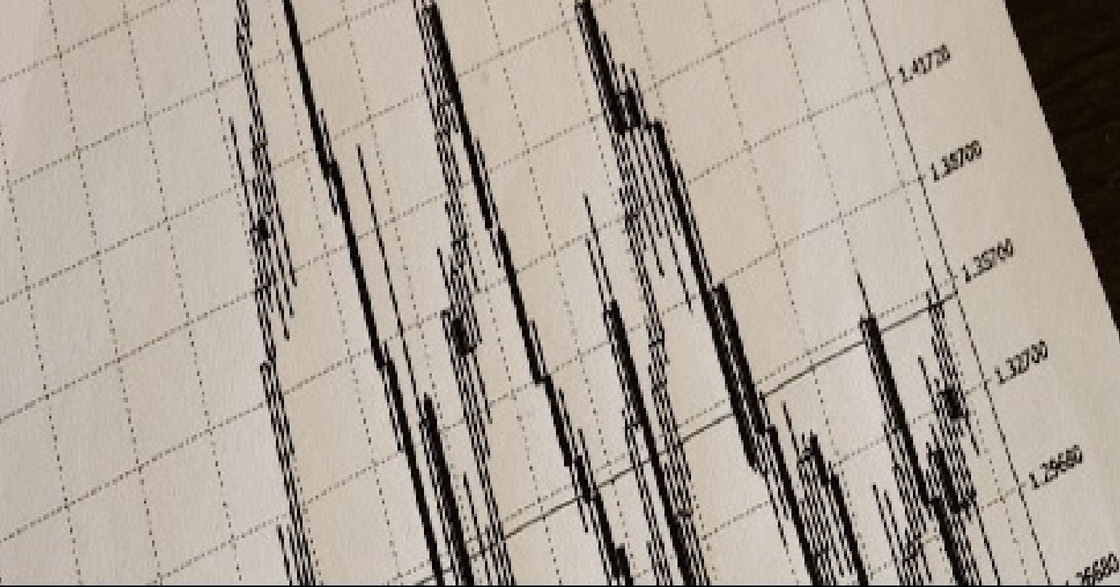

A Hesitant, Uneven, and Inflationary Upturn

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A Hesitant, Uneven, and Inflationary Upturn: The International Capitalist Economy

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1. The upturn is a reality, and so is the return to structural unemployment.

There can be no doubt that the generalized recession of the international capitalist economy came to an end in 1975 — earlier in the United States, later in West Germany, Japan, and the other imperialist countries. It has since been followed by a phase of economic upturn.

From a Marxist point of view, there is but one basic criterion by which to judge whether there is a recession or an upturn in economic activity: the trend of material production and, closely linked to this, the trend of accumulation of capital (the volume and reinvestment of profits). To take the trend of unemployment or real wages as a criterion of upturn is to make a mistake about the character of the capitalist system. This is a system of production under which profit and the accumulation of capital are the goals of economic activity. The volume of employment or the evolution of real wages are only by-products.

Better, the "ideal" situation for capitalism is precisely a phase in the cycle in which, at least at certain points in the history of capitalism, the growth of production is accompanied by a high volume of unemployment and a stagnation or even decline of real wages. It is exactly during such periods that the production of surplus-value breaks records.

In this sense, the turn in the cycle that occurred at the end of 1975 is beyond dispute. It is clearly expressed in the following figures:

Evaluation of industrial production

(in % in comparison with preceding year)

	1975	1976
United States	- 8.9	+10.0
West Germany	- 6.2	+ 8.0
Japan	-10.9	+15.0
France	- 7.3	+ 9.5
Britain	- 4.8	+ 2.0
Italy	- 9.8	+ 3.5
Canada	- 4.6	+ 4.0
Australia	- 6.3	+ 5.5
Belgium	-10.0	+10.0
Sweden	-1.8	0.0

(Source: *Veckans Affärer*, September 2, 1976.)

These figures will most probably have to be revised downward for 1976 as a whole in view of the slowdown of the upturn that has occurred during the second half of the year. But the turnabout of the trend is too clear to be doubted, unless one resorts to non-materialist criteria in analyzing the conjunctural fluctuations of the capitalist system.

While the upturn is a reality, it nevertheless exhibits quite particular features which we correctly predicted when the recession was still under way and which observers are now belatedly noticing.

Growth has been too limited to reabsorb unemployment. For the international bourgeoisie, the "historic function" of the 1974-75 recession was precisely to put an end to "full employment" as a "priority objective" of the economic policy of bourgeois governments and to reintroduce permanent massive unemployment as a source of pressure on the "labor market." From this standpoint, the granting of the 1976 Nobel Prize for Economic Sciences to Professor Milton Friedman is symbolic of the "anti-Keynesian counterrevolution" that has occurred in the realm of bourgeois ideology. In fact, neither the recognized spokesmen of the international bourgeoisie nor the representatives of bourgeois science have minced words in this regard. Professor Karl Brunner, the -ranking Swiss "monetarist," has asserted: If you want to eliminate inflation, you have to pay a price, and that price is unemployment. Unemployment is therefore the social cost of putting an end to inflation. And don't come and tell me that there is another way out, because it's not true." (Interview published in the Belgian review Tendances-Trends, September 8, 1976.)

There could be no better confirmation of the analysis Karl Marx made in Capital more than a century ago: in the long run capitalism cannot survive without an industrial reserve army, in other words, without unemployment. All the upstanding Social Democrats and neoreformists who claimed that the "mixed economy" under which we are said to be living is no longer capitalist have once again been rebuked for their troubles.

The extent of the "residue" of structural unemployment left by the recession of 1974-75 is considerable, as the following figures show:

Unemployment in the imperialist countries in september 1976

United States:	7,400,000
Britain:	1,319,000
Italy:	1,145,000
Japan:	1,130,000
West Germany:	899, 000
France:	841,500
Benelux:	444,000

(Source: *Financial Times*, October 25, 1976, except for Italy: *Le Soir*, October 28, 1976.)

If to these figures we add the figures for unemployment in Spain, Canada, Australia, and Denmark, we easily reach 14.5 million people on complete unemployment, and this does not take account of seasonal unemployment in winter, youth leaving school and unable to find jobs, and women who, to use the philanthropic language of bourgeois science, have voluntarily withdrawn from the labor market."

Now, the unemployment figure for the imperialist countries at the worst point of the recession was barely more than 17.5 million. This means that the upturn has succeeded in putting a grand total of some 15% of unemployed workers back to work. *More than eighty percent of workers rendered unemployed by the crisis have not found jobs during the upturn.* Moreover, an aggravation of unemployment must be expected in coming months in countries like Britain, Spain, Belgium, and even Japan, in view of the policy of fierce rationalization being applied by the employers in these countries and the special features of the conjunctural phase their economies will go through this winter.

The growth of unemployment among youth is especially dramatic in this regard. According to the Milan journal *Mondo Economico*, 62% of Italians on complete unemployment in April 1975 (that is, 775,000 people) were youth between the ages of 15 and 24, of which 620,000 were still awaiting their first job. (*Mondo Economico*, February 28, 1976.) In the United States 18% of youth less than 20 years old who had finished their studies were unemployed as of July 1976. Among young Blacks 16-19 years old the unemployment rate was 34.1%! (*Business Week*, September 20, 1976.)

