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international press correspondence

the recession and prospects for the international capitalist economy

fortnightly, no. 27/28, june 5, 1975 $1.50, £.60

inprecor international press correspondence

N°27/28 June 5, 1975

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INPRECOR 76 rue Antoine Dansaert Brussels-1000 Belgium
INTERNATIONAL PRESS CORRESPONDENCE
Fortnightly information organ of the United Secretariat of the Fourth International published in English, French, Spanish, and German.

Signed articles do not necessarily represent the views of INPRECOR.

SUBSCRIPTIONS: 1 year (25 issues) — US$17; Can$17; £7
AIR MAIL TO U.S. & Canada: $24. TO AUSTRALIA & NEW ZEALAND: US$30.
SPECIAL SIX-ISSUE AIR MAIL INTRODUCTORY SUB: U.S. & Canada $5.50; AUSTRALIA & NEW ZEALAND US$6.50.
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the recession & the prospects for the international capitalist economy

by ERNEST MANDEL

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:

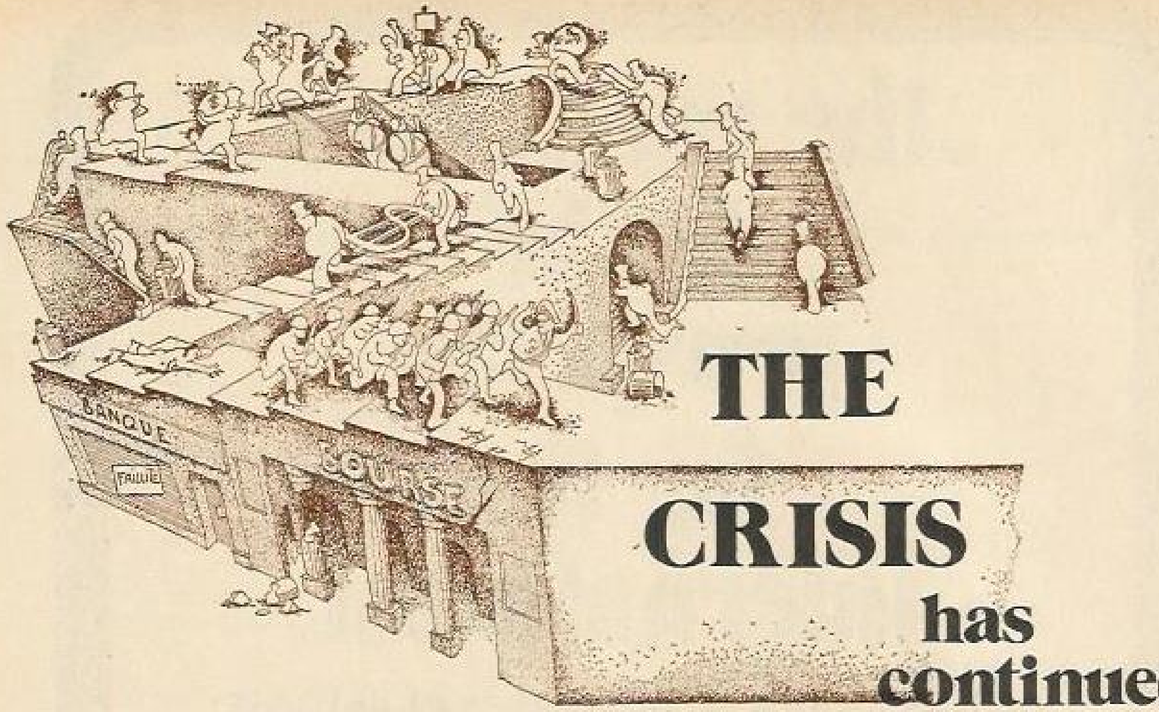
Reduction of industrial production during the fourth quarter of 1974 compared with the preceding quarter:

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 CRISIS has continued

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%

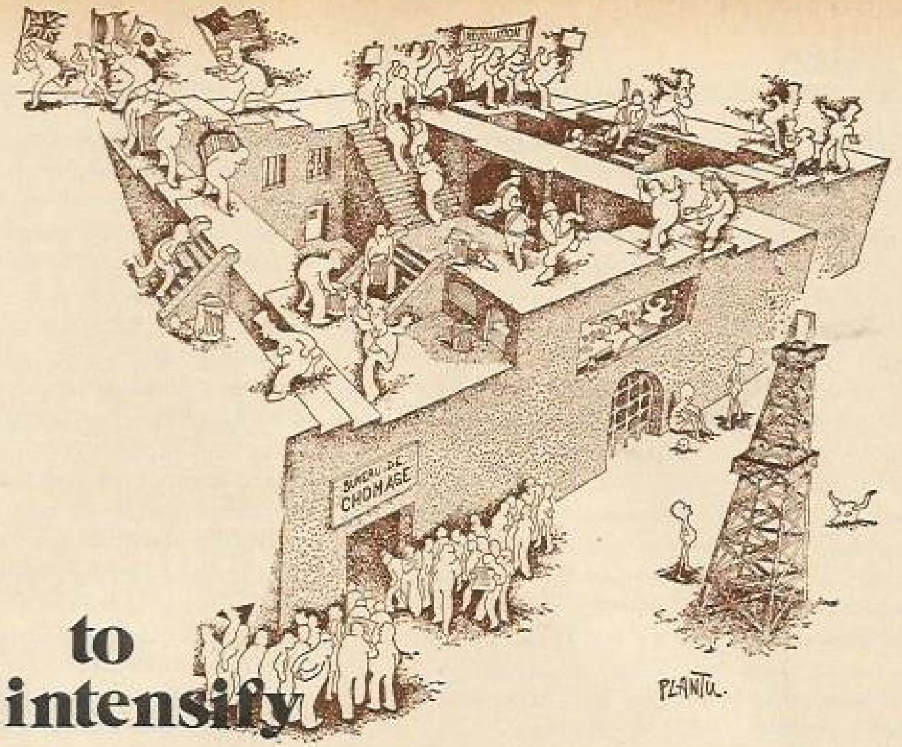
*In comparison with the preceding quarter, because the first quarter of 1974 coincided with the introduction of the three-day week by the Heath cabinet against the miners' strike.

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.



to intensify

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 pount 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 interimperialist 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 <u>will surely stop the fall in demand for consumer goods</u>. 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 <u>in the same proportion</u> 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 com-

modities, 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 ($132,800 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
Brussels	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 long-term 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 back 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 semicolonial 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 $50,000-55,000 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
Chile	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 $60,000 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 semicolonial 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

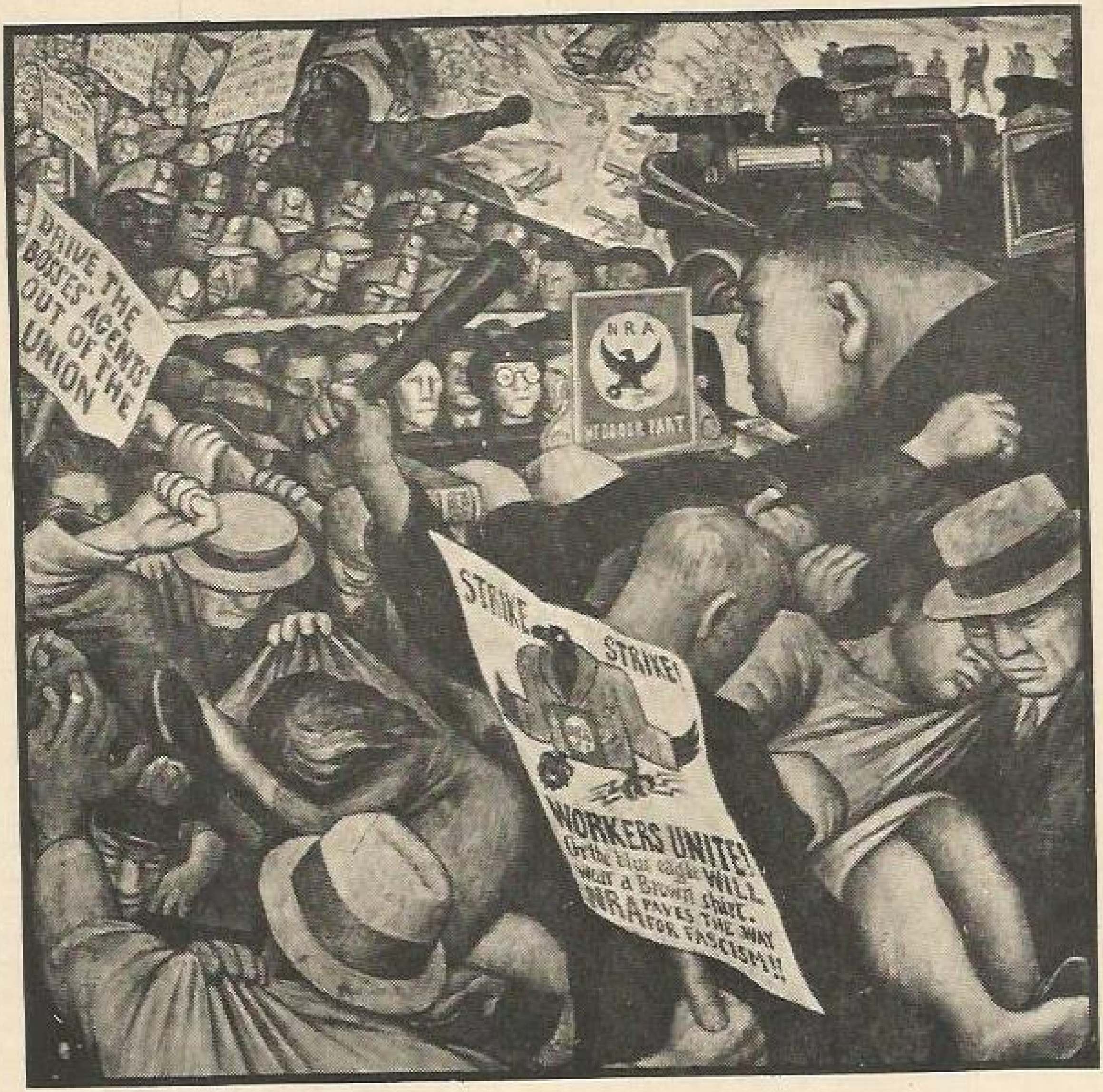
The generalized recession of 1974-75 is not the product of chance or of any "freak accident" of the international capitalist economy. It results from all the basic contradictions of the capitalist mode of production, which gradually rose to the surface after having been partially contained, thanks to 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 realization — 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 imperialist 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 Québec 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

Footnotes:

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 pirce. 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 Spatkapitalismus, 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.

THE TROUGH OF THE WAVE

by S. LAMPION & H. VALENTIN

"This time we really seem to have reached the 'trough of the wave.' " This opinion, expressed by the employers' daily newspaper Les Echos, sums up the present situation of the French economy in a few words. After having been spared longer than the other capitalist countries, France has suddenly been hit by the consequences of the slowdown in world economic activity that began in the autumn of 1974. In the space of a few months, French capitalism has entered the most serious recession it has experienced since the second world war.

I. Worst recession since the war

1. Industrial production had increased strongly during the first half of 1974, but during the summer it suddenly began to decline. The fall was about 10% between August 1974 and January 1975. The major industrial branches were successively affected, despite some variations over time. Between October 1974 and January 1975 production fell 12% in the chemical industry, 11% in the transformation of metals industry, and 7% in autos. Between November 1974 and February 1975 steel production declined 17%. The generalized turn in the economic situation was even more strikingly manifested in the underutilization of productive capacity. Only 17% of all companies are running at full production (as compared with 40% scarcely a year ago). The chemical industry is running at only 50% capacity.

The scope of the recession has surprised the French bourgeoisie, which had believed it could escape the generalized slowdown in the major capitalist countries. For a long time the bourgeoisie dreamed of a possible upturn beginning in the summer of 1975. But in spite of the signs that are appearing in Germany and Japan, it is now obvious that there will be no serious upturn internationally before the end of the year. And that excludes any upswing of the French economy before that time. That is why the French bourgeoisie is now gripped by deep pessimism, which contrasts with the relative optimism with which it regarded the crisis up to several weeks ago.

This pessimism is intensified by the short-term domestic prospects. Three key sectors are now in extreme difficulty: steel, which for three months now has been running with its level of orders 30% lower than last year; construction, for which the employers' professional organization foresees a 20-25% slowdown in activity during the coming eight months; and automobiles, which experienced new sales declines in March and April, the overall decline during the past year (April 1974 to April 1975) standing at 35%.

Generally speaking, inventory levels remain very high in the capital goods sector and in the consumer goods sector. While "incoming" stocks are dropping, it must not be concluded that there will be a rapid technical upswing.* In fact, the high inventory levels simply reflect industries' inability to find markets for "outgoing" stocks. Moreover, orders are continuing to decline, especially in the consumer industries, particularly because of a spectacular fall in foreign orders. As for investment, the growth rate for this year threatens to be negative (as compared with an increase of 7% in 1973 and of 3% in 1974). The most recent inquiry conducted by INSEE (Institut National de la Statistique et des Etudes Economiques — National Institute of Statistics and Economic Studies) predicts a probable decline of 3-4%.

The French bourgeoisie is seeking above all to limit the damage. The various pump-priming plans announced during the past three months are aimed essentially at reassuring the employers: "The government will not allow a crisis of the 1932-35 type to develop." The measures suggested are supposed to enable the economy to avoid too deep a deterioration of the situation; they call for steps such as stimulating the construction industry with credit facilities for housing construction, priming productive investments through public works programs and fiscal deductions, and selectively aiding the export sector through interest rebates.

2. One direct consequence of the sharpness of the recession has been a spectacular rise in unemployment since the end of the summer of 1974. Ac-

*A "technical upswing" occurs when companies again begin to order goods so as to reconstitute their stocks.

cording to the statistics of INSEE (which counts only those seeking employment who are registered with the National Employment Agency), the number of unemployed rose 72% between the end of August 1974 and the end of April 1975. During the same period offers of employment dropped 97%. According to trade-union sources, 1,200,000 workers are now unemployed. Never have there been so many people unemployed in France. Even in 1935-36, at the height of the economic crisis, unemployment never exceeded 800,000.

This phenomenon is further aggravated by three factors. First, the considerable increase in partial unemployment. According to the Ministry of Labor, more than 1 million working days were lost in February 1975, that is, eight times as many as in February 1974. It is certain that the real figure is much higher, because government statistics count only partial unemployment under forty hours a week. Second, the mass layoffs that have occurred during the past six months have not (yet) been ordered by the largest companies, which have until now preferred to resort to reductions in working hours. Third, the rise in unemployment has developed even though the immigration of foreign workers (who represent 7% of the active population) had practically stopped beginning with the second half of 1974.

Short-term prospects for employment are very bad. Beginning with the end of June, 300,000 young people will enter the job market. In view of the crisis of the French economy (which is compounding a long tendency — observable since 1968 — toward insufficient creation of jobs in comparison to available labor resources), these 300,000 young people threaten to immediately augment the 1,200,000 presently unemployed. Since the government had sworn that in no case would unemployment reach the figure of 1 million, the whole bourgeois press has now been compelled to recognize the gravity of the situation. That is why the government is going to announce, before the end of May, a series of measures aimed at stimulating the creation of jobs, especially in the public sector. But this plan will in no way be able to reduce the level of unemployment before several months. The prospect of a million and a half unemployed by autumn 1975 thus appears certain.

3. In spite of the recession, price increases, which reached 15% in 1974, are continuing at an annual rate of about 11% (+2.7% during the first quarter of 1975). The French bourgeoisie is crying victory at the slowdown of inflation, and it is probable that the rise in prices can be limited to about 10% this year. But this slowdown seems to be essentially due to conjunctural and international factors (the tendency toward less rapid inflation in all the countries affected by the crisis, the decline in raw material prices), rather than to the effectiveness of the "anti-inflation" plans that have proliferated since December 1972. If the French price index is analyzed over a period of several months, it can be seen that its small increase is attributable solely to a relative decline in industrial prices.

The government's objective is to bring the rate of price increases down to 0.6% a month. Probably this goal will not be reached. For one thing, the big price increase obtained by French farmers from Brussels (that is, from the Common Market) will have repercussions on the price index during coming months. For another, certain prices for services will soon go up after the raising of the taxes that had been imposed on them. Finally, the increase in oil prices at the end of the year will have inevitable consequences on price increases in France. More generally, inflationary tensions will once again be violently manifested in the event of an economic upturn.

4. The foreign-exchange situation remains an essential problem for the French bourgeoisie. Since the increase in petroleum prices, French exports have become incapable of covering the increased value of imports. The 1974 foreign deficit, which was 34,000 million francs (about US$8,500 million), would be intolerable for the economy if it continued at such a level for several years. For this reason, a rapid reduction of the deficit has become the major aim of the government's economic policy, and even of its foreign policy.

During the past three months, several factors have favored the government's aims in this area: the fall in real terms of the price of imported oil and raw materials; the slowdown of economic activity in France, which has limited purchases of basic products, and the halting of investment programs, which has reduced imports of capital goods; the purchases made by countries of the East and by oil-exporting countries, notably Algeria; and significant sales of agricultural products. If nothing were to upset this situation, the foreign deficit in 1975 could be brought down to 15,000 million francs, that is, 19,000 million francs less than last year. But this situation will not last long.

In fact, of this 19,000 million francs, more than 14,000 million would derive from the improvement of the trade balance with the countries of the East, the oil-exporting countries, and the countries of the zone of the franc. The countries of the East and the oil-producing countries, as customers of France, are presently running deficits. They will therefore soon be led either to reduce their purchases or to raise the prices of the products they are selling.

Further, the United States will seek to take over markets that are important for French foreign trade in the areas of sales of arms and agricultural products. In 1974 the trade balance in agricultural products had been 11,000 million francs in favor of France. This surplus has tended to decline since the beginning of 1975 under the effects of a reduction in export capacities and of the greater availability and competitiveness of American wheat. Finally, the expansion of sales of capital goods (up 30% in 1974) was mainly in sales to nonindustrialized countries. Current predictions suggest that there will be a decline in sales to these countries during coming months.

II. Employers' plan for the crisis

5. Confronted by a recession that it was unable to avoid, the French bourgeoisie allowed the crisis to deepen for six months, with the aim of "skimming off" the least productive elements of the industrial apparatus and the labor market. Nevertheless, this policy has its limits. The big employers especially can only be uneasy about a general and prolonged contraction of markets. That is why they are vigorously waging a campaign for the government to take a number of measures to support investment. Nevertheless, it is not a matter of genuine pump-priming plans, which under present conditions could only aggravate the foreign deficit and cause the loss of advantages recently won by companies against the workers.

Over the long term, the essential objective of the French bourgeoisie remains achieving a lasting stabilization of the increase of real wages and of the consumption levels of the workers. For the past six months this has entailed a very tough attitude against workers struggles. During both the postal strike last November and the Renault strike in March the bourgeoisie clearly showed how far it would go in pushing back the workers and the workers leaderships that wanted to challenge the employers' plan for the crisis. A powerful anti-working-class offensive was unleashed that allowed the bourgeoisie to make significant gains, although no decisive victory against the working class was won.

In this respect, the regime and the employers have been able to rely on the disorientation of the working masses. In many sectors fear of unemployment has been a powerful brake on the development of mass responses to the attack of the employers. Moreover, the leaderships of the workers movement have refused to organize real resistance to unemployment and attacks on buying power. During the Renault strike, as during the postal strike, the Communist party, the Socialist party, and the trade-union leaderships openly demonstrated their refusal to centralize the struggles against the Giscard-Chirac government, the guarantor of the employers' plan for the crisis.

6. It will soon be one year since the French workers began paying a very heavy price for the economic crisis. For the first time since 1968, buying power has fallen noticeably. In fact, beginning with the third quarter of 1974, the rate of increase of hourly wages, which had been very high during the previous six months, slowed down considerably. Moreover, because of the slowdown of economic activity, the average length of working hours has clearly dropped off. The conjunction of these two factors has led to a fall in buying power, which has been uneven among various sectors but can be estimated at nearly 1% a month on the average.

To take the example of the last quarter of 1974, the rate of increase in hourly wages stood at 3.7%. Price increases during the same period amounted to 3% according to INSEE (3.8% according to the Confédération Générale du Travail — General Confederation of Labor — the CP-dominated trade-union federation). If the trade-union sources are taken as a base, it becomes apparent that there was at least a stagnation of buying power. But account must also be taken of the estimated reduction in working hours, which was approximately 1.6%. Because of the system by which French workers are paid, the hours thus lost had been paid at the bonus rate for overtime hours, and the average decline in buying power over the entire quarter was thus on the order of 2.2%. This figure conceals real losses of more than 5% in some industries.

