



The Generalized Recession of the International Capitalist Economy

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

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

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

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

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

Scope of the recession

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

Industrial production in the fourth quarter of 1974

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

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

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

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

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

exports have been expanding more rapidly than industrial production.

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

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

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

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

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

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

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

Place of the recession in the history of capitalism

The generalized recession will be the most serious recession of the postwar period, precisely because it is generalized. The lack of synchronization of the industrial cycle during the 1948-68 period reduced the breadth of recessions. Each time, a fall in production and internal demand in the countries hit by the recession (for example, the United States in 1960, Japan in 1965, or West Germany in 1966-67) was compensated for by an expansion in exports to countries that had escaped the crisis. This time, on the contrary, the international synchronization of the conjunctural ups and downs in the main imperialist countries is intensifying the decline in economic activity.

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

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

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

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

Finally, to the same extent that the long phase of postwar expansion reached its end, that the principal motors of expansion

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

Thus, the generalized recession expresses in a summary manner the turning around of the “long wave of expansion” (which lasted from 1940 to 1966 in the United States, and from 1945 to 1966 in capitalist Europe and Japan). We had predicted this turnabout in 1964.^[1] Our latest book, *Der Spätkapitalismus* (Late Capitalism), published in German in 1970 (to be published in French and English in 1975) was devoted to this question.

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

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

A classical crisis of overproduction . . .

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

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

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

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

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

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

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

For West Germany, experts calculate that the gross income of companies (minus fictitious “salaries of entrepreneurs”) divided by the net holdings of these companies declined by about 20% between 1960 and 1968 (the year of the economic upturn, with a strong new rise of profits after the recession of 1966-67) and by 25% between 1968 and 1973.[2]

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

Production in the Manufacturing Industries as a Percentage of Capacity

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

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

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

the stagnation or decline in the rate of surplus value (a result of the long period of full employment). The rate of profit has been whittled down. Accumulation of capital has slowed.

... but with particularities

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

Two particular features of this recession ought to be stressed.

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

Annual rates of consumer price increases according to official statistics

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

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

Debt in the United States

(in thousands of millions of current dollars)

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

Moreover, the recession has been accompanied by several particular bottlenecks. There have been phenomena of shortage

in some sectors coinciding with the general overabundance of commodities. Such coincidence commonly occurs on the eve or at the beginning of a crisis of overproduction. Such a crisis always begins by breaking out in a few sectors and then gradually expands to the whole of production or to most of its sectors.

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

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

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

Not yet galloping inflation

Under a “normal” capitalist economy a turn in the economic cycle expressing generalized overproduction of commodities and overcapitalization of the economy (that is, the fact that the total

mass of surplus value produced no longer permits the assurance of a “satisfactory” return on all available capital) results in price reductions.

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

In the imperialist countries today, we have not yet seen an atmosphere of galloping inflation. Some prices are still declining. Such has been the case with shares on the stock exchange, which have experienced their worst depression since 1940 and even since 1931. (See table below page.)

Stock Exchange Index *

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

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

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

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

Index of raw materials prices (according to *The Economist*)

December 19, 1973 compared with mid-December 1972

Food	+38.5%
Fibers	+66.3%
Metals	+90.8%
Other	+92.7%

December 11, 1974 compared with mid-December 1973

Food	+32.5%
Fibers	-36.2%
Metals	-36.9%

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

Even the price of oil may drop. It is known that sales cartels cannot resist a long decline in sales if the number of sellers increases and if their interests are divergent. Between the oil-

exporting countries that want to make maximum gains in the immediate future (like Iraq, Nigeria, Indonesia, and Algeria) and the less-populated countries that can permit a ceaseless reduction in production (like Kuwait, Libya, Saudi Arabia, and the emirates of the Arab-Persian Gulf) these divergences are obvious.

Prospects of the recession

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

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

Changes in economic activity provoked by the first nine months of the crisis in the United States

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

The situation in the sectors in which the present crisis has broken out scarcely looks any better than 1957-58, far from it. The unemployment rate in Detroit, center of the American automobile industry, is reported to be 25%. The number of new housing units built in Britain and the United States fell nearly

50% in autumn 1974 (*The Economist*, November 30, 1974). The demand for certain petrochemical products has dropped 20-30% during the past few months. These are percentages that incontestably recall 1929-32.

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

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

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

This scenario is also the most probable one in that the existence of bottlenecks in the food and energy sectors (as well as in other raw materials sectors) will stimulate feverish investment in certain sectors. The conversion of “petrodollars,” money-capital placed as short-term investments in industry, will likewise stimulate a supplementary demand for investment goods. All this can foster a new upturn in the economy; but it will be of relatively short duration, for it will be dried up at the source

by unbridled speculation, accelerated inflation, and an even more pronounced long-term decline in the industrial rate of profit.

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

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

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

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

To this must be added the Churchill Forest scandal in Canada and some resounding industrial bankruptcies in Japan. Germany, Britain, Italy, the United States, Japan, Spain, Canada, Israel, Switzerland. The beat is decidedly international. The much more advanced internationalization of production and capital obviously involves the risk of chain reactions once big

bank crashes begin. If an appreciable part of bourgeois and petty bourgeois clients simultaneously withdraw their holdings from the banks — that is, if there is a bank panic — the credit system is threatened with paralysis. In that case, the recession would be transformed into a grave depression. The international bourgeoisie is perfectly conscious of this. After the crash of the Herstatt Bank, governors of the central banks and heads of the big deposit banks concluded a firm agreement no longer to tolerate the collapse of any bank of any importance. The payment difficulties of Continental Mortgage Investors were covered by an immediate intervention of American financiers who furnished a loan of more than \$150 million. The British “fringe banks” have been saved (up to now) by the injection of what must amount to \$3 thousand million from the big British banks.