2. The upturn is clearly inflationary.

If the causes of the turnabout of the cycle are examined, it becomes clear that the recession was halted and the upturn initiated by enormous deficit spending in 1975. The total figure for these deficits solely for the major imperialist countries most probably amounts to more *than $160,000 million*.

It ought to be noted in passing that during the years 1974, 1975, and 1976 there was a reversal of the relationship between private and public debt as major source of inflation. For the first time in a long period, the growth of the public debt was greater than that of private debt. The private debt not only experienced a declining growth rate, but even tended to stagnate. Because of the conjunction of an upturn in the rate of profit, greater liquidity for the industrial trusts, and a very slow initiation of investment, these trusts somewhat reduced the excessive recourse to bank loans that had been characteristic of the preceding phase.

At first glance, it may appear paradoxical to speak of an inflationary upturn when everyone is stressing the slowdown in the rate of price increases. This slowdown is a reality for 1976 *if* this year's rate of inflation is compared with the rate during the record years of 1973 and 1974. But it is no longer a reality if the 1976 inflation rate is compared with the rate during an analogous "upturn year," for example 1971 or the average for the 1960s. This is clear in the following figures:

Average increase in the cost of living

	Average from 1959-60 to 1972-73	1974	1975	From Sept.(*) or Aug.1975 to Aug. 1976
United States	2.6	11.4	8.0	6.0
West Germany	3.3	7.0	5.8	4.0(*)
Japan	6.0	24.4	12.2	9.0
France	4.5	13.7	11.8	9.5
Britain	4.1	15.1	21.5	14.5(*)
Italy	4.6	19.1	16.8	17.0
Canada	2.6	10.5	11.0	6.0
Netherlands	5.0	10.0	10.5	9.0(*)
Sweden	4.6	9.9	9.5	9.5

(Source: *OECD Economic Outlook*, December 1975, p.113 and *The Economist*, October 23, 1976.)

It is thus clear that the rate of inflation is considerably higher than that of an initial phase of economic upturn, even in the context of the "permanent inflation" that has reigned throughout the international capitalist economy since the second world war. In fact, the cost of living and the prices of consumer goods continued to rise even in the midst of the recession, in spite of a sharp decline of nearly all raw materials prices and a marked slump in many markets.

The inflationary character of the upturn confronts international capitalism with a dilemma:

* *Either* governments will continue to accord priority to the "struggle against inflation," in which case they will be led to take severe deflationary measures as soon as inflation picks up a bit or as soon as any given country departs too much from the international average. This would flatly amount to destroying the upturn. This is presently the case in Britain, where in the midst of an economic swamp, with industrial production practically stagnating, the interest rate has been raised to 15% and significant reductions have been imposed on public spending (reductions which, it is true, are still considered insufficient by the international bankers who have to "bail out the pound sterling with increasingly substantial loans). Because of this, unemployment in Britain is expected to increase by half a million this winter, which would bring total unemployment close to the 2 million mark. The "austerity plan" that has just been decided on by the Andreotti government in Italy with the approval of the Communist party points in the same direction, although it does not go as far; it also includes a discount rate of 15%.

* *Or else* the bourgeois governments will abstain from taking any anti-cyclical measures during the first phase of the upturn in order not to curb the upturn. In this case, next year will probably see a virtually universal accentuation of inflation (with the possible exceptions of West Germany and Switzerland, thanks to the repeated revaluations of the currencies of these countries), which would place both France and Japan in the category of countries suffering double-digit inflation and would force the governments of these countries to take more severe deflationary measures toward the end of 1977, thus precipitating a new recession in

1978 or the beginning of 1979. In any event, either of the two variants of bourgeois policy will lead to the same result in the medium term, for a broken upturn would also lead to a recession toward the end of 1973 or the beginning of 1979, in particular in the wake of the exhaustion of the demand for consumer goods resulting from the increase of unemployment.

3. The upturn is hesitant and not cumulative.

One of the major features of the present economic upturn is its hesitant and non-cumulative character. The well-known "multiplier effect" has not functioned, or has functioned only in a partial and inadequate manner. The essential reasons for this are as follows:

a) Domestic demand for consumer goods, "primed" by the enormous budget deficits of 1975 and 1976, has not been able to rise at the anticipated rate and has even begun to stagnate in the wake of the persistence or even aggravation of structural unemployment and inflation. Two phenomena must be distinguished here. Particularly in the United States, in spite of the maintenance of structural unemployment, the total volume of employment and therefore of household incomes has increased (which accounts for the upturn). Between March 1975 and September 1976 employment rose from 83.8 million to 87.8 million, an increase of 4 million. Household incomes rose from $1,194 thousand million to $1,392 thousand million, an increase of 16.5%. But since the rate of inflation over these eighteen months was 9%, the overall increase in purchasing power was less than 7.5% in actual fact. (All these figures come from the April 21 and 28, 1975, and October 25 and November 1, 1976, issues of *Business Week*.)

And one must take account of the greater caution being exhibited by consumers, which was particularly reflected both in an increase in savings rates (deferred consumption) among certain layers of relatively well paid workers during the recession (out of fear of losing their jobs and therefore of having to reduce current consumption 'too much) - and in a moderation of recourse to consumer credit. Total retail sales increased only 8.5% in value and 3% in volume between September 1975 and September 1976. (*Business Week*, November 1, 1976.) This makes for an upturn, but a very modest one. In view of the persistence of significant unemployment and inflation and *above all in view of the stagnation or even decline of real wages*, overall consumer purchasing power ceased to grow as of the end of the first phase of the upturn.

b) The upturn in productive investment is much slower and more modest than anticipated. The major cause of this is not so much the low rate of profit (which is very clearly rising in the United States, where the volume of profits rose 30% in 1976, Japan, and West Germany) as the existence of great excess capacity in nearly all branches of industry, linked to the, slim hope of a strong expansion of the market. Striking confirmation of this reticence may be seen in the fact that the volume of bank loans to American companies for the week ending September 29, 1976, stood at $116.6 thousand million, compared with $123.5 thousand million in the corresponding week of 1975, a decrease of 5.5% (in stable prices it would represent a reduction of more than 10%). (See *Business Week*, October 25, 1976.) In Britain not only have productive investments not turned up, they have even *declined* (in fixed 1970 prices) from £2,130 million in 1970 and £2,000 million in 1974 to £1,740 million in 1975 and £1,660 million in 1976. (*Financial Times*, October 5, 1976.)

The October 4, 1976, issue of *Business Week* estimated the rate of utilization of productive capacity for manufacturing industries in the United States during August 1976 (U.S. manufacturing operating rate) at 77%. *Newsweek*, citing government sources, offers a slightly higher figure, 82%. But according to the November 1, 1976, *Business Week*, the Federal Reserve Board (the American central bank) estimated the manufacturing operating rate at only 73.6% for the third quarter of 1976.

The situation is even worse in Britain, Italy, and Japan, where the rate of utilization of existing capacity stood at 80% at the beginning of autumn 1976. In an article eloquently entitled "Where Is the Capital Spending Boom?" the September 14, 1976, issue of *Business Week* wrote: "In the US capital spending is still running some 9% below the peak reached more than 2 1/2 years ago, in the second half of 1973. In Japan capital spending is some 24% below the rate of this late 1973 period. In the four major countries of Western Europe — Germany, Britain, France, and Italy — the shortfall is some 11%. And if the US seems to be mounting the most successful capital spending recovery of any of the advanced countries, growth in it is still slower this year than in any of the five earlier postwar recoveries."

