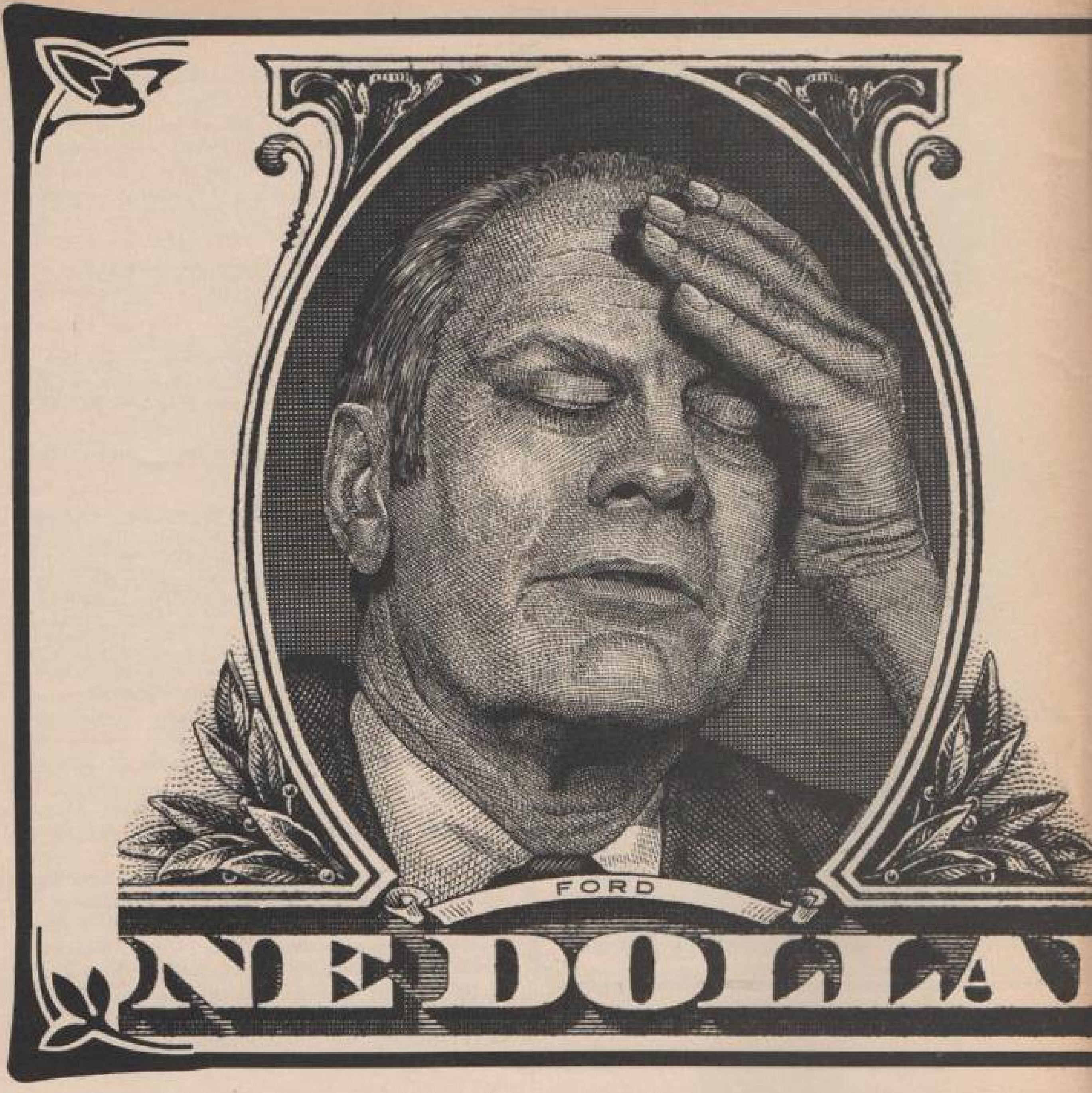
Although precise data is impossible to obtain,(2) government figures are indicative. For June, the most recent month for which all data is given, Commerce Department figures show 571,800 production workers in motor vehicles and equipment and a total output of 841,400 motor vehicles, including trucks and busses. The ratio is 1.47 vehicles per production worker. Here are comparative figures:

Year	Vehicles	Workers	Ratio	Hrs. per wk.
June 1973	1,219,800	746,600	1.63	39.8
June 1974	909,500	676,000	1.34	39.6
June 1975	841,400	571,800	1.47	39.2

These figures show three stages of the auto production cycle. June 1973 was the second highest auto production month in U.S. history (May was the highest). Productivity and profits stood at record highs. This is because the whole productive apparatus of monopoly industry is geared to make profits at a fraction of full capacity. When output exceeds this fraction, and this can happen with minimal additional hiring, productivity and profits soar.