The social consequences of unemployment are particularly serious. The number of unemployed workers receiving compensation from unemployment insurance amounts to scarcely one-quarter of all the workers unemployed (260,000 at the end of March out of the 1,200,000 unemployed). On the average, unemployment compensation payments amount to only two-thirds of gross wages. In this respect, the French bourgeoisie has been strongly and loudly satisfied with the agreement signed by the employers and trade unions on October 14, 1974. This agreement was supposed to provide for guaranteeing that workers laid off "for economic reasons" would receive an income equivalent to 90% of their wages for a period of one year. But at the end of March, because of the many inroads the employers made against application of the agreement, the number of workers actually benefiting from the agreement came to 29,000 — that is, barely 2% of those unemployed. In the case of partial unemployment, the compensation paid is often very low. Basic compensation comes to 6 francs per hour lost, while the minimum hourly wage is 6.95 francs. Moreover, the hours lost over and above forty hours had been paid at time and a half; the effects of this can be seen in the many working days lost in some companies. During February and March the bill came to an average of nearly 1,000 francs for the professional workers of Renault and Ford-Bordeaux.

Finally, the palpable reduction in the standard of living can be measured in the volume of consumption. In one year (from the first quarter of 1974 to the first quarter of 1975) the consumption of French workers declined 10%. The decline was especially apparent in spending on clothing (-7%), electrical appliances (-18%), and everything related to health care and housing. The latest inquiries conducted among retail merchants confirm a fall in the volume of consumption. This has to be seen as related to an increase in precautionary savings, which always occurs during a period of economic crisis.

7. For big capital the economic crisis is permitting economic concentrations that correspond to the big operations of financial concentration during the past several years. This development has been much less spectacular than the financial one, because it is a matter of internal reorganization of trusts. But the consequences are much more serious for the workers: layoffs and transfer of units of production and therefore of personnel. Péchiney-Ugine-Kulmann, Boussois-Souchon-Neuvecel, Saint-Gobain-Pont-à-Mousson, and many other firms are taking advantage of the crisis to eliminate the mosaic of small companies that had made up these big trusts and to create divisions according to product that are better adapted to control and profitability. In other sectors that have been hit full force we are seeing concentrations directly linked to the crisis: Peugeot-Citroën in the auto industry, UNIC and a Dutch group in trucks. The consequences of this restructuring for the workers will be felt only in two to three years.

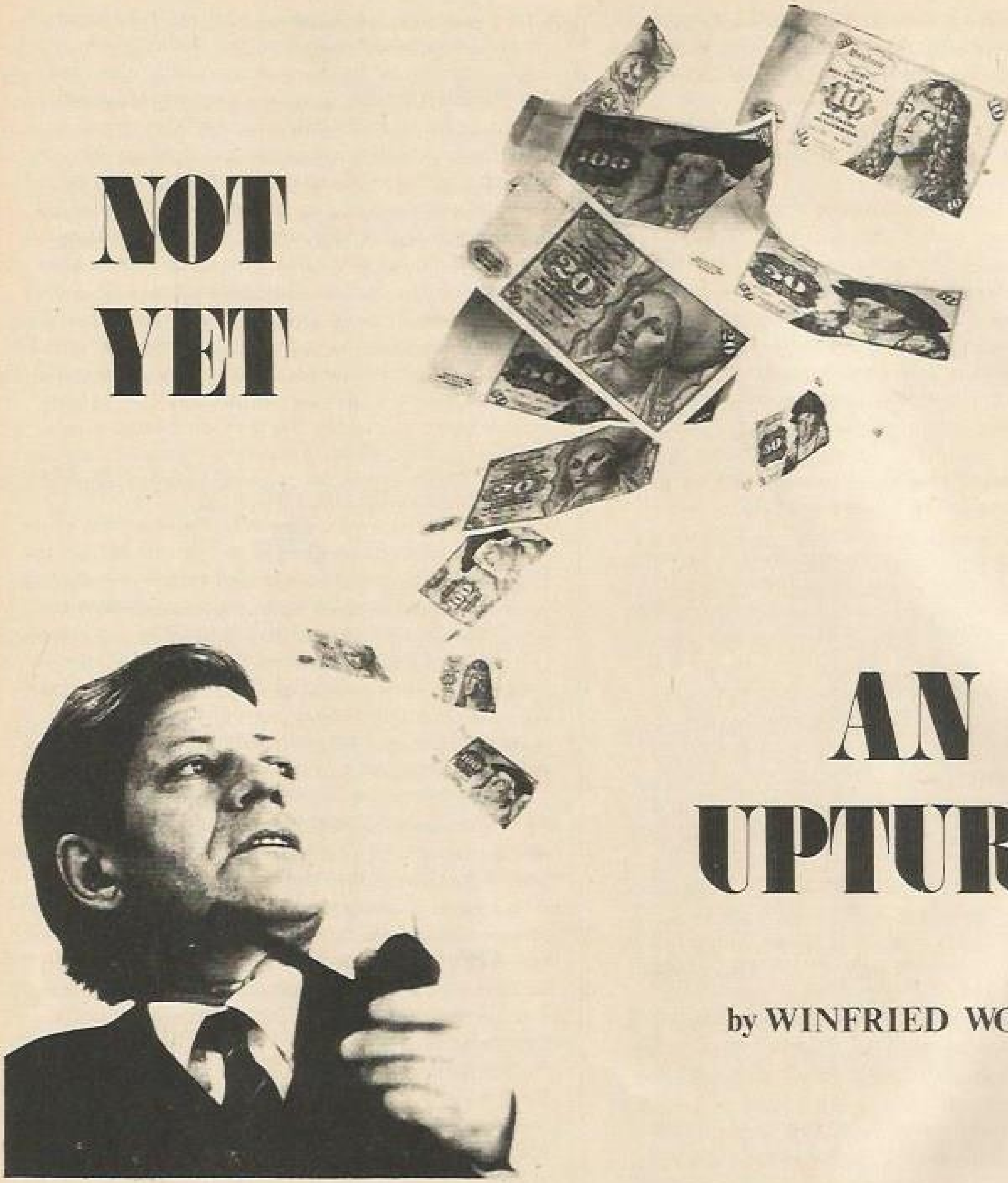
Nuclear power has become a key sector because of the structural energy deficit of the French economy. This is leading the government to promote a massive and rapid development of nuclear energy, in defiance of all safety regulations. The Creusot-Loire group, which is developing the Westinghouse subsidiary in France, was finally acquired by the Belgian Empain-Schneider group after a long financial battle. This will allow for a significant restructuring of the nuclear engineering and large-scale boiler-making industries. At the same time, De Wendel is reorganizing the Lorraine steel industry around Sollac, as the steel industry in the North has been reorganized around Usinor and Paribas.

It is not easy to estimate to what extent these shifts also reflect modifications in the relationship of forces within big capital or, particularly, to detail which sectors of monopoly capital are supporting the Giscard regime. It can be noted that the privileged alliance between the state and the financial group organized around the Banque de Paris et des Pays Bas has been broken down and that the section of finance capital represented by the Suez group was only too pleased with the change in the presidency. An important role seems to have been played by Suez, the section of finance capital controlled by the state, and EDF (the nationalized utilities company), which has presented the government a plan for restructuring industry in accordance with the needs that will be felt in all areas concerned with nuclear development. If this plan is adopted, it will have considerable consequences in many industrial branches that are still very dispersed. EDF in particular wants to remedy the present situation under which only 40% of the demand for industrial products used in the construction of nuclear power plants can be met within the national territory.

Before the crisis, the French economy had succeeded in raising itself to fourth place among capitalist economic powers, after the United States, Germany, and Japan. Until the oil crisis, the French employers lived in the euphoria of a rapid growth of investment, production, and export. But then the crisis generated consciousness of the contradictory conditions of the 1968-73 phase of expansion. (See the article, "The Moment of Truth," INPRECOR, No. 16/17, January 16, 1975.) The debates that are now going on around the preparation of the seventh plan show that certain forces are determined to slow down a disorderly accumulation that radically compromises reestablishing the profitability of firms. Bank activity must become more selective as well. There is no longer any question of an anarchic distribution of credit, which aided the survival of marginal sectors and nurtured a demand for goods on the domestic market, thus reducing export capacity. Generally, French big capital knows that it has to give up some of the political and economic ambitions it developed during the Gaullist era. It is seeking to guarantee itself certain niches in the world market (the arms industry, off-shore platforms for undersea oil exploration) and is giving up defending its other positions, allowing foreign capital to acquire French companies (Roussel-Uclaf, for instance).

France is a second-rank imperialist power. Plunged into crisis, it seems to have resolved the problems of inflation and the balance of payments deficit less badly than Italy or Britain. Nevertheless, the unstable equilibrium it has attained would be unable to resist an offensive of the working class. The workers, after waiting for several months, are now waging more and more numerous struggles that threaten in the short term to challenge the French bourgeoisie's attempts to get out of the crisis without suffering too much damage.

NOT YET AN UPTURN



by WINFRIED WOLF

There was no upturn in the West German economy in the spring of 1975. Nor will there be one during the summer. The federal government was fooling itself, or more likely, was fooling the masses. The whole electoral campaign of the SPD (Sozialdemokratische Partei Deutschlands — German Social Democratic party) in the Saar and in Nordrhein-Westfalen in May 1975 had been centered around the slogan, "Vote for an upturn; the upturn has already begun." The masses believed it, and the SPD achieved a good electoral score. But the economic crisis has deepened and generalized.

The beloved neighbors and partners of the German bourgeoisie were fooled as well as the German masses. An upturn in the West German economy was decisive for West Germany's bourgeois partners. It could have halted the recession and even touched off an upswing in the rest of the capitalist economy in Europe. Fourcade, the French minister of finance, made a significant remark on May 26, during the celebration of the anniversary of the foundation of the Franco-German Chamber of Commerce and Industry. "The Germans and the French are special trade partners," he said. "This is expressed notably by the fact that each waits for the other to make his move first so as to be able to follow in his wake."

And that's the way it is, in fact. Each waits — and nothing happens. Obviously, this does not mean that nothing has changed during the past five months, since the publication of our last analysis of the state of the West German economy. (See INPRECOR, No. 16/17, January 16, 1975.) During this period it has been confirmed that the present recession constitutes the deepest and most significant economic crisis that this country has seen since the end of the second world war.

Scope of the crisis

From the beginning of 1974 through the end of May 1975 industrial production went steadily downward in West Germany. During the first quarter of 1975 it registered a new regression of 4%. During April and May 1975 it fell to a level corresponding to that of 1970!

As for unemployment, one can say that it has begun to bottom out. The official figure on the number of people totally unemployed reached 1,087,000 in April 1975, which corresponds to a rate of 4.9%. In absolute figures this represents a slight decline.

But the number of workers affected by partial unemployment increased 85,000 compared with the preceding month, to approach 900,000 in April. This is sufficient basis on which to reject official optimism about a decline in unemployment. The slight decline in the number totally unemployed simply means that some companies have extended the system of technical unemployment instead of laying off personnel and that they have "hired" people and then immediately placed them on technical unemployment (that is, they pay them only for a few days a week or for a few weeks a month) in order to profit from the hiring bonuses provided for in the government's conjunctural upswing program.

The second reason why the slight decline in the number totally unemployed does not at all correspond to a real economic upturn is that the decline reflects only the federal average. If the regional breakdown is examined, it immediately becomes clear that those regions hardest hit by the crisis continued to suffer unemployment increases in April and even in May.

For all those who recognize the realities of the capitalist mode of production, it is not necessary to add that the major victims of the unemployment have been women workers, immigrants, and youth. For all these categories, there was a more than proportional increase in unemployment.

In our previous conjunctural analysis we indicated that the two major factors that had slowed down the recession in West Germany during 1974 had been the rapid expansion of exports and the continuation of the boom in steel. And we indicated the vulnerability and limits of these two pillars. These limits have now appeared clearly.

In 1974 West German exports had constituted the counterweight to the contraction of domestic demand (in investment, construction, automobiles, etc.), which had touched off the recession in the first place. Even at the end of 1974, foreign orders for West German industry were still 20% higher than they had been at the end of 1973. This rapid increase in exports was explained in good part by the continuation of the upswing in some of the other capitalist countries and by the higher rate of inflation prevailing in these countries, which stimulated the expansion of their imports of German products.

As we indicated in our previous analysis, a reversal of this tendency became visible beginning with the end of 1974. The reasons for this were that the other capitalist countries had begun to fight inflation vigorously through import restrictions (Italy) and that the recessive tendencies were becoming generalized in all the other imperialist countries. The West German export boom thus reached the end of its rope. With the beginning of 1975 foreign orders began to decline. The effects of this turnabout on a national industry nearly a fourth of whose production goes for exports are obvious.

It can even be said that the situation has turned around completely. Earlier, one could say: Yes, there is a crisis on the domestic market, but it is compensated for by the rapid rise of export. Today, there is a combined crisis on the domestic and foreign markets, and one is even tempted to say: the upturn of domestic demand should as far as possible compensate for the effects of the contraction of exports.

Likewise, the recession should now strike with special vigor at the branches that are more sharply oriented toward exports. Between 1973 and 1974 the share of the iron and steel industry in total exports had grown from 4.9% to 5.6%, the share of the chemical industry from 13.2% to 14.6%. Today these branches find themselves confronted with a decline in both domestic and foreign outlets and seem unable to take quick action to adapt to this new situation.

We also mentioned the tendencies toward a geographic reorientation of West German exports. Exports to the other imperialist countries inevitably ran up against the combined effects of the contraction of demand in these countries and the conscious resistance to increasing imports, resistance that could not fail to have an effect in a period of recession. Exports were thus partially reoriented toward the semicolonial countries and the bureaucratized workers states. Since then, a new feature has arisen: The continuous and more than proportional increase of exports to the bureaucratized workers states seems to be running up against an initial obstacle, namely the growing deficit of the trade balance of these countries with West Germany. For 1974 West German exports to these countries (including the People's Republic of China) were DM 15,880 million, while West German imports from these countries amounted to only DM8,410 million. The function of these markets (which because of the noncapitalist character of their economies were supposed to have been able to partially compensate for the reduction of exports to the capitalist countries in times of crisis) must thus be understood as extremely limited in view of the still limited resources these countries command both for paying for a large import surplus and for offering a broad range of commodities that can be sold in the West precisely during a period of recession.

Uneven development

The uneven development of the various branches had been the major factor propping up the West German upswing during the preceding phase. There had been a series of branches that were growing at greater than average rates and that could thus boost the average growth rate and stimulate the expansion of other branches that otherwise would have fallen into stagnation or decline. The major branches that had played this role were the steel industry, the chemical industry, and the electro-technical industry.

Today these branches are absolutely unable to continue to play such a role. On the contrary, in certain cases there is danger of the West German conjuncture's being worsened precisely by the decline of some of the branches that had previously been "in the lead" in growth rates.

On the other hand, one can analyze the uneven development that the recession itself has had in the various industrial branches (See table 1.) If we calculate the cumulative rate of growth and subdivide it into successive phases, the picture becomes even clearer. (See table 2.) According to these tables, the following conclusions can be drawn:

1. All of West German industry entered crisis beginning with the second half of 1974.

2. From the beginning of the recession, the construction industry and the industry producing means of transport had particularly determined the deterioration of the economic situation.

3. The electrical machine industry and the machine-building industry, each of which exports some 25% of its production, exercised a positive or neutral influence on overall economic development. From the beginning of 1975, however, they began to exercise a negative influence.

TABLE 1

Development of Industrial Production in Various Sectors
(growth in %)

	1.	2.	3.	4.	5.	6.	7.
Year/ Quarter	Overall manufacturing	Construction	Machine construction	Electricity	Vehicles	Chemicals	Iron
1973 1st quarter	+3	+ 4	-1	+4	+6	+ 4	+ 4
2nd "	+0	- 4	+2	+1	-1	+ 2	+ 1
3rd "	∓1	± 0	+0	+3	+0	+ 2	+ 5
4th "	+1	∓ 5	∓3	+5	∓3	+ 2	+ 6
1974 1st quarter	-1	+10	-2	-4	-7	+ 2	+ 2
2nd "	-1	- 8	+0	+1	-4	+ 3	- 2
3rd "	-2	- 5	∓0	+0	-2	- 1	+ 2
4th "	-3	- 2	∓1	∓6	-2	-12	+ 2
1975 1st quarter	-4	± 0	-6	-6	-4	- 6	-15

Source: Data from the monthly report of the Deutsche Bundesbank, May 1975.

TABLE 2

Cumulative Growth Rate of Individual Industrial Sectors, 1973-75
(growth rate compared to preceding quarter, in %)

	1.	2.	3.	4.	5.	6.	7.
Time period	Overall manufacturing	Construction	Machine construction	Electricity	Vehicles	Chemicals	Iron
1. From 1st quarter of 1973 to 4th quarter of 1973 (inclusive)	+5	- 5	+4	+13	+ 2	+10	+16
2. From 1st quarter of 1973 to 2nd quarter of 1974 (incl.)	+3	- 3	+2	+10	- 9	+15	+16
3. From 1st quarter of 1973 to 4th quarter of 1974 (incl.)	-2	-10	+1	+ 4	-13	+ 2	+20
4. From 1st quarter of 1973 to 1st quarter of 1975 (incl.)	-6	-10	-5	- 2	-17	- 4	+ 5

Source: Data from the monthly report of the Deutsche Bundesbank, May 1975

4. The chemical industry and the iron and steel industry, each of which contributes to West German exports to a more than proportional extent, are manifesting a tendency clearly contrary to that of the economy as a whole. Whereas they propped up the conjuncture throughout the initial phase of the recession (through the middle and end of 1974), their role was reversed from the beginning of 1975. It is exactly these sectors that are now contributing in a major way to the deterioration of the overall economic situation, with production declines of 6% for the chemical industry and 15% for the iron and steel industry.

Hence, the two central factors neutralizing the recession in West Germany — the export boom and the boom in certain particular branches — have disappeared. The situation has even been reversed. While the construction industry, which had "touched off" the recession, is now ceasing to decline and is instead stagnating (even though at a low level), the steel industry, which was still expanding during the fourth quarter of 1974, suffered a decline of 15% in its production during the first several months of 1975.

Domestic demand

The conjuncture of the West German domestic market has now passed its lowest point. The "cleansing" forces have acted sufficiently to generate a turnabout. But the role of foreign outlets is now becoming even more decisive in permitting a real economic upswing. This becomes clear from table 3, which compares the evolution of domestic and foreign orders for West German industry.

The table clearly reflects the uneven development. Although domestic orders had hit their lowest point during the fourth quarter of 1974 and registered an increase during the first quarter of 1975, the increase was essentially in orders for the capital goods industry, which reflects the rationalization investment that normally occurs during the final phase of a crisis. On the other hand, foreign orders went through their most pronounced decline during the first quarter of 1975, and this is especially the case for the capital goods industry. Foreign orders in this sector have gone through an especially pronounced decline, the index falling from 143 to 124, that is, a reduction of nearly 15%.

TABLE 3

Evolution of Orders
(Index, 1970=100, in 1970 prices)

Time period		Total industry	FOREIGN Total	FOREIGN capital goods industry	DOMESTIC Total	DOMESTIC capital goods industry
1974	1st quarter	116	147	144	106	101
	2nd "	112	149	148	100	93
	3rd "	108	146	145	96	89
	4th "	102	135	143	92	89
1975	1st quarter	102	122	124	95	98

Source: Data from the monthly report of the Deutsche Bundesbank, May 1975.

This partially explains the above-mentioned phenomena of unemployment that is still rising in certain regions and of the growing number of workers on partial unemployment. This results from the decline in exports and foreign orders. In the framework of capitalist logic, the upturn of the conjuncture and of demand on the domestic market must in no way automatically entail hiring new workers again. Just the contrary, toward the end of the crisis rationalization investment predominates, and that reduces employment instead of expanding it. To this are added the consequences of a general acceleration of the work pace and production rhythms. In many factories the same volume of production and/or labor is assured by a reduced number of workers. (See, for example, the article by Werner Hülsberg on the crisis of the Volkswagen trust, INPRECOR, No. 26, May 22, 1975.)

The state primes. . .

