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*Special issue:*

## **What future for capitalism?**



*Eona*

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Special issue:

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## International VIEWPOINT

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# The future of capitalism

**A** LONG period of recession began in 1973. Since that date, the capitalist world has seen several phases of cyclical recovery. The last (between 1983 and 1989) saw, as was the case on each previous occasion, the usual ramblings about the new expansionist virtues of capitalism. And did not the "end of communism" arrive just in time to confirm the new modernity of capitalism? But then recession struck again. It turned out that the system had not yet escaped from its long depressive period.

However, the long upturn of 1983-89 showed certain cumulative effects of the changes capitalism had undergone during the crisis. Thus it was important to consider the changes occasioned or permitted by the 19-year depressive period. It had also become necessary to discuss what political, social and economic conditions were required for contemporary capitalism to return to a long wave of expansion.

The two articles on pp. 17-26 take up this debate on the functioning of capitalism and the ways in which it could lastingly restore the rate of profit and an expansion of accumulation. What is the necessary role of cumulative structural changes? And what kind of events outside the strictly economic sphere — the so-called exogenous factors — could create the new social conditions needed to back up a recovery? Finally, can "late capitalism" return to the growth rates of the "thirty glorious years" or are its future non-recessionary phases condemned to be nothing more than mere periods of convalescence?

## No academic discussion

This is far from being an academic discussion. It is not just a matter of predicting conjunctures and cycles. To speak about capitalist crisis does not mean that the bosses and the ruling class have their backs to the wall, are living on expedients, managing their debts and their interest rates from day to day.

The crisis is also the occasion for profound changes insofar as the workers, principally those at the heart of the imperialist system, have been unable to use the weakness of their adversary to profoundly change the relationship of social forces.

More or less protected in the medium term from revolutionary dangers, capital has developed a number of innovations which amount to initial antidotes to the crisis. Reorganization of work and the enterprise, implantation of new technologies, the penetration of the market into new sectors of social life and so on. All this is, perhaps, not enough. But each time

**THIS special economics issue is in part the fruit of a seminar organized in November 1991 by the Fourth International, the world-wide organization of revolutionary Marxists. One of the themes addressed by the meeting was the way in which capitalism was changing in the course of its current crisis.**

**We are publishing in this issue two studies relating to one of the main discussions; they deal with capitalist reorganization and its impact on an eventual exit from the crisis (see pp. 17-26).**

## CLAUDE GABRIEL

some of the previously existing social gains are eaten away.

Thus we can clearly see in the setting up of the North American Free Trade Association (NAFTA), or the development of the European Economic Community (EEC), a pragmatic search for a way out of the crisis for which hundreds of millions of wage workers will have to pay, both in the figurative and real senses of the term. It is also clear that capital is looking for a second wind from the new markets of the East. But at what social price? These economic questions are related to the balance of class forces and the political struggles.

This is why we are also publishing articles on the social and economic situation and on economic developments in some of the main industrial countries. In order to assess the road travelled over the past 20 years we have to look at what has happened to the organization of capital in the nerve centres of the world economy.

The greater part of international trade is between the OECD (Organization for Economic Coopera-

tion and Development) countries and it is here also that most of the world's effective demand is to be found. And it is also here that most durable goods are produced and the main technological innovations made. Although, as their name indicates, the power of the multinationals extends throughout the world, it remains the case that the bulk of their employees are to be found in countries such as Japan, Europe and the USA.

## Appearances deceptive

It is not then true that the socio-economic stakes for the future are the least decisive in those countries where class confrontations seem, for the moment, particularly unclear, or at least of a less than explosive character. Appearances can be deceptive. It is in these countries that the results of all the struggles of resistance come together. And it is from there that the solidarity networks must radiate out.

Of course the image of capitalism as predator and monster is projected most clearly by the misery of the Third World or perhaps in the East in the future. Here we see most blatantly the "war of all against all" for access to the most lucrative spoils of the "market".

But it is precisely because capitalism always wants to give the impression of being other than it is, of being virtuous and redistributive, that we have to challenge this lie in the countries of the "centre". The capitalist economy, in the US, in Europe, in Japan each day produces more misery and marginalization. Here tens of millions of men and women are unable to work. The states rob and redistribute the fruits of corruption like any banana republic. In short, behind the opulent facade of imperialism, the capitalist machine continues to churn out barbarism and oppression. ★



# An unhappy new year

**THE world economy is currently experiencing a sluggishness which is giving increasing cause for concern. A recent editorial in the *Economist*, while attempting to be reassuring, was nevertheless entitled "Free fall?". It is well known that economic forecasts record fluctuations which are likely to be even more important than the economic phenomena themselves. Thus, after having doubted the onset of a new recession in the United States in the mid-1980's, then having proclaimed that the crisis was over towards the end of the decade, economists tried to convince themselves that a recovery, which has yet to appear, was imminent.**

MAXINE DURAND

**T**HE Organization for Economic Cooperation and Development (OECD) has had to revise its forecasts downwards. Growth in 1991 was very slow; 1.1% for the capitalist world as a whole, with unemployment rising by 3.4 million in a year. The OECD predicted that the situation would be a bit better in 1992, with a growth-rate of 2.2% and, as usual, they claim that the following year should be even better with growth at 3.3%.

But in reality no perspective of harmonious growth of the world capitalist economy can be seen. As *L'Expansion* has written, "the recovery, if it occurs, will be fragile and lacking in vigor: the economies of the big industrial countries are beginning a detoxification cure."

## A debate is closed

This morose state of affairs provides several lessons. In the first place it ends the debate which opened around the rather good economic performances recorded between 1988 and 1990.

These could be explained in one of two ways. The optimists thought that liberal policies would bear fruit. "Structural adjustments" had sufficiently cleaned up economies which could finally attain a rhythm of growth similar to that before the crisis.

But this period could also be interpreted as a simple phase of replacement of investments and conclude that it actually amounted to a conjunctural upturn. The current downturn shows that the latter interpretation was correct. The turnaround dates from before the Gulf war and its date varies amongst different countries. It can be dated at mid-1988 for the United Kingdom, from mid-1989 for the United States, and from the end of 1989 for France and Italy.

The second feature of the current phase appears in table 1, which shows that the big countries are beginning to evolve in different ways. This unequal development helps explain how the world economy has been able to avoid a generalized third recession where all the economies would shrink at the same time.

If we examine closely the evolution of each of the big countries we notice that the economic year 1991 laid to rest three illusions. A liberal illusion to begin with: it is striking to note that the slow-down is particularly noticeable for the United Kingdom and the USA, to the point that we can speak of a true recession.

The countries of triumphant liberalism have therefore reached their limits. They now have much more limited perspectives and the days when they were an example to others are over.

## The myth of 1992

The second illusion which has been shattered by economic reality is that of the formation of a big European market. The myth of 1992 had been promulgated by the Brussels technocrats who promised at least two million new jobs.

In 1991 the number of jobs in the European Economic Community stagnated while the unemployment level went from 8.9% to 9.3% of the active population.

The abolition of customs is not in and of itself the bearer of a new dynamic of accumulation, which is determined by factors lying elsewhere.

A third economic myth has just been exploded. The reunification of Germany and the general opening up of the markets in the East was supposed to give capitalism the breathing space it needed to overcome the crisis. This too was a disappointment: the reunification was more costly than anticipated and German growth, after having powerfully advanced in 1990, is now slowing down.

The balance of payments worsened and the result was a rising rate of interest, which speaks volumes on the coordination of monetary policies which has been talked about so much over the last few months.

The supposedly open markets in the East continue to collapse. During the first half of 1991 industrial production declined by 29% in Bulgaria, 14% in Czechoslovakia, 17% in Hungary, 9% in Poland and 17% in Rumania. In the ex-Soviet Union, the national product declined by around 12% over the same period.

## Explaining the downturn

How can this downturn on the international level be explained? It should be seen as essentially the effect of various contradictions which have until now been contained. The most fundamental is the following: the restabilization of profits realized during the decade that has just ended could not be accompanied by a sufficient dynamic of market openings. The growth of demand rested on various mechanisms at least two of which are reaching their limits.

The growing imbalance of the distribution of income to the detriment of wage earners cannot be indefinitely deepened. In the same way, the tendency towards generalized indebtedness which has helped to maintain the level of demand, especially in the United States, can no longer be prolonged. Capitalism is therefore in the process of rediscovering the famous contradiction between profits and outlets.

Another element that must be considered involves the reduction of financial

**Table 1: Growth of Gross Domestic Product (GDP)**

	1983-1989	1990	1991	1992
USA	3.9	1.0	-0.5	2.2
Japan	4.6	5.6	4.5	2.4
Ex-GDR	2.7	4.5	3.2	1.8
France	2.1	2.8	1.4	2.1
Italy	3.1	2.0	1.0	2.0
Great Britain	3.5	0.8	-1.9	2.2
OECD	3.7	2.6	1.1	2.2

Source: OECD

## Trade Balances

	1989	1990	1991	1992
USA	-116	-108	-72	-79
Japan	77	63	98	106
FRG	78	73	20	21

(Billions of dollars) Source: OECD

imbalances on a world level. The growth of the 1980's was supported by an imbalance between the three great financial powers. The growing U.S. deficit was financed by Japanese and German budget surpluses. This imbalance is now being reduced, since the American deficit and the German budget surplus is declining while the Japanese budget surplus continues to grow (see table 2).

Another striking feature of the current conjuncture consists of the reduction of the margins of manoeuvre in terms of economic policy. Here also the effects of the free market decade are strongly felt.

The current recession in the United States is certainly less serious than that at the beginning of the 1980's, but it is lasting longer, much longer than had been predicted.

A budgetary boost would permit the economy to start up again, but that has been made impossible by the weight of the already accumulated public debt. The same reasoning applies to the United Kingdom and France.

### "Inflationary tensions"

Finally, a last factor marks this conjuncture which the bourgeois economists have baptised "inflationary tensions." In reality it goes back to the maintenance of a minimal relation of forces between workers and employers.

Any revival of growth which is too hectic is immediately accompanied by an "over-rapid" growth in wages, to which the employers respond by raising prices. This phenomenon contributes to explaining the slowing up of the German and Japanese economies, which has moreover only just begun.

In Japan, inflation went from 0% in 1987 to 4% by the end of 1990. This is not much but it adds up to a very clear symptom of too strong a tension on the labor market. It does not signal a collapse, but rather a progressive bogging down of the accumulation of capital on a world wide scale.

The current conjuncture therefore illustrates perfectly the idea that capitalism has not really emerged from the crisis and that it has not found sufficiently stable mechanisms to assure its dynamism.

The expedients it is therefore using to maintain this dynamism tend to be less and less efficient, and more and more costly. ★

# The battle of GATT

**THE increasing "globalization" of the capitalist economy does not mean a reduction in competition and the appearance of a new conflict-free order. What it may mean in the course of time is that the target market for all the main products will be the 600 million consumers of North America, Western Europe and Japan.**

**This is one of the issues at stake in the eighth "Uruguay" round of negotiations of the General Agreement on Tariffs and Trade (GATT), which started in 1986.**

CLAUDE GABRIEL

**T**HE evolution of the world economy is a product of its crisis. An empirical search for sectoral solutions, and fragmentary remedies has been gradually shaping significant changes in world trade, the international division of labour, the structure of firms and so on.

Two big problems are intertwined: that of the reorganization of the big industrial groups and their need to control increasingly large parts of the world market for their main products; and that of the big trade blocs (Europe, North America, Japan, Asia) which are forming vast free zones internally, while at the same time setting up new protectionist barriers or limits at the frontiers according to the product or branch.

### A contradictory relation

The relation of these two phenomena is obviously full of contradictions. While the alliances amongst the multinationals do not necessarily follow the lines of political divide (the case of the car industry being a perfect example, despite the "diabolization" of the Japanese industry in the European and North American media), it is the states that have to deal with the social and political fallout.