By June 1974 production had fallen 25% and employment was down 9%. Profits approached a low point. The bottom was reached in February 1975. By June of this year production was on an increase but it was still 7% lower than a year earlier and employment was 15% lower. The way was being paved for the profit surge in the third quarter.

New York Times figures in September 1975 further confirm this trend. The Times reported from Detroit September 1 that unemployment had risen from the February low point. There were "274,380 idle in the week of Feb. 3, when the industry jobless rate reached 38.5 percent." The latest information places "employment at the Big Three (i.e., General Motors, Ford, and Chrysler) . . . down 178,600 from the peak reached in their record year of 1973." These figures are close to those shown in the table above. They underscore the essential point: Auto production today is taking place



with a considerably reduced work force, on the order of 175,000 fewer workers, almost 25% below the 1973 peak.

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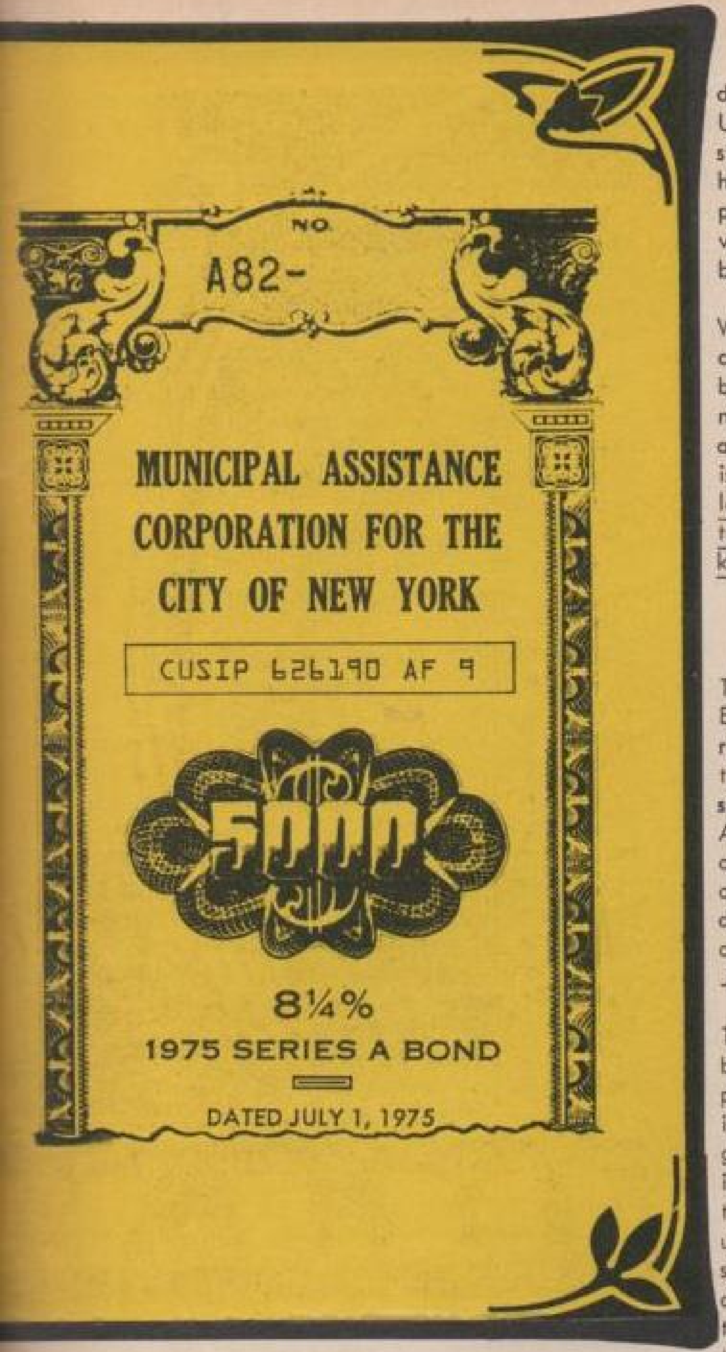
It is well known that the U.S. auto industry is under tremendous pressure to build smaller cars that use less gas. With considerable fanfare, General Motors placed a new "subcompact," the "Chevette," on the market in September. It gets 30-40 miles per gallon and it is supposed to cost less than $3,000. GM president Elliott Estes told Forbes magazine that GM had a $3,000 million investment plan to invade the small-car market. To raise capital GM floated a $600-million loan earlier this year, the largest single bond offering ever made by a corporation. "We don't compete against around 56% of the foreign cars sold domestically today," said Estes. "This car is aimed right at that 56%, which is a 600,000-vehicle market, and we are going after 200,000 to 300,000 of them."