The efforts so far undertaken by the government to boost industrial production through various conjunctural pump-priming measures, notably granting the capitalists expanded capital and credit facilities, have clearly failed. The judgment we made at the beginning of the year has been confirmed. The program that the Helmut Schmidt cabinet announced December 12, 1974, which was supposed to inject a sum of DM1,700 million into the economy (which amounted to a total "priming" effort of DM2,500 million, taking account of the previously decided aid to the construction industry), suffered a stinging defeat. It came too soon. The implementation of this plan was determined above all by political factors (elections in Nordrhein-Westfalen, pressure from West Germany's Common Market partners, etc.). All the polls of companies confirm that these priming measures have had practically no influence on investment decisions.

The financial press has noted shamelessly that this "investment aid" has been utilized above all to buy automobiles! In other words, the "leaders" of the West German economy have acquired new luxury cars at discounts of at least 7.5% and sometimes as much as 20%.

. . . inflation

What remains incontestable in any case is that the policy of state aid will be fully successful in priming the rate of inflation. This turn has already occurred. Although the rate of inflation had declined slightly (down to 5%) at the beginning of 1975, it started to increase again beginning in April. This is especially the case with respect to consumer goods purchased by the households of workers and pensioners: Here the rate of increase has once again gone beyond an annual rate of 7.5%.

The prospects for public debt are especially bleak for 1975. In 1974 public debt grew by DM25,000 million. In 1975 the overall deficit in public expenditures threatens to be as high as DM50,000 million, twice that of the preceding years. And these figures do not even include the deficits for the railroads and the federal post office.

Considerable additional charges for public financing in 1976 are now looming. The fiscal reform decided on in 1974 involves tax rebates. Undoubtedly, these will have to be paid for with new taxes, as will the aid to investment. In addition, there is a shortage of resources in the social insurance treasury, which was not prepared for such high and protracted unemployment. This will cause additional deficits in 1976 of several thousand million deutschemark.

The solution being discussed openly in the West German press today is clear: The hole will have to be filled with money taken from the toiling masses. There is discussion of raising taxes, especially indirect taxes; of further reducing social expenditures; of cutting down on expenses and eliminating jobs in the postal system, the railroads, the urban transportation system, hospitals, etc.

Prospects

The year 1975 as a whole will remain a year of crisis, at least as far as the working class is concerned. The evolution of export markets — that is, the economic situation in the United States, France, Italy, and Britain — will play an even more decisive role than at the beginning of 1975. In view of the situation in these countries, it can be expected that industrial production in West Germany will continue to decline until the beginning of the second half of 1975; then it will bottom out toward the end of the year.

The West German economy will increasingly be characterized by "reversed desynchronization." The sectors oriented mainly toward export (above all the chemical and steel industries) will experience an aggravated recession, while certain branches producing more especially for the domestic market could begin to improve sooner.

Unemployment will continue to hover at about one million throughout the year; a new growth of unemployment is not excluded if exports decline further. This means that the working class will suffer another year of massive unemployment pressure, and real wages threaten to decline for the second year in a row if tariff negotiations are conducted with the same argumentation as in 1974. The SPD government is insisting on the fact that it is precisely now that moderation must be shown on questions of wages. Undoubtedly, we will hear the same refrain in 1976 as well. Then it will be said that because of the fragility of the upturn it is especially crucial not to "threaten" the upturn with "excessive" wage demands. That is a refrain that is already overworked, but it will reappear with the same regularity as the crisis itself.

May 30, 1975

the present crisis of the spanish economy

by J.P VARGAS

After going through a brief upswing in 1969, the Spanish economy entered a declining phase that lasted until the end of 1971. Then there was a new wave of expansion that lasted until 1974. The first signs of upturn had appeared around the end of 1971, and they were totally confirmed in 1972, opening the road to one of the most prosperous phases of Spanish capitalism.(1) Let us look briefly at some of the characteristics of this expansion, for it is important in understanding the nature of the recession that presently marks the process of monopolist accumulation in the Spanish state.

The rapid expansion that began in 1972 is fully reflected in the growth rate of gross domestic product (GDP) during the past few years. Thus, the growth rate rose from 4.7% in 1971 to 7.7% in 1972 and 7.9% in 1973. This strong growth was due fundamentally to the expansion of industrial production. The growth rate there was 3.9% in 1971, rose to 10.7% in 1972, and stood at 9.5% in 1973. It is surprising and interesting to analyze the fall in the growth rate for agricultural production, which declined from 6.1% in 1971 to 0.8% in 1972, rising again to 5% the following year.

The agricultural crisis

The crisis of agricultural production has several consequences that are important to point out here. First, it entails a permanent deterioration in the agricultural trade balance because of the growing need for imports. The deficit tripled in three years. It rose from 12,274 million pesetas in 1971 to 24,511 million in 1972 and to 35,768 million in 1973. (1 peseta=US$0.02.) Second, the agricultural crisis leads to the perpetuation of protectionist policies for certain basic agricultural products, production of which is stimulated by the rise in prices. Of the 14.2 points of increase of the general cost of living index in 1972-73, fully 8.5 points were due to increases in the prices of food products. Thus, the price policy favoring agricultural products is transformed into one of the major causes of the present acute inflation, to which we will return further on. Third, this agricultural crisis does not affect all agricultural production in the same way. The agrarian crisis is mainly a crisis of small-scale production, which every day becomes less capable of competing with large landed property, the latter being strengthened by the mechanism of differential rent, the appropriation of surpluses as a result of the protectionist and price-support policies, and the process of mechanization, which especially favors large-scale property.(2)

But what is most important to point out about this agrarian crisis within a more general perspective is that for the first time it is not having serious repercussions on industrial production. That is, agricultural production has ceased to play the significant role that it had previously played in the very particular development of the capitalist mode of production that prevails under the Spanish state.

From the 1972-73 industrial boom to the present recession

But let us center our attention on industrial production, for it is in this sector that the important expansion has been concentrated. We can note increases of production in all industrial branches in 1973, with the exception of the extractive industries and certain sectors of the chemical industry and of the textiles, artificial fiber, and shoe industries, although production did expand in the latter two branches taken as a whole. The figures in table 1 give an idea of the expansion of industrial production.

Such an expansion of the industrial sector and of the service sector entails a big rise in investment. Table 2 indicates this expansion of investment in all its components.

TABLE 1

Growth Rate in %

	1971	1972*	1973**
GDP in current prices	10.5	17.6	21.4
GDP in constant prices	4.6	10.9	10.1
Utilization of productive capacity	83.0	87:0	89.0
Productivity per capita of active population	2.0	9.3	7.8
Productivity per employed person	2.9	8.3	7.5

Source: Ministry of Industry
*Revised, nondefinitive figures.
**Provisional figures.

TABLE 2

Apparent Investment in Fixed Capital*

	Annual Averages		
	1971	1972	1973
Production of capital goods	98.3	116.4	123.1
Construction (including housing)	106.1	115.9	120.2
Import of capital goods	98.8	149.4	121.0
Export of capital goods	130.3	132.4	113.2
Investment in capital goods	95.0	125.9	123.9
Total investment (apparent)	99.5	121.6	122.4

Source: Research service of the Ministry of Trade
*Serial index, 100 equals the same period of the previous year.

TABLE 3

Industrial Production in 1974
Base: 1962=100

		Variation in %		
Month	General Index	Monthly (compared with preceding month)	Annual (compared with same month of preceding year)	Tendency (Index)
January	371.2	10.7	16.9	355.9
February	359.7	- 3.1	14.0	358.1
March	381.0	5.9	13.4	364.3
April	372.0	- 2.4	17.1	363.2
May	380.2	2.2	12.5	362.1
June	382.0	0.5	12.6	361.0
July	354.2	- 7.3	9.3	358.7
August	281.8	- 20.4	9.8	358.8
September	350.7	24.4	4.2	354.1
October	375.4	7.0	7.5	352.5
November	348.1	- 7.3	- 2.6	351.0
December	330.3	- 5.1	- 1.5	- - -

Source: National Institute of Statistics

But as early as the last quarter of 1973 there was a deceleration of the demand for investment, the real motor force of the rapid pace of activity of the Spanish economy.(3) Thus, by the second half of 1974 three factors emerged that slowed down the expansion of investment. First, there was a decline in domestic demand for consumer goods, which originated in the price increases resulting from the acute inflation. Second, the increase in the costs of production ruined many construction companies, provoking a serious decline in production in this important industry. Third, the cancellation of investment programs was reflected in the deceleration of the growth rate for the demand for investment in capital goods. The consequences of the deceleration of investment were reflected in a fall in industrial production, as is indicated by the index of industrial production. (See table 3.)

Growth of unemployment

As we stressed earlier, the sectors most affected by the regression have been mainly those related to consumer goods (food, drink, and tobacco, textiles, clothing and shoes, etc.). This decline is confirmed by a most reliable employers' source.(4) Table 4 clearly indicates the pessimism that is afflicting the employers.

The immediate consequence of this recession has been an increase in layoffs. Unemployment increased throughout the year in all the various sectors, especially in construction, thus confirming the slowdown in activity in that industry that we have mentioned. (See table 5.)

The problem of unemployment is being aggravated by the notable decline in the rate of emigration, especially to the countries of the Common Market, which have been seriously affected by the crisis and where the intensification of unemployment has led to quite restrictive measures on the immigration of workers. This fall in the rate of emigration has an additional important consequence: its impact on the balance of payments, because of the decline in the amount of currency sent back by the emigrés, which has been one of the most important factors in "stabilizing" the development of Spanish capitalism.

Balance of payments deficit and inflation

This fact indicates the necessity of considering the crisis of the Spanish economy within the general framework of the crisis that is now shaking the whole imperialist chain. In this sense, one can observe a worsening of the trade deficit for 1974 as compared with 1973, with a manifest tendency toward more

TABLE 4

Employers' Estimates

Year and Month	All Industry Excluding Construction			Construction	
	Order books	Inventory levels	Predicted tendency of production	Volume of contracts	Volume of work done
1974					
January	11	-12	23	44	-19
February	9	-11	23	-48	- 8
March	10	-10	17	-62	- 8
April	8	-10	13	-53	13
May	5	-11	9	-52	22
June	2	- 2	1	-60	34
July	- 4	1	- 1	-43	27
August	-11	2	- 1	- 2	7
September	-18	11	- 8	-42	34
October	-20	8	-14	-53	33
November	-26	12	-20	-18	38
December	-32	14	-18	-12	22
1975					
January	-37	16	-13	- 3	16

Source: Ministry of Industry

TABLE 5

Unemployment

Year and month	Estimated unemployment (number of persons): Sectors: Agriculture	Sectors: Industry: Construc.	Sectors: Industry: Total	Sectors: Services	Total est. unemployed	Tendency (thousands of persons)
1974						
January	25,745	47,077	102,619	32,865	161,229	156.7
February	29,925	45,937	102,581	32,183	164,689	158.1
March	34,719	44,488	100,998	33,310	169,027	159.3
April	33,883	46,969	104,130	33,525	171,538	162.4
May	22,079	47,914	106,552	33,896	162,527	166.0
June	19,738	48,876	105,447	33,647	158,832	170.7
July	21,233	50,798	108,312	36,074	165,619	176.2
August	25,112	54,843	115,248	36,506	176,866	183.9
September	25,563	56,990	120,169	37,350	183,082	196.7
October	26,985	63,082	128,954	38,490	194,429	211.6
November	40,862	74,361	146,006	43,675	230,543	227.5
December	42,229	85,709	160,463	46,100	248,792	246.5
1975						
January	48,921	96,376	178,729	53,954	281,604	265.6

Source: Ministry of Labor

rapid growth of imports than exports. It is obvious that one of the main causes for the growth of imports has been the price increases for fuel. It is also important to stress that there was a decline of 4 million in the number of tourists in 1974 compared with 1973. This decline has meant that the positive balance of the income and expenses for tourism, another pillar of the development of Spanish capitalism, will be practically the same in 1974 as in 1973 (the decline in the number of tourists being compensated by price increases). This has entailed a reduction in the level of currency reserves from $6,625.7 million in January 1974 to $5,961 million at the end of 1974.

During the previous phase of expansion, the rate of inflation reached 14.2% per year (in 1972), the highest rate since 1959, that is, since the beginning of the period of consolidation of the accelerated accumulation of monopolist capital in the Spanish state. In 1971-72 the increase in the general cost-of-living index was 8.3%; in 1972-73 it was 11.4%. This index continued to rise, as did the price index, throughout 1974, thus demonstrating the persistence and intensification of the inflationary process going on during the crisis. (See table 6.)

The factors that can be listed as directly linked to this inflationary process are several. We have already listed some, like the agricultural policy, but we must stress those whose origin is purely monetary. Throughout 1974 there was a persistent increase in cash offers in which the private sector was clearly the most important and most active factor of variation.

As usual, there was an attempt to pass the costs of inflation on to the working class. In fact, among the well known measures of economic policy contained in the law-decree of November 30, 1973, the only really effective one was the measure freezing wages.(5) But the exceptional character of the Spanish state, which reflects the Spanish bourgeoisie's inability to establish a hegemonic political leadership, has not prevented the conjunction of economic crisis and social crisis, which characterizes the present situation.(6) This is sufficiently demonstrated by the rise, intensity, and breadth of workers struggles since the end of the 1960s.(7) And it is precisely the existence of this state form that is transforming many of these economic struggles into political struggles, making the Spanish state objectively one of the weakest links of the imperialist chain today. The depth of the present crisis and the inability of the state apparatus to deal with it is perfectly illustrated in the resumé of the report of

TABLE 6

Cost of Living
Base: 1968=100

Year and month	General Index	Variation in % Monthly (compared with previous month)	Monthly accumulation (compared to previous December)	Tendency (Index)
1974				
January	151.3	0.60	0.60	151.8
February	151.8	0.33	0.93	153.8
March	155.1	2.17	3.13	155.8
April	158.5	2.19	5.39	157.8
May	160.5	1.26	6.72	159.7
June	161.2	0.44	7.18	161.8
July	163.1	1.18	8.44	163.8
August	165.8	1.66	10.24	165.6
September	168.4	1.57	11.97	168.3
October	170.2	1.07	13.16	171.1
November	174.9	2.76	16.29	174.1
December	177.3	1.37	17.89	177.0
1975				
January	179.9	1.47	1.47	179.0

Source: National Institute of Statistics

the Agrupación de Periodistas de Información Económica that was published in the April 22, 1975, issue of the Madrid daily Informaciones. One of the most important paragraphs of the report explains:

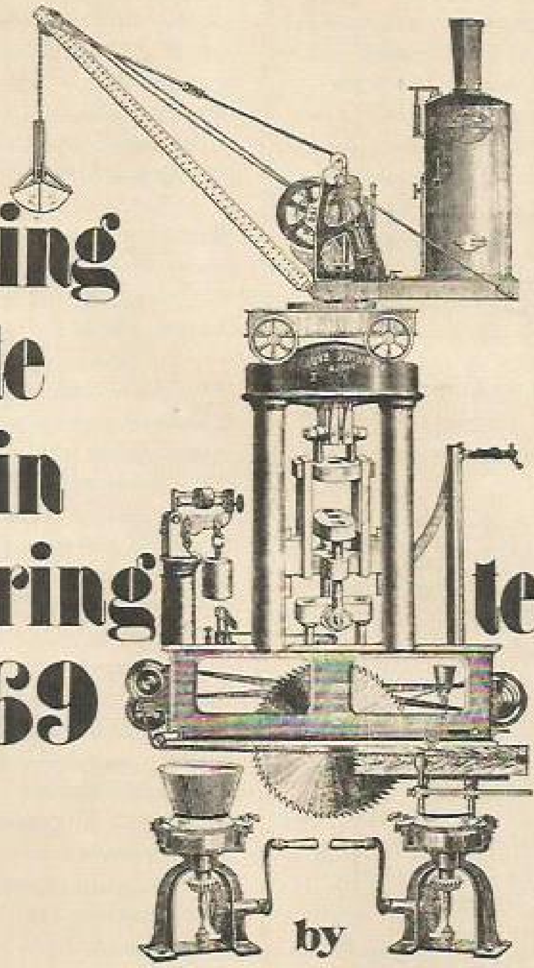
"For various reasons the administration refrained from acting in a significant manner during the critical four-month period of November to March, during which the cost of living went up by more than 6%, $500 million of currency reserves were lost, collective labor conflicts tripled, the peseta suffered considerable devaluation, and, in the final analysis, productive activity experienced the deepest decline of these past ten years."

There is not sufficient space here to analyze the more structural aspects of the present economic recession in Spain: the inability of Spanish industrial products to compete on the markets of imperialist countries; the much lower level of Spanish wages relative to wages in the other imperialist countries of Europe, which implies a more limited (and more vulnerable) domestic market for durable consumer goods; the sharper dependence of Spanish industry on foreign capital, especially in the realm of importing advanced technology; the negative consequences from the standpoint of Spanish capitalism of Spain's exclusion from the Common Market; the risks of the permanent collapse of the "privileged" market for Spanish capitalism that had been represented by the Portugal of Salazar-Caetano, and so on. We will return to these questions on another occasion.

Footnotes:

1. J. Muñoz, S. Roldán, J.L. García Delgado, and A. Serrano, La Economía Española 1973. Madrid: Edicusa, 1974, p. 17.
2. J. Muñoz, S. Roldán, and J.L. García Delgado, La Economía Española 1972. Madrid: Edicusa, 1973, p. 68.
3. Coyuntura Económica Española, Información Comercial Española, No. 490, June 1974, p. 34.
4. The index of production does not take account of the so-called small and middle-sized companies, which are in general more strongly affected by the crisis and play an especially important role in the particular character of monopolist accumulation in the Spanish state.
5. La Economía Española 1973, op.cit., p. 77.
6. E. Mandel, "The Generalized Recession of the International Capitalist Economy," INPRECOR, No. 16/17, January 16, 1975, and "La récession et la combativité de la classe ouvrière," Le Monde Diplomatique, November 1974.
7. The number of working hours lost due to strikes in the Spanish state in 1969 was about half a million; in 1973 it was more than 12 million. See E. and A. López Campillo, "La stratégie des Commissions Ouvrières," Le Monde Diplomatique, February 1974.

U.S.A.: "the declining basic rate of profit in manufacturing since 1969 signals the end the third technological revolution"



by

ROBERT LANGSTON

It has been widely noted that by most usual measures the U.S. economy has experienced a rather sharp decline in the rate of profit since the mid-1960s. This decline in what we shall call the "observed rate of profit" has often been immediately associated with an increase in the share of wages relative to profits in national or corporate income. Graphs I and II offer a rather typical picture for the period between 1964 and 1973.(1) The juxtaposition of these two curves can serve to support two more-or-less opposed sets of conclusions, each of which has an evident apologetic ideological function.

One may note that most of these years knew exceptionally high rates of growth in output and investment, and during many of them unemployment rates were exceptionally low by historical standards. Then, the conclusion easily follows that for some reason or other there has been a decline in "liquidity preference" — that an increasingly lower rate of return is needed to encourage capitalists to place a given amount of their accumulated wealth at the disposal of the economy instead of keeping it, as money, in a sock or checking account — so that they are increasingly prepared to supply the capital necessary to maintain a high growth, high wage, high employment economy that constantly reduces their own share of national income while constantly increasing the workers' share. From which, in turn, it easily follows that all that is needed to preserve American capitalism as a great prosperity machine for the broad masses is national economic "fine tuning" to keep aggregate demand at a sufficiently high, but noninflationary, level.

Or, one may stress some troublesome features of this period, particularly the extraordinary price inflation that market its later years and the unusually severe pressure on capacity in some important industries that was felt toward the end of it. Then one may readily conclude that the short-sighted arrogance and greed of American workers, given muscle by the inordinate power of the unions, has caused both a nearly uncontrollable inflation (as firms desperately attempt to defend the profit margins they need to sustain an acceptable level of growth in the face of exorbitant wage demands and bad work habits) and an acute capital shortage (as they fail in this attempt). From which it easily follows that if — and only if — the greed of the organized workers can be restrained and income distribution tilted back in favor of profits, the great prosperity machine can function even more gloriously "for all Americans" in the future than in the past.

In the first part of this article we shall present, in thesis form, the preliminary results of a statistical analysis and some interpretations suggested by it, which can help refute such ideological constructions. In the second part, we will outline the way the data was handled.

I.

1. The immediate economic relationship of forces was in fact disadvantageous to the working class during this period, and it was most disadvantageous after 1969, that is, precisely during the years when the severe inflation and purported capital shortage appeared. More precisely expressed: The trend in the rate of exploitation in U.S. manufacturing industry was upward throughout the whole decade, and this upward trend was sharpest after 1969. (See Graph III.) The falling share of profits relative to wages was not the result of any improvement in the social position of the workers, but almost exclusively of the rise in the proportion of unproductive workers. To a large extent, this rise was a consequence of the inability of the economy to expand productive employment.