The increase in international alliances are in fact combined with a deepening of strictly "national" concentrations. And for many products we are still at the stage of defending the respective national flagship companies, whose loss of competitiveness and market share result in closures and increasing unemployment that the states must attempt to manage.

The aim of the GATT negotiations is not to reduce protectionism as such but to reform its own system of protection while cutting back that of its adversary. This is particularly the case with the battle over agricultural subsidies between the EEC

and the United States, which mainly concerns cereals, soya and maize-derived substitutes and meat and milk production. In the EEC the over-producers — the Netherlands, Denmark and France — are the most determined opponents of the USA.

The current battle has many economic, social and political implications, including the control of public deficits, defence of the big agro-business firms, the political relations between governments and farmers, pricing policy and control of markets. Thus, in France, for every job in agriculture there are two in food-related industries.

In 1990 agricultural and food products made up 12% of world trade (as opposed to 20% in 1970), of which 3% involves raw produce. Among the latter only the wheat market is an area of competition between the USA and Europe. The latter, which in 1970 was still an importer of this foodstuff, is now responsible for 17% of world exports as opposed to 36% for the USA. But this is not the only reason for the current trade war.

### The end of an epoch

The main problem is that of the necessary reconversion of systems of agricultural management and regulation imposed by the economic crisis and budget deficits. We are at the end of an epoch, but the two camps want to reduce the social, political and financial effects of the change by first of all pushing back the protective barriers of their competitors.

United States agricultural policy is framed by laws (the farm bills) which in principle regulate prices, supply and export aid. The law, which is regularly amended, fixes in advance a guaranteed price on which is based the loan rate, that is the advance to the farmer against the

coming harvest.

If the real market price is below the loan rate the farmer may place his harvest with the public storage services (thus regulating supply) and in this way ensure the repayment of the advances. There is also a "price" that is higher than the loan rate but this is a subsidy to the farmer aimed at limiting production, particularly by taking land out of production. Thus at a time when over-production is the norm, the producers gain a guaranteed bonus on their income.

The USA also has a \$5bn programme of export assistance, under a law passed in 1990. These subsidies are variable and decided according to destination in order to facilitate dumping and win markets with very low profit yields, such as the former Soviet Union, China or North Africa. The difference between the world market price and that offered under this system can be as much as 40%.

### System in crisis

This whole system has gone into a crisis since market conditions have exercised a long term downward pressure on prices, which has had to be compensated for out of the public purse. Between 1984 and 1990 subsidies to encourage reduced production have risen from \$24 to \$75 for a tonne of wheat.

The European Community is no better off. The Common Agricultural Policy (CAP) was initiated in 1962. The EEC system gives high levels of protection to all produce in competition with other countries. On the other hand, it offers great freedom of access to its markets for other produce, such as tropical produce (under the Lomé Convention) and also soya and maize gluten, which is used for animal feed and is often imported from the USA.

As for the protected produce, guaranteed prices which are well above world prices are paid to the producers. The Community subsidizes exports by making up the difference between the world market and guaranteed prices. Furthermore, there are customs barriers on entry, which make imported produce more expensive than domestic produce. This does not, however, stop it from shifting its own surpluses onto the world market at low prices.

From 1960 to 1973, the income of farmers in the EEC rose by 5% a year while the CAP was financed without problems. A study by the Organization for Economic Cooperation and Development (OECD) in 1987 established that the Community's intervention policy for the period 1979-81 represented an average subsidy per product of 43%, between 4 and 24% of which was passed on to the consumer.<sup>1</sup> But little by little, the guaranteed prices have led to growing over-production for a European market where demand is stagnating.

**6** The surplus has thus increasingly to be directed towards export, which increases

the demand for subsidies to make up the difference between the world market and guaranteed prices.

The world market price is closely related to domestic US prices, given the US role in world production. EEC compensation payments for cereal exports have risen from 918m to 2.6bn Ecus, to which the cost of storing a rising amount of stocks should be added.

In order to limit the losses, Brussels has imposed quotas on milk production and set quantitative limits on the amount of cereal production that will be compensated for. As a result farmers' income has fallen by an average of 25% between 1973 and 1991.

In order to maintain their earnings farmers have stepped up productivity by increasing investment, but this has run up against rising interest rates and increased indebtedness.

In the final analysis, the CAP costs a lot, absorbing 60% of the community budget while no longer resolving anything in terms of protecting the rural electorates.

The total for compensation payments is much the same in the USA and Europe. However, in Europe it is the consumer who pays the difference while in the US it is the tax payer. Thus, in the USA there are "true prices" with aid going to the producers, while in Europe the aid is provided by manipulating prices.

In the US, the attempt has been made to push down world market prices while winning export markets through high productivity. In Europe the main preoccupation at first was to maintain the income of farmers and protect the domestic market.

### US targets European market

Now the USA wants to resolve its crisis by imposing "true prices" on Europe. They hope to break down the tariff barriers and gain a part of the European market.

On the other hand, the Europeans are no longer able to limit the entry of soya and maize derivatives (mainly imported from the USA) which are exempt from customs duties and which are the main source of animal feed. A reduction in this dependence would allow a partial return to the use of cereals and fodder for animal feed and thus would also reduce internal surpluses.

But the entire system is cracking under the weight of its cost. A US farmer costs an average of \$20,000 a year compared to \$8,000 for his European counterpart. The Uruguay Round has thus, for the first time in the history of GATT, seen the agricultural issue raised. Previously the doctrine of free trade had not got that far.

This time it is the US that has unleashed the hostilities. Other countries with highly protected agricultural sectors, such as Japan, Switzerland or the Scandinavian countries, tend to line up behind the EEC, while Australia, New Zealand or Argenti-

na prefer Washington's position — which has not stopped Australian farmers demonstrating during Bush's recent visit.

Today, the USA is proposing that the EEC reduce its compensation payments by 70% from now until 1998, principally by removing export subsidies. Such a solution would wreck the European CAP in which internal prices and export policy are connected. After a reduction in export subsidies, the European farmers will also have to accept a corresponding reduction in their incomes to stay competitive on the world market.

We would be seeing the dismantling of the system of guaranteed prices. Furthermore, inertia in the passage from one mechanism to another would lose Europe a very important part of its export capacities, without the USA being forced to reduce their exports of soya and maize derived cereal substitutes.

The GATT leadership has worked out a very complicated "compromise", which, in the final analysis, tends in the direction of US radicalism.

### Brussels proposes cuts

The Brussels Commission, which knows that it must cut the cost of its agricultural policy for reasons of budget austerity, has already proposed a staggered cut of 30%. In reality, the Europeans may find themselves turning to an American style mechanism, giving up artificial prices in favour of explicit and budgeted aid to farmers.

But this would raise the question of the different categories of farmer, and of the diversity of regional and national conditions in an even more explosive fashion than now. In this case, the present system, which is already very unequal, may be replaced by an even more egalitarian mechanism.

In a country such as France, which is responsible for 34% of the Community's cereal production, such a measure would have a significant political and social impact.

In the USA on the other hand, the government seems far less worried about the social impact of an end to import subsidies. And, above all, it is still able to use the mechanism of compensation payments to producers, which does not involve direct "manipulation of prices".

This situation is generally presented as a crisis of growth of the world market and as a necessity of free trade which will clarify the situation on the agricultural markets. However doctrine has nothing to do with it. The main reason for this battle is the budgetary crises of the various states involved and the destabilization of the previous practices in this field in both the US and Europe.

None of the protagonists has proposed to save Third World agriculture from competition from Northern producers or to put an end to the competition in "food

aid" in relation to locally produced cereals.

Nobody has denounced the scandal of a situation where production has to be reduced to bring prices under control when two thirds of humanity is dying of hunger or does not get enough to eat. What is the sense of this "liberating" doctrine that justifies Brussels in ordering Spain to cut its milk production by a quarter and therefore kill 454,000 cows?<sup>2</sup>

The battle underway is a trade war about monopolizing markets and does not represent any kind of progressive project. The bulk of international trade in agricultural products is carried out by some 20 firms. Two North American concerns, Cargill and Continental Grain, control more than a half of the world's grain trade. More than a half of cereals and oils sold in the world also come from North American farms. Any change in US policy on agricultural prices will have consequences for the food system of the entire world.

The food industry is highly concentrated with an acceleration of takeovers and mergers in the last few years.

### Dominance of big capitalists sealed

The appearance of hybrid seeds in the manufacture of improved strains has set the seal on the dominance of the big capitalist groups in world agriculture. These hybrids are protected by patents; they cannot be reproduced by the farmer who must buy his seed each year. The seed industry is largely under the control of petrochemical (Shell), chemical (ICI) and pharmaceutical groups (Sandoz, Upjohn).

These GATT negotiations thus mark the end of an epoch. They are intended to bring to a conclusion a long process of evolution marked by a number of stages: at the end of the 1940s, the developed countries replaced the Third World as the main agricultural exporters; at the start of the 1960s, the CAP appeared along with a reinforcement of world food interdependence.

Now it is states and industrial concerns which determine the basic production choices of farmers. There have been spectacular changes in behaviour in the Third World in this respect, both owing to urbanization and deliberate political decision.

All this is being taken into account in the Europe-America confrontation in the Uruguay Round. The search for new legislation, that is to say the desire to establish a new balance of forces, flows from these changes. The imperialist economy is in crisis, but, in the absence of a global and radical social alternative it evolves according to its own laws, bringing forth new monstrosities. ★

1. 1992, *La Nouvelle économie européenne*, Editions universitaires, Brussels, 1988.

2. *El País*, February 4, 1992.

# US economy: the point of no return?

**THE economic crisis in the USA has gone beyond the point of the collapse of this or that medium-sized bank, a loss by this or that big firm, or the oft-described problems of the USA in finding outlets for its capital, which, since the 1950s has played an absolutely dominant role on the world market. The withering of the US economy has reached a point which recalls the defeat of British industry as it drifted away behind American competition before, during and after the First World War.**

WINFRIED WOLF\*

**T**HERE are three remaining sectors where the US economy has until now had a head start over Japanese and West European competition: aerospace, armaments and the financial sector. At the end of November 1991, the USA listened to an announcement in blank amazement: the second biggest aircraft manufacturer in the USA and the world McDonnell Douglas was to sell 40% of its commercial aircraft sector to the Taiwanese firm Taiwan Aerospace Corp. For the past half century McDonnell Douglas world market share of passenger aircraft has averaged 23%. In recent years, however, its share has been falling (the current figure being 17%).

It is above all competition from the European Airbus, nursed along by more than 100bn marks in tax money, that has put pressure on the company on the US market. As if to underline this defeat, on December 5, 1991, the renowned 64-year old airline company Pan Am announced bankruptcy.

### Japanese chips at heart of Gulf War

As far as the armaments industry is concerned, sales representatives of Japanese firms have been pointing out after the Gulf War that the heart of this operation, just as much as all the new US high-tech weapons was of Japanese origin: chips. In the sector of semiconductor production, the USA had already had to surrender its leading position to Japan in the 1980s. Now, in the new crisis, leading US electronics firms have been announcing losses and massive layoffs. IBM alone was to shed 25,000 jobs before the end of 1992. The American Telephone and Telegraph (AT&T) and its computer offshoot NCR reduced their workforce by 14,000.

Finally, in the finance sector, the USA

lost its leading position to Japan in the 1980s. This is the sphere where the greatest danger is presented to the US economy. Until the beginning of the 1980s, the hit-list of the biggest banks was led by the US, now only one US company — Citicorp — is to be found amongst the world's top 30 lending institutions. Two of the country's biggest banks, Bank America and Chase Manhattan, have come close to bankruptcy in the past five years.