The same article cites five reasons for this delay in productive investment: the excessively low level of utilization of existing productive capacity; the increase in prices of investment goods, stronger than during previous phases of recovery; the higher level of real interest rates, combined with a lower level of gross profits; a more moderate rate of growth of the gross national product.

c) The "fiscal crisis of the state" does not permit further growth of public spending. In fact, the pressure of the bourgeoisie in all countries is in the direction of a reduction and even elimination of the budget deficits that have appeared previously. The enormous growth of the public debt during preceding years has been the price the system has paid in nearly all the imperialist countries for its attempt once again to transform the threat of a catastrophic crisis of the 1929-32 variety into a recession limited in duration and depth, even if it is the most severe since the second world war.

The scope of this increase in public debt appears not only in the great imperialist countries but also in the smaller ones, such as Austria or Sweden, where Social Democratic governments succeeded in strongly limiting the extent of unemployment in 1974-75. The "socioeconomic performance" of these governments has certainly been better than average, both in terms of defense of employment and in terms of maintenance of the real wages of the workers. This is explained essentially by the particular manner in which these countries are integrated into the world market. But an additional factor has been the accumulation of reserves, which permitted a more audacious anti-cyclical policy in 1974-75 than was pursued by other governments, without provoking double-digit inflation. Nevertheless, the growth of the public debt has been striking in these countries. It is thus improbable that they will be able to repeat this performance during the next recession. The figures for Austria indicate this.

Austrian public debt

	Absolute figures (in thousands of millions of schillings)	% of GNP
1972	49.8	10.62
1973	56.2	10.55
1974	61.3	10.00
1975	100.3	15.34
1976	134.2	18.52

1977 (prediction)	165.6	20.50

(Source: *Die Presse*, October 22, 1976.)

Under these conditions, it is out of the question that the evolution of public spending will accelerate the upturn in most of these countries. An exceptional case may be provided by the United States in the event of a Carter victory in the presidential elections, for his economic advisers call for budget and monetary policies slightly more stimulating than those of the Ford administration. But such a "priming of the upturn" in 1977 would almost certainly be countered by stronger deflationary pressure in 1978 in view of the acceleration of inflation it would provoke.

Predictions of GNP growth for all the major imperialist countries except the United States have consequently had to be revised downward, both by the OECD and by private sources (Chase Manhattan Bank, McGraw-Hill, etc.). This is shown in the following table.

Rate of growth of GNP in 1976 (in %)

	Prediction during First Quarter of 1976	Prediction in October 1976
France	+9	+5.0
West Germany	+8	+4.5
Japan	+7.5	+5.6
Britain	+4.5	+0.5
Italy	+4.3	-3.5

(Source: *Business Week*, November 1, 1976.)

In fact, in Japan industrial production actually diminished 1.7% in August 1976, by 1% again in September, and a new reduction is expected in October, followed, in the best of cases, by a new upturn in November. (*Financial Times*, October 28, 1976.) And in Australia after a modest increase of 3.4% of the GNP in the first half of 1976, the *Far Eastern Economic Review* (October 29, 1976) noted: "Hopes of an early economic recovery ... are dying rapidly. In fact, the Australian economy is still bumping along near the bottom of a trough, with inflation and unemployment high and private capital spending depressed." The slowness of the upturn and the stagnation of investment have also provoked a real new recession in the European steel industry, where production for the fourth quarter of 1976 is expected to decline toward 30 million metric tons, the level of the 1975 recession, nearly 25% below the level of the fourth quarter of 1974. (*Financial Times*, October 11, 1976.)

4. The upturn is uneven internationally and by sector.

Although the imperialist countries entered the 1974-75 recession almost simultaneously, the upturn has been neither simultaneous nor even in scope. *Grosso modo*, the international mechanism of the recovery has been as follows:

a) Upturn in production in the United States beginning with the second quarter of 1975, stimulated in particular by a strong recovery in the automobile industry (while the construction industry, the other detonator of the crisis, continues to weigh down the sectors of durable and non-durable consumer goods and is maintaining a very low level of activity).[1]

b) Upturn in Japan and West Germany, about six months out of phase with the U.S. upturn, primarily under the impetus of an export boom.

c) Upturn simultaneous with the West German one in most of the countries of the EEC and in countries like

Austria and Switzerland, which "lean" strongly on the EEC. But while the German and Japanese upturns continued to be fueled by the export boom throughout 1976, there was a sudden break in the upturn in France and the Benelux countries during the second half of 1976, under the combined effects of lesser competitive strength of exported products, price increases superior to those of German products, and deflationary measures taken by the governments to combat inflation.

d) In Britain and Italy: much more hesitant upturn bordering on stagnation under the effect of severe deflationary, measures that literally "strangle" the upturn.

e) A very important fact: The American expansion of the early months of 1976 was not accompanied by a pronounced rise in imports from the other imperialist countries, except Japan. (The semicolonial countries were able to increase their raw material exports, in both volume and price.) This is reflected in the fact that the American trade balance showed a credit in 1975, which, given the present monetary system practically based on the non-convertible dollar, in fact exercises the effect of a deflationary brake on world trade. From the third quarter of 1974 to the second quarter of 1976 the exports of the nine members of the Common Market increased 16.4% overall, while their exports to the United States *declined* 5.5%. (See *Eurostat*, monthly bulletin of foreign trade, No.9, 1976, p.24.) It is true that from the second half of 1975 to the first half of 1976 Japanese exports to the United States increased more than 40%, rising from $5,400 million to $7,500 million. Because of this, and because of the increase in oil imports, the U.S. trade balance may show a deficit in 1976.

How will these various factors interact during the coming six to nine months? A continuation of protectionist practices by the United States (including a new decline of the dollar relative to the European currencies and the yen), combined with an accentuation of deflationary measures in Britain, Italy, and even France, would clearly break the expansion of world trade, which has turned up during the past year. The price scales of raw materials, which had been strongly on the rise since the beginning of the upturn, have already been evolving downward for several months. The dollar index of industrial raw materials prices was down 2.5% on October 12, 1976, compared with the beginning of September; the index for metals was down 10.5%. For copper the decline since July 1976 has been more than 20%, bringing the price back to something like the recession level. For all metals, the cumulative decline from the beginning of July 1976 to the beginning of October was on the order of 12-15%. (*The Economist*, issues of August 7, September 11, and October 16.) While the index for primary foodstuffs was still slightly on the rise (+0.3% in one month), this was due exclusively to the increase of coffee and cocoa prices caused by very bad harvests. In fact, in spite of the drought in Europe, prices of other primary foodstuffs were going down, considerably in the case of products like sugar (the price of which has collapsed from 38 U.S. cents a pound to 8 cents a pound) . For the first time in a long while, the 1976-77 world grain harvest will be superior to consumption. Hence, grain stocks, which had declined by 100 million metric tons during the past seven years, will increase by 25 million tons and prices are going down. (*Frankfurter Allgemeine Zeitung*, October 29, 1976.)

If, on the other hand, protectionist pressure is relaxed somewhat in the United States, if inflation accelerates in Japan, and if Britain begins to reap the fruits of the dizzying fall of the pound sterling in the realm of exports and production, the variations of the upturn among the different imperialist countries could be attenuated somewhat. But even in this event, there would be a substantial difference between the 1977 rise of production in the United States, Japan, and West Germany on the one hand and in Britain and Italy on the other hand, with France occupying an intermediary position between the two categories of countries.