2. Quite distinct processes that must be clearly distinguished are at work in the decline of the observed rate of profit. Specifically, until about 1969, the basic conditions of profitability in the major productive sector of the economy (the manufacturing sector) remained quite stable, and the decline in the observed rate of profit was essentially due to the condition of chronic overcapacity characteristic of late capitalism and to capital's reactions, at both the spontaneous economic and the conscious political levels, tending to ameliorate this condition. Until 1969, what we call the "basic rate of profit" — defined as the ratio of the mass of surplus value produced during one turnover period of circulating capital to the total value of the capital immediately involved in its production — changed little. Modest increases in the organic composition of capital were compensated for by modest increases in the rate of exploitation. (See Graphs IV and V.)

During this period the decline in the observed rate of profit is due almost entirely on the one hand to realization difficulties and on the other hand to both the rapid expansion of the unproductive trade sector of the economy — which increases the mass of capital over which a given volume of surplus value must be distributed — and to the rapid expansion of state revenues, which reduces the mass of surplus value available for private purposes. At the same time, both of these growing charges on produced surplus value effect a partial resolution of the realization difficulties and thus inhibit the decline in the observed rate of profit. (Indeed, in their absence, but with all other things being equal, the economy would undoubtedly experience a realization crisis of such magnitude that social reproduction would simply cease.)

3. Clear evidence of the growing realization difficulties in face of a relatively stable basic rate of profit between 1964 and 1969 is offered by the vicissitudes of the basic rate of profit on an annual basis (Graph VI). This rate is simply the mass of surplus value produced in one year to the value of the capital immediately involved in its production. In other words, it is the basic rate of profit multiplied by the number of turnover periods of circulating capital in one year. Since growing realization difficulties mean a longer average length of time between purchase and sale of commodities and hence a longer turnover time of circulating capital, the declining trend of Graph VI between 1964 and 1969 (and, of course, into the recession year of 1970) bears witness to the increasing severity of the realization problem during those years. At the same time, the fact that the very sharp drop between 1966 and 1967 did not precipitate a recession testifies to the general effectiveness of the off-setting process.(2)

4. After 1968, the situation changes fundamentally. We find a rapid decay in the basic conditions of profitability in the productive sector. The immediate cause of this decay is an explosion in the organic composition of capital, a rise that far more than offsets the rather rapid increase in the rate of exploitation after 1969 or 1970. Since 1968, the very processes that in the previous period accounted for the decline in the observed rate of profit — expansion of the share of state revenues in surplus value and of the unproductive sectors — but at the same time staved off a massive realization crisis have accelerated. But added to them is this precipitous decline in the basic rate of profit.

What accounts for this climb in the organic composition of capital? First of all, it is well to note what does not account for it. Obviously, the OPEC cartel's success in imposing a fourfold increase in the world price of crude oil is not at all responsible, since that didn't happen until 1974. Nor were the generalized price increases of primary products after 1970 responsible, for the sharp upturn in the organic composition begins some two years before the price level of raw materials begins to rise more rapidly than that of intermediate materials, which are themselves, for the most part, the products of U.S. manufacturing industry. (The wholesale price index of raw materials rose about 6% between 1969 and 1971, while the price index for intermediate materials, parts, and components rose by 7.6% during the same period.)

The explanation must rather be sought in long-run, structural changes in the technical conditions of U.S. manufacturing itself. The most likely one runs along the following lines: For the two decades or so following the second world war investment in the third technological revolution — in the sense both of the commitment of surplus value to research and development of fundamentally new production processes and of the accumulation of capital in the hardware that embodies the results of this R & D — had a generally stabilizing effect on the development of the organic composition of capital. Certainly, the very pronounced displacement of living labor by dead labor, of humans by machines, tendentially reduced the mass of variable capital relative to constant. Certainly, the growing magnitude of investment in instruments of production, combined with the shortening of the economic life of those instruments of production (the shortening of the turnover time of fixed capital) tendentially increased the mass of constant capital relative to variable. But this investment also powerfully increased the productivity of labor, specifically in the manufacturing sectors producing intermediate materials. And these productivity increases effected a cheapening of the value of these materials relative to the value of the means of consumption sufficient to offset, in the total value of constant capital, the rising value of the fixed component.

Beyond a certain point, however, the rate of investment in the technological revolution begins to decline, because these investments require the commitment of enormous masses of surplus value and are intrinsically quite risky. Two conditions are necessary to justify a continuing expansion of them: a rapidly expanding market for their results and a structure of that market that can assure very large monopoly profits. The first condition was gradually undermined by the inevitable disparity between the rate of growth of the productive forces generated by the third technological revolution itself and the rate of growth of mass consuming power. (In this sense, the realization problem underlies even the rising organic composition of capital. An eternally self-sustaining investment boom, with the surplus value embodied in means of production being endlessly realized by the purchase of those means of production in order to produce more means of production irrespective of the state of demand for means of consumption is as impossible today as it was in the epoch of free competition or the period of "classical" imperialism.) The second condition was undermined by the progressive rise of serious competitors to U.S. capital in West Europe and Japan.

But with the decline of investment in the technological revolution, accumulation in fixed capital progressively loses its efficacy in cheapening the material elements of circulating constant capital relative to variable capital. The net effect of rising fixed investment is no longer to stabilize the organic composition of capital but to increase it. Moreover, the process tends to be self-nourishing. The decline in the basic rate of profit occasioned by the rising organic composition of capital particularly discourages investment in qualitatively new technologies because of the magnitude of the capital and the risks involved. So once the point is reached beyond which fixed investment has the net effect of increasing the organic composition, the rate of increase in the organic composition tends to accelerate. The declining basic rate of profit in U.S. manufacturing since 1969 — caused by this explosion in the organic composition of capital — signals the end of the third technological revolution.

5. The consequences of a declining observed rate of profit in which a decline in the basic rate of profit is also at work can be expected to be quite different from those of a declining observed rate of profit caused primarily by the chronic tendency toward overproduction. We will consider one important part of this difference.

In general, the range of choices confronting the strategists of capital is by no means limited to more (or less) liquidity versus less (or more) return through investment, as the concept of liquidity preference implies. On the contrary, capitalists look for specific uses of the surplus value they appropriate that promise maximum profits over some time period or other.(In determining the distribution of the surplus value over these alternative uses, relative risk and liquidity requirements of course play a role.)

Now a declining observed rate of profit has the effect of increasing the profitability of unproductive investment, precisely because such unproductive investments help to counteract the declining profit rate. Moreover, under conditions of monopoly capitalism, a tendential increase in demand for a certain commodity or of aggregate demand does not automatically lead to a commensurate increase in the output of the commodities for which the demand has risen and thus to market prices rather quickly tending to adjust to the relative values (or prices of production) of output. Rather, the monopolist will ordinarily expect that some mix of price increases above those corresponding to prices of proized in the trade sector is produced in the manufacturing sector.

This is actually a rather crude approximation. In the first place, most commodities produced in the productive, agricultural sector enter into trade before they reach their final users, and the productive, transportation sector stands between the manufacturing and trade sectors and between the various establishments in the trade sector itself. Thus, a not insignificant portion of the surplus realized in trade is produced in agriculture and transportation, not manufacturing. Second, the trade sector is not altogether unproductive; particularly, some transportation of commodities takes place within it, and some part of the labor involved in packaging and warehousing must be accounted productive. Finally, some portion of the surplus value produced in manufacturing is undoubtedly realized in nonproductive, service sectors.

But the contributions of agriculture and transportation to national product are relatively small compared to manufacturing, and their relative shares have not changed much over the years we are considering. And while we do not have the data necessary to analyze the various "profit" elements of the very mixed service sector into its various components — surplus value realized in commercial activities carried on in the service sector, surplus value produced there, revenues of professionals — there is no reason to suppose that the proportion of these components has changed a great deal over the decade in question. So this simplification probably does not distort the year to year changes too much.

The second step is to regroup the data on various revenues, wages and salaries, profits and so forth — according to their sources in the relations of production — variable capital and surplus value.

We procede according to the following criteria:

1. From the standpoint of production relations, all tax payments represent surplus value components. The state is not some "factor of production" standing alongside capital and labor (or capitalists and workers) with a reproduction cost that must be covered. It stands outside the production relations — although it is essential to their reproduction — and can thus be sustained only out of surplus product. So, we estimate the share of income and social security taxes in the "wages and salaries" of workers in the trade and manufacturing sectors and assign it to surplus value. Likewise, we assign corporate income taxes and "indirect business taxes" (mainly sales and social insurance taxes) paid in these sectors to surplus value. And, of course, we allocate profits realized in and net interest paid by these sectors to surplus value produced in manufacturing.

2. The portion of "compensation of employees" constituted by payments to private pension and health and unemployment insurance funds we assign to surplus value. The workers do not receive it as current income; they receive merely a conditional claim on some fragment of the surplus value to be received in the future.

3. The incomes of the decision-makers, managers, and executives in the trade and manufacturing sectors we assign to surplus value. We identify the sum of these incomes with the difference between "wages and salaries" in the national income accounts and payments to those carried as "payroll or nonsupervisory" employees in Bureau of Labor Statistics data. The incomes of those in the manufacturing sector carried as "production workers" we regard as revenues of productive workers and assign to exchanges of labor power with variable capital. We are then left with the difference between wage payments to production workers and wage payments to payroll workers in manufacturing. Here, we arbitrarily, but not implausibly, assign half these payments to exchanges of labor power with variable capital and half to exchanges with constant capital. The former corresponds above all to that growing army of engineers and technicians who, while they have little immediate contact with the physical process of production are technically necessary to its maintenance. The latter answers to the unproductive workers, whose increasing number reflects the penetration of the "sales effort" into the manufacturing sector itself.

The final step in the analysis is to estimate the magnitude of the various stock concepts we need from the money flows for which data is available.

We begin from one stock for which we have data — manufacturers' inventories. The average value of these inventories in the course of a year approximates the average value of the capital that manufacturing firms must keep "tied up" in the materials on which the productive workers, using means of production, work. It is, in other words, the value of the material portion of the constant, circulating capital.

Next, we determine the turnover time of this circulating capital. To do this, we estimate annual expenditures of manufacturers on materials by subtracting the gross product of the manufacturing sector from its total annual sales. But annual expenditures on materials divided by the average value of inventories gives us an estimate of the average length of time, as a fraction of a year, from the purchase of those materials to the realization by sale of their value and the value added to them. But this is precisely the turnover time of the material component of the circulating constant capital.

duction with an extension of output (and hence of productive investment) will maximize his profits over some time period.

But under conditions of a declining basic rate of profit, that mix will shift in favor of price increases and to the detriment of the expansion of output and thus of productive investment. For the basic rate of profit measures precisely the efficacy of a unit of surplus value, when accumulated as productive capital, in producing new surplus value. In other words, under conditions of a declining basic rate of profit, a bigger portion of every successive dollar added to effective demand is translated into price increases and unproductive investment, and a smaller portion into increases in output, employment, and productive investment. This in turn tendentially worsens the realization difficulties and encourages the shift from productive to unproductive investment.

Graph VI bears witness to U.S. capital's very thorough triumph over its realization problems during the boom following the recession of 1970. In the face of the quickly falling basic rate of profit, that rate on an annual basis went through a sustained increase unlike anything in the boom years of the 1960s. Yet, after the initial spurt between 1970 and 1971, the observed rate resumed its downward course — sure testimony to the increased shift from productive to unproductive investment. At the same time, despite the temporary disappearance of the realization problem, before the onset of the current recession capacity utilization overall (in the face of serious shortages in some industries) remained lower than in any previous post-second-world-war cyclical upswing, and unemployment rates did not even begin to fall as low as the levels of the late 1960s.

Nevertheless, the country experienced a price inflation unlike any seen since the war. Since monopolists were assured of government fiscal and monetary policies that would permit them to do so, it had become proportionally more profitable for them to raise the prices than to expand output and employment. This began to build inflationary expectations into the economy, which, combined with rising masses of surplus value that could no longer be productively accumulated, conferred the strong speculative aspect on the boom. In particular, the capacity shortages in some materials-producing industries were almost surely the result of stockpiling of those materials by users far in excess of any anticipated needs for production. There was no shortage of capital, but rather a growing disproportion in the distribution of capital, to a considerable extent due to the decline in the basic rate of profit.

6. The recession of 1970 succeeded admirably in raising the rate of exploitation. The reserve army of the unemployed was essentially reconstituted, thanks to the domination of the trade-union movement by a leadership that neither know how nor was much inclined to struggle against unemployment. That recession did not touch the rising organic composition of capital. The present, much more severe recession, will probably only very slightly dampen it. For even a temporary respite would probably require such a massive devaluation of capital — through a wave of business collapses — that even the strongest monopolists would be hurt seriously for a long time, and it would be associated with a level of unemployment that would provoke a disastrous social disorganization if not necessarily a victorious socialist revolution. The bourgeois state can and will act to prevent that, but by so acting it will undermine one important hygienic function of depressions, namely the reduction of the organic composition of capital.

The declining efficacy of the now-traditional fiscal and monetary methods of dealing with slump conditions will become increasingly evident. More inflation and less expansion per dollar, especially in a world of floating exchange rates in which the "export" of domestic inflation is no longer as easy as it was in the days before 1971 when the prosperity of the entire capitalist world depended on the U.S. balance of payments deficits, will lead the ruling class to seek more fundamental solutions. Given the virtual impossibility of a significant, even short-run reduction in the organic composition of capital, these solutions will be along the lines of measures to effect a really massive increase in the rate of exploitation. The prospect is for a very concentrated attack on the living standards of the American workers and on the trade unions in the not very distant future. Much will depend on the development of a leadership that can defeat that attack and take the counteroffensive on a program of transitional demands that can end the domination of capital once and for all.

II.

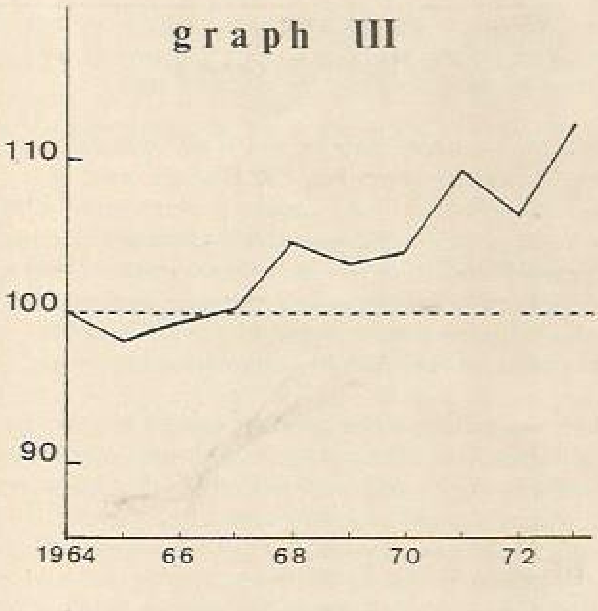
The derivation of the quantities shown in graphs 3-6 begins with the distinction between the productive and unproductive sectors of the economy. We leave aside the catch-all classification "nonfinancial corporation" and direct our attention to the sector in which the production of surplus value is concentrated: manufacturing. But a very substantial portion of the surplus value produced in manufacturing is realized not there but in the trade sector. As a useful simplification, we assume that all the surplus value real-

We then relate all the other rates to this turnover time. We define the magnitude of the fixed component of constant capital as annual depreciation multiplied by the turnover time of circulating capital; the magnitude of variable capital is defined as the wages of productive workers (minus the surplus-value components contained in them), taking account of the turnover time. We then calculate the organic composition of capital as the ratio of constant to variable capital and the rate of exploitation as the ratio of surplus-value produced (estimated by the surplus value realized in the manufacturing and trade sectors together) in one turnover period of circulating constant capital to variable capital. The basic rate of profit we then calculate by the usual formula: the rate of exploitation divided by the quantity one plus the organic composition of capital; the basic rate of profit on an annual basis is just the basic rate divided by the turnover time of circulating capital.

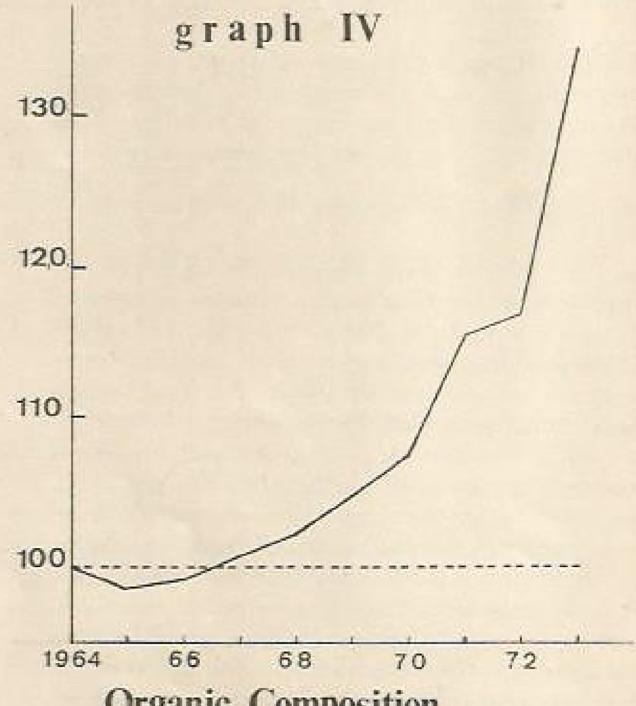
FOOTNOTES:

1. Graph I plots the ratio of after-tax profits to an estimate of total fixed investment in U.S. nonfinancial corporations. Graph II shows the ratio of after-tax profit to compensation of employees of these same corporations. "Compensation of employees" in U.S. national income accounts refers to wage and salary payments to everyone from the president of the company down to the cleaning woman who sweeps his office, together with firms' contributions to private health and unemployment insurance funds and private pension plans. All graphs are drawn on an index number basis with 1964 equal to 100; that is, they show each year's value as a percentage of the 1964 value. All data used to derive the estimates presented in the graphs are drawn from U.S. government sources, particularly the national income tables that appear in each year's July issue of the Survey of Current Business (Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C.). William Nordhaus has offered an important statistical analysis of the observed rate of profit and relative shares in "The Falling Share of Profits," Brookings Papers on Economic Activity, No.1, 1974 (The Brookings Institution, Washington, D.C.). Unfortunately, Professor Nordhaus is innocent of any notions like "organic composition of capital," "rate of exploitation," and the distinction between the sphere of production and the sphere of circulation. His explanation of the decline in the observed rate of profit is of the liquidity preference type mentioned below.

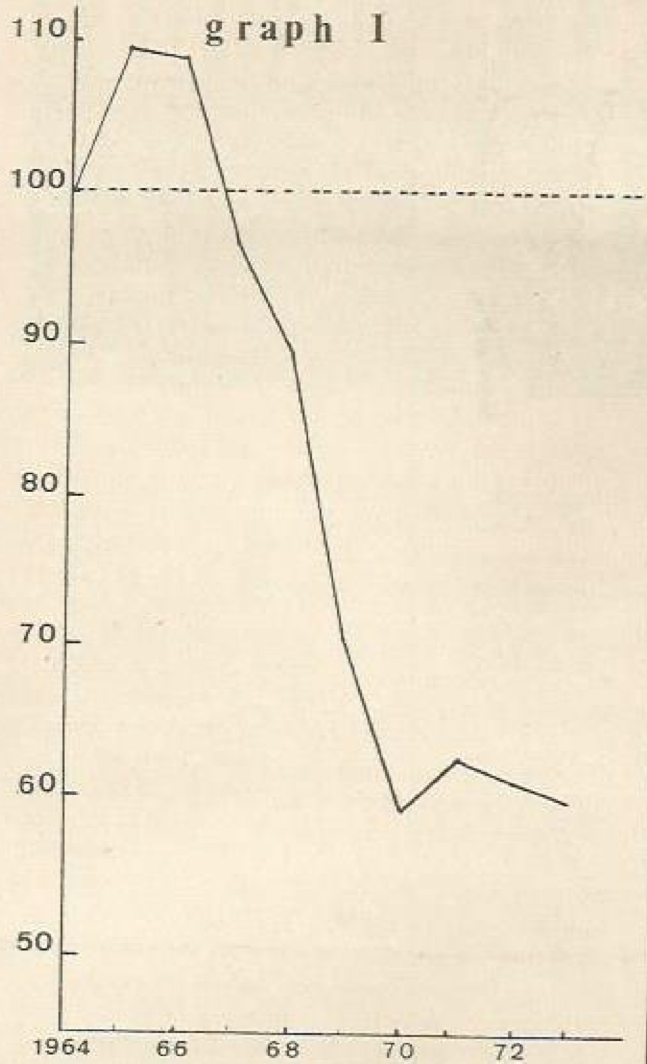
2. The specific measure that prevented a realization crisis was certainly the 1968 budget decision of the Johnson administration to run a very large deficit to finance the Vietnam war. At the same time, an income tax surcharge was imposed, which in our graphs is reflected in the fact that statistically it is an increase in the share of taxes in productive workers' wages that accounts for the rise in the rate of exploitation between 1967 and 1968.