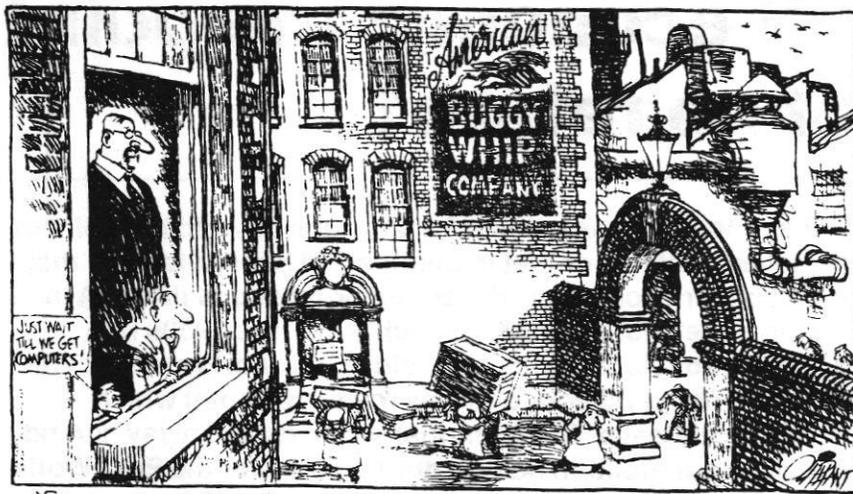
### Biggest ever insurance collapse

April 1991 saw the biggest ever collapse in the insurance sector when the State of California had to take over the Executive Life Insurance Company. The firm had been playing around with junk bonds. The same fate has overtaken an entire branch of the finance sector, the US Savings and Loans. As we have pointed out before: "what the S & L crisis amounts to is that some 3,000 savings institutions, as a result of irresponsible, but legally encouraged speculation, have been in reality bankrupt since 1989, with the state assuming the huge burden of underwriting the deposits.

"The cost which is falling to the already over-indebted US state from the collapse of this branch of the US savings' system is rising from year to year. Starting at \$100bn, since 1991 it has reached "at least \$500bn".

The result of this debacle is so horrendous that Bill Seidman, the President of the Federal Deposit Insurance Corp. (FDIC), the insurance fund responsible for underwriting the lost savings, resigned. In his view, the US government has failed to grasp the seriousness of the S&L crisis and is running the risk of an even greater

\*This article first appeared in the December 19, 1991, issue of *Sozialistische Zeitung*, paper of the German United Socialist Party (VSP).



'SOMEDAY, SON, IF THOSE JAPANESE WOULD ONLY PLAY FAIR, ALL THIS COULD BE YOURS.'

financial disaster.

There was not long to wait before the next glad tidings. In November 1991, the General Accounting Office (GAO), a kind of finance policy watchdog for the US Congress, announced that in coming months there might be a further "tide of bankruptcies in the banking sector" and that 35 of the 200 biggest US banks were in danger of collapse (*Handelsblatt*, November 9, 1991).

The picture of a declining US financial sector can be rounded off with a look at the New York stock market. Here, up to December 1991, the average of the decisive shares (the Dow Jones index) had once again sunk to a level of between 2,800 and 2,900; the "Gulf War dividend" having melted away. The index is slightly above the level it was at just before the 1987 stock market crash — four years after, and thus de facto no interest. Already in the mid-1980s Wall Street had to surrender its role as the world's leading stock market to Tokyo.

### Jobs slaughter on Wall Street

And the crisis on Wall Street goes further. Since 1987 45,000 stock market related jobs have gone and a further 40,000 dismissals were announced in 1991. Two of the biggest broking houses, Merrill Lynch and Salomon Brothers, were caught up in spectacular stock market scandals in 1990 and 1991, in the course of which Mr. John Gutfreund, the man who personified the "Golden 80s", to whose parties food and drink were specially flown from Paris, found himself scaled down to a Mr. Nobody.

Events such as the fall of Gutfreund or Pan Am — or the fact that Washington's leading bank, the First American, was controlled by the bank of organized crime, BCCI, and, furthermore, that this latter was closely connected to the CIA, are all symptoms of the decline of empire, resulting from the inner decay of American society, offering ironic parallels with the

fall of the Soviet Union.

Underlying all this is the economy. Over the past five years, the USA has lost whole slices of the world market. The core of US industry, the auto industry, is in deep crisis. General Motors, Ford and Chrysler turned in the biggest losses in US history in 1991. Big sectors of the car market have been taken over by imports from Japan and Korea and above all by production from "transplants" of Japanese car companies in the US. In the third quarter of 1991, according to the *Wall Street Journal* of November 5, 1991, profits of the 631 biggest US industrial enterprises were down 23% on the previous year.

The US government wants to enlarge the economic union of Canada, Mexico and the USA as quickly as possible and set up a broad North and Central American union to oppose the European union. However, by the end of 1991 opposition was developing to this project, above all in Canada and the USA.

The reason is the danger of North American jobs "escaping" to Mexico and the fact that the products of US industry can only to a limited extent if at all hope to compete with products from Mexico. This is only partly a matter of production by Mexican firms undercutting US products in terms of quality and price. Often it is US, Japanese and European firms with sites in Mexico, where they can escape from the established US unions in order to gain market shares in Canada and the USA.

### Fear of competition from Mexico

This situation is telling: the industry of the mighty USA is frightened of competition from Mexico. There exists in the USA, according to *Business Week* (December 16, 1991), "fertile soil for a protectionist campaign ('America First!')." This economics' magazine considers that "if the world's economies do

not soon begin to counteract the recessive tendencies, the politicians could once again begin to erect trade barriers — just as happened in the Great Depression (1929-32)".

We would not be living under capitalism, with its impressive capacity for ideological production, if the condition of the world's leading economy did not give rise to a new theory of crisis. According to the latest, we are seeing in the USA a "W-Recession". That is, after the start of the recession in 1990 — following the first downward stroke of the letter "W" — there was a slight upturn in spring 1991 — the first upward stroke of the same letter — to be followed in summer 1991 by a new plunge into crisis. The theory assumes that we will go on to see the completion of the "W" with a sharp upward rise. Another equally convincing theory is that the recession is shaped like the small Greek "eta" (η)...

What is certain is that the US government, up against protracted stagnation, and with the danger of a sudden deterioration due to a general financial crash, has very little room for economic manoeuvre. The US National Bank lowered the discount rate four times between July 1990 and the end of 1991 in order to make credit cheaper for enterprises and individuals. However, contradicting the standard theories, this has not led to an upturn in consumption and investment.

### Deficit reaches record level

The US budget had already in 1990 achieved the record level of \$270bn and the deficit for 1991 will be at least \$348bn. In 1991, for the first time, the USA spent more on interest payments on this debt than on defence. Further cuts in taxes, as urged by some leading US politicians, may lead to a slight upturn in investments, but they will also increase the budget deficit to an ever more dangerous level.

A series of other leading US economists, including the influential banker Felix Rohatyn are taking the opposite view. Their — not unrealistic — starting point is that the root of the problems of the US economy is to be found in the poor infrastructure, the miserable education system, the increasingly unsatisfactory health service and the inadequate investment aimed at increasing overall productivity.

As a result they urge an overall increase in taxation in order to finance a basic structural upgrading and, instead of a New World Order bring in a "new domestic order" (Felix Rohatyn in *The New York Review of Books*, November 1991). Such a programme, however, involving as it does taking money from enterprises and private individuals, will first of all deepen the recession — that "cleansing cold shower". ★

# End of an illusion

**GROWTH** having fallen for three successive quarters, it was announced on February 18, 1992 that Germany was officially in recession. However German interest rates are not to be cut, according to officials. This answers "no" to what has been the decisive question for Germany and to a large extent for the whole of the world economy in the last few months: could the German economy continue to succeed to be an island free from the whirlpool of a world recession?

The hope had been that Germany could play a role of locomotive and bring the recession to an end first in the EEC and that the stabilization in Europe would then send positive signals to the two other economic centres of North America and Japan. However this has turned out to be wishful thinking.

WINFRIED WOLF\*

**T**HE least that one could say by the middle of December 1991 was that the boom in Germany ended in summer 1991. Since then the German economy has in reality been in decline — the official figures being misleading since they use a false reference point. To be sure, the West German GNP for the second quarter of 1991 was 4.8% up on the previous year and 2.5% up in the third. However the reference is made deceptive because of the high growth rate in the second half of 1990 and the start of 1991. If the comparison is made with the immediately preceding quarter, then the GNP and industrial production have been falling since the second quarter of 1991.

In the second quarter it fell by 0.5% compared with the first and by something similar in the third quarter compared to the second (*Süddeutsche Zeitung*, December 16, 1991). Almost everything suggests that this is not some short term setback on the lines of 1986/7, but the beginning of a crisis.

It is not out of habit that I have written *West* Germany. The Federal Republic's statisticians permits themselves the trick of only giving the figures for the economic development of the former Federal Republic (West Germany); for East Germany there are only estimates. Thus there are no all-German figures. This is inadmissible on two scientific grounds. Firstly, a united currency zone has existed now for over 18 months; the West German mark was introduced before political unification or the all-German elections. It is thus simply wrong to claim that essential economic data for East Germany cannot be collected. All turnover, investments and consumption are accounted in D-marks and are statistically determinable.

Secondly, this way of presenting things

therefore amounts to falsification since a significant part of West German economic growth is at the expense of East Germany. On the one hand, because the destruction of the economy of the former GDR means the creation of a big new market for the West German economy, due to the high consumer potential of its population after the 1:1 exchange of the D-mark for the DDR-mark and the high savings levels in the East. On the other, West German economic growth is indebted to East Germany in a very direct sense: every month, some 10,000 people move from East to West Germany where most of them find work.

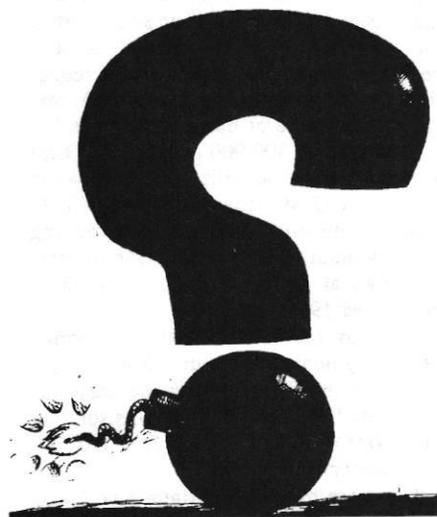
Each working day, there are half a million East Germans working in West Germany. They either commute daily between their homes and their workplace or are transported to West Germany at the start of the working week before being taken back to the East on Friday afternoon.

## The "Annexation-profit"

If we recall that in 1990 and 1991 the former East German economy experienced a drop of about a third compared to 1989, we can get some idea of the size of the "Annexation-profit" reaped by the West German economy. This, and this alone, explains the relatively stable situation of that economy until 1991.

Another advantage for the West should be added: West Germany and the West could not *not* profit from the collapse of the East German economy. Simultaneously, the death of the GDR made a decisive contribution to the deepening of the crisis in the Soviet Union and Eastern Europe.

If West Germany had swallowed up Austria and run riot there in the same fashion, this also would have been a plus



for West German business. But the advantages would have been of a more relative kind since a significant part of the Austrian economy is already under the control of German capital, so that for firms such as Siemens, Daimler and BMW such a policy would have been partly cannibalistic.

But this would be a zero sum game for the West. Insofar as the German economy grew at the expense of the Austrian, the Austrian economy would slip down the ladder of the Western world market.

The ex-GDR is quite another matter. This economy was almost completely turned towards the East. In this sphere it was at once the economy with the highest level of productive forces and the site of a series of key industries which were decisive for the existence of the whole Comecon bloc (for example, Robotron for computers or Zeiss-Jena for the military and space travel sector). The loss of East Germany was thus one of the decisive blows, if not the decisive one, against the Soviet economy. We can explain this in mirror image: if from one year to the next Japan disappeared as a motor force for Western industry and, for example, Japanese semi-conductor technology was no longer available, this would have enormous effects on the West, especially if, as was the case in the East in 1989/90, there was already a critically delicate economic situation.