Competition and interdependence. Such are the reciprocal relations among imperialist countries today. And this imposes painful choices on the governments of these countries. Callaghan, the head of the British government, recalled this brutally just recently (although it must be said that the brutality was rather sad and genteel, a long way from the brutality of the days of old John Bull), when he threatened his competitors/partners with a withdrawal of the British army from the Rhine and a return to severe import controls (that is, a no-holds-barred trade war) if they would not step up their support to the pound. It is obvious that a return to the unlimited protectionism of the 1930s on the part of some important imperialist countries would inflict a decisive body blow to the upturn and would precipitate a stagnation, and even an ebb, in the volume of world trade for several years.

The unevenness of the upturn is no less pronounced as regards the major branches of industry than as regards the major imperialist countries. Automobile production, the vanguard, is running at a cruising speed clearly below that of the years of expansion. It has been confirmed that the expansion of the market for this branch is essentially finished, except in some countries, like Brazil, and that demand is becoming almost exclusively a replacement demand. Steel is still in a depression, as are shipbuilding and construction (which entails stagnation for the electrical appliance industry). Chemicals, machine building (especially for export), electronics, and the sector of energy equipment (with strong pressure toward technological renewal in electronics, where miniaturization is shaking the big computers sector), however, are on the rise.

In regard to this unevenness (which, moreover, takes on features in Japan different from its manifestations in the United States and Europe), the September 1976 issue of the Japanese review *The Oriental Economist* wrote:

"Such a wide gap in the pace of recovery by different industries, which was not witnessed in the past periods of business recovery, is attributable to the unique pattern of the latest rally. The brisk increase of export trade has taken the leadership of the latest business recovery, as under similar circumstances in the past. However, inventory and plant-equipment investments, which followed suit in previous periods, have not made a tangible rally after domestic business hit the bottom about one year before."

5. The intensification of international competition.

The unevenness of the economic upturn in the various imperialist countries can only intensify the inter-imperialist competitive struggle. This intensification has taken different forms in the course of the past several months:

a) A pronounced recourse to protectionist measures in the weakest imperialist countries, primarily Italy (obligatory deposit of 50% of the value of exports and a tax on currency purchases) and Britain. The question of the generalized introduction of measures of quantitative control of imports has now been posed in Britain.

b) The inevitable result is an even more pronounced crisis of the Common Market, with the withdrawal of the French franc from the "snake" of European currencies and its consequent reduction to the deutschemark and its satellites (which, moreover, are staying in the "snake" only with growing difficulties). The project of European monetary union has been shelved indefinitely, until the day (mythical?) when both inflation rates and monetary, economic, and industrial policies are brought into line in the nine member states. But since the majority of these countries have not resorted to protectionist measures, for fear of back-sliding and a loss of the advantages of the Common Market, the situation in Europe has been characterized primarily by great indecision and growing paralysis of governments in face of the ups and downs of their economies on the international scene.

c) Increasingly impatient pressure from the European employers to put an end to this indecision. The most spectacular example of employer reaction to government indecision was the decision of the West German, Dutch, and Luxembourg employers in the steel industry to constitute *a European rationalization cartel excluding the French and Belgian employers*. (*Neue Zürcher Zeitung*, June 11, 1976.) A realization of this project would have dealt a death blow to the European Coal and Steel Community, starting point of the Common Market. A compromise was finally arrived at, and a European cartel (EUROFER) was established, including the employers of the nine member states, essentially for defense against Japanese competition, including through protectionist measures. (*The Economist*, October 16, 1976.)

d) The maintenance of a pronounced tendency on the part of the big trusts and multinationals "of European inclination" to extend cooperation accords on a European scale. The reorganization of the heavy electrical equipment industry (turbines and generators), which began on a national scale, provides a good example. (See *Financial*

Times, October 12, 1976.) In the context of restructuration accords in response to the crisis, the concentration and centralization of capital has been accentuated and there is a continued trend toward internationalization. In this sense, it is important to stress the fact that in spite of its crisis, the Common Market has not broken up. The relationship of forces between the "multinationals of European inclination" and those sectors of capital that favor protectionism within the Nine is such that the decisive test of the Common Market has been postponed (until the next recession?) .

e) An increasingly avowed utilization of "floating exchange rates" to obtain commercial advantages. Thus, the United States has been able to improve its trade relations with Europe somewhat, especially with West Germany, by virtue of the depreciation of the dollar relative to the deutschemark, the Dutch florin, the Belgian franc, and the Swiss franc. Japan resorted to manipulation of exchange rates on the yen (see the study in the *Neue Zürcher Zeitung*, August 26, 1976) in order to bolster its trade offensive, especially in color television sets in the United States and automobiles in West Europe.

f) Increasingly generalized practices of the multinationals aimed at "working around" the difficulties posed by the protectionism of governments and the unfavorable evolution of production costs in their countries of origin. There has now been a genuine reversal of the trend in this regard. Although during the 1950s and 1960s the (moderate) protectionism of the EEC and high wage costs in the United States led the multinationals of American origin to shift production centers to West Europe, today growing protectionism in the United States and increased wage costs in Europe (particularly because of the shifts in exchange rates) are inducing European multinationals to establish production centers in the United States, while American multinationals are reducing their activities in Europe. The factors behind this are indicated in the following table.

	Appreciation of European currencies relative to the dollar	Hourly wages (in dollars)	
	from 1970 to 1975	1970	1975
United States	---	4.20	6.22
W. Germany	+48	2.32	6.19
Netherlands	+43	1.99	5.98
Belgium	+35	2.08	6.46
France	+29	1.74	4.57
Sweden	+25	2.93	7.12
Japan	+21	0.99	3.10
Italy	- 7	1.75	4.52
Britain	- 7	1.48	3.20

(Source: *Citybank Money International*, Vol.4, No.4, May 1976.)

The most spectacular initiatives in this regard have been taken by Volkswagen, Michelin, Fiat, and Saint-Gobain, which are building or buying large factories in the United States. As we have often stressed, while the appreciation of European currencies (and the yen) relative to the dollar favors American exports relative to European and Japanese exports, it also favors the purchase of factories and real estate in the United States by European and Japanese capitalists. In fact, to invest S100 million in the United States a German or Swiss trust *spends less than 50% as many deutschemark or Swiss francs today as would have been required in 1970*.

The branches of the European and Japanese multinationals established in the United States already account for 24% of all American exports. (*Neue Zürcher*

Zeitung, June 24, 1976.) In all, the direct investments abroad of West Germany and Japan *have increased sevenfold* since 1967. They amounted to only 7% of direct U.S. foreign investment in 1967; they attained 25% of U.S. investment abroad in 1975. If the direct investments abroad of Britain, France, and the Netherlands are added, they come to two-thirds of U.S. investment abroad as of 1975!

g) An increasingly accentuated attempt on the part of the trusts of the imperialist countries most affected by the crisis to divert their production toward foreign markets. The share of exports in the overall production of Fiat, for example, rose from 40% in 1973 to 49% in 1975 and will soon reach 60%. (Arturo Cannetta in *Consigli*, No.27/28, August-September 1976.) This effort goes along with a diversification of Fiat's production. The most profitable departments — tractors, road-building machinery, steelworks and special steelworks, machine tools — already account for more than 40% of the trust's turnover. (*Financial Times*, September 24, 1976.) Here is the share represented by capital exports relative to gross investments in the British manufacturing industries:

1960-61:	28.1%
1964-65:	28.8%
1968-69:	40.6%
1972-73:	60.2%

(*Bank of England Quarterly Review*, March 1976, *Annual Abstract of Statistics*, 1967 and 1974.)