But the Chevette is the only new subcompact this year. Business Week reported in July that the auto trusts would only have "face-lifted versions" of last year's models on the market in 1976 "with little improvement in fuel economy."

Production figures for the third week of October do show a rise in production of the subcompacts: 19,439 compared to 16,441 in the same week of October last year. Considering the smaller total production for this week in October, the proportional rise is even greater; 12% of the week's total are subcompacts this year compared to 8% in the same week last year.



But this is still far from corresponding to the demand for small cars. In the same week this October, foreign cars represented 20% of the total sold by retailers. Sales of domestic smaller cars were also considerably higher than production, consequently reducing inventories.

Apparently the conversion of the U.S. auto industry to smaller cars is finally under way — a tribute to the "speed" at which monopoly adapts to technological progress! — but it is only the beginning. Large cars still overwhelmingly dominate this year's U.S. auto output.

Nevertheless it is certain that when General Motors does produce subcompacts in massive numbers, it will control half the market, as its president, Estes, boasted. The gigantic multinational manufacturing monopoly dwarfs every other competitor inside and outside the United States. Up to now, GM has refrained from massive production of subcompacts only because of the higher profits on the bigger cars. But the tremendous profit losses in 1974, as the world market for big cars virtually collapsed, could not be neglected by GM's board of directors.

What is most important is that the production of smaller cars in the United States will clearly be accompanied by a profit-gouging rationalization of the industry. The notorious GM Vegas, which come off the Lordstown assembly lines at more than 100 per hour, show what is in store. In this light, the huge reduction of the auto labor force is not accidental. It paves the way for intensified U.S. competition in the world small-car markets.

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The ultimate consequences of this can undermine the European and Japanese economies. Business Week already notes that the present recovery in auto production outside the United States is "due largely to the resurgence of the U.S. economy, the key import market." At this stage of the international crisis of capitalism any "solution" for one sector of national monopoly can only exacerbate the problems elsewhere. GM's Estes's dreams of capturing an American market could end up only closing off a vitally needed recovery valve for Japan and West Germany.

The figures in this article should also be closely studied by those trade unionists who believe that furthering the position of U.S. monopoly in international competition is a way of saving jobs. In reality, a crucial part of gearing up U.S. industry for world competition is slashing jobs and speeding up production. This was no less true in the shoe and textile industries, which closed up their northern plants and moved to the union-free south. In the steel industry, where protectionist cries are the loudest, steel-union chief I.W. Abel has entered into productivity pacts with the bosses that pave the way for drastic job losses.

International monopoly competition can never protect the interests of the workers. Its central aim is always to increase profit margins in order to slash prices on world markets. This is always done at the expense of workers, both outright in the form of job losses, and in the plants in the form of speed-up and other job-threatening procedures. On the job "accident" score, the U.S. auto industry is close to first place.

Detroit's Black workers

Detroit is the fifth largest U.S. industrial city. It is 43.7% Black — and on the way to becoming majority Black as whites move to the suburbs. It is the hub of the American automobile industry, although many of the plants have moved from downtown to metropolitan neighborhoods. Including metropolitan Detroit and the constellation of other "motor cities" in central Michigan and neighboring Ohio, as many as half the cars produced in the United States come from this area. Detroit was dragged into the depression of the 1970s earlier, and in many ways to an even graver extent than New York.