The "divided conjuncture" is most apparent in the social sector. The number of those officially out of work in West Germany fell from 2.2 million at the start of 1990 to 1.62 million in November 1991. Simultaneously, unemployment in the East rose from an estimated 200,000 at the start of 1990 to 1.03 million in November 1991. The number of those on short-time was 204,000 in the West at the end of 1991 when in the newly obtained

\*This article first appeared in the December 19, 1991, issue of *Sozialistische Zeitung*, the paper of the German United Socialist Party (VSP).

regions it had already passed the million mark. Since most of those on short time in the East should be considered as concealed unemployed (often with a reduction in the working week of 90%), and since there were at the same time in the East more than 300,000 people being kept above water by so-called Work Creation Schemes (ABM), it is quite reasonable to calculate unemployment there by adding those without work to those on short time, to arrive at a figure for 2.1 million in November 1991.

Thus, by the end of 1991, all-German unemployment was around four million — 1.65 in the West, 1.03 in the East plus 1.1 in the East on short time plus some of the 200,000 on short time in the West — (November 1991 figures).

These are meaningful figures with significant consequences for society, since they imply high costs for the really existing bourgeois state and patriarchal society. All manner of social benefits must be paid for the unemployed and those on short time. If a gold label is stuck on a part of the misery under capitalism, this does not mean that all poverty is thus "decorated". In the case of the former GDR, this is especially crass. Bonn — or in this case the statistics' office in Wiesbaden — have until now published the unemployment figures for East and West but the employment figures for the West only. So what in fact is the jobs situation in the East? This figure has been spirited away.

### Loss of five million jobs

The reason for this is no mystery: since the start of 1991, *over five million jobs* have been lost in the former GDR. The discrepancy between the one million officially recorded unemployed in the East (and the 1.1 on short time) and the over five million lost jobs is explained by the classical methods for concealing unemployment under capitalism: hundreds of thousands have taken "early retirement", some 300,000 are on schemes that provide pseudo-employment, and, above all, some 1.5 million women have lost their jobs without being recorded as unemployed or on short time. Even if they now sweat away in the home, looking after men and children, they do not appear in the figures as economically active since they do not receive a wage.

As the *Wirtschaftswoche* headlined at the end of 1991 (December 11, 1991): "Traffic lights at orange; will five million Germans soon be unemployed?" In fact, since October 1991 the number of jobless and above all of those on short time has been rising in West Germany. At the end of 1991 and the start of this year at least a further 500,000 jobs are to go in East Germany. The trend towards crisis in West Germany is unmistakable. "A new tide of redundancies threatens Nordrhein-Westfalen.... In the coal-mining regions, more than 30,000 jobs are set to go in the

next few years, while leading steel producers Thyssen will shed 2,000 workers this year", according to the *Wirtschaftswoche*. In particular, the tendencies to crisis are unmistakable in South Germany — Baden-Württemberg, Rheinland-Pfalz and Bayern — hitherto seen as immune, where the region's flagship companies are to lay off thousands in coming months.

Just as in the USA, the Bonn government's possibilities for counteracting a crisis are limited. As we have explained many times, "the [German] budget deficit has exploded", according to a headline in the *Süddeutsche Zeitung* (November 27, 1991). Briefly put, according to existing financial plans, the German budget deficit is set to rise from 1000 billion D-marks in 1989 to at least 1,700 billion by 1995 if all the different headings which conceal this debt are added together.

This is so high relative to the Gross National Product (GNP) that in 1995 Germany will not meet the criteria for membership of the European Currency Union — in any case not if the decisions agreed on at Maastricht are adhered to.

### Cessation of Soviet interest payments

There is at least one additional factor reducing the Bonn government's room for financial manoeuvre: the collapse of the USSR and the cessation of interest and principal repayments by Moscow will lose the West German economy some 40 billion D-marks and Bonn — the housekeeper — some 30 billion.

And what about if the Deutsche Bank and its government in Bonn have nothing against a crisis? If they consciously seek one in pursuit of their class objectives? This would be nothing more than a completion and continuation of the all-or-nothing policy employed in 1990/91 to the former GDR. Germany's social security system cannot maintain its existing standards in the face of four or five million unemployed. "Higher pension contributions possible by 1993" and "unification makes holes in the pockets of the social funds" according to headlines in the *Süddeutsche Zeitung* from the end of last year (September 24 and November 19, 1991).

The fact is that the German federal bank at its meeting on December 5, 1991 declared its intention to reaffirm "the tight monetary line". In these parts this means in the first place the "blocking of inflation". In this respect the bank is out of synch with the rest: in the USA and Japan the national banks have set record lows for discount rates, while in Germany these rates are at a record high. This means, credit for entrepreneurs is more expensive, construction is being suffocated and private consumption cut. And this is a course tending towards an acceleration of the crisis. ★

## Economic change and social turmoil

IN CONTRAST to the poor economic results of the member countries of the Organization for Economic Cooperation and Development (OECD) and particularly of the United States, the growth rates of Latin American countries (an average of 3%) in 1991 seem to prove the point of those who have been announcing the end of the "lost decade" — the term used by the United Nation's Economic Commission for Latin America (CEPAL) to describe the past period on the continent.

"We are confident because this year [1991] the region has been capable of renewed growth.

Apparently, the process of recession has begun to dissipate and the 1990s are starting well", declared CEPAL's general secretary Gert Rosenthal in mid-December 1991.

After the catastrophic results of the past decade it is indeed easy to get carried away with optimism, but one should also beware of appearances.

ALFONSO MORO

**T**HE new model of accumulation of Latin American capitalism in the 1990s is based on the following elements:

- Since June 1990, the Latin American governments and bourgeoisies have been polarized by the "Initiative for the Americas" launched by US president George Bush, to which all the sub-continent's regimes have in fact rallied.

- The "reform of the state" — which represents a double qualitative change in the relations between the state and the economy and between the state and the mass movement — is a process well under way throughout the region. Nationalism has been more or less dethroned by neo-liberalism.

- Throughout the whole of Latin America, the adjustment programmes of the International Monetary Fund (IMF) and the World Bank (WB) have been developed and extended: with the drastic application of austerity policies; monetary control; and the extension of programmes of privatization for state enterprises and property.

- Social and political instability persist, although inflation has considerably lessened and, in 1991, the majority of countries have experienced positive real growth rates.

- The foreign debt, even if it is no longer front page news, remains a problem that it is essential to resolve.

- The form of bourgeois domination that has existed since the 1940s has been in crisis for a long time, and, for the moment at least, no long term alternative project has been consolidated.

- Capitalist restructuring has produced a profound reorganization of the situation of labour. The workers are confronted by an offensive strategy of destructuring and deregulation. All their historic, social and economic gains are being challenged, starting with their forms of organization. This restructuring is affecting the whole of society.

The process of globalization of the world capitalist economy and the formation of new regional economic blocs is also affecting Latin America. The Initiative for the Americas is an illustration of the new politico-economic schema for the region on the eve of the year 2000. The paradise promised by Bush, where free exchange will occur without obstacles, is beginning to take shape.

Bilateral and multilateral agreements between governments are being signed at a frenetic pace: in 1992 the Free Trade



Treaty is to be signed between Canada, the USA and Mexico; similar agreements are to be signed to bring into being the Mercosur in the Southern Cone, a free trade zone of the Andes, a Central American Common Market and another in the Caribbean and so on.<sup>2</sup>

The US president himself told the press after his visit to the Far East: "I took our enthusiasm for the Free Trade Treaty to the other side of the Pacific and I showed how it could contribute to the prosperity of all by removing trade barriers."<sup>3</sup>

### Opposition to trade agreement

The FTA needs solid political support, given that it faces opposition from certain lobbies in the US Congress, that the recession is continuing, that this is an election year for Bush and that, in Canada, a country in a deep crisis, more than half the population expressed its opposition to the trilateral agreement in a recent poll.<sup>4</sup>

The FTA, like the other trade agreements under discussion, will bring diverse advantages to the capitalist sector oriented to the external market and to those layers of the population in various countries who, thanks to their high purchasing power, can enjoy a high level of consumption, but the impoverishment of the great majority of people in these countries will continue.<sup>5</sup>

In reality, these agreements will have effects similar to those produced by the Brady Plan: only a happy few will be chosen. Thus, Lawrence Summers, director of the World Bank's economists, has cynically indicated, in assessing the Brady Plan introduced in March 1989: "Those invited to the party have done well out of it; but the party was not a

very big one."<sup>6</sup> Until now, only five countries on the sub-continent and three outside it have obtained real benefits from this plan, which has allowed them to reduce their debt by \$26bn. But even this figure is small compared to the total debt.

The main problem for the Initiative for the Americas is the following: can the governments continue to apply their present economic policies and at the same time maintain social stability without a massive and permanent influx of capital intended for long term investment in the productive sectors of the region's countries? This has not been the case until now.

Thus, Japanese official economists have pointed out that, for 1992, the shortage of capital at the international level has risen to the tidy sum

of \$100bn.<sup>7</sup> And, a Bank of Mexico report (Mexico is a country held up as an example to the rest of Latin America) notes that: "while in 1990 41.8% of foreign resources were directed into direct investment, in the first six months of 1991 this proportion had fallen to only 19.1%." The same source has indicated that "for every \$10 of foreign investment that has gone into Mexico in the last half of 1991, eight has gone to buy shares and only 2 on productive projects".<sup>8</sup>

### Drastic reduction in role of state

After the eruption of the debt crisis in 1982 the Latin American governments embarked on a project of structural reform aimed at drastically reducing the role of the state. Since then an economic policy has been applied tending to a reduction in the weight of the state in the economy through the sell-off of all kinds of enterprises, including in strategic sectors.

Today, it is private capital that is responsible for the rate of growth in most of these countries. However it is not the national capital that existed in the epoch of import substitution but above all the capital of multinationals or joint companies that now holds the reins.

The "reform of the state" means that in countries that have experienced revolu-

1. See *Excelsior*, December 19, 1991.

2. Mercosur brings together Brazil, Uruguay, Argentina and Paraguay. See *Excelsior*, January 2, 1992, *Libération*, January 11, 1992 and *Latin American Newsletters*.

3. *Excelsior*, January 11, 1992.

4. *Le Monde*, Bilan économique et sociale, 1991.

5. *Informe Latinoamericano*, no. 5, February 6, 1992.

6. *Excelsior*, December 17, 1991.

7. *Excelsior*, December 27, 1991.

8. *Expansion*, no. 57, Mexico, December 11, 1991.

governments (Peru, Argentina) the social bases that sustained the relations between the state and the masses are being dismantled, at the same time as the state is withdrawing from the economy. This implies a significant reduction in social investment (infrastructure, education, health, housing and so on), leads to a generalized pauperization of the population and deepens the insertion of these dependent economies in the world economy.

George Landau, president of the Society of the Americas, sees this phenomenon clearly: "while previously state enterprises were considered national symbols, today a national symbol is to deal in shares on the New York stock exchange."<sup>9</sup>

The "reform of the state" does not in any way lead to democratization; on the contrary, we are seeing a reinforcement of the most anti-democratic features. Whether in Mexico, Panama, Argentina, Brazil, Venezuela or Peru, authoritarianism, rule by decree and the denial of "civil society" are more powerful than ever. The neo-liberal economic approach goes hand-in-hand with dictatorial political practices.

The "adjustment programmes" imposed on the region in the past ten years all take the form of an austerity policy, which, unlike in Europe, means a downward plunge in the standard of living of the majority of the population; a loss of real purchasing power of wages, unemployment, a lowering of domestic consumption and a speeded up development of poverty.

### The 1980s: Decade of declining growth

Between 1981 and 1990, the growth of the Gross Domestic Product (GDP) by inhabitant in Latin America declined by -9.6%; the slight upward growth of 0.9% in 1991 is nowhere near enough to compensate for the fall in living standards.

