The Recession and the Prospects for the International Capitalist Economy

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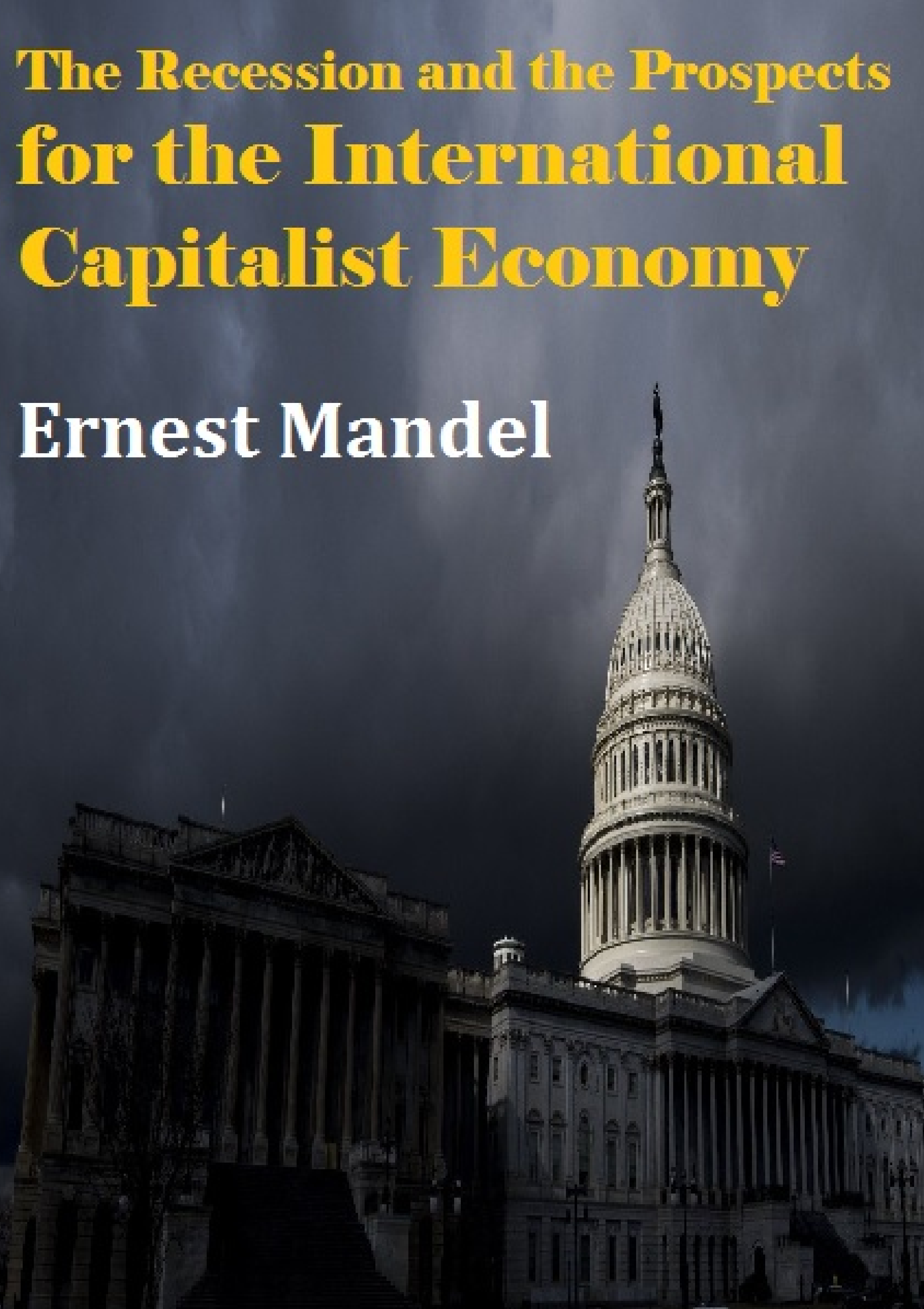

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The generalized recession of the international capitalist economy, which started at the beginning of autumn 1974, has continued to intensify since then. As of mid-spring 1975 it holds sway in all the imperialist countries.

Experts, especially government experts, have been surprised by the recession and its cumulative development.[1] In June 1974, for instance, the Organization of Economic Cooperation and Development (OECD) was still predicting universal growth for the big imperialist powers for the first half of 1975.[2] In fact, however, it can be asserted with certainty that none of these powers will experience any growth during this period. And in view of the breadth of the recession during the first several months of 1975, it is not likely that there will be growth for the year taken as a whole, even if an upturn begins during the third quarter, an eventuality that is in any case improbable for most of the imperialist countries.

Actually, since it began, the recession has been more severe than has been recorded in current statistics. In March 1975 OECD gave the following figures for the reduction of industrial production during the fourth quarter of 1974, figures that are clearly higher than the predictions that were published at the end of 1974:

Reduction of industrial production during the fourth quarter of 1974 compared with the preceding quarter:

United States	-3.0%
Canada	-1.5%
Japan	-5.0%
France	-6.5%
Italy	-7.5%
West Germany	-3.0%
Britain	-2.5%
Total of OECD countries	-3.5%

The recession deepens

Throughout the first quarter of 1975 the international recession deepened by cumulative development following the classical schema, which confirms that this recession is indeed a classical overproduction crisis.

Having eventually affected all industrial branches, the recession provoked first of all a *pronounced reduction in orders*. There were two reasons for this: First, all capitalist companies wanted to reduce their inventories because of slumping conditions; second, they limited and revised their investment programs (sometimes radically) because of excess productive capacity in all industry.

The pronounced reduction of orders has provoked a *reduction in employment*. Massive unemployment (both total and partial unemployment) has reduced the purchasing power of consumers in spite of the various social aid measures, which have limited but not eliminated these losses of purchasing power. There has been a consequent fall in sales of consumer goods (especially durable consumer goods), which has acted to accentuate inventory accumulation and therefore to reduce new orders, and therefore to further reduce current production.

This spiraling reduction of orders and industrial production has in its turn entailed a collapse in the prices of all raw materials, including foodstuffs. The combination of the fall of industrial production in all imperialist countries and the fall of raw materials prices has resulted in a *reduction in the volume of world trade*, for the first time since the end of the second world war.

This reduction in exports has combined with the contraction of domestic demand to intensify in turn the *reduction in current production*, employment, and incomes. Hence, in May 1975 both the fall in industrial production and the number of unemployed widely surpassed the level that had been attained in December 1974:

Reduction in industrial production during the first quarter of 1975 compared with the first quarter of 1974:

United States	-12.1%
West Germany	- 8.5%
Japan	-16.0%
France	- 9.0%

Italy	-12.0%
Britain	- 4.5%*
Canada	- 4.0%

* In comparison with the preceding quarter, because the first quarter of 1974 coincided with the introduction of the three-day week by the Heath cabinet against the miners' strike.