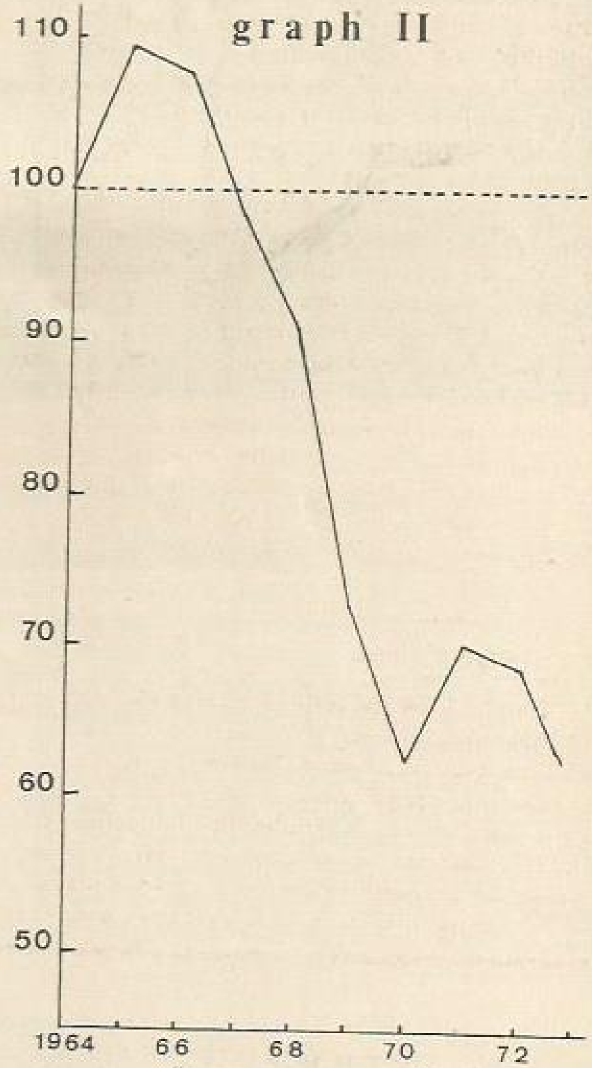
Rate of Exploitation



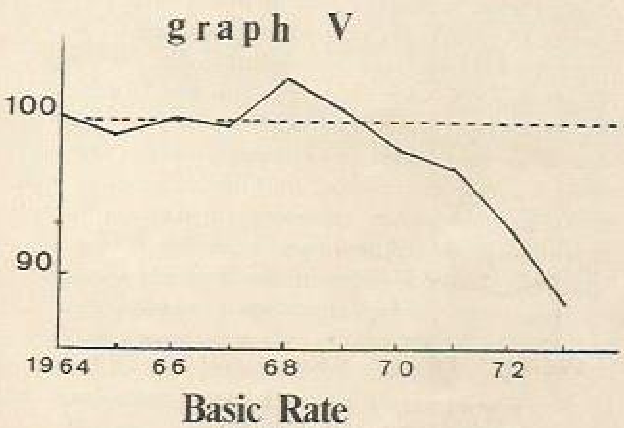
Organic Composition of Capital



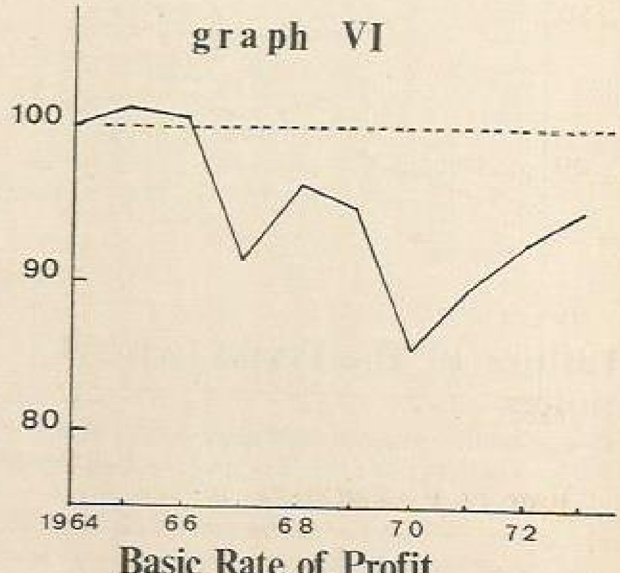
Observed rate of profit



«Relative shares»



Basic Rate of Profit



Basic Rate of Profit on Annual Basis

THE ARGENTINE ECONOMY IN 1974/75

by SERGIO MARTINEZ

When the ruling Peronists were confronted with the new situation of the spring of 1974, they had to try to avert economic stagnation by orienting toward greater price flexibility in order to promote the import of raw materials indispensable to expansion. This implied allowing the prices of manufactured products to reflect the increase in the prices of raw materials, increasing investment, and vigorously promoting exports. All this presupposed that "social peace" would be respected and that real wages would not be permitted to go beyond the level of June 1973. The greater price flexibility and the fall in the interest rate, combined with the freeze on wages, was supposed to permit the reestablishment of the rate of profit while nevertheless involving an increase in the rate of inflation.

Simultaneously, the terms of trade once again began to shift to the detriment of the semicolonial countries. This guaranteed that the growth rate in 1974 would be no higher than average and that the rate of inflation would be on the order of 40% instead of the 25% predicted by the government.

That is generally the way things happened. Growth in industrial production reached 5.6% in 1974 and not the 9.3% planned by the government (the estimate of the three-year plan) and the employers' associations. It was even lower than the level attained in 1973, which was 5.9%.

Failure of the Perón Gelbart policy

Gross domestic product (GDP) grew 7.1%, well below the predicted rate, despite the favorable influence of the excellent harvest of 1973-74, which was sold at very good prices because of the temporary disappearance of grain stocks on the world market. The increase of the gross domestic product in the agricultural sector was 8.2%. The overall GDP increase of 7.1% concealed the mediocre performance of the industrial sector relative to the government's predictions. And the rate of inflation was practically twice that foreseen by the government.

One of the consequences of this failure to attain the projected rapid industrial growth rate, which was supposed to be combined with a relatively low rate of inflation within the framework of the Bonapartist policy inaugurated by Peronism's return to the government, was the fall of Minister of Economics Gelbart and his replacement by Gómez Morales.

Gelbart's administration had been based on opening nontraditional markets (the bureaucratized workers states, for example) for nontraditional exports (particularly industrial products) and on attracting a considerable influx of European and Japanese capital in order to modernize industrial equipment and the infrastructure. This was achieved only in small part; the positive results attained by the Argentine economy during the first year of Peronism derived above all from the success of traditional agricultural exports (although there were openings in industrial exports to the bureaucratized workers states).

Argentine industry continued to suffer from a lack of investment and a low rate of profit, and it struggled continuously for an increase in prices. For their part, the workers sought to maintain the real wages they had achieved previously, and they fought for this both directly and indirectly which is reflected, in a deformed manner, by the maneuvers of the trade-union bureaucracy. Aware that an explosion of wildcat strikes and protest movements against the fall in real wages would threaten to deprive it of any role within the framework of the present regime, the trade-union bureaucracy was compelled to add its voice to the demand for wage increases, even though that voice was weak. Since it considers the trade-union bureaucracy to be one of the pillars of the Peronist regime and did not want to see it lose its base, the government was in turn compelled to grant several increases in nominal wages. Such a policy, in conjunction with a high rate of employment, has up to now averted generalized confrontations between the regime and the majority of the working class.

The twofold pressure of the bourgeoisie demanding price increases and the workers demanding wage increases compelled the Peronist government to abandon in reality its policy of "controlled" inflation. There was a return to galloping inflation of the type that marked the end of the Lanusse dictatorship, which resulted in the exacerbation of the class struggle in the wake of the decline in real wages, the crisis of industry, the transfer of surplus-value to the agricultural sector, etc. Concurrently, the contradiction between the bourgeoisie and the proletariat and the contradictions among the various sectors of the bourgeoisie were sharpened.

The rate of inflation, which was still only 1.2% in March 1974, rose to 4.9% in February 1975, to 8% in March 1975, and probably will exceed 10% in April. Even if the government takes some measures to slow down this price explosion somewhat, it is doubtful that the rate of inflation for 1975 as a whole can be kept below 60%.

The counterpart of this rate of inflation has been a rapid fall in real wages. The 40,000 peso monthly increase (old pesos) that was granted recently was almost instantly wiped out by price increases. The limitations on public investment will soon begin to produce an increase in unemployment. The fact that broad sections of the working class that had been unemployed or worked only occasionally under the military dictatorship had again found jobs under the Cámpora and Perón regimes had contributed significantly to keeping the working class in a state of tranquility during the first year of Peronism. Even though there were no significant wage increases per employed person, the increase in employment definitely raised real income per working-class household. If the trade-union bureaucracy wants to avoid losing control over a broader section of the working class, especially after the explosion at Villa Constitución (see INPRECOR, No. 26, May 22, 1975), it will be compelled to demand and obtain new wage increases — otherwise broad workers struggles could break out.

Argentine industry thus once again finds itself in a critical situation. The terms of trade are evolving to the detriment of Argentina. Any raw materials imports and any renovation of the stock of machinery would result in the loss of a portion of previously accumulated surplus-value. This process is unfolding in the context of a significant evaporation of currency reserves, which is leading to new restrictions on imports, aggravated by the effects of the recent devaluation.

Juan Perón's economic policy failed. The big European and Japanese investments that had been hoped for so intensely were not made (international capital decidedly preferring to invest in Brazil!). The basic products exported by Argentina were unable to stand up against falling prices in a period of world recession, as has just become the case even for oil. Exports of grain and beef products have lost the strategic role they had played during and after the second world war, both because capitalist Europe has attained a higher level of self-supply in foodstuffs by virtue of a big push to expand agricultural production and because the competitive productive capacity of the major producers (the United States, the USSR, Canada) has grown strongly.

Perón's sociopolitical program was to achieve accelerated economic growth in Argentina without lowering the standard of living of the workers — by increasing relative surplus-value through the modernization of industry and by increasing the productivity of labor and relying on the support of foreign capital. The failure of the economic policy implied the failure of the sociopolitical project. The change in the atmosphere is symbolically expressed in the two following formulas: Juan Domingo Perón still proclaimed, "Each must produce what he consumes." Today his widow asserts, "Each must produce at least what two persons consume."

The new project of Gómez Morales

The new economic plan of Minister of Economics Gómez Morales is still not known as of this writing. But it is possible to outline the objective conditions that any economic plan of the Argentine bourgeoisie will have to confront today. After the failure of Perón's policy, there is no alternative but industrial stagnation or an attempt to start industrial production climbing again by means of superexploitation of the working class. The Bonapartist government, which continues to base itself on the trade-union bureaucracy, cannot fully implement such superexploitation of the working class, which would require a dictatorship of the Onganía variety. This government will combine a very severe repression of the vanguard and most combative sectors of the proletariat with some concessions on wages. It is thus probable that the Morales plan will be located midway between the Perón-Gelbart project and the Krieger-Vasena-Onganía policy.

It will be a question of on the one hand trying to control and limit nominal wage increases without being able to freeze them effectively and on the other hand of seeking to control price increases without being able to halt them in any effective way. It will be a question of stimulating the growth of industrial production, but a growth slow enough to limit imports, which in any case have already been cut down by devaluations. Morales began by emphasizing the "overheated" state of the Argentine economy, caused, according to him, by full employment. While preaching a policy of credit restrictions, he insisted on the need to limit domestic consumption, which falls within the employers' general conception of how to increase profits. The struggle against inflation will be given priority, which clearly means that growth will have to be slowed down and not stepped up. One can see the difference in tone between this project and the Perón-Gelbart project.

It is, moreover, not accidental that since his accession to the Ministry of Economics, Morales has not yet presented an overall economic plan to replace the plan of his predecessor. He can only resort to empirical measures, making price policy more flexible (in a pronounced manner in some branches, like automobiles), ordering new devaluations that especially favor the agrarian sector, granting the 40,000 peso increase to the workers but later seeking to ward off any new increase during the meetings of the parity commissions (or at least trying to hold any new increases to a minimum), and talking about freezing prices at their March 1, 1975, levels. From the standpoint of the Argentine capitalist economy as a whole, it is practically impossible to arrive at a comprehensive project, substituting Morales's for Perón-Gelbart's, especially since the Bonapartist regime will enter crisis under the blows of workers mobilizations, which could be on the rise and will intensify conflicts between the trade unions and the government as well as internal conflicts within the trade-union bureaucracy. That is the reason for the incoherent and empirical aspect of Morales's policy.

Prospects for this year

In its April 17, 1975, issue, the journal Mercado asserted that the 9.3% growth of industrial production initially predicted should be considered "conditional": "It seems difficult for the activity level of past years to be surpassed without resolving the problems of supply, or at least without improving the supply situation substantially, and without reestablishing the productivity of the work force, which has deteriorated in past months due to absenteeism and labor conflicts. Likewise, the flexibility of official price policy appears to be a third condition indispensable for realizing the rate of expansion planned for 1975." And it continued: "The factors that prevented the achievement of the 1974 plans are coming up again this year: lack of raw materials supplies; fall of productivity of the work force; bad relationships between industrial costs and the sales prices authorized by the government. The shortage of raw materials and of inputs in general seems to be the most widespread, and consequently the most acute, difficulty in industry."

It follows that the 9.3% growth rate will be difficult to achieve. Some sectors are already saying that their growth will not exceed 6%, but it is still hoped that an average rate of 9% can be reached by virtue of a higher than average growth in steel and by virtue of the starting up of the national aluminum factory. The major bottleneck remains raw materials imports, which have become much more expensive consequent to devaluation. In addition, the imperialist metropolises are trying in every way to reduce their imports in view of the crisis of overproduction that is racking them and in view of the serious balance of payments problems with which they are confronted (with the exception of West Germany and Japan). The terms of trade are continuing to develop unfavorably for Argentina, which means that the country will have to export a greater quantity of agricultural products in order to be able to import the same quantity of raw materials and machinery. And the markets for this increased quantity of exports are scarcely assured. Two of the difficulties that the employers are trying to overcome will involve increased exploitation of the work force: On the one hand they are seeking to intensify production and exploitation in the factories; on the other hand, they are seeking to raise prices and thus to reduce the real wages of the workers. Only a strong government, much stronger than the Isabelita-López Rega regime, could effectively achieve some of these objectives. But it would be necessary first of all to inflict a grave defeat on the working class. As for agriculture, according to a report of the Ministry for Economic Affairs published in the March 13, 1975, Cronista Comercial, production is expected to go up only 4.3% this year, as compared with the 8.2% achieved in 1974 and the three-year plan's "prediction" of 6.5% growth in 1975.

Consequences of the devaluations

On March 3, 1975, Argentina strongly devalued the peso. The so-called commercial exchange rate fell to 10 pesos per US dollar. (The previous rate had been 5 pesos=US$1.) The so-called financial exchange rate for the peso was set at 15 pesos per US dollar (10 pesos previously). (All these figures refer to "heavy" pesos.) This was a second devaluation, following the one of August 1972.

It resulted notably in the deterioration of the terms of trade, to which we have already referred. By the end of 1972, the terms of trade had improved some 30% compared with the 1970 level as a result of the strong price increases for exported agricultural products. But beginning then, the ground that had been gained was rapidly lost. By the end of 1974 the terms of trade had deteriorated some 40% compared with the end of 1972, that is, they had fallen to a lower level than that of 1970.

The index of export prices (especially for leather, beef, wheat, corn, wool, and oils) increased 38% in 1973 and 42% in 1974; import prices had increased 106% in 1973 and 45% in 1974. Consequently, the surplus in the trade balance was reduced from $1,000 million in 1973 to $670 million in 1974, which involved a balance of payments deficit of more than $300 million. Exchange reserves had dropped from $2,000 million in June 1974 to $1,500 million in December 1974. In January 1975 there was another strong increase in prices for imports, which hit $304 million (compared with $104 million in January 1974).

The deterioration in the trade balance was intensified because of the stagnation and decline of Argentine oil production, which resulted in oil imports going up just when prices exploded, as is indicated by the following figures:

	1974	1973	1972
Argentine crude-oil production (in millions of cubic meters)	24.0	24.4	25.2
Argentine imports of crude oil (in millions of cubic meters)	3.42	3.39	1.8

The devaluation was also intended to reduce the high charges for refunding taxes to exporters; without the devaluation these charges would have reached an equivalent of $4,000 million in 1975.

The successive devaluations did not merely create problems for industry with respect to the price it has to pay for imported raw materials and capital goods. They also had repercussions on the quantity of surplus-value in the agricultural sector (grain and beef products), which is the major export sector; the products are paid for in foreign currencies on the world market, and after each devaluation the foreign currency corresponded to more Argentine pesos. At the same time, no seller of agricultural products reduced prices on the domestic market to correspond to the price increases of exports as expressed in pesos.

This thus led to constant price increases in the products that constitute the basic diet of the workers and other popular sectors. Hence, there was an increase in popular household expenses for food, a consequent reduction in purchases of industrial goods, and thus a contraction of the market for durable consumer goods produced in Argentina. Industry thus found itself hit from two sides: by the price increases for its raw materials and by the contraction of its markets. Overall, this was expressed in a transfer of surplus value from the industrial sector to the agricultural sector of the Argentine bourgeoisie.

It is certain that before devaluation there was a strong increase in imports of raw materials and spare parts, which reduced the immediate effects of the current price increases somewhat.

The devaluation will not lead to an expansion of exports of nontraditional products, although that seems to be the aim of the present government team. The reason for this is the considerable increase in the costs of production and the narrow possibilities of raising the quantities produced. There is already talk of exporting only products of a high value added.

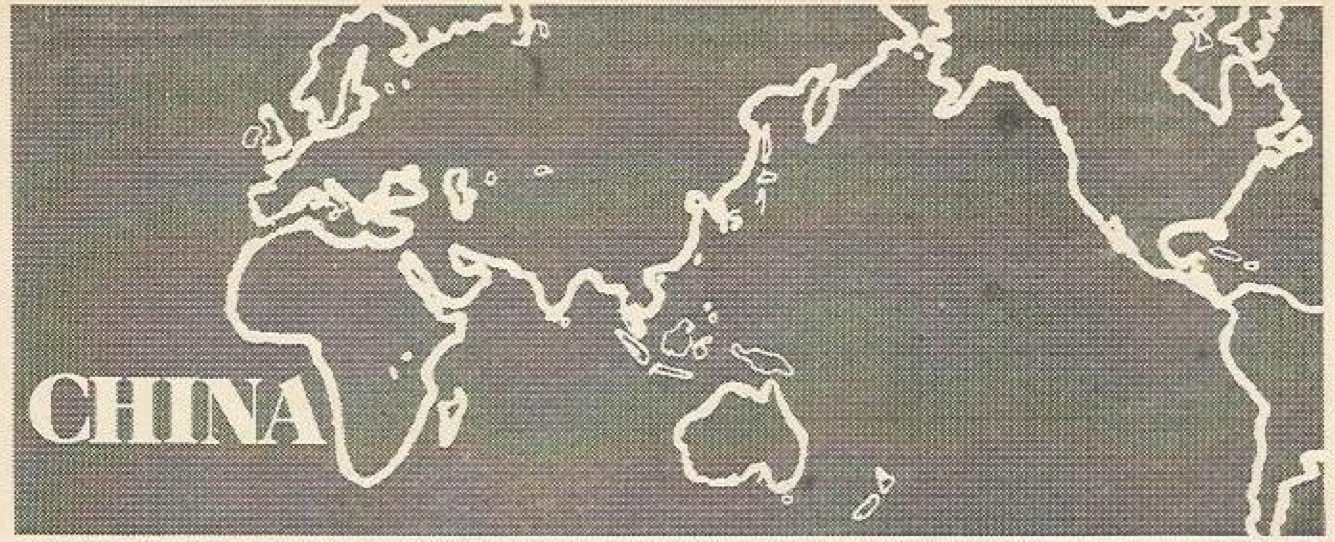
Public financing

On the basis only of the first few months of the year, things seem to be moving toward a budget deficit of 36,000 million pesos, that is, twice the deficit originally foreseen. To this will be added the cost of increasing the salaries of state personnel.