Austerity in the Third World means that a minority of the population can meet its needs while the majority founders in poverty, as is shown by these statements:

"Our main problem remains poverty, which affects almost 40% of the population" according to Chile's President Aylwin;<sup>10</sup>

Or from Venezuela: "72% of the population is still extremely poor and spends 70% of its income on food."<sup>11</sup>

Or Peru: "More than half of the 13 million inhabitants live in poverty."<sup>12</sup>

And Mexico, where the wage earners "have registered the lowest level in their history" and unemployment "affects some 13.5% of the active population" and it is estimated that "17 million of the 86 million Mexicans live in extreme poverty."<sup>13</sup>

And finally Panama where "in a mere

two years [1989-1990]" according to official figures "the index of poverty has gone from 44 to 54%, of which 27% are in the category of 'extreme poverty'".<sup>14</sup>

This list could be extended for all the region's countries.

For as long as the IMF and WB continue to insist on their "adjustment programmes" the majority of the population cannot hope to see an improvement in their standard of living in the short or medium term. Furthermore, since the project for continental integration is based on the development of exports rather than the expansion of domestic markets, the tendency will be for social and economic inequality to get worse.

Economic adjustment, which implies an abandonment of state protectionism, is a long-term policy. Capital is not only interested in reducing wages; above all it wants guarantees that the present changes are irreversible. This is also the reason why the bourgeoisies and their governments have extended their offensive to areas considered taboo even up until a few years ago, as for example, with the "land counter-reform" of the Salinas government in Mexico or the attempt at total privatization of the mines in Bolivia.

While it is clear that neo-liberal policies are on the advance everywhere in the region, this is accompanied by the spectre of instability.

Apart from Mexico, Chile and Bolivia, where, thanks to different methods, the governments have succeeded in applying the adjustment plans with overall positive results for capital, in the remainder of the sub-continent, political, economic and social instability are a permanent feature reflected in the permanent search for economic measures that would permit a real social stabilization.

### Extreme deterioration in Central America

Throughout Central America, despite the vast sums invested by the US in the recent past with the aim of weakening the social base of the revolutionary movements, the situation has undergone an extreme deterioration. In the Southern Cone, the situation is not qualitatively different. The governments of Chamorro, Fujimori, Collor de Melo, Menem and so on have been obliged to replace the ruling teams and promise a policy of economic stability and social peace. Even in Venezuela, where the social democratic government of Democratic Action, led by Carlos Andres Perez, has tried to present itself as stable and democratic, the noise of jackboots has been heard.

Such instability is not the same thing as a pre-revolutionary situation, but it does mean that the conditions do not exist for carrying out capitalist restructuring without major social turmoil. In most cases the restructuring programmes

are being applied by governments with a narrow social base. In all cases the measures of stabilization adopted by a number of Latin American countries need more time to be consolidated, which does not depend exclusively on the economic dynamic in each country.

The key objective both for the Latin American and international bourgeoisie is to attain overall stability. If progress is made only on trade agreements while the political and social flank remains unguarded, then the integration of the US-promoted geopolitical bloc will be carried out on top of a powder barrel.

People who have an optimistic vision of the economic development of Latin America must, if they wish to be consistent, also be optimistic about the debt crisis. In 1991, nine countries were obliged to pass restructuring agreements and/or renegotiate their debts with the IMF. This will involve (or has already involved) a reduction in capital or in interest or the two at the same time, while 12 other countries are behind with their payments of services on the debt to a total of \$26bn.

### An end to the export of capital

One can ask whether, after ten years of net transfers of capital abroad, this problem has been resolved or, at least, if the situation has basically changed. The CEPAL report for 1991 shows that in that year the region recorded income derived from borrowing and/or investments higher than its spending. Latin America is no longer exporting capital and its debt has reached \$426bn. It seems that formulae for reducing the debt (purchases, restructuring and so on) put on the agenda by the Brady Plan, have had some results.

However, according to the last World Bank report, which deals with 1990, these remedies have not produced the intended results. In fact the Bank's figures show that of the 26 countries studied "only six now owe less than five years ago", while the total debt is 78% higher than in 1980.<sup>15</sup> This institution estimates that, in 1992, Latin America must spend more than \$24bn for depreciation of capital and another \$23bn on interest payments. Such a haemorrhage does not leave much room for optimism, even if

9. The Society of the Americas is an organization whose members hold 80% of US investments in Latin America. See *El Financiero*, Mexico, December 30, 1991.

10. *Excelsior*, January 1, 1992.

11. *Excelsior*, January 2, 1992.

12. *Frankfurter Rundschau*, quoted in *Excelsior*, January 11, 1992.

13. From a seminar organized by the Autonomous University of Mexico (UNAM) published in *La Jornada*, Mexico, December 26, 1991 and *Le Monde*, Bilan économique et sociale 1991.

14. *Excelsior*, December 27, 1991.

15. CEPAL report, 1991.

leave much room for optimism, even if governments have benefited from the worldwide reduction in interest rates in 1991.

Even if external borrowing has begun to grow again and if some countries such as Mexico have gained renewed access to international financial markets, the fuse that could explode the debt bomb is still fizzing. International conditions are not the same as they were at the time of the first discovery of the debt crisis in 1982. At the time, the international capitalist economy was coming out of generalized recession. Countries such as Mexico, Venezuela, Colombia or Peru could then benefit from the world oil price (which was already falling); there was an accumulation effect derived from the growth in the region at the start of the 1980s; private banks providing loans were not protected against a debt crisis and so on.

Today the situation is quite different: there is reduced growth — or even recession — in the imperialist countries, and a shortage of capital; there is the globalization of the world economy; an intensification of inter-imperialist competition to attract capital; and raw material prices are low. And this is against the background of a sub-continent that has had to make a violent transfer of capital to the imperialist countries in the past decade, permitting the latter to restructure their economies.

### IMF urges new round of belt tightening

The creditor imperialist countries and the IMF are insisting on the need to further "tighten the belt", which in fact means reductions in public spending, devaluation, and a speed up in tax and monetary reforms to provide the money needed to pay the debt. In this domain, and owing to the weight of the debt, the situation in Brazil will be crucial: its government has just negotiated a credit of \$2bn with the IMF — which will increase tension among the workers and the people.

The Latin American bourgeoisie has embarked on a very risky policy. Following the crisis of the forms of populist and nationalist domination that erupted at the end of the 1970s, it is trying to implement a new social pact corresponding to its current needs — that is to say one which reduces the economic weight of the state while changing the balance of forces against the workers and the population as a whole and pursuing a capitalist restructuring process that will give it new negotiating cards in its dealings with imperialism.

This is a clearly defined project and aims at an alternative model to that in force during the period of import substitution.<sup>16</sup> The only choice that the bourgeoisie has is to accept economic and political integration as proposed by the



USA.

The risks of this gamble lie in deeper dependence (the only point currently being discussed between Mexico and the United States before the signing of the Free Trade Agreement is over oil) and in the fact that the application of the neo-liberal policy will destroy the former social base of these governments without the new project being consolidated. It may be replied that all that is needed is time, which is true, but time can also work against the governments, as it did in the past decade.

For a while now, some penitent analysts and politicians have been promoting the coming to power of social democratic governments, of the type presently in power in France or the Spanish State, in this region. They overlook the fact that countries such as Venezuela, Bolivia, Jamaica or Ecuador have already been governed by social democratic parties and that these same governments have frenziedly applied the austerity programmes and market liberalization. Still worse, they neglect the fact that, at least for the moment, these governments are not the best equipped to attract international or local capital.

In Latin America, capitalism is trying to dance to imperialism's tune. There is a race to make up for lost time; the time of capitalist modernization and restructuring that has taken place in Europe, Japan and the USA from 1982 onwards. The consequences of this choice can also be seen in the frontal attacks against the gains wrested in past decades by the workers and other sectors of the masses. Productivity must be increased to the detriment of working conditions. Faced with this, the supporters of social democracy look to a supposed policy of charity by the state (the "solidarity state").<sup>17</sup>

The Latin American bourgeoisie and imperialism need a substantial change in the totality of relations which regulate work: this is why we are seeing the shedding of the old-style Latin American trade unionism, which has an essential purpose; the unionism born in the 1930s

that was useful until the 1970s no longer serves the needs of capital. The weight of the unions must be reduced on the very terrain which justifies their existence, that is to say as concerns the control of production and the representation of the workers as a whole. The attempt to reduce this role involves quality circles, the "universal worker" and flexibility. Behind the lay-offs of millions of workers in Latin America (more than a million jobs went in 1991) there is a policy that is targeted on the union structures, and which has to some extent succeeded. This has meant a weakening of the political weight of the working class. The majority of those people who sell their labour power increasingly find themselves in the informal sector; they have neither stable incomes nor social benefits.

### Working class wages defensive struggles

There is also a developing phenomenon of reorganization of the working class and other sectors, on which the success of the present gamble depends in the medium term. Even if the mobilizations of 1991 and the start of this year in some countries have not succeeded in blocking the capitalist offensive — which is impossible without the support of workers in the imperialist countries — their importance should not be minimized. These are defensive struggles, but they indicate that there is still life.

The Latin American economy grew again in 1991 but it is doubtful that it will produce an overall positive result in the immediate future. The recession in the imperialist countries, the failure of the world economy to rise out of its long depressive wave as well as the limited room for manoeuvre left by the privatizations worsen the situation. Public enterprises, whether banks, mines, or oil, can only be sold once. Bush's Initiative for

16. *Informe Latinoamericano* no. 2, January 16, 1992.

17. See the article by Jorge Catañeda, "The new dogmas in Latin America" in *El País*, January 31, 1992.

# From one dogma to another

**FOR THE former Soviet Union and the countries of eastern Europe, the 1990s are to be the era of the transition to the market economy. This vocabulary is used nearly everywhere, even in countries like Yugoslavia and Hungary which introduced reforms reliant on market mechanisms as early as the 1960s.**

**CATHERINE VERLA**

**T**HE pace of change is being forced by the International Monetary Fund (IMF), the western creditors and the most radical ideologues of market liberalism, supported by a substantial section of the former and new ruling elites. The precepts of Jeffrey Sachs in Poland are the same as those which have already ravaged Bolivia: privatization and opening to world competition are supposed to rationally direct future investments in the new world without frontiers of the multinationals.

The goal is no longer understanding the use of the market in a system which remains non-capitalist, but rather a return to what is presented as the model of a "normal economy", de facto "capitalist", based on a market in labour and capital whose logic is subordinated to the criteria of profit.

For the peoples of the countries concerned, such were not the goals of those "revolutions against" of which the "for" remained vague: against the former so-called socialist system, to live better and more freely; that, in broad outline, substituted for a programme. The movements and broad fronts, previously united around in opposition very quickly broke up (and continue to divide and marginalize themselves) from the moment when it was necessary to speak of "how to construct another society".

The popular model extolled by the ideologues of market liberalism also takes it as self-evident that the current process amounts to "returning to the normal course of history", falling in line with the "normal" and "efficient" countries by

adopting their methods. Unhappily, the capitalist restoration which it implies will be neither efficient (in relation to the objective of a better life, except for a fortunate minority) nor democratic (because it will be necessary to protect this minority against the growing anger of the others).

The road these countries are following will not lead towards the Sweden of the 1970s, but to a reduction to Third World status where the eventual growth will benefit a small portion of the population and will be dominated by the logic of the multinationals. It is a road which is all the more dangerous in that it will come up against the cultural and socio-economic aspirations of developed countries and egalitarian values deeply rooted in their societies. Unhappily, this is now being practically demonstrated. But it is also important to discuss the arguments which have been advanced, associating

market, privatization and democracy.

The experience of the so-called socialist countries has led to an association in people's minds of planning, bureaucratic centralism, nationalization and absence of democracy. One can identify three main arguments advanced in favour of the market as a means of realizing democracy: the virtues of the "invisible hand", the struggle against bureaucracy, and self-management. But social relations, the property relations which emerge from the market, will imprint their own logic on the effects of that market, on who benefits from it, on who determines what is efficient and what is not.

It is clearly true that in the field of consumption as of production, freedom of choice and initiative were stifled by bureaucratic constraint. And it is true that, with the suppression of commodity mechanisms, the consumers found themselves up against bureaucratic monopolies which imposed their production with all its defects.