The official unemployment figures for May 1975 show more than 16 million on total unemployment in the imperialist countries:

United States	8.2 million
Japan	1.3 million
Italy	1.3 million
West Germany	1.1 million
France	0.9 million
Britain	0.9 million
Canada & Australia	1.0 million
Small imperialist powers of Europe	1.4 million

These figures do not include partial unemployment, but they do include big underestimations, particularly for Spain (the real figure of total unemployment in this country is undoubtedly more than 600,000 and not the officially registered 300,000).

The cumulative effects of the "national" recessions and the contraction of international trade have foiled all the "expert" pump-priming projects, especially in West Germany and France. At the very moment that the governments of these countries began to boost domestic demand moderately, the fall of exports (and of foreign orders) neutralized the effects of the anticrisis policy, at least in the short run.

The scope of the recession must be measured not only by the fall in current production, but also by *the spectacular increase in unutilized productive capacity*. To believe the magazines *Business Week* and *The Economist*, this figure now stands at some 8-10% in West Germany, about 15% in Japan, and not less than 33.5% in the United States.

Except in West Germany and Japan, long-term inflation has scarcely slowed down, in spite of the extent of overproduction. This is clearly indicated by the following figures:

Rate of Increase of Consumer Prices

	1973	1974	1975 (1st quarter)
West Germany	6.9%	7.0%	6.0%
Belgium	7.0%	12.7%	15.3%
United States	6.2%	11.0%	11.4%
France	7.3%	13.7%	14.2%
Italy	10.8%	19.1%	23.5%
Britain	9.1%	16.1%	19.9%
Japan	19.1%	21.9%	10.0%

Most likely, these figures do not entirely take account of the slowdown of inflation in 1975 compared with the inflationary "peaks" of the first several months of 1974. But on the other hand it must be taken into consideration that the continuation of inflation at rates nearly equal or even superior to last year's coincides both with an exceptional accumulation of and attempt to liquidate inventories of commodities and with a spectacular fall in the prices of raw materials:

"The Economist" Index for Raw Materials Prices

(May 19, 1975, compared with May 1974, in dollars)

All raw materials	-18.0%
Food products	-11.0%
Industrial raw materials	-33.2%
fibers	-18.7%
metals	-40.1%

If under these conditions the cost of living continues to rise in a pronounced manner, it must be stressed that responsibility for this lies with monopolies specializing in mass consumer goods (both durable and nondurable); these companies, using a time-honored technique, are *increasing* the price per commodity while the number of commodities being sold is declining.[3] It must be added that the governments, central banks, and private banking systems are permitting these monopolies to act in this way, by ceaselessly increasing the money supply, especially the supply of paper money.

Contraction of world trade

The contraction of world trade, which had not occurred at the beginning of the recession but could have been predicted as soon as the recession became generalized in all the important imperialist countries, seems to have indeed become a fact beginning with the first quarter of 1975. Although we do not yet have overall figures, it appears that exports are declining in nearly all countries. Thus, in the case of France they dropped from 59,800 million francs during the fourth quarter of 1974 to 57,800 million francs for the first quarter of 1975; in April exports dropped another 1.3% compared with March.

In West Germany the fall of exports during the first quarter of 1975 in comparison with the last quarter of 1974 must be on the order of 4%. In the United States, exports dropped from $9,400 million in January 1975 to $8,900 million in February, $8,780 million in March, and $8,720 million in April. In Switzerland, the decline was more than 13% in comparison with the last quarter of 1974 and more than 7.2% in comparison with the first quarter of 1974. Only in Japan have exports continued to rise (and 50% of Japanese exports are now going to the semicolonial countries). The value of Japanese exports in April 1975 exceeded the value of exports in April 1974 by only 10.4%, which is less than the increase in prices during that period. And the value of foreign orders is already lower than last year. (*Japan Times*, April 23, 1975.)

This contraction of international trade is a result of three basic factors:

* It is a *direct effect* of the recession in that the fall in production and employment are reducing demand for imported raw materials, machinery, and consumer goods.

* It is an *indirect effect* of the recession in that the exporting countries (especially the countries that export raw materials, except for oil) are suffering sharp cuts in their currency resources because of the fall of the volume and prices of exports and have thus been forced to reduce their imports.

It is the product of a *deliberate policy of import reductions* (that is, a partial return to economic nationalism and to scarcely disguised protectionism), especially on the part of the imperialist powers that suffered big balance of payments deficits during the first half of 1974.

This policy has generally been crowned with success. Japan, whose trade deficit during the first quarter of 1974 stood at an annual level of nearly $10,000 million (and $13,500 million for the period of March 1973-March 1974), had completely reabsorbed this deficit by the first quarter of 1975; its trade balance even showed a surplus again (of $4,000 million for the period March 1974-March 1975). The same is true for the United States, whose annual deficit, on the order of $8,000 million in the third quarter of 1974 (total deficit in 1974: $5,700 million), was transformed into a $1,300 million surplus for the first quarter of 1975. Italy succeeded in reducing its trade deficit by 75%, and even Britain's situation got very clearly better, the trade balance improving by $7,000 million between autumn 1974 and spring 1975. In France the March 1974 deficit of 2,000 million francs was transformed into a 62 million franc surplus in March 1975.

This success was achieved with the aid of all sorts of import restrictions as well as modifications in exchange rates that favored exports to the detriment of imports (the most pronounced case being that of the pound sterling, which “floated” so as to decline in value by 25% compared to its value after the currency “realignment” of December 1971). Obviously, there have to be losers in this zero-sum game. Essentially, the losers are some of the smaller imperialist countries (among them Switzerland, Spain, Denmark, Sweden, and Portugal) and the semicolonial countries, even including the oil exporters.

The balance of trade between the oil exporters and the imperialist countries has in fact changed dramatically. The 1974 trade surplus of the oil-exporting countries had initially been expected to exceed the 1973 surplus by $80,000 million; but this figure must now be revised downward. It could be that the increase will be only $60,000 million. And above all, it dropped rapidly during the first quarter of 1975 under the combined effects of the decline in world oil sales and the spectacular rise in the imports of the oil-producing countries, an increase that no one had expected to be on the order of 75%, after having been on the order of 70% in 1974. We will return further on to the implications of this reversal of the tendency.

The positions of the four major imperialist countries on the world market have not undergone big changes. For the whole of 1974 the United States occupied first place, with exports of $98,500 million, followed by West Germany ($90,000 million), Japan ($55,500 million), and France (about $50,000 million). But the United States preserved this position because the dollar was devalued by 40%

compared with the deutschemark, which rendered many American commodities competitive again. And in spite of this enormous advantage, the position of the United States was broken through during the last quarter of 1974 and the beginning of 1975.