As could have been expected, this is reflected in a spectacular growth of profits realized abroad relative to the total profits of the trusts. Thus, in Britain, while income from abroad represented only 20% of gross profits before depreciation for all industrial and commercial companies in 1965, this percentage rose to 25% in 1970 to attain 34% in 1975. (*National Income and Expenditure Blue Boo*k, 1965-1975, cited in *The Economist*, October 23, 1976.)

In this manner the British and Italian trusts transform the fall of the pound sterling and the lire into a source of additional profits. More and more they pay their workers in funny money while they sell their products for strong currencies. The banks imitate them as well, for one may note that in 1975 British banks held not less than 58,000 million pounds sterling in commercial paper or advances on current accounts expressed in foreign currency (as against only £23,400 million in direct investments of British capital abroad). (*Bank of England Quarterly Bulletin*, June 1976.) In fact, big capital in the countries especially affected by inflation has been able to protect itself adequately against the depreciation of these national currencies, whereas the working class, selling its labor power by the week, fortnight, or month, has not at all been able to do this.

h) Some spectacular successes have been registered by the competitors of the United States, in spite of the manipulation of exchange rates and in spite of the loss of low-cost energy after the "explosion" of oil prices in 1973. West Germany seems to have definitively overtaken the United States in exports of manufactured products. For the category "machines and transport material" West German exports increased from 17,000 million EUR[2] in the third quarter of 1974 to 22,400 million EUR in the first quarter of 1976, an increase of more than 30%. West Germany and France have seriously eaten into the American monopoly on export of nuclear equipment and have developed aircraft prototypes technically superior to those of the major American trusts. A similar technological "breakthrough" has been achieved by the French rubber industry. It appears that an international cartel, essentially Anglo-French (and dominated by Rio Tinto Zinc), has succeeded in cornering the world uranium market and has driven the price up from

$6 a pound in 1972 to $30-40 a pound in 1976. (*Far Eastern Economic Review*, September 10, 1976.)

Further, the Japanese export offensive has achieved sensational breakthroughs on the North American and European markets. In the case of West Europe this offensive has not at all been compensated for by an increase in EEC exports to Japan. Thus, Common Market exports to Japan stagnated around an average of $225230 million a month in 1975-76; while Japanese exports to the Common Market countries increased from some $450 million per month to some $575 million per month during the same period, creating a considerable trade deficit for the EEC, which threatens to reach $3,000 million in 1976. Hence the anti-Japanese moaning and groaning of European capitalists, who are demanding protectionist measures — or else a broad opening of the Japanese market to their own commodities.

It must nevertheless be recalled that contrary to some conceptions that continue to prevail in some Marxistic circles, the role of the state in supporting the big monopolies is absolutely essential in the imperialist epoch. If the present crisis has demonstrated anything, it is clearly the fact that in the long run the monopolies cannot at all escape either the law of value or the consequences of conjunctural fluctuations and thereby the influence of the tendency of the rate of profit to fall. Under these conditions, the role of the state as the guarantor of monopolistic superprofits is vital for them. They win or lose precious trump cards in the inter-imperialist competitive struggle according to whether the state is more or less powerful, more or less capable of playing this role *in the immediate period*.

Under these conditions, the relative power of the state in the United States and the capacity for rapid state intervention by Japanese imperialism, already less powerful, contrast painfully for the West European monopolies with the powerlessness of the "pre-state" structures of the EEC and the notorious weakness of the West European national states. A striking example is provided by the most recent ups and downs and the prospects for the European aeronautics industry. This industry, which employs more than 400,000 workers (compared with some 1 million in the American aeronautics industry) and which has surpassed its American competitor in the realm of technology, *furnished only 8% of the civilian aircraft sold on a world scale* during the past ten years. (*The Economist*, September 9, 1976.) The main reason for this failure lies in the fact that the European governments, too weak and divided, have been unable to guarantee the European aeronautics industry sufficient outlets. It is clear that this industry is literally threatened with extinction if this situation is not altered in the medium term.

6. The attempts to restructure the world market.

Every overproduction crisis that manifests itself on the world market expresses both the basic imbalances of the capitalist production and circulation of commodities and the efforts of capital to surmount these contradictions by restructuring both production and the market. The efforts to restructure production aim at increasing the rate of profit through eliminating (or reducing) the less profitable firms, products, and processes of production, through rationalization investments, through saving on raw materials, energy, labor, and employment of fixed capital, through speeding up turnover time of capital (especially circulating capital), through an intensification of labor, and in general through increasing the rate of surplus-value. The efforts to restructure the world market relate to both the search for new markets and the redivision of old markets in accordance with the modified relationship of forces among imperialist trusts and powers.

We have already dealt with the most recent vicissitudes of inter-imperialist competition within the domestic markets of the imperialist countries themselves, which remain the major part of the world market in view of their wealth relative to the other parts of the world. Let us now examine the other modifications occurring in the world market:

a) The emergence of the countries of OPEC (or at least some of them) as an important market for the industries of the imperialist countries (especially the industries exporting equipment and transport goods). EEC exports to the countries of the Arab League rose from 6,000 million EUR in 1973 to 10,000 million EUR in 1974, to 14,300 million EUR in 1975, and will most probably reach 17,000-18,000 million FUR (about US$21,000-22,000 million) in 1976. If to this we add EEC exports to Iran (which buys nearly as much from the capitalists of the Common Market as does the USSR or Spain), Nigeria, and Indonesia, Common Market exports to all these countries come to something like $30,000 million, that is, some 9% of total EEC exports. It is above all West Germany and France that have profited from this expansion of the market, with Britain reserving a special piece for itself in the subsector of the Gulf emirates. Japan has also considerably expanded its outlets in the oil exporting countries (from 6.5% to 10% of total Japanese exports). The share of OPEC countries in U.S. exports rose similarly, from 7% to 10%, mostly as a result of arms deals.

This trend toward restructuring of the world market has thus permitted the European and Japanese capitalists to recover a portion of the world surplus-value they lost to the owning classes of the oil exporting countries in the wake of the increases in oil prices. The EEC countries' trade balance with the countries of the Arab League showed a deficit of 18,000 million EUR ($22,500 million) in 1974. This deficit dropped to 9,000 million EUR ($11,500 million) in 1975; that is, it was reduced by half. (It had been 6,000 million EUR in 1973.)

b) The emergence of a series of semicolonial countries in East Asia as significant partners in world trade. This is particularly the case for Hong Kong, Singapore, South Korea, and Taiwan, and to a lesser extent for the moment (but with a greater growth potential), Indonesia and Malaysia.