Whether it concerned the consumer or the enterprise which must provide itself with equipment or raw materials, the absence of choice was linked to the absence of competition, and to the "passive role" of money (prices do not reflect relations of supply and demand and are not capable of influencing investments). One cannot deny one of the real virtues of money and of the market: to permit decentralized choices, making it possible for the judgement of the consumer and the diversity of tastes to express themselves and influence what is produced. Those who dispose of sufficient capital can, eventually, satisfy at the same time

their own thirst for profit and certain needs for which a demand is expressed on the market.

All this has been harped on and credited to the "invisible hand" of the market. And it is absurd to reject in its totality an argument in part founded on reality. But in part only; the limits of the pseudo-sovereignty of the consumer and the capacity of the market to respond to needs have been known for a long time. It is necessary, firstly, to consider all the ways in which the producers shape the market (in their technical choices, in their pressures on the models of consumption, and so on).

There is, secondly, the type of needs which are taken into account: it is necessary to be able to pay a sufficient amount to be able to attract the investor. The agricultural overproduction that the GATT (General Agreement on Tariffs and Trade) negotiations are attempting to limit takes place alongside famines and growing poverty in the world. What democracy of choice is there for the excluded and the marginalized, and for all those who, among the equals, are a little less equal than the others?

## Radical needs

But above all, in a world which wishes to be more humane and more respectful of the environment, how is it possible to ignore the breadth of the needs which cannot be adequately expressed by money (ethical, ecological, collective, and cultural needs, the need to live and to produce in new ways, the need for security and the full development of capabilities)?

But, it might be argued, if the market is rejected as an overall response, the only alternative is bureaucracy and centralism which, as we have seen, leads to worst catastrophes. This is indeed possible, but not inevitable. Planning does not necessarily entail control by a bureaucratic centre over every detail. The technological and informational means exist today to make very wide decentralization compatible with some strategic central choices.

The need to ensure democracy as much as the efficiency of these choices means that they should be limited to the most important priorities. Beyond this, decentralization does not necessarily imply the market, any more than the market necessarily means less state bureaucracy. The withering away of the state and the struggle against bureaucracy mean first and foremost the democratization of institutions, their transparency and their control by those affected by their decisions; it means therefore the extension of direct relations of a non-market nature between consumers and producers which can ensure qualitative judgements about what is produced, the search for forms of local and regional participative democracy, and so on. It has by no means been proved that this is utopian, whereas one can find

many examples of such a need and such a potential in today's world.

Symmetrically, the capitalist experience, but also that of Yugoslavia, have demonstrated that market decentralization is compatible with the bureaucratic cancer. Nor does the break up of the empires imply a greater democracy, given the existence of local regimes capable of exploiting nationalism to reinforce their own powers with methods similar to those of the former masters, at the same time as extending market relations.

Finally, the bureaucracy can attach itself parasitically to the market as it can to the plan. It can attempt to make money work for its own benefit, or to put itself at the service of new capitalist masters who desire, not a less powerful state and more democracy, but a strong state under their heel.

Certainly, it might be argued that self-management combined with the market could provide the necessary antidote to the bureaucratic evil.

The argument appears reasonable. And during whole historic phases, in Yugoslavia, then in Poland, self-management demands have been summed up in the "three selfs": self-management, self-financing, self-determination. This amounts to a model of self-management at the level of separate enterprises, linked by the market. This latter appears as an emancipator in contrast to a plan (and a state) previously omnipresent and counterposed to any notion of self-management.

And it is certainly true that the taking of responsibility for management should mean the rejection of obligatory suppliers and administrative orders. But the Yugoslav experience shows that self-management linked by the market is compatible with the absence of democracy: one could even say that in many respects the market prolonged the rule of the single party.

From this point of view it could be said that the initial goal of Gorbachev's *perestroika* was to incorporate commodity mechanisms, considered efficient and compatible with a degree of liberalization, into the rule of the party. When the market operates, responsibilities are more diluted and economic questions are less directly political. Thus the question of democracy is avoided by shifting responsibility to the "experts" on the one hand and the "laws of the market" on the other. The delegation of powers, passivity and the behaviour of the wage-earners then tend to develop to the detriment of the responsibility of self-management.

In substance, this is what happened in Yugoslavia, although there the extension of the market was accompanied by an extension of self-management rights (and thus a certain level of enterprise democracy). In practice, the workers abandoned everything that seemed to do with the more obscure monetary or "financial"



questions (all the more obscure in that the "experts" presented by them without great clarity and without alternative choices).

### Defence of jobs and incomes

They concentrated on the sole "concrete" goal which was left to them: defence of jobs, incomes and collective consumption, without any overall vision of economic interdependence, whether at the enterprise, locality or branch level and without any overall coherence of the atomized choices. Consequently, the know-how of the workers was not really mobilized, even though self-management had an effect on working conditions and the organization of production and of distribution.

But what was needed was for self-management to be applied to "concrete labour", the producer of use values consumed and realized by human beings. It needed to function all the way up from the workshop to the enterprise, from the enterprise to the locality and to the region, or again to the branch. In other words what was needed was to allow the organization of production and distribution to be a part of everyday life, so that self-management would not only be exercised at the level of the enterprise and so that criteria other than those of the market would be used to determine efficient and just reorganizations.

That is why it is necessary to start from (human) goals to redefine the means. These could combine plan, market and property relations, with no general recipe on the best combination, but with a central thread: social and political democracy as preconditions for making any decision. The market which was linked to self-management in Yugoslavia was not really controlled by the freely associated collectives of workers and consumers; it was not subordinate to

democratically determined objectives.

But neither did it have all the attributes of a capitalist market: competition for profit was not the regulator of investments. The legal definition of the workers as managers (whatever the reality) was combined with a critique of capitalist exploitation or enrichment on the back of the work of others. Capitalist private property was strictly limited and no capital market existed. In the same way, self-management rights would have had no sense for the workers if they had meant redundancies. But there was thus a problem of overall coherence: capitalist mechanisms were introduced and rejected at the same time; there existed no non-capitalist regulator to reabsorb wastage and disequilibriums (disequilibriums between branches, foreign trade deficit, inflation, unemployment through insufficient creation of jobs, regional inequalities).

### Market combined with bureaucracy

The market had replaced the plan without being capable of resolving these problems; moreover, it was combined with bureaucratic choices (prestige investments by local regimes). Above all losses were never sanctioned by restructurings and the closures of enterprises; the reciprocal indebtedness between enterprises and the trade imbalance, financed by massive credits in the course of the 1970s, sounded the death-knell for the system.

Self-management was inefficient faced with the market. But one could deduce from this that self-management needed other regulators to develop its potential for progress. However, instead of locating the cause of the crisis in the lack of democracy behind the commodity relations, self-management has been held responsible for the inefficiency of the market.

Solidarnosc in Poland had also demand-

ed more market relations and more self-management in opposition to a plan dominated by the party/state. At first this did not mean privatization but a call for the socialization of state property (putting it under the control of society).

Until recently, the USSR was still in a phase where the demand for self-management was associated with increased market decentralization (in the miners strike for example). But the decrees of Yeltsin after the failed coup d'état brought the ex-USSR into line with the other countries of Eastern Europe.

It is not only, nor even primarily, the bureaucrats of the ex-nomenklatura who have been expelled from the enterprises with the dissolution of the CPSU (Communist Party of the Soviet Union). They know how to reconvert themselves in line with the new dogma of privatization and to benefit from it. It is the right of organization in the enterprises which is under attack, as will soon be any form of workers' self-management.

As in Poland, Czechoslovakia and elsewhere, popular or workers' shareholdings will eventually be proposed on condition that they remain dispersed and compatible with the logic of the right of dismissal according to market criteria and mechanisms. Experts on privatization like Jeffrey Sachs repeat it often enough: for the market to function as the regulator of investments, "clear" property relations are needed, adapted to the demands of market competition.

This requires at least a hard core of "true proprietors" functioning on the basis of the profit criteria. It is necessary to suppress any illusion of self-management disconnected from the rules of capitalism. The programme is clear, even if it is far from being proved that a market, without self-management, will assure the resolution of the crisis and economic development.

It is hardly necessary to point out the extent to which democracy itself is threatened: the fiercest partisans of market liberalism have now abandoned the initial discourse linking market and democracy. Pinochet has become the model and the so-called liberal press does not shrink from saying that the market can never be imposed without a strong state.

Conflicts certainly exist on the nature of this state itself: should it be federal or republican in countries like the USSR or Yugoslavia? But this amounts to a question of power, not democracy.

Differences also exist on alternative strategies to "sweeten the pill". But the substance is clear. Democracy is totally subordinate to the choice already made by

the few — "market democracy". On the one hand, the programmes and changes advanced by the new ruling teams have never been the object of democratic debate.

On the other hand, "democracy" is in any case limited to electoral pluralism. Democracy in everyday life, in the workplaces, in making the big choices for society, is out of the question. Worse: we have passed from the reign of the arbitrary bureaucrat, of censorship, of corruption, and the dogma of an apologetic

the world capitalist market, to colossal regressions.

This does not mean the rejection of all market mechanisms or the rejection of a certain use of money, including a recourse to private capital and to the world market. The notion of a "mixed economy" is not really any more clear than that of the market economy, for, in a certain sense, all existing economies mix diverse forms of property, different mechanisms of management, features borrowed from diverse modes of production.

The real question is: who decides? What is the dominant logic? Or again: private investment, world exchanges, the market or the plan, in order to do what? The essential question is that of control by the interested parties. There is no political economy above systems, societies and the human beings who compose them.

This truism needs to be repeated today, when, in the name of universal pseudo-economic laws, the intention is to suppress all choices of society. But who are the "interested parties"? Individuals, classes, sexes, national, regional, international communities? As each human being is endowed with multiple facets, the full satisfaction of their needs cannot

be realized through one simple method of taking decisions and of control: citizens are at the same time producers and consumers, inserted in col-

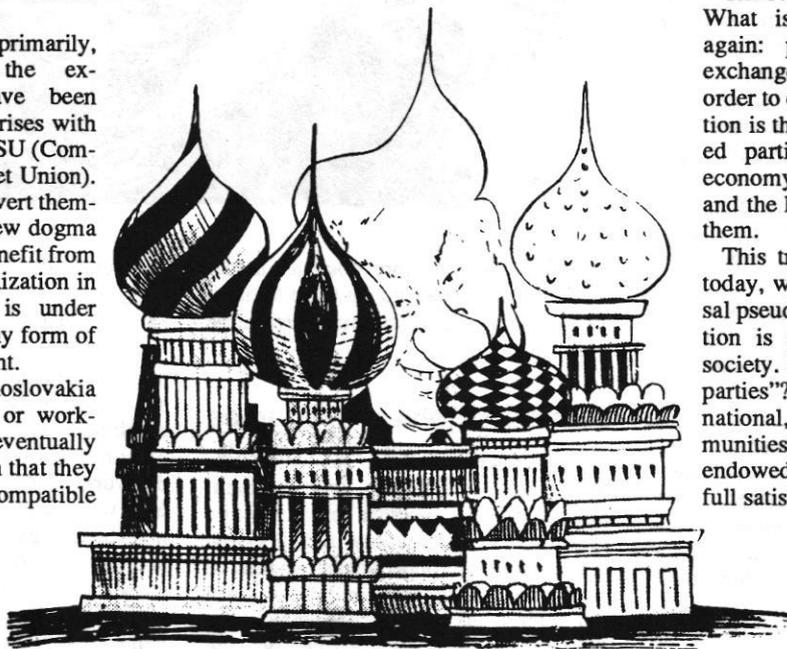
lective relations at various levels, affected in their lives by problems of a different nature, in variable spatial and temporal conditions.

One of the main issues in the coming debate on the modalities of a democracy adequate to this complexity is to determine what is the right "place" and the right, efficient, mechanism for decision making and control, according to the problem which is to be resolved.

The suppression of private property does not automatically lead to socialism. But the "forced privatization" currently underway will be an adventure as disastrous as the "forced collectivization" of sad memory.