Monetary reflation and the upturn

Surprised by the scope of the recession, the leaders of the major imperialist countries decided to take measures of monetary pump-priming, that is, to eliminate the toughest measures of credit restriction and slowdown in the expansion of the money supply that had been taken in 1973 and 1974 in the framework of the "struggle against inflation." What is nevertheless striking about these "pump-priming" measures is their timid character, except in the United States. And even in the United States, where the economic upturn has been prepared by a colossal budget deficit (on the order of $70,000-80,000 million for the fiscal year July 1975-June 1976), the authorities of the Federal Reserve System have been attacked for their alleged "moderation" by the advocates of more energetic priming, who are demanding an expansion of the money supply on the order of 9-10% a year instead of the 5-7% called for by the team around Federal Reserve Board Chairman Arthur F. Burns.[4]

The moderation and hesitation of the pump-priming measures are obviously explained by the fear of stimulating inflation again at a time when it is already much stronger than it was during previous recessions. It is thus confirmed that contemporary capitalism is incapable of escaping the dilemma: aggravated recession or aggravated inflation (and in any case, the latter choice precipitates even more serious recessions in the long run).

The problem is complicated by international inter-imperialist competition. To be sure, so long as the system of floating exchange rates prevails, the aggravation of domestic inflation no longer automatically involves a deterioration of the competitive position on the world market of the country concerned. It can even have the opposite effect. This is, moreover, one of the reasons for which some of the imperialist powers consider the system of floating exchange rates a means of competition that ought to be proscribed.

Nevertheless, a rate of inflation in one imperialist country considerably in excess of the rate in competing countries continues to entail unfavorable economic consequences, even if exports are no longer directly threatened. The result of inflating domestic demand is the inflation of imports, which in any case grow automatically as a result of the very drop in the exchange rate of the national currency, which protects exports against the effects of inflation. Hence, inflation continues to spur on the balance of payments deficit, and thereby dependence on international credits, and thereby the overall weakening of the competitive position of the imperialist country in question. Having a rate of inflation higher than a competitor would constitute a valuable strategy in interimperialist competition only in the event of a sharp and simultaneous reduction of domestic consumption, that is, in the event of a radical modification of the division of the national income to the detriment of the workers and to the benefit of productive investment (largely guaranteed by internal resources). Such a situation does not prevail today in any of the major imperialist powers. Hence the timidity of the pump-priming measures, except in the United States, where the rate of inflation has been able to be reduced precisely because of the losses of purchasing power suffered by the working class.

Nevertheless, “timid pump-priming” still means “pump-priming.” In view of the simultaneity of the pump-priming measures in all the big imperialist countries, it is not likely that the recession will continue to deepen through the rest of the year and into the beginning of next year. Logically, the moderate upturn that has already been manifested in Japan and the possibility of an upturn in the United States during coming months should allow us to predict that the downward trend of production, employment, and incomes will come to an end some time during the fourth quarter of 1975 or the first quarter of 1976.

The directors of economic policy in the imperialist countries — either through wishful thinking or through ignorance — are continuing to present things as though measures of monetary and credit expansion automatically entail an upturn of industrial production. They are, moreover, counting on the so-called technical effects of inventory fluctuation. After a phase of “destocking” (that is, of radical reduction of inventories), merchants and industrialists must at some point increase their inventories again, even if only to maintain their current levels of activity. This would entail an increase in orders, and therefore in employment, incomes, and production. Now during the first quarter of 1975, U.S. inventories were declining at an annual rate of $18,000 million, whereas they had been increasing at the same rate during the preceding quarter. Thus, the theory runs, the new turn cannot be far off.

All neo-Keynesian reasoning of this type, as we have pointed out on several occasions[5], contains errors of manipulation of undifferentiated aggregates. The only definite conclusion that flows from a policy of vigorously stimulating demand by swelling the money supply is that it *will surely stop the fall in demand for consumer goods*. When the government distributes thousands of millions of extra dollars to consumers, it is difficult for the volume of current sales to go down.

Any other conclusion, however, remains to be demonstrated. It is not certain that sales will increase *in the same proportion* as the incomes of consumers, especially since fear of unemployment may lead some of the workers and petty bourgeoisie to immediately increase their savings in order to cushion an anticipated large reduction in incomes. In fact, the Shadow Open Market Committee foresees an increase in U.S. household savings from $76,700 million in 1974 to $80,000 million in 1975. (*Neue Zürcher Zeitung*, March 29-30, 1975.) The growth of unemployment may also entail a more than proportional fall in buying on credit, for which an easing of credit terms may well be unable to compensate. Some of the increased money supply may thus swell bank deposits (or slow up their circulation) without increasing the volume of sales of commodities, and thus without stimulating an upturn of production.

Furthermore, the expansion of the money supply and of various subsidies to capitalist companies in no way entails an automatic upturn effect on productive investment. In order for the capitalists to make use of the expanded credit facilities placed at their disposal, they have to rely on an expansion of the market and a rise in the rate of profit. They do not increase production simply for the pleasure of doing so. They raise production in order to maintain or increase their profits. This requires above all that the increased production be sold, and moreover that it be sold under conditions that allow for reversing the fall in profits that characterizes every phase of recession.

Gross profits (before taxes) per share of all American companies dropped from an annual level of $155,000 million during the third quarter of 1974 to an annual level of $135,000 million during the fourth quarter of that year and to some $100,000 million during the first quarter of 1975. For net profits (after taxes) the fall was from $95,000 million to $70,000 million, that is, more than 25%.

Net profit margins per transaction (total sales) declined continuously, dropping from 6% during the last quarter of 1973 to 5.8% at the beginning of 1974, to 5.5% during the third quarter of 1974, to 4.7% during the fourth quarter, and to 4.2% during the first quarter of 1975, according to the calculations of *Business Week*.

According to the statistical series of the Conference Board, these margins for nonfinancial corporations dropped from a level of 20-22% during the period 1959-66 to 12% during the 1970-71 recession, and then rose to about 15% during the period 1972-73, declining back to 11-12% at the beginning of 1975.

For Japan average gross profits for the 174 major corporations of the country fell by 35.5% during the fiscal year 1974-75, which ended on March 31, 1975, while net profits declined 20.9%. In the manufacturing industry profits fell 56%; the decline in the other sectors was only 19.3%. (*Japan Times*, May 4, 1975.)