The foreign debt will be raised by the effects of the devaluation. More Argentine pesos will be needed to pay the interest on this debt and to repay loans in foreign currencies. This will also tend to increase the budget deficit.

The effects of the international recession on Argentina have been a fall in agricultural and industrial exports and a growth in the costs of imports. There is thus an increased balance of payments deficit, an outflow of currency, and serious threats against future import capacity. There is even a rumor making the rounds that Argentina will have to resort to a new stand-by credit from the International Monetary Fund.

April 20, 1975



...and the crisis of the capitalist world

by R. LEW

From the economic standpoint, the Chinese "continent" is largely an enigma. As we know, the Chinese practically ceased issuing detailed statistics on the economy and the population fifteen years ago, after the disappointments of the "great leap forward." The only known statistics relate to foreign trade. All the rest is largely speculation, at best likely estimation, at worse outright guesswork into which ideological biases introduce many distortions.

Thus, the real effects of the "great leap forward" (1958-60) are still not known. The estimation of the scope of the regression (and it is certain that there was one) has been the subject of controversial discussions and many exaggerations. And this is a question of events that occurred fifteen years ago; imagine the problem of finding out what is going on now! A cloud of secrecy surrounds the performances and difficulties (especially the difficulties) of the People's Republic. The problem is not only the uncertainties of the Chinese statisticians (which is a real problem in this country-continent), but also if not especially the bureaucratic propensity for dissimulation, which has been at the root of so many exaggerations in the past. (The pie-in-the-sky agricultural objectives announced for 1960 have yet to be attained to this day — far from it.)

One must thus proceed in a different manner, by examining two factors: the tendencies of the Chinese economy in relation to the surrounding capitalist world and what China can "represent" for this same capitalist world.

I. BRIEF BALANCE-SHEET OF THE CHINESE ECONOMY

In the West, the Chinese population is the subject of investigations worthy of a Sherlock Holmes, but a Holmes in his worst days, a policeman and prosecutor rather than a detective. How many Chinese are there? In fact, nobody really knows. Reasonably, at least 800 million, and probably not more than 900 million. (Some rather malevolent Anglo-Saxon authors speak of more than a thousand million, which is an abusive figure.) That is, there is an indeterminate range of about 100 million, more than twice the population of France!

Probably even the Chinese leaders do not know the real size of their population. For example, Li Hsien-nien, vice prime minister, stated in 1971: "There are no precise statistics on this matter. Officidls of the department of supply speak of 800 million. Other functionaries say only 750 million, while the Ministry of the Interior claims the figure of 830 million. On the other hand, the planning department insists on a figure inferior to 750 million."(1) This gives a range of uncertainty of 80 million, which indicates that the utmost caution is required in handling figures.

Essentially: There is an immense population (with an even more important growth rate, on the order of 2% a year) that must be fed, housed, and provided with consumer goods; the immensity of the population is undoubtedly a major handicap in rapidly increasing the standard of living and in carrying out profound social transformations; on the other hand, it furnishes an enormous potential of labor.

Industry

We have two sets of official figures: the balance-sheet on the first five-year plan (1953-57) and on the past decade (1964-74). The "great leap forward" and its aftermath remain unknown.

The year 1952 is the reference point. That was when the economy attained and even surpassed the productive capacity of the best years before 1949. (It may be said in passing that 1952 in China corresponds to 1927 in the Soviet Union. About two years after the establishment of the new regime, the previous economic situation was reestablished in China; this took ten years in the Soviet Union. The rapidity with which this was done had an enormous effect on the masses' appreciation of the new regime. Similarly, the fact that since the 1950s the agricultural situation has improved slightly but genuinely has had a like effect.)

The official figures for the first five-year plan (worked out on the Soviet model) give an average industrial growth rate of 19% a year, for a 140% increase over five years (Anglo-Saxon sources speak of an annual growth rate of 14-19%). It was thus an extremely large growth, but the point of departure was low.

Recent official figures, presented by Chou En-lai to the National People's Assembly in January 1975 (the first official statistics released in fifteen years), claim a growth of 190% for the ten-year period of 1964-74, which corresponds to a growth rate of more or less 10% a year. These are very high figures if it is recalled that the Cultural Revolution occurred during this period, and according to experts, it caused rather significant regressions. These figures are too recent to have been contested in the West. And this time they will be contested with moderation, for the estimates of American "experts" have come close to official — or officious — Chinese figures ever since Nixon's visit to Peking. Another of the ideological miracles of peaceful coexistence. We may see others (in the opposite direction) if relations deteriorate.

There remains the "great leap forward": two years of spectacular growth (around 30% in 1958 and 1959), followed by a fall, a result of agricultural disappointments, the withdrawal of Soviet experts (in 1960), and the excesses and lack of preparation of the "great leap forward," although it is not possible to fix the relative weight of each of these elements.

On the whole, long-term industrial growth is at least 8% a year (the figure given by the American economist Field for 1952-1971, a figure that seems to underestimate real growth), if not 12-13%, as official figures say. This is an average that conceals deep differentiations: "boom years" of growth on the order of 30% and other years of actual regression.

Overall, China's industrial capacity today must be ten to fifteen times greater than it was during the best years of the old regime before 1949 (a heritage that was certainly modest, but not insignificant).

People's China is creating a vast range of industry, although its point of departure was limited to a few sectors (textiles and coal, for instance). Table 1 offers some statistics.

Agriculture

Agricultural results, while favorable (even very favorable in comparison with the pre-1949 period), have been modest in a twofold sense. First, requirements of feeding the people and the still limited possibilities of industrial employment tend to keep the immense majority of the population in the countryside (more than 80%, a proportion that is about the same as the pre-1949 period).

Second, the growth rate in agriculture does not exceed the growth rate in population by very much. There is one very clear index of the modesty of the results: In rating grain production (which accounts for 80% of agricultural production), the Chinese take 1949 as the reference-point. On this basis they point to a growth of 149% in grain production between 1949 and 1974, while there was a 60% increase in population during the same period. Unfortunately, the choice of the year 1949 is not very meaningful: That was the last year of the civil war, a catastrophic year for agriculture. If the average of the pre-1949 years or the year 1952 (a good year agriculturally) is taken as a reference, the situation becomes different:

(Official figures)

1952	+150 million tons of grain
1974	+260 million tons of grain
1949	108 million tons of grain

Compared with 1952 there has been no more than 70% growth in agricultural production (Anglo-Saxon "experts" give lower percentages), while the population increase has been on the order of 50-60%. That is not negligible, but it remains close to the traditional minimum, that is, about 280-300 kilograms a year per capita, as compared with 1,000 kilograms in the United States (of which a notable

TABLE 1

Production in some sectors
(estimates or official figures)

	1952	1957	1965	1970-73
Coal (millions of tons)	66	130	220	+400 (in 1973)
Steel (")	1.35	5.35	11	25-27 (1973)
Crude oil (")	0.4	1.5	8	50 (1973); ±65 (1974); +80 (1975)
Cement (")	2.86	6.86	11	15 (1972)
Chemical fertilizer (")	0.2	0.8	5.7	24.8 (1973)
Machine tools (millions of units)	13.7	28.3	48	86 (1971)
Trucks (")	-	7.5	28.4	75 (1971); 110 (1973)
Tractors (")	-	-	21	35 (1971)
Bicycles (")	-	0.8	1.5	3.65 (1971)
Radios (")	-	0.295	1.5	10 (1971)
Watches (")	-	-	1	3.5-4 (1972)
Cotton cloth (billions of meters)	3.83	5.05	5.40	8.50 (1970)
Electricity (billions of kwh)	7.2	19.3	42	75-80 (1972); 101 (1973)

part, however, is used to feed animals, that is, it goes for the production of meat). The 300 kilogram per capita figure for China may be compared with the figure for capitalist India, which barely exceeds 200 kilograms.

Incontestably, agricultural production remains a weak point in the Chinese economy, a burden and challenge that is very difficult to rise to. This explains the priority that has been accorded to this sector for nearly fifteen years, in contrast to the Stalin period in the Soviet Union, which indicates a laudable wise and understanding concern for the constraints that flow from the backwardness of the country and the large size of the population that has to be fed.

Foreign trade

There are two important facts: First, foreign trade has taken on great importance in economic activity during the past few years, which explains its rapid growth; and second, there has been a shift in the orientation of this trade during the past fifteen years, from the "socialist camp" toward the capitalist world. It is this feature that makes China susceptible to the effects of the crisis, at least to a certain extent.

During the 1950s and 1960s, when foreign trade was on the order of $3,000-4,000 million and exports were covering or surpassing imports, China was a relatively small-scale trading nation. This has changed during the 1970s. Foreign trade has developed in the following way:

1970	$4,290 million
1971	$4,720 million
1972	$5,920 million
1973	$9,870 million

It is estimated that this trade may have reached $13,000-14,000 million in 1974. It has thus tripled in five years. But even with the figure of $14,000 million, China remains only a moderate-level trading nation (in 1974 Belgium's exports alone exceeded $30,000 million; Germany's exports approached $100,000 million). With $4,895 million in exports in 1973, China was a small exporter. This is especially true in that the growth during the past several years is due just as much to price increases as it is to increases in the volume of transactions.

In 1960 two-thirds of Chinese trade was still with the "socialist countries" and one-third with the capitalist world; after 1964 (as a result of the Sino-Soviet conflict), the proportion turned around. In 1973 China's trade with the "socialist camp" was only $1,700 million; with the capitalist world it was $8,170 million. (In its trade with the "socialist countries" China has had a trade surplus since 1956; in its trade with the capitalist world it had a deficit of $370 million in 1973.) (See Table 2.)

These few figures are connected to the realities and economic options of the bureaucratized Chinese workers state. The third-place position of grain in imports and the importance of the purchases of chemical fertilizers ($180 million in 1972) attest to the priority of the agricultural sector. During the period 1969-74 annual wheat purchases ranged from 3-6.5

TABLE 2

Major Aspects of Chinese Foreign Trade in 1972

Imports		Exports	
Grain	$335 million	Food products	$920 million
Iron and Steel	$485 million	Crude and combustible raw materials	$620 million
Machinery and equipment	$535 million	Textiles	$450 million
Chemical products	$330 million	Clothing	$250 million

million tons (the latter figure in 1974, 4 million tons of which came from the United States). There was even talk of a total of 7.6 million tons of cereal purchases in 1973.

Although these purchases represent only about 3% of local production, they reveal the persistence of certain agricultural difficulties and of the problems of supplying the cities.

Imports of machinery and equipment have become more important. While in 1959 they represented 47.5% of total imports, in 1962, at $120 million, they represented only 10.5% of the total. But in 1971, at $495 million, they rose again to 22.5% of total imports, and the figure has increased strongly since them.

Above all, since December 1972 China has begun making significant purchases of entire factories, which corresponds to a double objective: to acquire advanced technology and to realize the objectives of the plan. For a long time China has tried to combine advanced technology, middle-level technology, and even artisanal or semi-industrial techniques, a policy that takes account of the backwardness of the country and at the same time provides the means of modernization.

Furthermore, in order to attain the objectives of the plan, especially the agricultural objectives, it was necessary to expand the production of chemical fertilizers. Since the rapid domestic growth was insufficient, in 1972-73 China placed orders abroad for ten large chemical fertilizer factories. This aspect of China's trade policy is important. The fact that China buys these factories at high (world market) prices demonstrates the urgency of People's China attaining the targeted result, that is, a real "unblocking" of agriculture. And since China, pressed by the imperatives of its development, is turning toward the international capitalist market, it has begun to feel certain effects.

From the end of 1972 through 1974 China ordered $2,800 million worth of factories and technological equipment, which represents, among other things, thirty-five fully-equipped factories. The major orders went to Japan ($800 million of the $2,200 million spent during 1973-74), France ($560 million), and West Germany ($295 million). Britain obtained large orders for Trident aircraft.

Japan also remains the top overall trade supplier of the People's Republic of China, selling $2,000 million worth in 1973 and $3,000 million in 1974. Trade with the United States, which had increased strongly in 1973, increased again by 300% during the first six months of 1974. In 1973 U.S. sales to China totaled $690 million; U.S. purchases from China were $64 million. (Wheat accounted for a good part of China's purchases.) In 1974 American sales reached $1,000 million, while U.S. purchases did not exceed $100 million; but American exports to China seem to be declining by half in 1975. China has signed fifteen contracts to buy factories from Japan, thirteen of them petrochemical units. For its part, China has begun to sell its oil (production of which is increasing spectacularly: 50 million tons in 1973, while 100 million tons are planned for 1976), modestly at first (1.2 million tons in 1973, 4 million in 1974, 8-10 million in 1975), but on a larger scale in the future. These sales are essentially to Japan. Oil represented only 3.3% of Chinese exports to Japan in 1973; in 1974 the figure was 25%, and it will undoubtedly be higher still in 1975. In spite of that, China had a $300 million deficit in trade with Japan in 1974; the deficit in trade with the United States in the same year was $1,000 million. The overall deficit in the trade balance, which exceeded $1,000 million in 1974, can no longer be compensated for by the reentry of currency obtained by transfers effected by overseas Chinese. The Chinese government has therefore begun to prudently resort to deferred payments, that is, to capitalist credit.

Since they are counting on gaining a significant income from oil, the Chinese are allowing themselves to utilize credit (in the form of short-term credit — usually five years). And it must be said that the traditional rejection of credit in the laudable desire to maintain independence had gone too far: The state monopoly of foreign trade, still very strictly applied, and the rejection of any foreign investment in China, even on a mixed basis, provide sufficient protection. The capitalists' regret at the "rigidity" of the Chinese economic system attests to the effectiveness of this protection.

But the expansion of Chinese foreign trade is not an end in itself. It is linked to precise objectives, as we mentioned earlier. This year, after five years of growth of foreign trade (spectacular especially after 1973), the Chinese nearly completely halted their orders of equipment and factories. It is probable that they had already received enough to cover the objectives of the current plan (1971-75). Moreover, several years are needed to assimilate a technology (to understand it, and especially, to reproduce it so as not to be dependent on outside aid in making it function and in acquiring replacement parts). As for Chinese imports of American wheat, they also appear to be diminishing rapidly. At the end of January 1975 it was learned that the People's Republic of China was rejecting without explanation delivery of an order of about 600,000 tons of American wheat; this followed earlier rejection of several smaller deliveries in 1974 on the grounds that there had been too much spoilage. (For various hypotheses concerning this important reduction of grain imports see the article by Oskar Weggel in the February 1975 issue of the review China Aktuell, reproduced in Problèmes Economiques, April 30, 1975.)

The more long-term tendencies will be able to be sketched out when the fifth plan (1976-80) comes out. One thing is certain: China has set itself ambitious economic objectives. While there is no return to the period of the first plan or the "great leap forward" during which precise targets were indicated (to catch up to Britain, then the third-largest industrial power, within fifteen years), the intention is to attain the level of the greatest economic powers within thirty years. This implies large growth, higher than during the preceding decade. How is this option to be combined with the primacy of politics, with the many "cultural revolutions" that are planned? That has not been indicated. But it is obvious that this question is of great importance for the future of the regime, its form of social rule, and its relations with the world.

II. THE CAPITALIST WORLD AND CHINA

Nothing is very clear about China's perception of the capitalist crisis. One fact seems probable: The Chinese leaders do not understand the particular aspects of the crisis. More exactly, in the present period, characterized by the primacy of seeking state alliances and counteralliances, the USSR is considered the main enemy (since this country is seen as a dynamic, ascending imperialism right on China's borders, whereas American imperialism, while certainly strong, is aging and perhaps in decline). The economic crisis of the capitalist West thus becomes a secondary, or rather, unwelcome phenomenon, for it weakens capitalist Europe in face of the USSR. And we know that the leaders of the Chinese bureaucracy attach great importance to a strong and united capitalist Europe. This makes them the most energetic defenders of European unity and of the Common Market — in fact, they are the only ones who undertake this defense so vigorously. What comes from Peking is the call for the political and economic unity and the military strengthening of the European capitalist world.

Nevertheless, the crisis is present in the reports of the official Chinese press. But in spite of their constant predictions of economic catastrophies, the Chinese (and Russian) leaders have ceased to believe them (to count on or fear this crisis). Alongside the schematic traditional official view there is an unofficial perception of a Western world that might be fragile but is scarcely threatened by economic collapse or by social subversion, except subversion carried out by the "Portuguese-type" CPs — and therefore by "social imperialism" — which is disapproved of by the Chinese and feared by both the Chinese and the Americans. There is really no end to the paradoxes of history! This astonishing distortion, this short-term view, aids Western capitalism during a difficult period, which was not expected from "revolutionary" China. And this is not to mention Chinese electoral support for the worst reactionaries of the type of Franz Josef Strauss, who was received with all the honors of a chief of state and was considered worthy of having a confidential talk with the "great helmsman."

The Chinese market and the capitalist crisis

What can China represent for the capitalist world in crisis? From the commercial standpoint, very little at bottom, at least in the short term and thus during this crisis. Six or seven thousand million dollars in exports to China (80% of it from the capitalist countries) is very little, and that figure is already the result of considerable growth. The Chinese market's capacity for absorption is limited and regimented (in accordance with the plan and certain agricultural requirements).

But it is true that no market will be neglected, especially by some firms that have realized important

sales, such as the American company Kellog, which in 1973 signed two contracts for $205 million, or the French Technip and Speichem group, which in September 1973 concluded a contract of $300 million for a petrochemical complex.

But only a few firms have benefited from these contracts (which totaled $1,246 million in 1973 and $747 million during the first eight months of 1974). This is derisory in comparison with the difficulties capitalism is now facing. China derives greater benefit from the technology that it acquires than the West does from its sales. This is especially true in that the Chinese will make enormous efforts to master, reproduce, and even improve the technology, if only to be as little dependent as possible for future supplies. At least that is the choice that has been made.

Thus, trade with China threatens to remain what it was during the nineteenth century: a promised land that turns out to be disappointing in reality. For China, purchasing technology and grain and selling oil is a provisional, makeshift policy, or so it is hoped. What China aims at is economic independence, not to say autarky.

China & shifts in world market prices

Nevertheless, in its own way the West is making China feel its crisis, and more generally the breadth of the crisis. Let us not forget that the increase in the value of China's foreign trade derives in part from inflation. In other words, because of inflation, China must devote a greater part of its income (which is growing, to be sure) to buy the same quantity of products. This has been very striking in the case of grain purchases: In 1966 China bought 5.6 million tons of grain for $400 million; in 1972 the 4.8 million tons cost only $345 million; but in 1973 it cost $840 million for 7.7 million tons. These sums were spent because of difficulties or inadequacies in Chinese agriculture and not at all out of a desire to make deals; they were lost expenses for the Chinese economy.

The rise in oil prices works in the opposite direction. One author(2) has tried to estimate the probable currency income from Chinese oil exports. Between 1975 and 1982, according to this Japanese author, China could sell 137 million tons of oil, which would bring it $27,200 million. The two figures are largely arbitrary, since they depend on future sales possibilities and prices, both of which are uncertain. But they indicate the possibility of significant income, which would help in financing the coming five-year plans that call precisely for more rapid growth rates.

The crisis exerts another effect: International competition is driving down the prices of Chinese export products. But China had raised its prices in 1973, bringing them into line with world market rates. At the time it seemed that the Chinese thought they could find buyers by relying on constantly rising world trade and on the existing political situation (everyone was racing to recognize China and to see who would be first to be invited to Peking and receive the confidences of the "president"). They counted above all on the good will — especially the political good will — of the Japanese.

Nevertheless, the Japanese were the first to back off most clearly. Japan, hard hit by the crisis, compelled the Chinese to reduce the price of their oil, which is more expensive than that of their Indonesian competitors (because it is posted in Chinese yuan and not in declining dollars). Taking account of the shorter transport, the Japanese made a good deal. The Chinese were forced to give in; the negotiations, it seems, were laborious, the Japanese threatening to halt oil imports. We are a long way, as can be seen, from the end of 1973 and the Arab oil embargo! And this implies a relationship of forces that is far from favorable to China, in spite of the crisis. Even more: China is asking not only for technology, but also for indispensable grain, and for good relations too, but business is business after all. As for textile products, which still account for some 20-25% of Chinese exports, their sales prices at the Shanghai fair at the end of March 1975 were 40% less than they had been a year earlier. On the other hand, the People's Republic of China was able to maintain nearly doubled prices for its supplies of food and services to Hong Kong, which amounted to a total of 6,000 million Hong Kong dollars in 1974.