Up to now it has been primarily Japanese imperialism that has profited from this development, both by picking up significant outlets and by finding special fields for capital investment. American imperialism preserves important positions here but is in clear retreat in comparison to its Japanese rival. For the European imperialists this new expanding sector of the world market is still largely unknown territory, apart from the traditional positions occupied by British imperialism in Hong Kong, Singapore, and Malaysia (nonetheless also in clear retreat in comparison to Britain's Japanese rival).[3]

These countries have undergone a significant process of industrialization during past years, which the 1974-75 recession curbed but did not at all break.[4] Hence, they are in turn beginning to export industrial products and even capital, competing with their former or present backers. For example, the East Asian electronic apparatus and watch assembly industries represent serious competitors for Japanese industry, not to mention U.S. industry. South Korean entrepreneurs have bid for more than a billion and a half dollars worth of construction contracts (roads, official buildings, shipyards, etc.) against Japanese, European, and

American entrepreneurs. (*Far Eastern Economic Review*, October 15, 1976.) But precisely because of the relative success of industrialization in these countries, they form a supplementary outlet for certain branches of industry of the imperialist countries, primarily the branch exporting equipment and transport goods. A certain modification of the international division of labor is thus taking place, with some industries (above all the textile industry and the branches utilizing a relatively large unskilled labor force, such as assembly of simple electronic apparatuses) shifting toward less developed countries (specifically the most developed of the semicolonial countries), while the industrial center of gravity in the imperialist countries increasingly shifts toward the sector of "equipment and means of transport goods."

Certain of the successes of industrialization in the semi-colonial Asian countries threaten important branches of industry in the imperialist countries. Taiwan has become the world's fourth largest producer of synthetic fibers, with an annual production of more than 500,000 metric tons. South Korea is trying to attain this same level by 1980-81 and to export a total yearly value of nylon and other synthetic fibers of more than $3,500 million. (*The Oriental Economist*, August 1976.) In view of the excess capacity that already weighs on the world synthetic fiber market today, this expansion represents a serious threat to the German, Dutch, French, and Italian trusts. Imports presently account for 11% of sales in Europe, as against only 5% in 1969. They are increasing at a rate of 10% a year, while sales are increasing only 2% a year. (*The Economist*, September 9, 1976.)

A similar situation threatens to arise in basic petrochemicals. The Arab countries and Iran plan on making enormous investments in this sector, in which there is already excess capacity. The European producers are extremely worried about this. (*Financial Times*, September 19, 1976.)

Let us also mention that a Hong Kong financier, Wong Chong-po, has obtained control of the second-largest American watch trust, Bulova, acing out Swiss high finance. (*Neue Zürcher Zeitung*, June 23, 1976.)

c) Nevertheless, as a whole the semicolonial countries continue to be "marginalized" on the world market in view of the inability of the imperialist system to extract them from their state of stagnation and poverty in a comprehensive manner or at anything like a satisfactory rate. The successes registered by Brazilian-type "development models" (repeated in several countries) are based on a superexploitation of the working class and an impoverishment of the poor peasantry, which means that they generate a domestic market that covers barely one-fifth of the nation (the big and middle bourgeoisie, the new middle classes, the rich peasantry). This erects an upper limit both on their internal industrialization and on their ability to become a growing outlet for the commodities exported by the imperialist powers. In fact, the narrowness of their domestic markets compels them to plunge rapidly into the export race, as has been noted on many occasions in the case of Brazil and as has just been confirmed once again in the case of South Korea.

To take the example of the Common Market again, EEC exports to Brazil, India, and Pakistan stagnated or declined throughout 1975 and 1976. These three countries, whose total population amounts to nearly 800 million, together purchase fewer commodities from the nine countries of the Common Market than does. Austria alone, with its population of somewhat less than 8 million!

The new and considerable impoverishment that has occurred in the non-oil-exporting semicolonial countries during the 1974-75 recession consequent to the collapse of raw materials prices and the increase in the costs of imports of energy and food reserves dramatically underscores a fundamental feature of the crisis of the system, which tends to cast more than half the earth's inhabitants onto the margins of the "accelerated economic growth" of yesterday and the slowed down economic growth of today and tomorrow. Hence the sharpness of the debates around the "new world economic order," to which a special article is devoted in this issue of *INPRECOR*.

d) The share of the bureaucratized workers states in the foreign trade of the capitalist countries is growing gradually, but it remains very modest. These countries (including Yugoslavia) purchased only 5.5% of the exports of the EEC countries during the first quarter of 1976, as well as 2.5% of U.S. exports and 6.5% of Japanese exports. On the other hand, the share of the imperialist countries in the imports of the countries of the Comecon rose from 25% in 1970 to 33% in 1975.

The major difficulty for a more rapid expansion of the markets of the bureaucratized workers states as buyers of capitalist commodities lies in the lack of competitive strength of their industrial products, which limits sales of these products on Western markets. Since their surplus of agricultural products is tending to disappear (some of these countries have even become net importers of agricultural products), an increase in purchases of Western goods can be financed by only three sources in the long run: increased exports of raw materials; increased export of gold; increased debt to the imperialist countries. The fall in the price of gold has reduced the import capacity of the USSR. The debt of certain bureaucratized workers states to the imperialist countries has reached dangerous proportions and will not be able to grow much larger. The USSR's trade deficit to the imperialist countries had reached $5,000 million in 1975. The cumulative debt of the USSR and the rest of the Comecon countries to the imperialist countries stands at $35,000 million. Servicing this debt already absorbs some 20% of their annual currency income. (*Neue Zürcher Zeitung*, September 4, 1976.) And North Korea has even requested a moratorium and has ceased to service its debt of $1,500 million. The only remaining major source for financing an expansion of their purchases of Western investment goods is increased export of their raw materials.

And in fact it is in this direction that Soviet and Chinese foreign trade has been oriented, primarily in the framework of certain bilateral accords such as the exchange of Soviet oil for American wheat or Chinese oil for Japanese steel. Since the growth rate of production of raw materials in the USSR is tending to decline, since a sharper growth of this production depends in turn on the import of imperialist machinery and technology, and since the domestic need for certain raw materials will tend to increase more rapidly than production in the future (particularly the need for petroleum products in the USSR consequent to advances in motorization), the Soviet bureaucracy will have to make some "rending choices."

The Soviet bureaucracy is now preparing to divert some of its oil resources previously reserved for members of the Comecon to the capitalist countries, which will compel the Comecon countries (especially East Germany) to get their supplies from the world capitalist market in the future, where the price is higher than provided for in the supply contracts with the USSR. The economic difficulties of several "people's democracies" thus threaten to augment at a time when their internal political situation is moving in a direction dangerous for the bureaucracy, as has recently been shown in Poland.

Ali in all, the efforts to restructure the world market, which are real, will produce only modest and even marginal results. Like the character in Lewis Carroll's Alice in Wonderland, imperialist capital has to run faster and faster just to stay in the same place, unable to really get anywhere. We find here a manifestation of the structural crisis of the system, the fact that it no longer commands the margins for adaptation of yesteryear.

7. Incidences of international monetary disorder

We have seen that several "national" bourgeoisies have been able to manipulate the system of floating exchange rates so as to obtain commercial advantages, although very temporary ones. But we must also stress another aspect of the interdependence between international monetary disorder on the one hand and the amplification of conjunctural fluctuations since the beginning of the 1970s on the other hand.

First the appearance of "petrodollars" and then the export offensive of West German and Japanese imperialism (and to a lesser extent of all the imperialist powers) have meant a considerable new swelling of credit and of credit money (credit money constantly depreciated by inflation) on the world market. We have seen that conjointly with this swelling of credit the debt of the capitalist trusts and firms has tended to slow down on national markets because of the upturn of the rate of profit (and the rate of self-financing) on the one hand and the delay of an "investment boom" on the other hand.

For the capitalist system as a whole, a growing share of sales has continued to be financed by credit. But the years 1975 and 1976 have been marked by a shift of the increase of credit to foreign rather than "indigenous" buyers. In other words, *the "upturn stimulated by exports" has been primarily an upturn stimulated by exported credits*.