But the reestablishment of the rate of profit is hardly automatic during a recession. It is thus perfectly possible that in spite of the more ample credit facilities, the fall in the discount rate, the reduction in interest rates, and the expansion of the money supply, the volume of credits to companies will continue to diminish, not because the supply of money-capital is diminishing, but rather because demand for this capital is lacking. In fact, on May 7, 1975, the total volume of bank credit to American companies ($128, 600 million) was lower than it was at the beginning of April ($129,400 million), the beginning of March ($129,700 million), or the beginning of January ($132,300 million) —

and this despite all the pump-priming measures that had already been taken.

Finally, account must be taken of the instances of contraction of exports. The policy of moderate pump-priming of the Helmut Schmidt cabinet in West Germany has failed up to now precisely because a modest upturn in sales on the domestic market has been more than counterbalanced by a decline in exports and especially in orders sold abroad, which fell 7.5% during the first quarter of 1975. Under these conditions, the upturn will be postponed until the combined effects of the upturn in domestic demand in several of the major imperialist countries (above all the United States, Japan, and West Germany) enable the regression of exports to be halted.

Upturn and "possible accident"

Although an upturn toward the end of 1975 or the beginning of 1976 remains the most likely prospect, bourgeois experts place this upturn in the framework of two radically different *medium-term prospects*.

According to one group — which includes the editorial board of the British weekly *The Economist* the scope of the recession implies a boom (more or less inflationary in any case) of an approximately equivalent compensating scope. Thus, in its issue of April 12, 1975, *The Economist* editors indicated that they expect a rapid expansion in the imperialist countries (at a rate of 5.5% a year or more) beginning with the end of 1976 and extending into 1977, an expansion that would increase the rate of inflation by 5-10% everywhere and would provoke a more serious economic recession in 1978 or 1979.

For the other group — which includes many bourgeois experts in the United States — it is not at all certain that the moderate upswing they are expecting toward the end of 1975 and the beginning of 1976 will automatically turn into a boom. In fact, they fear, it could "collapse" beginning in the middle of next year, either because of the continuation of export reductions or because of a serious political or banking accident that would destroy "confidence" (a bank panic, a new war in the Middle East, a substantial new increase in the price of oil, a revolutionary crisis on the Iberian peninsula, etc.), or because of a combination of all these factors.

The majority of the international bourgeoisie seem to have opted for the first of these two variants, as is clearly shown by the universal rise in the stock exchanges of all the major imperialist countries, a rise that has followed the sharp decline of 1974:

Stock Exchange Indices

City	Lowest Level in 1975	Level on May 20-21, 1975
New York	632	830.5
London	146	355.9
Tokyo	268.2	331.5
Paris	51.7	68.6
West Germany	573 .5	688.5
Milan	86.0	97.4
Amsterdam	85.8	105.0
Toronto	159.4	186.1
Brusse Is	89.1	111.7
Stockholm	310.6	371.7

(Source: *The Economist*, May 24, 1975.)

Obviously, this does not mean that this "bourgeois majority" may not be wrong, nor that the stock-market expectations — theoretically “correct” for, say, 1977 — might not be belied by the famous “accident” in 1976.

As far as accidents are concerned, in the United States it is above all a bank panic that is feared. The publication of a book by Martin Mayer, a conservative observer, has made quite an impression on business circles in the United States. [6] In the book Mayer describes the electronic techniques that facilitated the rapid upswing of “more aggressive” banking activity beginning in the early 1960s, which has been reflected above all in the massive utilization of short-term deposits to finance long-term loans and in an increasingly rapid expansion of the volume of credits, of which a growing mass of outstanding credits is of a dubious or speculative character.

Of course, the overall solvency of banks depends on the central bank, which in the United States is the Federal Reserve System. Mayer stresses the dilemma with which the central bank is confronted: It cannot refuse to grant banks enough credit to clean up their own system of loans, because that sort of pressure would threaten to provoke a collapse and a bank panic. But without such pressure the private banks threaten not to correct their adventurist policy. And he concludes: “There are billions of dollars of potential loan losses in the system, and the clock ticks toward the moment of their detonation. The banking structure that is now building *can* collapse; the larger the regulatory apparatus permits it to grow, the more catastrophic the collapse will be.”

There are some signs that the American banking system is returning to more conservative practices. But especially in the event of an upturn, pressure in the opposite direction will once again be exerted by companies.

Thus, of the two scenarios — the "pessimistic" one, which does not believe there will be a boom in 1977, and the "optimistic" one, which believes that there will be one — neither is confident about the future of the system beyond the "medium term." Those who expect an imminent "boom" see it as leading to an even more serious recession than the recession of 1974-75. Those who do not expect it foresee prolonged stagnation. In both cases, the very scope of the problem to resolve — Jacques Attali speaks of $1 million million that must be injected into the international capitalist economy in the space of five years if the effects of the recession are to be halted in a lasting manner — will have obvious inflationary effects. And all observers admit that a new accelerated inflation could once again slow down growth in the medium term.

Evaluating the long-term effects

A judgment of the more long-term effects of the current recession must begin with an examination of the situation of the major industrial branches, the degree of excess capacity and overproduction in these branches, and the *particular cyclical motion* that is peculiar to them:

* *Automobiles*: This industry, together with the construction industry, was the real "detonator" of the current recession, just as it had been the central prop of the preceding phase of expansion, along with the construction and electrical appliance industries. The extent of the reduction of production in the auto industry varies between 25% and 35% for the major capitalist producing countries (except Japan, where the decline is 7%). Even the Brazilian automobile industry, whose production was still expanding at a rate of 17.5% in 1974 (while Argentine production was declining 10%), anticipates stagnation in 1975. (*Financial*

Times, May 27, 1975.) Excess productive capacity on a world scale may be estimated on the order of 20-25% today. Under these conditions the continuation of an expansion of the type that occurred during the 1950s and 1960s seems excluded.[7]

**Construction*: Together with the auto industry (and in some countries even more than the auto industry), this is the branch that has been hardest hit by the current recession, especially due to the effects of the policy of credit restrictions that was applied universally in 1973-74, which was compounded by a dizzying rise in the prices of materials and building lots (the effects of the speculation generated by inflation) and a decline in the household incomes available for this type of expense during a period of recession. In the United States the number of new construction starts has dropped *by nearly half*: from an annual level of 1,880,000 in February 1974 to 977,000 in February and March 1975 (with a slight increase, to 990,000, in April 1975). These figures should be compared with the record level that was reached toward the beginning of 1973: an annual rate of 2.5 million new construction starts. A new return to this level is improbable. At the most, optimists expect 1.6-1.7 million new construction starts in 1976.

In Japan and capitalist Europe, where the housing shortage is more pronounced in some countries (like Britain, Italy, France, and Spain), the more longterm prospects could be better. But as soon as the upturn begins, accelerated inflation will inevitably exert pressure toward a rise in interest rates and a more restrictive credit policy, which makes a new "boom" in construction unlikely.