Evolution of the relationship of forces

On the other hand, the evolution of capitalism is bringing to light a fact that has hitherto been neglected and that points exactly in the opposite direction of the remark made above.

If the economic development of China is compared with that of the USSR during the 1930s or that of the capitalist world in the 1930s and of today, one fact stands out: Not only did the USSR progress rapidly in absolute development (industrially); in addition, its progress was especially striking because production in the surrounding capitalist world in crisis (the "great crisis") was at least stagnating if not declining. Chinese economic development, on the other hand, took place in face of a capitalist world in full expansion. If, for example, one compares China to its capitalist Japanese neighbor, it is probable that the economic growth of the latter during the 1950s and 1960s was greater than China's. The consequence was that the economic relationship of forces remained largely unfavorable to China, as did the relationship of industrial and military technology, especially with respect to the United States. While China progressed rapidly, it continued to remain very far behind the developed capitalist world (and also far behind its ex-ally and current enemy, the Soviet Union).

Today, during the long phase of slower growth of capitalism, when China is continuing to emphasize rapid development (even more rapid than during the past ten years, it seems), this situation of persistent lag may be turned around, and China could begin to close the gap. The effort to master advanced technology points in this direction.

This means that the relationship of forces — that is, the pressure of the capitalist world market, the military and diplomatic constraints, and, above all, the insidious constraints of "world norms" in the realm of what is considered the average level of agricultural production and of goods and services in a developed country — could become less unfavorable. The intolerable (long-term) tensions in a country like China in which the large majority of the population remains agricultural and lives in difficult conditions and in which several hundred million farmers produce scarcely any more than a few million of their American counterparts, musf not be underestimated. That is a very limited basis for building socialism. And however the Chinese leaders may make use of their present situation, they are very conscious of the insufficient, necessarily transitory character of the present state of their economy.

From this standpoint, which is different from the standpoint of China's short-term interest as an exporter, the slowdown of the growth of capitalism is a good thing for China. Obviously, a European and American socialism that would aid China would be far better; but that is another story.

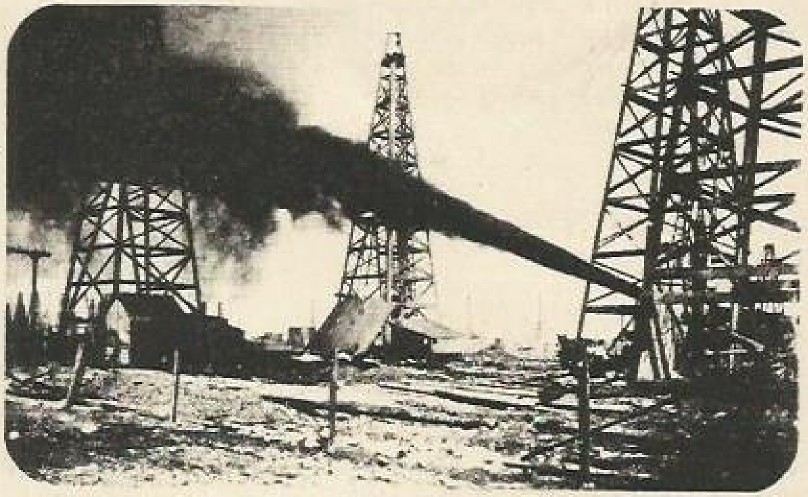
For China to attain the ambitious and legitimate economic targets it has set itself — or rather, that have been set by the leaders but are probably supported by the masses — it is necessary for the surrounding world not to evolve too quickly (and, if possible, not to progress at all).

This whole discussion, a speculative one, takes place before a backdrop that the Chinese leaders in the first place tend to forget. Economic autarky, "socialism in one country" — poor socialism to boot — is more than ever impossible. The experience of both China and Russia attest to that. On two levels. Underdeveloped countries cannot rise to a highly developed economic stage without leaning on the productive forces of the developed countries, unless this development entails great constraints and pressure on the masses. But above all, "socialist" autarky is impossible, because the surrounding capitalist world exerts pressure, which then requires that the workers state either seal itself off from the outside world, which means an autarky of permanent poverty, or else open itself to the outside world, and it is then difficult to control what is being imported, machinery or a different social system. China, which is protecting itself effectively, is certainly far from that, although it is paying dearly for what it imports, so far only in dollars. But what about the future? And then, is not degeneration also part of a transition to "socialism in one country," the specific features of which are those of a bureaucratic regime defending its own privileges?

Footnotes:

1. Quoted in "People's Republic of China: An Economic Assessment," Joint Economic Committee of the U.S. Congress, 1972, p. 37.
2. Tatsu Kambara, "The Petroleum Industry in China," The China Quarterly, December 1974, p. 719.

the boom and decline



# of raw materials

by A. UDRY

The international recession has rapidly exerted its effects on the market for raw materials, whose prices had gone through dizzying increases in 1972, 1973, and early 1974. But in just one year the tendency has been forcefully reversed. The prices of agricultural raw materials such as fiber and rubber hit their peaks in January 1974 and have been going down since then. The prices of mineral products and nonferrous metals began to bend downward in May 1974. In November 1974 the prices of most food products were still higher than they had been at the beginning of the year, but they have been going down since then.

Today, the big debate is either over what methods should be adopted to halt the decline in prices or over the proper measures for averting a new explosion of prices in the event of a boom in 1977-78 (a boom that would develop along the lines of the 1972-73 boom), according to who is doing the debating.

After a long decline...

Although the explosion of raw materials prices between 1972 and 1974 was stronger than it had been during the Korean War, it is nevertheless useful to place the 1972-74 price explosion within its long-term context.

After rising rapidly between the first quarter of 1950 and the first quarter of 1951, the prices of primary products(1) declined continuously until 1962. At that time, according to the United Nations index, they were about 5% lower than they had been during the first quarter of 1950 (that is, the pre-Korean War levels). After a slight rise between the end of 1962 and the beginning (first quarter) of 1964, they entered a new decline, which brought them to a level beneath that of the first quarter of 1950. After the fourth quarter of 1968, the overall index of primary products prices rose 5% in 1969 (between the fourth quarter of 1968 and the fourth quarter of 1969), 3% in 1970 (idem.), 7% in 1971 (idem.), 17% in 1972 (idem.), and 61% in 1973 (idem.).

Obviously, the changes in the overall primary products index conceals important gaps among the various products. From the last quarter of 1968 to the last quarter of 1971 mineral and forest products (coal, nonferrous metals, wood, wood pulp) and oil drove the index up, as did certain agricultural products (sugar, oil-seed products). On the other hand, corn, rice, wool, and rubber exerted downward pressure. From the last quarter of 1971 to the last quarter of 1972 agricultural products like wool, wheat, oil-seed products, corn, cocoa, and rubber led the way in price rises. On the other hand, the dollar prices of minerals in 1972 did not increase (with the exception of oil), and the prices of nonferrous metals declined.

In 1973 (last quarter of 1973 compared with the last quarter of 1972), on the other hand, the price increases were more uniform. Agricultural products were up 56%, that is, slightly less than the average increase for all basic products (61%). The agricultural raw materials index rose concurrently with the overall index. The index for minerals and nonferrous metals (including oil) rose 72%. It must be stressed that the mathematical scope of these increases is partly the result of an illusion created by the UN's utilization of the dollar in calculating the price indices. Thus, expressed in deutschemark, the 43.1% increase of the 1973 average over the 1972 average would be only 19.1%; the 1971-72 average increase of 13% would be only 3.2%. Hence, when the index shows increases in 1973 of 8% for ferrous metals or 4% for tea, these percentages are in fact inferior to the effective devaluation of the dollar.

To better understand the real significance and position of the increases during the most recent period (1968-73), these increases can be "corrected" by using the UN index for the prices of the manufactured products exported by the industrialized countries. For the period from the beginning of 1950 to the fourth quarter of 1973, the results are as follows:

TABLE I

Price Increases of Primary Products From 1950 to the Last Quarter of 1973 As Expressed in Dollars (in percent)

		Divided by the UN index for the prices of exported manufactured products
Primary products	100	- 2.4
Food products	120	7.3
Agricultural raw materials	68.9	-17.6
Minerals	122.2	8.4
Fuel (oil)	173.4	33.4

Source: Skandinavska Euskilda Bankens, Kvartalskrift, No. 4, 1974

Thus, when the prices of primary products are compared to those of manufactured products, it can be easily understood that the peaks reached in monetary terms are not all that high, even though the two booms of 1950-51 and 1972-73 are included in this period.

The 1972-74 boom

Compared with the boom of 1950-51, the most recent boom in primary products was marked by three particular features:

1. The price increases in current dollars were considerably stronger during the most recent upswing (1972-73) than during the Korean War boom. The UN price index for all primary products rose 150% between 1971 (base of 100) and the first quarter of 1974 (the highest point). During the 1950-51 upswing the increase was less great, the index rising 50% between 1949 (base of 100) and the first quarter of 1951 (the highest point). The same difference emerges if the prices in current dollars are "corrected" by the UN price index for exported manufactured products: 80% between 1971 and the first quarter of 1974; 43% between 1949 and the first quarter of 1951.

2. During the most recent upswing the price escalation lasted for more than two years, from 1972 to April-May 1974, and this was the case even though stagnation of industrial production appeared in a number of imperialist countries beginning with the end of 1973. At the beginning of the 1950s, on the other hand, the explosion of prices lasted only nine months, and less than two years after the beginning of the boom they stood at a level 20% higher than that of 1949. This prolongation of the increase in primary products prices during the recent period expresses one of the specific features of the first phase of the generalized recession of the imperialist economy (approximately up to July 1974), during which the decline of industrial production was combined with shortages and bottlenecks in some sectors.

3. During the recent boom the price explosion affected all sectors of primary products, whereas during the years 1950-52 the rise of prices occurred in the realm of agricultural products and metals (except iron), but affected energy products and foodstuffs only slightly.

A brief examination of the price increases in the various sectors since the beginning of 1972 indicates the growth rate of each of the categories up to the period of the turnabout of May 1974. We utilize the figures of The Economist, whose overall index breaks down as follows: 55.6% food products and 44.4% raw materials.(2) (See tables 2 and 3.)

TABLE II

Evolution of Prices of Primary Products
(dollar index, 1970=100)

	January '72	January '73	January '74	May '74
All items	101.3	147.2	228.9	254.5
Food	107.7	165.9	239.7	271.4
Industrial raw materials	94.1	123.8	215.6	233.4
Fibers	116.1	190.0	330.1	265.4
Metals	82.8	85.6	153.7	225.8

TABLE III

Variation in % Compared with Corresponding Period

	Jan '73 / Jan '72	Jan '74 / Jan '72	Jan '74 / Jan '73	May '74 / Jan '72	May '74 / Jan '73	May '74 / Jan '74
All items	45.3	125.9	55.5	151.2	72.2	11.1
Food	54	131.4	43.2	151.9	63.5	13.2
Industrial raw materials	29.4	129.1	74.2	145.6	87.7	8.2
Fibers	64.5	184.3	73.7	128.4	39.6	-24.4
Metals	3.5	85.6	80.3	172.7	163.9	46.8

It should be stressed that the food sector expanded until November 1974 (index 329.2), while fibers began to decline in January 1974; metals joined the downward slide beginning in June 1974.

The short-term causes

The escalation of raw materials prices is explained by various factors that have nothing to do with "the limits of growth" or any "natural scarcity."(3)

1. The growth of manufacturing production in the imperialist countries taken as a whole in 1972-73 obviously triggered an explosion of demand for raw materials and revealed the existing disproportions among various sectors of production.

In 1973 the growth of manufacturing production reached a level rarely seen in a single year — and this in the totality of the advanced capitalist countries. Now, production in manufacturing is the best indicator of demand for raw materials. (See table 4.)

Production in the metal and machine industries, whose average increases were 12.5% and 13.1% respectively for the three regions mentioned in the table, had strong effects on demand for minerals and nonferrous metals. The same goes for the effects of textile and clothing production on the demand for fiber and wool. The synchronization of the increase of demand thus created market tensions, especially since there is some short-term inelasticity of supply (for most of these products). It takes about seven years for a normal mine to reach full production.

2. To this must be added the fact that the stocks of many raw materials held by users had been relatively low when prices began rising (a result of the price tendency of the previous period). This was especially true because after the slowdown and regression of manufacturing production in 1970-71, appropriation of existing stocks was needed to respond to the first phase of the 1972 upturn. This is one of the elements that lend a specific character to the recent price increases in comparison with the Korean War increases. In fact, the level of stocks of strategic products was rather high at the time of the Korean War, both because of the stockpiling that had been done in anticipation of an armed conflict and because of the reserves that had been piled up during the second world war. The constitution of strategic stocks combined with the industrial boom

TABLE IV

Evolution of Production in Manufacturing
(variation in % compared with preceding year)

	Year	All items	Basic Metallurgy	Industrial Machine products	Chemical products	Textiles, Clothing
U.S. & Canada	1959-69*	5.7	4.5	6.6	8.1	3.0
	70	-4.8	-5.7	- 8.3	0.0	-4.8
	71	0.0	- 5.0	- 2.0	6.0	1.0
	72	9.0	11.6	8.2	9.4	6.9
	73	9.2	11.3	13.2	8.6	6.5
West Europe (EEC & EFTA)	1959-69	6.2	5.1	6.2	10.1	3.4
	70	5.3	2.0	7.5	7.5	0.0
	71	2.0	- 4.0	2.0	5.0	4.0
	72	5.9	5.2	3.9	7.6	3.8
	73	8.3	9.9	9.4	13.3	0.9
Japan	1959-69	15.3	16.6	19.9	15.2	7.0
	70	13.6	12.3	17.6	19.0	4.2
	71	3.0	- 2.0	3.0	7.0	1.0
	72	6.8	10.2	8.7	5.6	0.0
	73	18.2	22.2	23.2	15.9	9.9

*average annual growth rate (composed) for 1959-69
Source: OECD — Industrial production

(industrial production for the United States and West Europe increased 8.1% in 1950 and 9.3% in 1951) to generate a rise in the prices of basic products. But later, the decline in industrial production was compounded by the effects of the unstocking and exerted strong downward pressure on the prices of raw materials.

3. Finally, speculation, although it was not at all the real cause of the price increases, did stimulate continuation of the escalation. In face of the depreciation of paper money in this era of inflation, holders of capital "take refuge" in the purchase of so-called real goods, especially when stock exchange values are showing signs of weakness. In 1973, for instance, the total volume of transactions for eight major primary products (cocoa, coffee, sugar, rubber, copper, lead, tin, and zinc) on London and New York commodity futures markets was about two-thirds higher than the average of the three preceding years. For most products, the volume of sales was several times higher than the volume of world imports.

Behind the agents of the London Metal Exchange stand the major integrated groups (controlling the energy sources, transport, and extraction all the way through to marketing), which, by virtue of their fruitful speculations, recover the royalties sent to the producing countries. A good example of this sort of manipulation is provided by the transfer of copper that was carried out during autumn 1973 between the United States and Europe. Since the price of copper in the United States had been frozen by government decision, the price was 70% higher in London. Hence, import prices were free, so the European and Japanese sold on the U.S. market; the Americans exported to the European markets. In its January 4, 1975, issue Entreprise, the weekly magazine of the French employers, wrote: "European and American ships are crossing paths in the middle of the Atlantic, each side supplying the other with the same products." In 1950-51, when inflation was more limited and the demand for productive investment was stronger, speculative operations did not attain such dimensions.

A more profound imbalance

But all these are short-term factors. They do not allow us to grasp the real causes of the emergence of sectoral shortages (with the consequent upward pressure on prices) after a long period of growth in capitalist manufacturing production, shortages that continued to be felt for a whole chain of products during the first phase of the recession.

In reality, we are dealing here with the classical effects of uneven disproportioned development among the various sectors of production, a feature of all growth under the capitalist system.

1. The deterioration of the terms of trade between primary products and manufactured products could not but lead to a relative fall in the rate of profit in the various primary sectors.

Although in the most recent period there was a turnabout in the terms of trade in favor of primary products, and then, after May 1974, a new shift to their detriment, the deterioration of the terms of trade was constant during the 1950s and 1960s. (See table 5.)

TABLE V

TERMS OF TRADE: between manufactured products in developed countries (dev. mfg.) and primary products in underdeveloped countries (und. pps.)

	Unit values dev. mfg.	Und. pps.	Terms of trade
1953	275	163	170
1962-63	275	148	185
1967-68	285	153	187
1973*	380	260	146

*Estimate, without oil
Source: see footnote 4

The deterioration of the terms of trade for the countries producing raw materials — and the semicolonial countries remain essentially exporters of raw materials — triggered slowdowns in investment, in productivity increases, and in the relative increase of productive capacity in the raw materials sector compared with the manufacturing sector. In addition, the monopolies sometimes developed policies of restriction in order to maintain prices.

Likewise, there was a transfer of capital from the primary sector to manufacturing industry within the structure of imperialist investment in the semicolonial countries. The transfers, like the frequent cancellation of investment projects aimed at modernization, were heavily stimulated by the "dangers" of nationalization facing the monopolies of the extractive industries. In fact, the preponderant position of these industries in the economies of the semicolonial countries — reflected in the fact that this sector essentially defines exports and in the role played by the imperialist monopolies, which transfer their high profits and thus permanently encumber the balance of payments — strongly incites any government that is at all favorable to increasing economic growth to nationalize the monopolies producing primary products.

This twofold process can be observed in the series of figures below. (See table 6.)

TABLE VI

A. Direct U.S. investment in Latin America (by sector, in %)

	1950	1957	1963	1967
Manufacturing industries	19	20	29	32
Oil	32	37	32	29
Mines	17	16	12	12

B. U.S. investment, by sector, in developed and underdeveloped countries (in %)

	1949	1959	1968	Annual Average investment income for 1967/1968
Manufacturing industries	33	32	41	26
Oil	29	33	29	46
Mines	10	10	8	13

Source: See footnote 4

The stability and even slight decline of investment in the mining sector is significant. This tendency, along with its inherent effects, is confirmed by a French employers' monthly magazine, which writes: "Inflation has led the mining industries toward diversification in the direction of consumer industries in which profitability is greater and turnover time is lower, and this has increased the demand for raw materials even further.

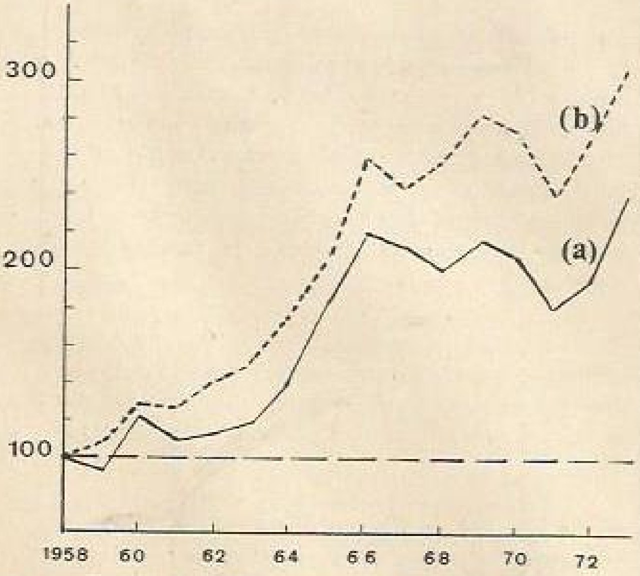
"In the end, it is perhaps here, in the disruption of the structures of supply rather than in a hypothetical exhaustion of reserves, that the real threat to the economy lies." (Usine Nouvelle, October 1974.)

As for oil, during the past two decades investment was especially developed — still only relatively — in the Near and Middle East. The world oil cartel used the price of Gulf of Mexico oil as a base in setting the world cartel price, although the costs of extraction in the Middle East amounted to only one-ninth of the costs in the United States. Obviously, this was reflected in the return on capital invested in the petroleum industry, which amounted to 3.8% in the industrialized countries and 22.7% in the "developing countries" during the period 1950-51. That is why the oil majors placed many restrictions on refining capacity in the United States itself, with the consequent effects of shortage when the "oil crisis" broke out.

One of the results of the totality of this process can be seen in the increase of the index of production for manufacturing industries, which rose 132% between 1960 and 1973, as compared with an increase of 92% for the index for the extractive industries.

2. But the flow of investment under the impetus of fluctuations in the rate of profit particularly provoked an imbalance in long-term investment in productive capacity in the transformation of metals industry and in the industries transforming rubber, chemical products, and wood. Now, the industries transforming primary products account for 40% of the total volume of these materials consumed in the industrialized countries. The decline of investment was particularly sharp after 1969. This is not unrelated to the recession that occurred in 1970-71 in basic metallurgy and in the machine industry in a number of capitalist countries. (See table 4.)