If it is necessary to get rid of the illusion of planners supposedly able in advance to know the totality of needs and respond to them in a centralized fashion, free commodity competition in an unequal world would have no more success. It is just as capable of producing "totalitarianism" and concealing relations of social and national oppression as cruel as those of the bureaucratic dictatorship.

To invent a radical, economic, social and political democracy, capable of subordinating the economy to human ends, is not a simple task, in the face of an increasingly globalized economy and mounting barbarism. ★



pseudo-Marxism, to the same evils put in the service of a neo-liberalism which harks back to the 19th century.

### The new intellectual terrorism

There are increasing signs of a new intellectual terrorism against any critical approach towards the market and capitalism. Instead of making an analysis of actually existing systems, instead of assessing the already visible effects of the remedies proposed, it is enough to invert the colours of that which was yesterday black or white into a new official propaganda.

As is now well known, universalist recipes and "models" lead to dead ends. If certain "socialist" words have been devalued, the hollow new "capitalist" formulae have not aided an understanding of what is at stake.

Returning to our point of departure, the market economy means in reality a generalized market economy, with labour and capital markets, a market in the means of production and commodity relations based on profit. This objective should be rejected not out of dogmatism but because it will lead the countries concerned, in the context of their crisis and of

# A new model of growth?

**AFTER a decade of unrestrained free market policies, the beginning of the 1990s has seen a series of changes in the functioning of world capitalism. This article attempts to analyze the medium term effects of the changes and to propose a theoretical analysis of them.**

**MAXIME DURAND**

**O**UR analysis of the crisis rests on two pillars that can be rapidly reviewed here. The first is the specifically Marxist understanding of the dual nature of capitalism: to function it simultaneously needs profits and outlets, and it is in this double need that one of its principle contradictions is found.

The second tool at our disposal is the theory of long waves (see box on p. 19), which focuses in particular on the fact that the passage from one long expansionary wave to a long recessionary wave results from factors internal to the system, whereas the putting in place of the conditions for a new expansionary wave involves the intervention of exogenous factors. We do not mean by this that the class struggle is "outside" the capitalist economy, but rather that the development of such exogenous factors is neither automatic nor guaranteed.

This approach led Marxists to formulate a double prediction at the beginning of the 1980s. The first involved the immi-

nence of a third big recession, which we thought would be unavoidable because of the difficulty capitalism faced in re-establishing profits while maintaining sufficient market openings, a difficulty to which must be added other factors connected to inter-imperialist imbalances and to international financial disorder. In seeking to restore profits the policies followed by the bourgeoisie would tend to lead to the contraction of markets and therefore unleash a new recession, this time on the demand side.

The second prediction was based on the idea that there could not be a fundamental improvement from the point of view of capitalism without a radical change of relations between classes. The big social clashes were therefore ahead of us. Today it must be noted that the experience of the 1980s contradicted both of these predictions. In the first place, there was not a third generalized recession, nor even a financial collapse, since even the October 1987 crash was overcome with relative ease. The resto-

ration of profits could be combined with the maintenance of a reasonable rate of growth.

To understand the reasons for this it is necessary to closely examine the peculiarities of the last decade. The graph below allows us to examine them from a long term perspective, on the basis of two curves tracing the evolution of the rate of growth of production and the rate of profit.

These two variables were calculated from Organization for Economic Cooperation and Development (OECD) figures for the Group of Seven (G7) made up of the principal imperialist countries (the United States, Japan, Germany, France, the United Kingdom, Italy, and Canada); they were then altered to allow for fluctuations.

This chart is particularly rich in lessons, which we will comment on in the course of the article. The first striking aspect of the graph is the parallelism of the two curves, which verifies the old Marxist theorem according to which it is the evolution of the rate of profit that determines the dynamic of capitalism.

The second is the falling average rate of profit beginning with the US recession of 1967 and accompanied by a slowing down of growth which began well before the "oil crisis" of 1973. At the end of this first phase, in 1972 and 1973, renewed growth can be seen, which corresponds to an increased accumulation of capital aimed at offsetting the effects of wage pressures.

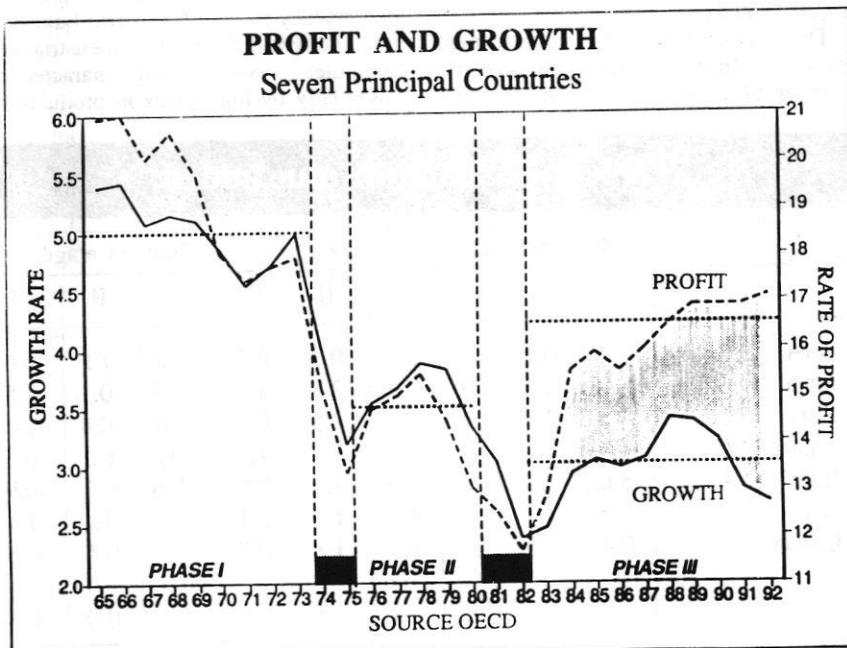
## First generalized recession

The first generalized recession occurred therefore in 1975-1976 — it is marked by the rectangle on the chart. Growth and the rate of profit fell together, and this fall is stronger than it appears on the chart which, it will be recalled, is drawn up in such a way as to "smooth over" the evolutions.

After this first recession a new phase began during which policies aimed at stimulating demand led to a slight improvement in profits and growth. But these policies were no longer equal to the scope of the crisis, and the second generalized recession of 1980-1982 quickly put an end to this second phase.

With the general turn towards unrestrained free market policies, there began a third phase, which has now lasted for almost ten years. The new phenomenon, which appears clearly in the grey zone of the chart, is that the two curves, that of profit and growth, tend to diverge. The rate of profit recovers quite rapidly, without however succeeding in reattaining the levels of the first phase, and growth rises without really taking off.

The situation in the early 1990s is characterized by a marked slowing down of growth and by a downturn of the rate of profit. The three phases of this period of



crisis can therefore be synthesized in the table below where the figures are based on stylized data for the non-recessionary periods.

The restoration of the rate of profit constitutes the major phenomenon of the most recent period: it is basically the result of a general shift in the share of wages in value added, of which a detailed examination will reveal two important tendencies.

The first is a falling off in the productivity of labor, whose average rate of increase fell by half at the beginning of the crisis. At first the growth of real wages tends to slacken while a strong resistance remains in countries like France or Italy. The decade of monetarism has

countries, risks resulting in a new contraction of market openings. This periodization leads therefore to an examination of the way capitalism functioned in the 1980s and its capacity to reestablish profit without impinging on growth.

It is the change in the pattern of surplus-value consumption that constitutes the principal factor of adjustment. This is an essential thesis which simply follows from the tables. A stylized representation of this specific mode of growth can be developed from a simplified model of capitalist reproduction.

Let us imagine that income is simply split between profits and wages. The wage is completely consumed, a part of surplus value is accumulated, the rest is

element is the redistribution of incomes to the detriment of wages. It means simultaneously reestablishing profits while reorienting demand in a manner that is more adequate to the needs of the realization of this profit. A process of this type underlies the shape of the world economy, where the United States deficit, and the expansion of credit that it involves, corresponds to a transfer of income towards the spheres with a strong propensity to consume.

Finally: the burgeoning of the financial sector reflects a creation of surplus value that is not accumulated but leads to a modification of the distribution of incomes in a way that assures the recycling of this surplus value towards consumption.

This presentation is different from other analyses. It can be said that it is more Regulationist than the Regulationists (see box on p. 20), who have progressively renounced proposing an overview of capitalism as it has functioned over the last ten to fifteen years and seem to confine themselves to a comparison of possible or desired scenarios. This analysis of the development of the financial sector is also different from the line of argument that speaks of the "casino-economy", denouncing the "mess" resulting from criteria of efficiency which are too centered on "financial profitability". This line, which is that of the economists of the French Communist Party (PCF), is based theoretically on an erroneous understanding of the law of value (as if the financial sphere could become totally independent of the cycle of capital) and is accompanied by illusions as to the possibility of making capitalism function "differently", in a more "productive" manner.

If we want to clarify the current forms of capital reproduction we must focus on its tendency to divide into two large sectors: the first is the modern industrial and computer service sector characterized essentially by high gains in productivity

**Table 1 — The three phases of the crisis**

Phase I 1965-1973	Expansion	Strong growth (5%)	High rate of profit (19%)
Phase II 1976-1979	Keynesian policies	Moderate growth (3.5%)	Poor rate of profit (15%)
Phase III 1983-1992	Liberal policies	Moderate growth (3%)	Moderate rate of profit (17%)

been marked therefore in all countries by a new slowing down of real wages which henceforth progress more slowly than productivity: the result of these two developments has been the decline in wages in the principal industrial countries, with the exception of the United Kingdom which had gone through these changes before the others.

Economizing on constant capital would have furnished a means of restoring the rate of profit without exercising excessive pressure on wages, but this has not been the case: the introduction of new technologies has until now been accompanied by the raising or at best the maintenance of the composition of capital. Table three shows that the coefficient of capital, that is, the amount of fixed capital per unit produced, has continued to rise during the last decade.

Gains in productivity have, therefore, been less and less translated into rises in real wages and have been instead allocated to stabilizing the rate of profit. This mode of functioning abandons one of the essential rules of "Fordism" which is the parallel growth of real wages and productivity.

The question of how the system reproduces itself in these conditions thus constitute the key. In fact, whether in Marxist or Keynesian terms, this growing gap between productivity and wages should lead to a crisis of realization. That is, if the workers produce more and more without earning more, who will buy what they produce? The squeeze on wages, on a large scale and at the same time for all

consumed. In "Fordist" growth expanded reproduction takes place in such a way that all the elements of income and of demand grow proportionally so that enlarged reproduction implies no structural deformation in the division of income and its allocation. In "Post Fordist" growth things happen differently. To put it simply, incomes rise but wages are blocked — hence the same for the consumption of wage earners. Under these conditions the realization of value supposes a relative growth of the fraction of surplus value consumed.

This abstract principle is accompanied by three defining features of this specific manner of accumulation. The essential

**Table 2 — Share of value added**

	Productivity			real wages			share of wages		
	I	II	III	I	II	III	I	II	III
USA	1.3	0.1	0.8	1.5	0.2	0.2	0.2	0.1	-0.6
Japan	8.3	2.9	2.9	7.9	2.8	1.4	-0.3	-0.1	-1.5
FRG	4.0	2.9	1.4	5.1	2.5	0.9	1.0	-0.4	-0.4
France	4.4	2.4	1.9	4.1	3.5	1.3	-0.2	1.0	-0.6
Italy	5.6	2.8	1.8	5.0	3.5	0.9	-0.6	0.7	-0.9
UK	3.2	2.7	2.1	4.4	1.6	2.1	1.2	-1.1	0.0
Canada	2.4	1.3	1.3	2.5	1.8	0.7	0.1	0.5	-0.6
G7	3.6	1.6	1.7	3.9	1.6	0.9	0.2	0.0	-0.8

Annual average growth rates: I = 1965-73; II = 1973-1979; III = 1979-1987  
Source: OECD

and the creation of rather small numbers of jobs. The second sector is that of services, with low productivity, more sheltered by its nature from international competition. This is the privileged place for the creation of jobs.