* *Electrical appliances:* Strongly linked to the construction industry, the electrical appliance industry has gone through a genuine depression, of the same scope as that of the automobile industry. In January 1975 sales in this

branch in the United States were 39% lower than they had been in January 1974. For the whole of 1974 the decline had already been 13.4% in comparison with 1973. Manufacturers and merchants are more optimistic for the second half of 1975; they expect an overall 1975 sales decline only on the order of 4% as compared with 1974. But the downward revision of prospects for the construction industry probably makes these figures too optimistic.

It is difficult to judge the degree of long-term excess capacity in this sector, which is characterized by growing saturation of the market for "old" products, continuing technological innovation, and appreciable difficulties in "stimulating" new needs. Nevertheless, in view of its "link" to the construction industry, the electrical appliance industry will find it difficult to quickly regain its record levels of 1972 and 1973 on a world scale. A strong expansion of investment in this sector therefore seems improbable.

* *Textiles:* This industry has also been hit by the recession to a greater than average extent, although in a differentiated manner. The crisis of the textile industry is particularly severe in West Europe, Japan, and Brazil. For instance, it is reported that of 830; 000 workers employed in this industry in Britain, 150,000 were on partial unemployment in mid-March; the figure could rise to 250,000 within several months.

In Brazil, where production of cloth and clothing in both natural and synthetic fibers had increased from 750,000 tons in 1970 to 1.1 million tons in 1974 (with an expansion of exports from 300,000 tons in 1970 to 500,000 tons in 1974), exports during the first quarter of 1975 fell by more than 50% compared with the level reached for the first quarter of 1974. Some 5% of the work force in the industry was laid off, and investment was reduced by two-thirds. The two largest Japanese textile trusts ran at only 60% capacity during the first quarter of 1975. In this branch also, there can be no question of a long-term expansion of overall investment or of an increase in its share of world export (or production). Just the contrary, the industry's share of expenditures will tend to diminish, or in the best of cases will be stabilized. Investment will be primarily for purposes of rationalization, and the progress made in some countries will be primarily progress in substitution (compensated by declines in export or even production in other countries).

* *Petrochemicals:* In this industry, which is singularly affected by its "own cycle" (probably a four-year cycle), the transition from a situation of relative shortage (provoked above all by the speculative hoarding engendered by the rise in oil prices) to a situation of overproduction and collapse of prices was especially rapid in 1974. The price of polyester yarn fell from $1.30 a pound to $0.86 a pound. The restrictions on production and sales seem to have been strongest in January and February 1975. Since then, release of stocks has produced a certain upswing: The price of polyester yarn rose bock to $1.05 a pound. The capitalists of this branch are hoping for a real upturn during the second half of 1975. Nevertheless, the more long-term prospects remain uncertain. Several projects to construct new Japanese factories have been postponed or even canceled.

* *Chemicals in general:* Here we must differentiate among the various subsectors. The expansion of the pharmaceuticals industry is expected to continue, unless social and political upheavals take place. (The especially scandalous manner in which this industry profits from the social security systems in the imperialist countries and the way it overcharges for its products in the semicolonial countries makes it particularly vulnerable to state interventions, which are demanded by working-class opinion, even reformist and "liberal," up to and including

the demand for nationalization.) On the other hand, the chemical fertilizer industry, which one could have supposed would profit from a sustained worldwide effort to increase the yield of agricultural production, has fallen into a situation of potential excess capacity. Prices "exploded" during the 1973-74 period of shortage, practically doubling in the case of superphosphates and nitrates. Even though sales are continuing to rise — although at a slower rate (some 3-4% from July 1974 to July 1975 for the American industry) — trade prices are beginning to decline. The exceptional U.S. harvest will provoke a fall of agricultural prices and of incomes for farmers, which should reduce their fertilizer purchases in 1976. Also, this is an industry for which future demand, rapidly expanding in the semicolonial countries, will tend increasingly to be satisfied by new factories established in the oil-producing countries.

* *Steel:* The steel "boom" ended in the second half of 1974. The steel industry, like the petrochemicals industry and the textile industry, has experienced its own cycle during past decades, a cycle that does not entirely coincide with that of industry and employment taken as a whole. Orders for steel products in West Europe fell 33% during the first quarter of 1975 compared with the first quarter of 1974. In April 1975 steel production in the capitalist countries taken as a whole was down 9.8% compared with April 1974. The decline was 14.5% in the United States and Japan and 12.4% in the Common Market countries; but it was more than 30% in Belgium and Portugal. Prices fell 40-50%. Clearly, this was a consequence of the crises in the automobile, construction, and shipbuilding industries, which are big customers of the steel industry. In the longer run, the capitalists of this sector claim to be optimistic and are expecting a new expansion of demand, production, and investment, with a more than

proportional expansion of new centers of production in the semicolonial countries.

* *Shipbuilding and aircraft construction:* These are branches that have been particularly hard hit by the current recession, for a combination of reasons. Predictions of a continuous expansion of oil sales had resulted in larger and larger orders being placed by the oil giants. Then the fall in oil sales immobilized a part of the existing fleet (243 tankers with a total capacity of 13.5 million tons were idle as of mid-March), which entailed considerable losses for some firms (financial catastrophe for Burma Oil). Massive reductions of orders followed. Generally speaking, the sudden halt in the growth of world trade has also weighed heavily on the volume of freight and therefore on the volume of current shipbuilding. From the beginning of the recession to mid-March 1975 construction orders were canceled for tankers with a total capacity of about 15 million tons, and orders are threatened for other ships with total capacity of about 4 million tons, which in all represents some 7% of current world shipbuilding. Japan, the United States, and the Scandinavian countries have been hardest hit. For their part, the airlines have been suffering growing deficits, which reduces the market for aircraft construction. It is true that there are always lucrative orders for military aircraft, but these orders are now provoking aggravated international competition, as is illustrated by the affair of the replacement of the Belgian, Dutch, and Danish Starfighters. Nevertheless, the firms of the American aerospace industry seem to be avoiding a recession by virtue of the increase in state orders (up 40% in two years).

* *Electronics:* A typical example of a branch that had been marked by virtually uninterrupted expansion during the two past decades, the electronics industry is now going through a phase of growing difficulties. A situation of pronounced

excess capacity exists in the sector of transistors and semiconductors in general; in the United States this branch of the industry is working at only 50% capacity. A sales decline on the order of 17% is expected for 1975. This prediction is considered excessively optimistic by the major trust of the industry, Texas Industries, which anticipates a sales decline of 26%. In the realm of calculating machines, excess capacity has provoked a collapse of prices for small pocket and table models, and even in the computer sector the first price reductions have occurred. Phenomena of long-term saturation have begun to appear, combined with a general tendency toward investment decline determined by conjunctural conditions. The Japanese electronics industry, which specializes in consumer goods like television sets and small calculators, suffered a recession in 1974; a new reduction in production is expected for 1975. Phenomena of longer-term market saturation seem to be appearing, in spite of a rapid expansion of exports.