The graph below indicates the gap between the investment cycle in the industries transforming primary products in the United States and the investment cycle in the manufacture of finished products.



Expenditures in 1968 constant prices on total equipment and new materials in the transformation of materials industry (A) and in other branches of the manufacturing sector (B). Index, 1958=100.

This disproportion between investment and the development of productive capacity gave rise to a good number of sectoral shortages in face of the explosion of demand linked to the boom in manufacturing industries in 1972-73.

But in its turn, the price increases in the raw materials sector unleashed a wave of investment — especially in the energy sector — that had to be made profitable, and this was compounded by the rise in production costs (the increase in the price of fuel, etc.). This shows that in spite of the decline of prices because of the extension of the recession, it is unlikely that most prices will quickly fall back to their 1968-69 levels, at least if the recession does not deepen beyond 1975. Paradoxically, this is combined with potential shortages in some sectors in which the investment projects canceled in 1971-72 have not been replaced. Hence, a new upturn of the imperialist economy, even a moderate one, could raise various products out of the current morass (which is in any case not as deep as that of the 1960s) and, under the impact of a new rise in prices, could stimulate investment that had been postponed in 1973-74. It thus seems that we are in for a rather long process of readjustment, which obviously does not mean that the peaks of 1973 will be reached again, but rather that the troughs of the 1960s are not likely to be seen again soon.

A sudden shock

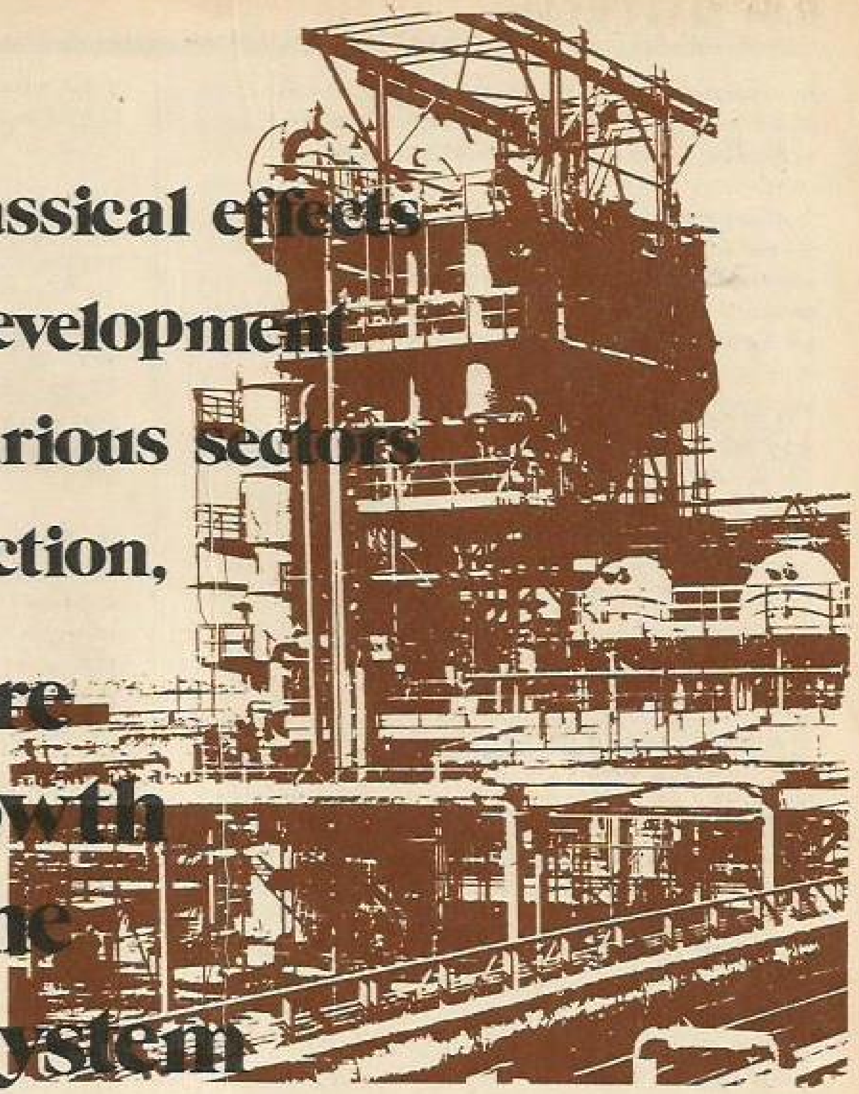
Beginning with the second half of 1974, the effects of the recession made themselves felt on the prices of basic products. In wave after wave, the recession overtook all the branches of the manufacturing industry. The demand for raw materials dropped rapidly. Stocks began to accumulate on the market again, especially in the products most sensitive to the industrial conjuncture: zinc, tin, lead, copper, rubber, cotton, etc. The rise in the costs of credit engendered a wave of destocking. Speculators inundated the market, for they had oversupplied themselves in 1973-74, the Japanese companies on the copper market being an example. The price declines struck with particular unexpectedness, for many people had hoped that there would be enough industrial growth in 1975 to enable price levels to be maintained.

The index provided by the British weekly The Economist (May 12, 1975) indicates the following depreciation during a one year period:

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

A few price quotations can give an idea of the price declines for major primary products. (See table 7.)

Stocks swelled in face of the emergence of produc-



here are the classical effects of uneven development among the various sectors of production, a feature of all growth under the capitalist system

TABLE VII

Price Declines for Major Primary Products

	Highest price in 1974	Price on May 5, 1975
Sugar in New York (U.S. cents per pound)	61	18
Cotton in Liverpool (")	91.5	54.05
Wool in London (pence per kilo)	294	187
Copper in London (£ per ton)	1,000	567
Zinc in London (£ per ton)	775	309
Index of the Kredietbank (Belgium)		
- raw materials	410.0	282.9 : -30%
- agricultural products	332.8	214.5 : -35.5%
- mineral products	523.8	338.9 : -35.2%

tive overcapacity in all important sectors; producers of material after material held discussions on price reductions so as not to exacerbate the declines.

The consequences of these price declines are very severe for the semicolonial countries, which hold relative hegemony only over production of basic products and whose exports rest almost exclusively on the sale of these products.

The advantages that the semicolonial countries drew from the rise in the prices of raw materials during the period of upswing were on the whole not as great as the Western press tried to make out, with the exception of oil. First of all, it must be noted that many semicolonial countries are net importers of many raw materials whose prices soared in 1972-73. Second, close to the majority of these countries are net importers of food products. An examination of the imports of India, which does not export the leading products (apart from sisal, tea, etc.), makes explicit the effects of the price increases on this category of country:

Indian Imports
(in millions of rupees)

	1972/73	1973/74
1. Investment goods		
Total	5,636	9,535
2. Primary products		
Total	8,307	19,696
of which:		
Oil and oil products	2,040	5,602
Wheat	808	7,431
Fertilizers	962	1,622

In addition, a good part of the profits obtained through the price increases of primary products were simply appropriated by the imperialist monopolies that control the production and distribution of many of these products. Finally, the share of the imperialist countries in production, transformation, and marketing in the mining and metals sector is extremely large: The colonial and semicolonial countries control only one-third of the marketing of minerals and metals taken together (Le Monde, April 29, 1975): 40.7% for minerals (compared with 54.4% for the imperialist countries); 30.6% for metals (compared with 65.0% for the imperialist countries).

This moved one group of experts to say: "For about 90% of the inhabitants of the third world, an increase in the price of mineral raw materials entails no advantage, but on the contrary amounts to a suplementary burden, especially for the poorest of them." (Annales des mines, January 1975, quòted in Le Monde, April 25, 1975.)

Nevertheless, a number of semicolonial countries did experience a growth in their currency resources and participation in world trade, and this enabled the "developing regions" to conserve their approximately 18% participation in world trade for three years in a row (18.4% in 1971, 17.5% in 1972, 17.9% in 1973). It is true that in 1974 their share rose to about 25%, but this was due in large part to oil exports.

During the past eleven months the currency resources of the underdeveloped countries have diminished drastically because of the conjunction of the decline in the prices and volume of exports, which was in turn caused by the extension of the recession. Moreover, a turnabout in the terms of trade is now going on, and the underdeveloped countries that are buying machinery to modernize their production of basic products will thus automatically effect a transfer of value in favor of the imperialist countries. The projects of agricultural and mining development, which involve substantial increases in purchases of capital goods, will weigh down the import bill even further or else will be canceled.

The hardest hit countries are those that depend on exporting one or two products whose price is falling. Two years ago the capitalist press was speaking of Zambia (copper) and Malaysia (rubber) as candidates for membership in the "nouveaux riches raw materials" club. But today these countries are trying to avoid suffocation. The Economist remarked in its December 28, 1974, issue: "A recession among manufacturing nations in 1975 will rebound doubly hard on the developing world: not only will their export earnings drop sharply next year (slowing their development and ability to import vital industrial goods), but their oil bill is saddling them with deficits relatively much larger than those of the rich nations."

Finally, the fall in prices will bring to the surface all the differences in profitability among the extractive industries themselves. This has already happened with copper. The mines of central Africa, whose extraction and refining systems are old, operate at a cost of production that is about £75 per ton higher than that of the mines of Australia or South Africa. Will Zambia continue to produce at a loss in order to assure itself of currency?

In the context of the reorganization of production and distribution generated by the raw materials boom, the imperialist monopolies have taken the offensive and will try to make gains during the recession itself. For instance, "The mining companies of the West are already getting out of the developing world. America's largest company, Anaconda, has been putting its new investment almost entirely in the United States, where it can still produce copper profitably — and keep the profit. The mines that Rio Tinto Zinc now operates in South Africa, Australia, and Papua New Guinea (which would keep out of any producer cartel) were prospected mainly because the company feared nationalisation elsewhere; and these mines are now operating more profitably than most in the traditional copper exporting countries." (The Economist, May 11, 1974.) Producing at costs lower than the mines of Chile, Zaire, Zambia, or Peru, a group like Rio Tinto Zinc is now in position to break any attempt to create a single supply source by strengthening the copper cartel and to repurchase Japanese stocks that still "threaten" the market, so as to slow down falling copper prices on the London market and maintain prices at a level that is profitable for the company but dangerous for the members of the cartel. But here we are dealing with one of the characteristic features of this raw materials boom and its overturn: the attempt by producers of various basic products to develop a strategy similar to that of the OPEC (Organization of Petroleum Exporting Countries).

Cartel and recession

Spurred on by the success of the oil states and the example of OPEC, many raw materials producers want either to strengthen the links in already existing producers' syndicates or to create such combines if none exist. This is the case for copper (ICCEC — Intergovernmental Committee of Copper Exporting Countries), tin, bauxite, etc.

The point of departure of this strategy obviously rests on the physical dependence of the imperialist countries on the colonial and semicolonial countries. Although this physical dependence is growing, it must immediately be stressed that there is a diversity of dependence between the United States and Canada taken as a bloc on the one hand and the Common Market countries on the other hand. The U.S.-Canadian bloc commands a significant degree of independence (in terms of the relationship between production and consumption) in energy, copper, zinc, lead, iron, cotton, wool, and phosphates. On the other hand, things are different for Europe, which is more dependent in energy, copper, zinc, lead, iron, cotton, phosphates, and wool. In the United States it is especially products like bauxite, tin, manganese, chrome, and antimony that are almost totally lacking.

In addition to this dissimilitude, European and American imperialism have different ranges of investment in the "third world." American imperialism has tended to put the emphasis on investment in the extractive industries, while the European imperialist powers, especially West Germany, have directed their investment toward the transformation industries. These differences explain why, for example, Kissinger proposes a floor price for oil, because the energy reserves available for exploitation in the United States and Canada, like the planned investment in nuclear energy, could become profitable only on condition that oil prices do not fall too low! The same differences also furnish some of the elements explaining the varying attitudes that have been adopted by the competing imperialist powers in the framework of the discussions with the countries producing raw materials.

Nevertheless, can these attempts to transpose the post-1971 OPEC strategy to other products succeed? Such success would appear extremely difficult, for several reasons:

1. The oil industry is strongly capitalized, but any decrease in production for other products would have very important repercussions on employment, as is the case with copper, for example. The heavily populated oil countries have already run into this difficulty themselves. The case of coffee provides an extreme example: "The world coffee trade is worth less than 10% of Arab oil exports, but nearly 20 million people in 40 different developing countries, more than the entire population of the Arab oil-producing states, earn their living from the coffee bean." (The Economist, May 11, 1975.)

2. The producing countries, which have pressing currency needs, will find it difficult to afford the luxury of introducing production restrictions of any scope, especially since in certain countries the products concerned represent nearly the totality of exports. (Copper accounts for 98% of Zambia's exports; cocoa accounts for 70% of Ghana's exports.)

3. The possibility of substituting products, while not gigantic, exists nevertheless. This is the case with aluminum, rubber, cotton, and magnesium. For example, although concentration of bauxite production would be one of the conditions favorable to the establishment of a sales cartel, the discovery of a substitute product raises a threat against any price increase that is too strong: "As always, the uncertainty is more technical than economic. For the moment, the 'H+ process' (based on the utilization of clay and shale), which has been set up by Péchiney, is 'slightly more costly' than the Bayer process discovered twenty years ago. But the cost of this technique constitutes a ceiling beyond which

the general trend will contine until the market economy is radically challenged

the bauxite-producing countries will not be able to go without facing the substitution of clay and shale for bauxite, while at the same time, the classical mineral coming from the Caribbean or Australia will suffer the inevitable increases in transport costs." (Entreprise, June 20-26, 1975.)

4. The financing of stocks is also a delicate problem. Malaysia, which produces 50% of natural crude rubber, had to advance the sum of $200 million to begin to build up a regulatory stock. Malaysia, along with Indonesia — which can finance its stock more easily because of its oil income — would have to spend $100 million to establish a stock of 300,000 tons. And that stock would not exceed 10% of the annual production of rubber in Southeast Asia. But overproduction had already hit 10% at the beginning of 1975. In the case of copper, according to the experts of the ICCEC, a regulatory stock would have to represent about 20% of annual world consumption if it was to be capable of influencing price scales in a lasting manner. Based on the annual averages for 1971, 1972, and 1973, $3,000 million would have been needed to set up such a stock at the end of 1973!

5. The diversity of producers and the organized dispersion of production effected by the imperialist monopolies also renders it arduous to transpose the OPEC strategy. This is the case, for example, for the producers of bauxite, among which Australia occupies first place (producing 14.2 million tons in 1973; Jamaica was second, with 12.8 million tons). This diversity comes to light even more strikingly during a period of recession, especially for the products that are consumed almost exclusively by the industrialized countries. It is very difficult to maintain a sales cartel under conditions of slump.

All these obstacles tend to indicate that even in the most favorable sectors (bauxite, tin, copper, antimony), the formation of sales cartels as effective as OPEC will certainly not take place.

On the other hand, the imperialist countries will seek to set up a system of regulatory stocks within strict limits in order to guarantee a given quantity of products at a certain price. These stocks should enable them to avoid a new explosion of raw materials prices in the event of an upturn and at the same time to foresee raw materials costs in advance, which is not without interest in determining investment. The imperialist powers will try to force the issue so as to seek to obtain advantages during the present period of recession, for as The Economist has asserted, "Industrialised countries will have greater bargaining power in negotiations that start during the slump. The time for them to act may be mid-summer, when UNCTAD lays the details of its commodity stockpile programme on the table." (March 15, 1975.)

With the extension of the recession and the new turnabout in the terms of trade, the growing physical dependence of the imperialist countries on the raw materials of the third world will once again be combined with declines in the cost of financing this dependence. To be sure, relations will not be identical to those of the 1950s or 1960s, but the general tendency will persist. At least until the market economy that embodies the contradiction between use value (physical dependence) and exchange value (unequal exchange) is radically challenged.

May 29, 1975

Footnotes:

1. According to the classifications of world trade, the term primary products includes: food products (food and animal products, drink and tobacco, animal and vegetable oils and fats); raw materials (leather, crude rubber, wood, paper pulp, textile fibers, crude minerals, metal ore, raw materials of animal or vegetable origin); fuels (minerals and lubricants).

2. The Economist's index is composed and broken down as follows:

Food: total 55.6%

Internal breakdown: beef 12.2, lamb 2.8, wheat 9.8, maize 11.1, coffee 20.0, cocoa 6.3, tea 2.9, sugar 10.3, oilseed cake 6.5, oilseeds 11.8, vegetable oils 6.3.

Industrial raw materials: total 44.4%

Breakdown: Fibers - cotton 12.8, wool 13.8, jute 1.2, sisal 0.6, jute goods 2.7.

Metals - copper 39.2, lead 4.3, zinc 5.5, tin 5.6.

Others - hides 3.0, rubber 7.3, oilseeds 2.6, vegetable oils 1.4.

3. See the article "The Profits of Famine," INPRECOR, No. 16/17, January 16, 1975. We have left aside the question of oil, which has been dealt with in other articles.

4. Michael Baratt-Brown, The Economics of Imperialism, Penguin, 1974.

5. Klaus Busch, Die Multinationale Konzerne: Zur Analyse der Weltmarktbewegung des Kapitals, Suhrkampf, 1974.

STOP THE TRIAL AGAINST GARMENDIA!

The following appeal was issued May 23 by the comrades of the United Political Bureau of the Liga Comunista Revolucionaria/Euzkadi ta Askatasuna-VI (LCR/ETA-VI — Revolutionary Communist League/Basque Nation and Freedom-VI), sympathizing organization of the Fourth International in Spain.

The Francoist dictatorship has decided to pass a death sentence against J. Antonio Garmendia, a revolutionary nationalist militant of the ETA-V, without giving any advance notice, in order to avert a national and international mobilization that could prevent the dictatorship from perpetrating this murder.

THE TRIAL MAY TAKE PLACE DURING THE EARLY DAYS OF JUNE!

Once again, it is a farce trial, which will take place within the framework of the enormous farce that all Francoist legality represents. The only "evidence" is a military judge's "moral conviction" that the Basque militant is guilty. Apart from that, there is only Garmendia's signature on a piece of paper on which the police were able to write whatever they wanted; the signature was affixed while Garmendia lay in a coma, a result of the head injuries he suffered during the torture to which he was subjected.

There is no doubt that the dictatorship hopes that the thousands of arrests in Euzkadi after the declaration of the state of exception there will constitute a sufficient guarantee that a mass mobilization will be averted, both in the Basque country and throughout the rest of the Spanish state.

But the dictatorship is wrong: THE WORKING CLASS AND THE OPPRESSED PEOPLE ARE NOT PREPARED TO LET THE DICTATORSHIP, IN ITS DEATH AGONY, CREATE NEW VICTIMS! THERE WILL BE NO NEW EXECUTION! THERE WILL BE NO NEW SALVADOR PUIG ANTICH!

In spite of the state of exception and the terror imposed by the fascist-police gangs, Euzkadi will once again stand at the head of this battle, and the proletariat and oppressed people

throughout the Spanish state will make solidarity with Euzkadi and the defense of Garmendia the central axes of their mobilizations.

It is urgent to prepare an immediate response to this new attack by the murderous dictatorship. It is necessary to respond with immediate mobilizations, work stoppages, and assemblies and actions of all sorts in the factories, neighborhoods, and schools. It is indispensable to prepare the weapon that can stop Francoism's murderous plans: THE GENERAL STRIKE.

In Euzkadi the revolutionary organizations, as well as the Communist party and the workers commissions, have already decided to call for a day of struggle against the state of exception on June 11. It is now necessary to convoke the general strike throughout the Spanish state on the day the trial opens.

*We call upon the workers and oppressed people to begin now carrying out many actions of all types to save the life of Garmendia;
*We call upon the workers commissions to wage an intense agitation campaign, to give an impetus to work stoppages and assemblies, to prepare broad mobilizations;
*We call on all the workers organizations to immediately unify in action on the sectoral, local, and central level to organize the mobilization that will be able to stay the hand of the Francoist butcher!

With this trial, the dictatorship in its death agony is launching into a test of strength that could be decisive. The task of the mass movement now is to turn that test into a general offensive against Francoism!

FREE GARMENDIA!
DOWN WITH THE STATE OF EXCEPTION!
FREE ALL POLITICAL PRISONERS!
DOWN WITH THE MURDEROUS DICTATORSHIP!

Éditeur responsable: René Groslambert, 34 rue Nothomb, 1040 – Bruxelles/ Belgique