Although the market of "petrodollars" is cheerfully continuing to expand and has now attained the tidy sum of $300,000 million (of which a portion is the property of the oil exporters), the debt of the semicolonial countries to the imperialist powers has grown even more disturbingly. A portion of these credits are accorded by imperialist governments and international public institutions controlled by imperialism (above all the World Bank, the Association of International Development, and the Asian Development Bank). A growing portion of credits to the semicolonial countries, however, come from the capitalist private sector and the imperialist banking system, especially American and British big banks.

Thus, the table on this page may be drawn up for some semicolonial countries.

	Total Debt	Debt Increase March 1975-Oct.1976	Debt servicing in percentage of currency income	
	(in thousands of millions of $)	(in thousands of millions of $)	1976	1977
Philippines	4.4	0.5	16	17
South Korea	11.8	---	12.9	13
Pakistan	6.3	0.7	16.8	24
Singapore	0.3	0.1	0.2	0.2

Sri Lanka	0.5	0.15	22.9	---
Indonesia	10.5	3.3	13.8	16.6
Taiwan	3.2	0.5	6.5	7.8
Thailand	1.3	1.0	14.6	---
India	10.8	1.9	13.5	

(Source: *Far Eastern Economic Review*, October 8, 1976.)

Of these debts of around $50,000 million, some $14,000 million are owed to private foreign banks and other institutions (this figure does not include Pakistan's debt to private sources, which is unknown). For all the semi-colonial countries taken together, private debt rose from $25,000 million at the end of 1973 to $60,000 million at the end of 1975 (including advances originating from the OPEC countries), while their public debt rose from S46,000 million to $65,000 million during the same period. The September 4, 1976, issue of *The Economist*, which cited these figures, added phlegmatically, "Bankers are now worried by these loans, but they kept trade flowing." According to the November 1, 1976, *Business Week*, the total of the debts of the semicolonial countries will amount to $170,000 million by the end of 1976, of which $70,000 million is owed to banks. Brazil alone already owes $10,000 million to private U.S. banks. This expansion of private credit to the semicolonial countries is undoubtedly explained by the pressing need of imperialist capital to broaden its international outlets and to achieve a restructuring of the world market.[5] But it introduces a new element of instability into the international banking and monetary system. While the years 1974 and 1975 were marked primarily by fear of a collapse of big banks because of the insolvency of some of their indigenous creditors, the year 1976 in the banking world was marked by growing fear of the insolvency of international creditors. One after the other Zaire, Indonesia, Argentina, and Peru stood on the brink of having to demand a debt moratorium. Once one realizes the total amount of the debts of the semicolonial countries, the weight of foreign debt servicing relative to the inflow of currency, and the uncertainty that hangs over any expansion of this inflow (that is, over the increase of their exports), one can understand the extent of this uneasiness, which has at times approached panic.

The speculative movements against the pound sterling have been caused in part by the tendency of the so-called countries of the sterling zone to gradually get rid of their holdings in pounds. This applies primarily to certain oil-producing countries which have already suffered significant losses because of the fact that they keep their holdings in London. (According to the October 16, 1976, *Economist*, they had deposited £2,500 million in London during the fifteen months prior to March 1975 and withdrew £1,500 million during the following fifteen months.) But speculation has other causes as well, particularly simple anticipation if the balance of payments deficit of a country grows (this is what happened with the French franc in the spring of 1976) and flight of capital for fear of socio-political "trouble." There was just such a flight of capital from Portugal, particularly toward Brazil, during the revolutionary year 1975 in that country; Spain, Italy, and France have since experienced flights of capital in 1976 amounting to several thousand million dollars. The flight of Italian capital to Switzerland has taken on gigantic proportions.

A contradiction must nevertheless be stressed. On the one hand there is an incontestable influx of European capital to North America, primarily to take advantage of the more rapid expansion (and reduced wage costs) of the American economy, and secondarily to seek shelter from the revolutionary shocks now looming on the horizon in southern Europe and from the socio-political turbulence of Britain. But at the same time the dollar is continuing to depreciate relative to the deutschemark and the Swiss franc, particularly because the rate of inflation is higher in the United States than it is in West Germany or Switzerland. The portfolio investments and bank deposits of European capitalists in the United States thus depreciate relative to equivalent deposits and investments in West Germany and Switzerland. This can only lead to a distortion of interest rates, which is already clear and which should have the ricochet effect of fostering productive investments in West Germany over those in the United States.

Compensating for this movement would require either a new devaluation of the dollar (which could in fact be fostered by an aggravation of inflation in 1977) or a new relative rise in wages in West Germany. But how long will the American workers be satisfied with a stagnation and even erosion of their purchasing power (which has been going on for nearly a decade now!)? It can be seen to what extent the curve of the class struggle is intertwined with the curve of the economic cycle and international competition, while not being identical to it.

At least when they talk among themselves, the capitalists and bourgeois international technocrats exhibit few illusions about the reorganization of the international monetary system laboriously under way since 1971. One of the major leaders of the International Monetary Fund (IMF), Tom de Vries of the Netherlands, wrote frankly about the latest monetary accords reached in Jamaica: "All the above means that the prospects for gold during the next few years are uncertain. This uncertainty concerning such an important element of the system once again underscores the interim character of the Jamaica accords; they do not introduce a new monetary system in a concrete sense." (*Finances et*

Développement, quarterly review of the IMF, Volume 13, No.3, September 1976.) In fact, contrary to what has been claimed, the Jamaica accords do not at all imply a progressive demonetarization of gold. They simply eliminated the fixed buying price of gold among central banks. To be sure, the massive sale of gold held by the IMF provoked a considerable fall in the free market price (from nearly $200 an ounce to some $115 an ounce) .

But at the same time this means an upward evaluation of the stocks of gold held by the central banks (especially the European central banks) from $42 to $115 an ounce; in other words, the "countable" value of this stock was tripled at the stroke of a pen following the Jamaica accords.

What will be the future evolution of the "price of gold"? Many factors will come into play here in coming years: the fate of successive harvests in the USSR; the evolution of costs of production (both in terms of technology and in terms of the social and political situation!) in South Africa; the fluctuations in private stockpiling and unloading in India, the Middle East, and France. But one factor remains decisive: the pace of inflation, especially of the dollar. If this inflation persists and intensifies in the medium and long term, it is difficult to see how the price of gold could avoid rising. In a society based on private property and in the absence of a world state, in the long run no "gentlemen's agreement" and no "international accords" will be able to compel owners of commodities to accept depreciated bank notes instead of that "hard and shiny stuff" in exchange for their commodities (or more exactly, in exchange for the balance of their commodity transactions abroad).

8. Deeper causes of a hesitant and uneven upturn.

Some people have reproached us for attaching excessive importance to market phenomena — that is, to the sphere of circulation — in explaining the recession and the upturn. They even detect concessions to "Keynesianism" here, although we were among the severest critics of Keynesian illusions at a time when these illusions were still shared nearly universally. At the root of these reproaches is a lack of comprehension of one of the fundamental aspects of the Marxist analysis of the capitalist mode of production.

It is true that for this analysis the sphere of production is primordial compared to the sphere of circulation. All realized surplus-value must first have been created in the process of production. The market can only redistribute what has first been produced. The disproportions and imbalances originate in the sphere of production.