When pocket calculators were first introduced, Japan took the lion's share of the market. In 1973 it still produced 10 million units, as compared with 7 million units in the United States and Canada. In 1974 Japanese production amounted to 15.5 million units, as against 12 million units in the United States; for 1975 American production is expected to surpass Japanese production. The Japanese share of the European market fell from 80% in 1971-72 to 50% today. (*Far Eastern Economic Review*, February 14, 1975.)

* *Machine construction:* This is probably the only industry for which long-term expansion seems assured, especially because of growing orders from the semicolonial countries and the bureaucratized workers states. These orders are supposed to compensate for any long-term fall in investment in the imperialist countries themselves. While this perspective is generally accepted among experts, it must

nevertheless be weighed against the general growth rate of the international capitalist economy that is anticipated for coming years. It is clear that if growth remains below current predictions, phenomena of excess capacity will coincide in a great number of sectors, and that could lead to a more than proportional fall in investment and orders for machinery, even though such a situation would incontestably stimulate certain types of rationalization investment and would lead to a more rapid elimination of companies working below the productivity levels of those companies that command advanced technology.

For the subsector of machine-tools precise figures are available. The major exporting and importing countries in 1974 were the following:

Exports (in millions of dollars)

1. West Germany	1,980
2. United States	480
3. Switzerland	392 .9
4. East Germany	392
5. Italy	302.6
6. Britain	251
7. France	250.8
8. Japan	230
9. Czechoslovakia	180
10. USSR	144.7

Imports (in millions of dollars)

1. USSR	367.8
2. France	310.2
3. Poland	306.5
4. United States	258
5. East Germany	239.8
6. Italy	234.5
7. Britain	224.7
8. Japan	148.7

9. West Germany	100
Czechoslovakia	100

(The absence of China and Brazil from the list of importers seems unjustified.)

The figures for overall production are also interesting:

Production of Machine-tools in 1974 (in millions of dollars)

1. West Germany	2,762
2. United States	2,100
3. USSR	1,824
4. Japan	1,533
5. Italy	756.4
6. France	591.8
7. Britain	537.8
8. East Germany	512.9
9. Switzerland	483.9
10. Poland	337.0

(The three tables appeared in the April 22, 1975 *Le Monde* and were reproduced in *The American Machinist*.)

Possibilities of restructuring the world economy

The question of the prospects for the major branches of production in the international capitalist economy is intimately linked to the question of the long-term restructuring of trade and the world economy itself. The economists who foresee a new international division of labor reason approximately in the following manner: From 1951 to 1971 the share of the semi-colonial countries in world trade fell from about 33% to about 17%. This had led to an accelerated reorientation of the international division of labor *among* the major imperialist countries, the rapid expansion of the so-called multinational corporations being one of the sharpest expressions of this.

With the tripling and quadrupling of the price of oil, the share of the exporters of this raw material in world trade increased considerably. It went from 7% of world exports in 1973 to 14% in 1974. Even though the share of the other semicolonial countries declined slightly (from 12% in 1973 to 11% in 1974), the total share of the semicolonial countries in world exports nevertheless reached 25% in 1974.

Now, the enormous balance of trade surpluses of the oil-exporting countries — $97,000 million in 1974 — obviously stimulate industrialization activities and all sorts of investment in these countries. Thus, still according to these experts, a vast market is opened for the industries exporting machinery and equipment in the imperialist countries.

In fact, the accumulation of exchange reserves by the oil-exporting countries proceeded at a much slower rate than had been predicted by the panicky propaganda in 1973-74. This accumulation diminished first of all in the most populated countries and the ones most open to rapid industrialization: Iraq, Algeria, and Saudi Arabia among the Arab exporters and Iran, Nigeria, Indonesia, and Venezuela among the non-Arab exporters. But even in the exporting countries with the lowest population densities (primarily Libya, Kuwait, Qatar, and the Arab Emirates), internal and external investment projects have taken on such scope that the specter of the major part of world exchange reserves becoming concentrated in the hands of these countries rapidly evaporated.

As early as 1974 the balance of payments surpluses of the oil-exporting countries amounted to only 550,000-55,000 million and not the $60,000-$80, 000 million initially predicted. To this surplus corresponded a deficit among the imperialist countries of $30,000-35,000 million, the remaining $15,000-20,000 million of the worldwide deficit being distributed among the rest of the semicolonial countries and the bureaucratized workers states.

According to an estimate of the Morgan Guarantee Trust Company, the non-oil-exporting semicolonial countries showed balance of payments deficits of the following amounts in 1974 (in millions of dollars):

Brazil	7,000
Mexico	2,500
India	1,800
South Korea	1,800
Taiwan	1,200
Peru	850
Kenya	450
Chi le	434
Turkey	400
Argentina	352
Philippines	290
Thailand	150
Zambia	100
Malaysia	100

In other words, of the total balance of trade surplus of the countries of the Organization of Petroleum Exporting Countries (OPEC), which was on the order of $97,000 million, nearly half was placed in short-term or long-term investments abroad, where it was added to the "petrodollars" of 1973. The total of these petrodollars amounted to about 560,000 million, and was divided in the following manner:

35%	in European currency markets
15%	in direct investments in Europe and Japan (including loans)
12.5%	in bank deposits and state obligations in Britain
10%	in state obligations in the United States
9%	in loans to industrialized countries other than the United

	States and Britain
6.7%	in bank deposits in the United States
6%	in deposits and obligations to the International Monetary Fund, the World Bank, etc.
4%	in loans to semicolonial countries
1.7%	in direct investments in the United States (these investments, like those in Europe and Japan, include portfolio investments)

(Source: *Newsweek*, February 10, 1975.)

Paradoxically, it is precisely the expansion of the imports of the OPEC countries — that is, the reduction in their balance of trade surpluses — that is now threatening Britain's balance of payments, for massive withdrawals of the petrodollars deposited in London are involved. (*The Economist*, May 17, 1975.) According to the latest OECD estimates, the overall balance of payments surplus of the OPEC countries could fall to $40,000 million in 1975.

Studies published by the Brookings Institution and the Morgan Guarantee Trust Company, one of the largest American banks, reject the hypothesis of a fantastic accumulation of $650,000 million in reserves in the hands of the member countries of the OPEC oil-exporting cartel. The peak figure of these reserves, these studies report, will be hit in 1978 ($250,000 million, based on the assumption that the exchange rate of the dollar will remain more or less at its 1974 level); it will then gradually fall back toward $179,000 million in 1980.