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

Economic crisis and social crisis

It could be answered: But doesn't the economic crisis itself have an objective function to fulfill for the capitalist system? Couldn't a policy of monetary restriction “break” inflation? Wouldn't massive unemployment weigh heavily on wages, that is,

increase the rate of surplus value and thereby the rate of profit? Isn't the elimination of less solid and profitable capitalist businessmen through the bankruptcies provoked by the crisis a healthy thing for the capitalist system in that it increases the profitability of the system as a whole? The massive devaluation of capital precisely permits the increase in the rate of profit for the surviving capitals and therefore permits the new rise of accumulation. Why then should the bourgeoisie relaunch the economy in the short term?

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

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

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

Under these conditions, the big bourgeoisie, or at least the decisive sectors of it, calculates that 1520 million unemployed in the United States, 5 million unemployed in West Germany,

Japan, and Italy, and 3 million unemployed in France and Britain would immediately provoke a social and political crisis of such scope that the very survival of the system would be in danger in the short term. That is the fundamental reason why it will very probably react as it did during previous recessions, through massive measures aimed at inflationary “priming” of the economy.

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

Extension of workers struggles

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

To be sure, this tendency is not universal, since it results not simply from the economic conditions but also from a whole series of subjective factors created by developments during preceding years. In West Germany the first effect of the recession

has been a decline and not an increase in workers combativity. A new rise of workers struggles in the United States is probable — it has undoubtedly already begun — but it is still slow and fragmented. Will this new rise in turn be transformed into a brush fire? What will be the reaction of the Japanese workers to Big Capital's attempts to impose an incomes policy? These questions have to be resolved by revolutionaries and worker militants in each country before a detailed prognostication can be formulated on an international scale.

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

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

The response of revolutionaries must be to fight for transitional demands that correspond both to the most pressing needs of the workers and to the historic need to orient the workers mobilizations in a pronounced anticapitalist direction: radical reduction of the work week (to thirty-five or thirty-two hours); integral and automatic sliding scale of wages; opening of the companies' books; nationalization without compensation and

under workers control of the key industries and banks; nationalization without compensation and under workers control of all enterprises that close down or are saved from bankruptcy by state subsidies; for a workers government that formulates a plan of economic development based on the satisfaction of the needs of the masses and guaranteeing full employment.

Aggravation of interimperialist competition

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

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

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

In the area of trade the year 1974 was marked by a sensational counteroffensive of West German and Japanese exports that reduced even further the share of American products on the world market. (To this must be added the fact that the still

relatively favorable position of American exports is due in large part to the increase in prices of raw materials - and food! - exported by the United States). *For the first time in history, West German exports alone have surpassed those of the United States*, as these figures demonstrate:

Exports in thousands of millions of US\$ (in annual rates)

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

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

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

It is on the military-political level that the predominance of American imperialism remains most pronounced, not because of but rather in contradiction with its relative financial and

economic decline. The inability of the European bourgeoisie to make new progress toward financial and political integration within the Common Market, to transform the EEC from a confederation of states into a federal state, consolidates the status quo and costs the European bourgeoisie very dearly from the financial point of view. These internal contradictions make themselves felt, as do those of Japanese imperialism. Japanese imperialism is threatened with supplementary military costs. It is threatened with having to bear the costs of some spectacular changes in trade. When these changes are thrown into the balance against the more serious recession in the United States, the existing balance of forces is on the whole preserved.

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

Petrodollars and the underdeveloped countries

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

thereby fostered inflationary phenomena as a whole rather than having the opposite effect.

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

Incomes of oil-exporting countries in 1974 (estimates in millions of \$)

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

* *Le Monde*, December 29,1974

Division of income

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

In Europe

Deposited as Eurodollars	15 thousand million
Deposits in Britain	10 thousand million

Invested	5 thousand million
Hoarded	16 thousand million

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

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

The generalized recession of the international capitalist economy has struck the semicolonial countries differently according to whether or not they are exporters of oil (or, secondarily, of other raw materials whose prices have gone up). The oil exporters can escape the effects of the recession provided it does not last too long and does not worsen to the point of

causing a collapse in the price of oil. These countries that are not oil exporters have suffered the cruelest fate since the end of the “Korean War boom.” Countries like India, Bangladesh, Pakistan, most of the countries of East and equatorial Africa, and some Latin American countries that have deficits in oil have been struck simultaneously in four ways:

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

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

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

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

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

Economic recession and the decline of capitalism

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

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

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

The generalized recession is dealing a grave blow to all neoreformist and neogradualist illusions about the allegedly

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

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

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

The cause of the evil is exchange value become independent, self-enrichment become the goal of economic activity, company profit become the criterion and final aim of growth. The cause of the evil is private property and competition, that is, the market

economy and capitalism. All the catastrophes, including the irrational and inhuman roads that technology is led down, derive from this social base and from it alone. The catastrophes can be averted if the profit system is abolished, if the workers manage their own enterprises in a planned manner, if growth is regulated and subjected to the imperatives of satisfying the needs of all the inhabitants of the earth.

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

December 31, 1974

Notes

[1] In French: “L'Apogée du néo-capitalisme et les lendemains” in *Les Temps Modernes*, August-September

1964; in English: The Heyday of Neocapitalism and its Aftermath,” in the *Socialist Register*, 1964.

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