In 1973, General Motors said it employed a total of 639,091 workers, of whom 95,685 (14.9%) were Black. The Black jobs were concentrated almost entirely in production. "Semi-skilled operatives" included 72.9% of the Blacks working for GM; Blacks held 19.9% of these jobs. In addition, the GM Black labor force held 23.5% of the jobs classified as "service workers" and 29.6% of the jobs classified as "unskilled laborer."(3)

We have already seen the tremendous volatility and immense loss of production worker jobs in the auto industry. By February of 1975 a Detroit Free Press correspondent was writing this about the Michigan representatives in the U.S. Congress: "Each day, in the letters and postcards they get from home, members of the Michigan congressional delegation feel the pain of the unemployed.

"And they shake their heads with frustration and even a bit of fear when they hear reports of new plant closings, new layoffs coming, new unemployment figures: 14 percent in the state, 22 percent in Detroit, 50 percent in the inner city, 15 percent in Port Huron, 20 percent in Flint and no letup in sight."

There were sections of the overwhelmingly Black east side of Detroit that reported unemployment above 60%. The waiting time in the unemployment lines was at least two hours.

The long lines of unemployed Black workers were not created only by the 1974 depression. Many Blacks did not find adequate employment — if any jobs at all — in the brief 1972-73 upturn of the economy, so that Black unemployment in the recession of the 1970s must at least be traced back to the previous 1969-71 downturn. The National Urban League emphasizes that "Poverty patterns among black families consistently underscore the impact of the 1969-71 recession. Between 1969-71, the number of black families below the official poverty level rose by 155,000, to 1,480,000. But they continued to rise to 1,525,000 by 1973 (a "boom" year, especially for auto — D.R.). Thus, by 1973, there were 200,000 more officially poor black families than there were in 1969. . . . And the proportion of the official poor among all black families remained unchanged (at 28 percent) over that four year period." ("Black Families in the 1974-75 Depression," National Urban League Research Department, July 1975.)

B.J. Widick described Detroit after the 1969-71 recession: "Detroit in the 1970's is a startlingly different city from the factory complex associated in modern times with the auto industry. . . . It no longer has the appearance of a swarming beehive of auto workers rushing to and from the huge industrial plants on the east and west sides. Now the major traffic consists of white middle-class suburbanites driving early in the morning into the city's downtown commercial center and inching their way out of the city before darkness sets in. . . .

"All of the auto companies have decentralized their production, partly by expanding into the undeveloped sections of the vast metropolitan areas surrounding the city. . . .

"Where giant auto plants once stood on the east side, there is nothing. The deterioration of the city is visible everywhere, not just on Twelfth Street, where the physical scars of the 1967 riot remain untouched by any reconstruction.

"For every new business moving into the city, two more move out. There are over 7,000 vacant store fronts. . . .

"The city becomes more and more of a ghetto." (Detroit, 1972.)

Figures have not yet been reported for the standard of living of Black families in 1974-75, but the present situation is obviously much worse. The Urban League said, "Since industries such as construction and manufacturing (especially automobiles) with a concentration of men were hit harder by the economic decline than were the service industries with a concentration of women, men tended to be affected disproportionately." In the second quarter of 1974 official figures listed 319,000 adult Black men out of work. This figure had risen to 621,000 by the second quarter of 1975.

The 1974-75 downturn consequently caught much of the Black population before they had recovered from the previous downturn — and the 1974-75 slump was worse. Moreover, if the auto industry is indicative, the production drive on which the present "recovery" is based will hold even less promise of jobs for unskilled workers than did the previous upturn. For Detroit it undoubtedly means that the process described by Widick will deepen.

Already in February 1975 the Chrysler Corporation made it clear that its well-known Jefferson Avenue plant in the Black east side of Detroit would not be operating during the next cyclical upturn. This downtown multi-storied assembly plant had been rendered obsolete by the single-story continuous assembly-line plants in the suburbs, according to Chrysler executives.

As the world crisis of capitalism deepens and U.S. imperialism places more and more emphasis on international competition, economic "recovery" will increasingly be at the expense of the more oppressed layers of American society.