The calculations of the World Bank consider these estimates too low, and in any case postulate a strong accumulation of reserves in Saudi Arabia, Kuwait, Qatar, and the Arab Emirates, while the surpluses of the other members of OPEC could disappear completely.

Thus, all these estimates actually imply a twofold *redistribution of resources, capital, productive capacity,* *and surplus-value on a world scale:*

* *In the short and medium term,* a good part of the supplementary oil income will be used to import machinery, industrial and agricultural equipment of all kinds, and industrial consumer goods (and, to a lesser extent, raw materials and foodstuffs). This would involve a redistribution of capital and profits *within* the imperialist countries as much as and even more than a redistribution of surplus-value between the imperialist bourgeoisie and the semi-colonial bourgeoisie. The major beneficiaries of this redistribution apart from the semicolonial bourgeoisie would be the productive branches of machinery and all types of equipment. The essential losers, on the basis of the branch-by-branch analysis above, would be the automobile and electrical appliance industries, certain branches of the electronics industry, and the textile industry.

* *In the medium and long term*, the massive import of machinery and equipment by the members of OPEC would involve the creation of supplementary capacity for industrial production, especially in petrochemicals, fertilizers, oil refineries, and steel, a potential that would substitute for the capacity rendered excessive in the imperialist countries. There would be a shift in industrial activity within the imperialist countries, especially toward the branches of equipment manufacture and nuclear and other power sources, and, in part, toward services.

There are acceptable elements in this analysis. It seems obvious that the enormous concentration of money-capital in the hands of the owning classes of the members of OPEC and their governments could not but touch off a process of investment on a grand scale, domestically and abroad.[8] These investments necessarily lead to a beginning of industrialization, even if associated with imperialist capital through joint ventures.[9]

The international press continues to offer much information about these on-going projects. The May 26, 1975, issue of the American magazine *Business Week* mentions notably the construction of a $280 million petrochemical factory for synthetic fibers in Iran in association with American capital (Du Pont de Nemours); the construction of a steel factory in Ahvaz and of two brick-making factories in Isfahan in association with the German trust Thyssen; the construction of an oil refinery jointly with Thyssen and the Fluor Corporation of Los Angeles in Abadan; the construction of the new industrial city of el-Jubail in Saudi Arabia, where establishment of a big refinery and several chemical complexes is planned; the project of an enormous chemical fertilizer complex worth $800 million in Iraq. Many other studies confirming the same tendency could be cited.

Likewise, it seems incontestable that exports of machinery, equipment goods, and entire factories will occupy an increasingly important position in world trade in the future. In its May 16, 1975, issue the *Far Eastern Economic Review* published a study on this branch of Japanese industry, whose exports rose from $1,500 million in 1972 to $3,000 million in 1974. It is considered the most expansive and dynamic sector of the economy and merits special protection from the government.

Finally, the increased importance of the OPEC countries and of the bureaucratized workers states as outlets for the imperialist countries also seems certain, even though their share of the total exports of these countries will remain modest. For West Germany and Japan, this increased share has already been indicated in current statistics. It is interesting to note that French exports to Algeria increased two-and-a-half times in the space of two years, rising from 2,380 million francs in 1972 to 6,200 million francs in 1974.

Nevertheless, the projections outlined above suffer from two important imprecisions:

* The dynamic of oil sales and prices, which determines the import capacity of the OPEC countries, remains extremely fluid. It is already clear that a part of the gains that the owning classes of these countries made from the tripled or quadrupled price of oil has been wiped out by the rise in prices for their imports and by the devaluation of the dollar and the pound sterling (which is relevant for the portion of income held in liquid or semiliquid form). By demanding that the price of oil be indexed to the prices of manufactured products or that oil prices be expressed in Special Drawing Rights (SDRs), the member countries of OPEC are trying to escape this infernal logic of the international economy, which continues to be dominated by imperialism. But SDRs are only money of account, and payments can be made only in exchangeable currency, and not in "paper-gold." Any new and pronounced increase in the price of oil thus threatens to touch off compensatory processes (even more pronounced declines in exchange rates for the dollar and the pound sterling; even sharper reduction of consumption of the oil exported by OPEC; more accelerated development of alternative energy sources) that would neutralize the advantages in the medium and long term.

* The average growth of the international capitalist economy as a whole is not at all an "external" element in all these suppositions; rather, it constitutes a constraining framework. The appearance of new productive capacities for petrochemicals and steel in the OPEC countries will have diametrically opposite effects on the international conjuncture, according to whether one assumes that there will be an average growth of 4-5% of the capitalist economy

or whether one supposes on the contrary that the average rate will fall toward 2% or even lower in the medium term.

In the first case, the development of increased productive capacity in the OPEC countries would cause only minor perturbations in the economies of the imperialist countries, changes that could be “reabsorbed” by a redistribution of capital and the work force. In the second case (which is more likely, in our view), it would provoke major perturbations relatively high structural unemployment and relative stagnation of internal consumption in these countries — which would in turn exert a depressive influence on all international capitalist activity, including the profitability and expansion of new sectors of heavy industry in the semicolonial countries.

Basic causes of the recession not eliminated

The generalized recession of 1974-75 is not the product of chance or of any “freak accident” of the international capitalist economy. It results from all the basic contradictions of the capitalist mode of production, which gradually rose to the surface after having been partially contained, thanks to inflation, for two decades of accelerated growth (two and a half decades in the United States).

In order to find out whether the current recession will be followed by a new prolonged phase of accelerated growth or whether, on the contrary, it marks the inversion of the long-term economic tendency, one must examine the repercussions of the recession on the major factors that influence the *long-term evolution of the rate of profit in the imperialist countries*.

1. A new decline in raw materials prices seems extremely improbable in coming years. Particularly in the realm of energy, the *common* interest of imperialist capital (with the possible exception of Japan and some minor countries) and the bourgeoisies in the semicolonial countries is *to prevent* the price of the oil exported by the OPEC countries from *falling below a certain level*. Any excessive price decline would render alternative energy sources uncompetitive (North Sea oil; shale and bituminous salts in the United States; Alaskan oil; nuclear energy), and the enormous capital investment needed to develop these sources would either be lost or would produce an insufficient return. Likewise, the fall of raw materials prices, even if it continued (which is not certain in the event of an industrial upturn), will not boost these prices back to the levels they reached before the 1972-73 boom.