But these disproportions cannot be reduced to disproportions in the sphere of production. They also include disproportions between productive capacity and purchasing power based on the capitalist mode of distribution. Those who try to reduce all the problems of the capitalist economic cycle to modifications in the sphere of production forget the contradiction between exchange value and use value, forget that capitalist production is production of *commodities* and that this *production* in no way implies the automatic *sale* of the commodities produced. Belated adepts of Say's Law or of the late lamented "law of outlets," they presuppose more or less automatically resolved what in fact occurs under the capitalist mode of production only in the long run, on the average, and only for a portion of capitalist commodities: the sale of commodities at prices yielding the average rate of profit.

It is thus indispensable to follow market trends (especially those of the world market) in order to understand and explain the highs and lows of the economic cycle. That is the method Marx himself applied in explaining particularly the overproduction crises of 1857 and 1866, which he studied in detail. He carefully refrained from reducing these crises simply to restructurations in the sphere of production (to the investigation of the altered value of commodities).

But that said, once all the imbalances of the market are revealed, these ups and downs must in the final analysis be linked to what has occurred in the realms of production and the class struggle.

The hesitant, uneven, and unstable character of the upturn of the international capitalist economy is explained above all by the fact that it occurs in the context of a "long wave of predominant stagnation." Such a long wave, such as that experienced by the capitalist economy between 1913 and 1939, is characterized by longer and deeper overproduction crises and by shorter and more hesitant upturns.[6]

In other words: the rate of profit is certainly rising compared with the levels of the years 1973 and 1974. But it is not rising to the "golden" averages of the 1950s and most of the 1960s. The big technological windfalls (monopolistic superprofits) realized by branches like electronics, automobiles, chemicals, scientific equipment, and so on are disappearing. New inventions and discoveries are vulgarized and their application spreads increasingly. The market is beginning to be saturated for some of these branches.

Insufficiency of outlets has continued to be compensated for by inflation of credit during the past several years, above all the public debt and loans to the non-imperialist countries which are also not members of OPEC (the total volume of these two categories of debts most probably increased by more than $400,000 million during the three years 1974, 1975, and 1976). Hence the persistence of the depreciation of the paper money of the imperialist countries, in spite of all the pledges about the " priority of the struggle against inflation." In fact, the austerity proclaimed in these countries under the pretext of the "struggle against inflation" is but an instrument for the redistribution of the national income at the expense of wages and to the advantage of capitalist profits, a means of making the working class pay the costs of the crisis and inflation.

True, the stagnation of the rate of surplus-value, a result of the "full employment" of the 1960s, has been broken down by the offensive of the employers and the universal "austerity" policy of bourgeois governments (whether "rightist" or "leftist") under the cover and threat of unemployment. But up to now the losses in real wages suffered by the working class have been only limited. The resistance of the class is growing progressively as the aggression intensifies. The upturn should encourage this resistance, although the massive structural unemployment is a serious handicap. The bourgeoisie has thus not succeeded in raising the rate of surplus-value sufficiently to compensate for the rise of the average organic composition of capital, freshly accentuated both by rationalization investments and by the increase in the cost of energy (and in the long run of all raw materials) compared to the level of the 1960s.

Insufficient devalorization of capital, insufficient increase in the rate of surplus-value, a working class driven onto the defensive but not beaten: such are the causes of a rise in the rate of profit that is still insufficient in the eyes of capital.[7] This is reflected in an upturn in the accumulation of capital, but an upturn insufficient to bring back the levels of the 1950s and 1960s. The great confrontations of the class struggle lie ahead of us, not behind us. And they will exert decisive influence on the destiny of the international capitalist economy.

November 1, 1976

Notes

[1] Homebuilding continues in its depression in the United States, with an annual level of 1 .5 million new home starts at the beginning of autumn 1976, compared with a level of 2.5 million attained at the beginning of 1972. The average price of a new house has reached $43,600, which is 1 3% higher than during autumn 1975 and double the price of 1970. Buying a house has thus been driven out of the reach of a growing portion of the American population. (*Business Week*, September 27, 1976.)

[2] The EUR is a Common Market accounting unit more or less equal to US$1.25.

[3] A significant result of this development has been the emergence of a market of Asia-dollars parallel to the market of Euro-dollars and centered on the banks of East Asia. According to the September 17, 1976, *Far Eastern Economic Review*, this market has expanded from the modest sum of $390 million in 1970 to the already more alluring sum of $13,700 million toward the middle of 1976. Nearly $4,000 million of this total has been loaned to non-banking enterprises.

[4] According to the June 4, 1976, *Far Eastern Economic Review*, the gross national product per capita in Singapore rose from US$659 in 1965 to $1,113 in 1970 to $2,331 in 1975; the corresponding figures for Hong Kong are $596, $962, and $1,654. The rate of accumulation (gross domestic fixed capital formation as percentage of GNP) is extremely high in these two states, especially Singapore, where it now exceeds 33%.

Forty percent of the work force in Hong Kong and 26% in Singapore are already employed in manufacturing industry. Singapore's exports break down as follows: 13.4% are sold to the EEC countries, 13.9% to the United States, 8.7% to Japan, and 5% to Australia, that is, more than 40% to-the imperialist countries. For Hong Kong (leaving all re-exports out of account) this figure stands at 75%. The total of Hong Kong's industrial exports (not counting re-exports) is now in the vicinity of $5,000 million, while Singapore's is about half that figure.

[5] This expansion corresponds to a considerable growth of the balance of payments deficit of the semi-colonial countries that do not export oil, a deficit which, under the combined effect of the increase in oil prices and the decline in prices of other raw materials, rose from $29,000 million in 1974 to $37,000 million in 1975 and is estimated to be $32,000 million for 1976, a total of nearly $100,000 million for these three years. (*The Economist*, October 2, 1976.) In reality, then, Western and OPEC loans to these countries are concessions to exporters who would have had to drastically reduce their sales to the "third world" if the tide of credit had not flowed in this direction (nearly 50% of the total goes to a few countries, such as Argentina, Brazil, Mexico, Peru, South Korea, the Philippines, and Taiwan). To this deficit one must add the deficit of the bureaucratized workers states ($20,000 million) as well as that of the countries of southern Europe ($23,000 million) . The surpluses of the OPEC countries ($143,000 million) and the imperialist countries ($20,000 million) correspond to this. (*Neue Zürcher Zeitung*, September 2, 1976.)

[6] We are not alone in emphasizing the effect of this "long wave" on the economic cycle. The September 3, 1976, issue of the *Bulletin of the Berliner Handels and Frankfurter Bank* devoted an interesting article to the interpretation of the hesitant economic recovery in the

United States presented by the advocates of Kondratieff's theory of cycles. They draw particular attention to the fact that the lowest inventory level at the end of the recession (June 1975: $263,000 million) was only $10,000 million lower than the highest level (December 1974), a level reached again at the end of May 1976. This indicates both the extent of the glut (the crisis of overproduction) and the narrow limits of the devalorization of capital. Another confirmation of the reversal of the long wave, this time in West Germany, is that the average annual increase in productive capacity in industry was 6.1% between 1960 and 1965 and 3.9% between 1965 and 1970. The figure was only 1.8% in 1975 and 1.5% in 1976. (See A. Blechschmidt, "Perspektiven der Krisenentwicklung," in *Links*, November 1 976.)

[7] To this must be added the negative (that is, retarding) effect of the persistent rate of inflation on the realization of investment projects. The trusts no longer carry these projects out unless they promise returns of 20%, 25%, or even 30% in current money. (*Business Week*, September 13, 1976.) We had predicted this effect in the book Late Capitalism.