Cities in crisis

This prospect is deeply intertwined with the fate of the big industrial cities whose populations are heavily composed of oppressed nationalities.

It is easy to trace for New York a decline of jobs parallel to Detroit, going back to the 1969-71 recession, and rooted, as well, in international competition.

Michael Sterne gave this account in the October 15, 1975, New York Times: "The fiscal crisis that has agonized New York for the last year, bringing it repeatedly to the brink of bankruptcy, really began in 1969 when the city's economy, which up to then had been growing rapidly, began to shrink.

"In the six years since then, 501,800 jobs have disappeared from the city, and with them have gone an estimated total of $1.5-billion in tax revenues that, had they been available to Mayor Beame, could have eased the fiscal crisis significantly and might even have averted it.

"The economic decline that began in 1969 was touched off by national recession. But the job losses continued even after the national economy recovered; they accelerated before the current national recession began, and they have been proportionately more severe here than in the nation as a whole. . . .

"The causes of the decline are many and complex. Among them are wage rates higher than those that prevail elsewhere in the country, high energy, rent and land costs, traffic congestion that forces up transportation costs, a lack of modern factory space, high taxes, technological change, the competition of newer centers of economic concentration in the Southwest and West, the refocusing of American economic and social life in the suburbs. . . .

"Some of the causes are international in scope, such as the transfer of apparel and other soft-goods manufacturing to areas of cheap labor in the Caribbean and the Orient, which has taken jobs from New York and other, older American cities.

"The loss of the factory jobs has been especially harmful to New York because it came at a time when the part of its population needing such work — the traditional, foothold occupations of new New Yorkers — was growing. Since 1950, the number of poor blacks and Hispanics living here has increased by two million while an equal number of middle-class whites has moved out."

All of these factors combine to leave a heavy residue of unemployment in the major cities even after employment begins to rise elsewhere in the country. New York's unemployment rate stood at 11.9% in September and October compared with the national averate of 8.2%.

Unemployment in Boston stood at 12.9% in August, compared with 6.9% a year before, while Detroit's rate of joblessness stood at 13.6%, compared with 8.6% a year before (before the really sharp drop-off in auto already discussed).

The concentrated attack of the rulers of the United States on New York workers — which it is crystal clear they mean to keep in national prominence — points to the imperialists' strategy for cities across the land. They hope to teach workers that the sacrifice of jobs and services is the only "solution" they should expect as the cities decay.

That workers themselves are keenly aware of this meaning of the New York crisis was revealed in an unexpected response to a national poll following President Ford's scathing attack on New York City delivered at the Washington, D.C., National Press Club October 29. The poll showed that 69% of those queried believed that a New York default would have an important effect on the national economy. Sixty-eight percent believed that other cities are facing similar financial problems to New York. And 55% believed that the federal government should provide funds to help New York out of its financial crisis. The irony was that not one single bill before the U.S. Congress at the time actually considered direct federal aid to New York. They were all merely different forms of federal guarantees to the New York banks no different from the plan that the Ford administration ended up initiating.

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The demise of the "Jefferson Avenue" plant on the east side of Detroit symbolizes the countervailing trends in the American economy discussed in this article.

Under conditions of global economic crisis the U.S. imperialist drive to maintain first place in international competition will increasingly clash with the struggle of Blacks and other oppressed minorities for equal rights and job opportunities. A parallel process is the sharp deterioration of living standards for all workers in the industrial cities, supported by an offensive of the ruling class to take back concessions to workers that had been extracted previously. These deep-seated tendencies are increasingly constant features of American society, regardless of fluctuations in the "business cycle."

FOOTNOTES:

1. For details, see "Auto Industry: A Worldwide Crisis," by Ernest Mandel, INPRECOR, No.4, July 18, 1974.

2. General Motors was formed into its present monopoly structure in 1917. In its entire history — it has been repeatedly "investigated" by high-level Congressional committees and it has been the target of numerous suits — GM has not revealed the cost-of-production figures for a single car manufactured in its plants. Such is the privilege of private ownership!

3. Of its total employment General Motors also listed 15,129 (2.3%) "Spanish surnamed Americans"; 1,185 (0.2%) "American Indian"; and 1,122 (0.2%) "Oriental." These jobs were heavily concentrated in the same categories as Black workers.

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