2. The effects the third technological revolution had had in reducing the value of the elements of fixed capital — which meant that in spite of the expansion of semiautomation, the organic composition of capital rose much less rapidly during the period 1945-67 than could have been supposed at first glance — seem to be dying down in the long run. In fact, the rate of increase of the productivity of labor will slow down, as much in Department I as in Department II, which will entail both a progressive increase in the value of the increased mass of machinery put to work by industrial capital and a slowdown in the growth of relative surplus-value (a growth that had been another striking characteristic of the third technological revolution).

3. The 1974-75 recession did not act — and, in an atmosphere of inflationary "reflating," could not have acted — to detonate a massive devaluation of capital, which is the role a crisis of overproduction normally plays in improving the conditions of capital profitization — that is, in

permitting a high average rate of profit in the short term. To be sure, there have been some spectacular bankruptcies and some mergers. But the important firms that reached the end of their rope financially were bailed out by massive state subsidies. The lifting of taxes on investment, another form of subsidy, was applied in practically all the imperia list countries. What occurred was therefore a redistribution of the mass of surplus-value over a roughly equal mass of capital rather than a massive reduction of capital parallel to a slightly reduced mass of surplus-value. Many of these problems are obviously masked by inflation. But a beneficial effect of the recession on the rate of profit through the massive devaluation and destruction of capital seems henceforth unlikely.

4. The increase of the rate of surplus-value by the internal mechanisms of the process of production is a usual effect of any overproduction crisis and of unemployment. It is now occurring again. Unemployment and fear of unemployment are increasing "labor discipline," reducing absenteeism and other phenomena of fluctuation in the work force, thus permitting the acceleration of the work pace and the intensification of the labor process. All these measures of capitalist "rationalization," which are going on in branches like automobiles, steel, electrical construction, chemicals, etc., will involve an increase in the rate of exploitation, which will have a beneficial effect on the rate of profit.

Nevertheless, the combination of these four factors will scarcely be able to provoke a genuine "upturn" of profits, particularly if account is taken of a slowdown, rather than an acceleration, in the turnover of capital, a slowdown typical of periods of recession and rather slow upturn.

Under these conditions, the conclusion is one that we have stressed continually for several years: The possibility of a new period of accelerated growth of the type that occurred during the 1950s and the beginning of the 1960s is in the final analysis linked to a radical increase in the rate of surplus-value through a sharp compression of the mass of direct and indirect wages. Only such a modification could seriously relaunch the rate of profit and the rate of self-financed investment by the big monopolist trusts (that is, investments that are made without massive resort to inflation). And such a genuine upturn in profit is indispensable for generating a new era of *capitalist* "prosperity." (It is unnecessary to insist on the fact that in the framework of a socialized economy, self-managed and democratically planned, full employment and rational growth could be reestablished by mechanisms other than those of the law of value.)

Now, if an initial balance-sheet is drawn up on the effects of the generalized recession on the reciprocal relationship of forces between capital and labor in all the imperialist countries, it is clear that these relationships have in no way deteriorated to the point that the immediate possibility of inflicting a crushing defeat on the working class can be envisaged — and that is the only development capable of having an effect on the rate of surplus-value comparable to the effect of the victory of fascism, the second world war, or the cold war of the 1950s.

To be sure, the West German and Japanese working classes have both accepted nominal wage increases this year that are inferior to their real losses of purchasing power consequent to inflation. The deterioration of the conditions of the "labor market" in these countries has thus had repercussions on the division of the national income, not for automatic or mechanical reasons, but because of the class-collaborationist attitude of the trade-union bureaucracies and because of the degree of control these bureaucracies still exercise over the toiling masses.

But these are only marginal modifications in the division of the national income, modifications that can in any case be neutralized by a new outbreak of workers combativity, which will surely not be long in coming, on a greater or lesser scale depending on the country concerned.

On the other hand, the working classes of countries like Spain, Italy, Britain, France, Belgium, Australia, and Denmark are continuing to sharply defend all the gains they made during the previous period of expansion. Up to now they have succeeded in refusing to bear the costs of the recession. There is no sign that this situation is changing.

As for North America, while the workers of Quebec are manifesting such a high level of combativity that the government has been led to propose the toughest anti-union and antistrike laws seen in several decades in that supposed bourgeois-parliamentary democracy, there are now certain signs of an awakening — slow, of course, but real nevertheless — among some sectors of the working class of the United States.

Under these conditions it is clear that a struggle for a substantial rise in the rate of surplus-value — the sort of struggle that has marked the 1970s and will continue to mark the rest of the 1970s and the 1980s, just as it marked the 1920s and 1930s in Europe has only just begun. Increasingly tough tests of strength between capital and labor will occur in many imperialist countries. Prerevolutionary and revolutionary situations will arise in several of these countries.

The capitalist world will not be able to pass from its present phase of general social crisis and generalized economic recession to a new phase of lasting and prolonged expansion except by first inflicting a crushing defeat on the working class and by inflicting disasters in the form of appalling famines, new bloody dictatorships, and new murderous wars on all humanity. To grasp the current crisis of the imperialist system as the point of departure for an assault on the power of capital is not only to take advantage of an exceptionally favorable opening for the international extension of the socialist revolution, but is also and above all to work to spare the human race a new era of free fall toward barbarism.

June 1, 1975

Notes

[1] On our own predictions and an initial analysis and explanation of the generalized recession, see The Generalized Recession of the International Capitalist Economy, *Inprecor*, No. 16/17, January 16, 1975.

[2] The OECD had predicted the following GNP increases for the first half of 1975: United States 3%; Japan 7.2%; France 5.2%; West Germany 4%; Italy 3.5%; Britain 1%; Canada 5.5%.

[3] The big monopolist trusts program their investments over the medium term. Thus, each year they have to attain a more or less predetermined level of gross return (renewal of fixed capital+new investment). If the same sum has to be raised through sales of a smaller number of units, it follows that the trusts will increase the unit sales price. The existence of monopoly explains why they are able to act in this way, but they cannot do so beyond certain limits nor for a period of indeterminate length.

[4] See the interesting polemic in this regard in *Business Week*, June 2, 1975.

[5] See especially Chapter 14 of our book *Der Spätkapitalismus*, published in English in the *New Left Review*, No. 90, March-April 1975.

[6] Martin Mayer, *The Bankers*, Weybright & Talley, 1974.

[7] See our article "Auto Industry: A Worldwide Crisis," *Inprecor*, No. 4, July 18, 1974.

[8] On investments abroad by the countries of OPEC, see especially our article An Arab and Iranian Finance Capital Emerges, *Inprecor*, No. 10, October 17, 1974.

[9] The reasons why the monopolies that dominate today in the imperialist countries favor a (limited) beginning in industrializing the semicolonial countries have been outlined in our *Marxist Economic Theory*, end of chapter 13.