This schema, which could be presented as a neat solution to the crisis of employment, can however only work if several conditions are met. The first involves profitability. It must be recalled here that productivity is one of the essential parameters that determines the level and the evolution of the rate of profit. A downturn in productivity, if it allows the creation of more jobs, therefore tends to lower the rate of profit.

The problem therefore is to disconnect the creation of jobs on the basis of weak productivity, on the one hand, and the determination of the rate of profit. The sole logical solution resides in the development of an economic sphere that is not subject to the demands of capitalist profitability or which compensates for weak productivity by lowering wages. The disparities in productivity lead therefore to what one could call a neo-dualism. The French Ministry of the Economy has officially theorized this idea (see box on p. 21).

**The function of inequality**

This theoretical sketch has several important corollaries. The first involves the functionality of inequality. The reduction of inequality has never been one of capitalism's central objectives. But the model that is being followed accords it a central role. What must be done in terms of incomes for the model described above to function?

In the service sphere wages must obviously remain at a low level because they will have to be exchanged either against wages in the competitive sector or against the redistributed surplus value, and reciprocally, a concentration of income to the benefit of the rich, who alone can continue to consume on a large scale as real prices increase, must be assured.

One can then rule out the idea of an

expulsion out of the capitalist sphere of a sector of the economy that functions independently because the model, in order to be credible, implies the articulation of the two sectors. Under these conditions the production of the service sectors cannot be bought by this sector itself; it can only be done by the wages of the other sectors or by non-accumulated surplus value. Expenditures on services, either because they incorporate wages or because they decrease the surplus value available for accumulation, inevitably allow the development of a service sector creating jobs which will have harmful effects on the rate of profit and/or the rate of accumulation.

The way out of this is, therefore, the emergence of a "third demand" characteristic of many semi-industrialized countries. It involves non-wage incomes being regularly increased so as to buy the products of low productivity sectors, whereas the increase of wages in the productive sector remain blocked. Likewise, the way in which the rich allocate their income between investments, purchases of industrial goods and expenditure on services corresponds best to the current dynamics of capitalism.

This brief examination of this theoretical model of growth leads to two predictions: the creation of jobs in the service sector must be accompanied by lower wages and the allocation of income must be modified in favor of a non-wage demand.

The example of the United States clearly confirms these two prognostics. It became the fashion to talk of the Great American Job Machine.

There were ten million jobs created in the United States between 1980 and 1986, while the four major European countries, with roughly the same population, shed nearly two million. But the immense majority of these new jobs are extremely poorly paid service sector jobs. Between 1981 and 1987 the job expanding sectors paid salaries that were less than two-thirds of that of other sectors (1,830 dollars a month compared to 2,700) although the differences had been negligible during the previous twenty years. It therefore involves a break with previous tendencies. This reversal has been confirmed by many studies of the United States as well as the United Kingdom.

This development is analogous to what has begun to happen in France since 1983. The purchasing power of wage earners has stagnated and the surplus

**The theory of long waves**

THE theory of "long waves" of capitalist development originates from the work of the Russian economist N. D. Kondratiev. In his book *The World Economy and its Conjunctures During and After the War* (1922), Kondratiev explained that the economic crisis of 1920-21 had resulted from a disruption of equilibrium in the distribution of world markets and productive forces, following the expansion of production by the United States and other non-European countries during the First World War. This crisis did not, however, herald the collapse of capitalism, but rather the restoration of its equilibrium.

Kondratiev argued that since 1789 capitalism had experienced two complete long cycles of around 50 years. The period 1789-1809 saw a long wave of expansion, followed by a long wave of relative stagnation from 1809 to 1849. In 1849 a new cycle began, with an expanding wave lasting until 1873, followed by a declining wave until 1896. The expanding wave of the third cycle then lasted from 1896 until 1920.

The acute nature of the post-First World War crisis stemmed from the fact that it marked a turning point in the third long cycle and the beginning of its declining wave. In Kondratiev's view, these long cycles represented oscillations around the long-term moving equilibrium of capitalism, related to the reproduction of the most durable and costly forms of fixed capital — forms of investment like canals, railways, buildings and periodic technological renovations of industry.

In recent years, the theory of long waves has most notably been employed in an attempt to understand the overall dynamic of capitalism in Ernest Mandel's *Late Capitalism*. ★

resulting from the progress of productivity is distributed under the form of non-wage revenues. Two categories benefitted from this bounty: the holders of financial assets, to the degree that the raising of interest rates signals a rise of their quota of surplus value, and the independent professions because they benefitted from a very favorable evolution of relative prices.

This reduction in wage earners' consumption has just been spectacularly confirmed by a study from the French National Institute of Statistics and Economic Studies (INSEE) showing that in ten years "the expenditure made by the most wealthy quarter of households rose around 20% in francs while that of less well off households stagnated. The consumption gap between wealthy and middle income households grew."

On a world wide scale a similar phe-

**Table 3 — Coefficient of capital**

	I	II	III
USA	-0.2	1.1	0.4
Japan	2.6	3.2	1.7
FRG	1.4	1.0	0.9
France	-0.9	1.0	0.4
Italy	-0.3	-0.3	0.6
UK	0.6	1.5	-0.5
OECD	0.4	1.5	0.8

Annual growth rates: I = 1960-1973; II = 1973-1979; III = 1979-1988  
Source: OECD

nomenon tends to divide entire zones of development. In 1987, the capitalist world comprised around 3.4 billion inhabitants. Their median income is 3,600 dollars a year. But the poorest half only gained a little more than 1,200 dollars a year, while two-thirds earned less than 3,000 dollars. Moreover, throughout the 1980s and for the first time since the Second World War, average per capita production fell in areas like Africa, the Middle East, and Latin America. The famous "four dragons" of Southeast Asia (South Korea, Singapore, Hong Kong and Taiwan) were only an exception, because they represent no more than 1.4% of the world's population.

Starting with a notion of norms of consumption, the Regulationists have insisted on an important aspect of the analysis of social reproduction which centers on the relationship between value and use-value. Not every mode of consumption is compatible with the given conditions of reproduction. One cannot restrict oneself to a global analysis of value, examining how it breaks down between wages and surplus value. It is also necessary for the structure of production to be adequate to that of consumption as far as use-values are concerned.

A society cannot for example concentrate its efforts on the production of luxury goods and at the same time privilege wage earners. This point does not amount to some kind of rejection of Marxism but rather a restitution of Marx's analyses on the role of use values.

From this point of view, the long expansionary wave was made possible by a fit between norms of consumption and conditions of production that the Regulationists have dubbed Fordism. In short, the consumption of wage-earners is made up of a growing part of manufactured products that these same wage earners produce in conditions assuring significant gains in productivity. These gains in productivity allow a compensation of the effects of growing real wages for the profitability of capital.

For capital reproduction to occur in a dynamic manner, it is necessary that three conditions be met:

- 1) A production of surplus value assuring the valorization of capital;
- 2) A realization of this value in terms of the large mass of exchange value;
- 3) A relationship between what is produced and what is consumed by each type of income.

All these conditions must not only be present episodically; they must be dynamically reproduced over a period of time.

This brief sketch helps shed light on a third facet of the crisis: not only does capitalism encounter growing difficulties

in obtaining profits and openings, but it tends to increasingly come up against an additional obstacle which is found in the growing desynchronization between the structure of social needs and the demands of profitability. The principal economic problem here is that of the allocation of social labor. If society is looked at as a whole, at any given moment it has a certain quantity of labor that it will choose to allocate to this or that sector. This choice reveals its priorities, whether they are explicitly spelled out or not. This allocation is realized by combining two sets of criteria which need not coincide.

On one one hand, the search for profit

criteria, or in other words, by a growing difficulty in assuring the connection between what people want to buy and what capitalism wants to produce. While the so-called Fordist period was characterized by a shift in the norms of consumption towards manufactured goods (automobiles and so on) produced under conditions of high productivity, the demand of wage earners in the imperialist countries is shifting towards categories of goods whose satisfaction is assured under conditions of lesser productivity.

We can answer the question of why a new range of products cannot assume the role in the norms of consumption played in a previous period by automobiles with

two points. On the one hand, electronic component parts, which had been expected to initiate "neo-Fordism", do not represent a sufficient market volume; walkmans, video-recorders, and so on are rapidly expanding but a video-recorder is worth twenty times less than an automobile. And especially, there is a spontaneous shift towards other types of goods or rather services which cannot currently be "industrialized" due to technical limitations. The most significant example is that of health expenditure which is spontaneously increasing more quickly than income and which all the industrialized countries are attempting to limit, as they do not give rise to production associated with high productivity. Capitalism does not treat different types of demand equally. When a worker buys an automobile, it stimulates the economy. When the same

worker receives medical treatment s/he is "excessively" raising health expenses. In any event, s/he is in both cases satisfying a need.

The change in the distribution of income towards the "third demand" (non-wage incomes) is therefore, a change in the consumption structure to the benefit of industrial goods or industrial goods of a higher average value. One of the corollaries of this evolution is also the role played by the incessant reproduction of the "up-market". For each product that enters into the phase of mass production with marked price drops, it is necessary to constantly recreate a differentiation and introduce new models from above that maintain the volume of demand. But that can only be done by privileging the demand emanating from the high income whose structure best corresponds to the demands of the valorization of capital. Insisting on this aspect by introducing the notion of norms of consumption certainly does not mean adopting the position of the Regulationists, which on the contrary is discredited today. One of the aspects of the current crisis is that, contrary to what the Regulationists postulate there exists

## **The Regulation School**

ACCORDING to one account:

"In the past two decades the French (or Paris) School of Economic Regulation has developed an ambitious historical-economic theory which has already had a major impact on efforts to understand the current malaise of the capitalist system and the accompanying economic transformations...."

The Regulationists deny that the capitalist mode of production is comprehensible in terms of a single set of laws that remain unchanged from its inception until its eventual supersession. They see the history of capitalism, rather, as a succession of phases, each distinguished by certain historically developed, socio-institutionally defined structural forms that give rise, so long as they are maintained, to distinctive forms and patterns....[they] insist that the structural forms that constitute their modes (or phases) of development within the history of capitalism must be understood as the outcome, to a significant degree, of class and political struggles." (From Robert Brenner and Mark Glick, "The Regulation Approach: Theory and History" in *New Left Review*, no. 188, July/August 1991.) ★

and more specifically the outlook for profits at the highest possible level over a long period of time leads to a rule that can be summed up in the following way: there is a spontaneous tendency for capital to be invested in the sectors that assure the highest amount of growth and productivity, for this is the basis and guarantee of a high rate of profit being maintained. The other logic, which we can, with Engels, call that of useful social effects, leads to giving priority to the most urgent or the most intensive social needs.

Under capitalism this logic is present but remains latent. Goods cannot be sold that do not correspond to any social need, and the satisfaction of certain social needs comes to impose itself on the spontaneous logic of capitalism, which only exists in its pure form in text books.

### **What you want and what they want you to want**

Our theory of the current period of capitalism is that it is characterized by a growing gap between these two series of

no automatic process of adjustment of the norms of consumption to the structure of production.

This image of division is again reinforced by the effects of technological changes. One of the principals of the Marxist analysis of capitalism involves never dissociating technical innovations from the social relations in which they must be inserted. This is why the crisis cannot be solved purely and simply by such innovations.

One of the most astonishing paradoxes of the current situation is that capitalism today possesses new methods of production that allows it to envisage a qualitative extension of human labor productivity. But these potentialities cannot be fulfilled within the framework of capitalism, which in order to perpetuate itself needs to reproduce at the same time the extension of its essential functioning principle, the law of value, as well as wage slavery.

It involves assuring the submission of the entire economic sphere to the domination of the logic of capital. So, technological changes represent a double infringement on this domination. They imply a considerable economy of labor time that will openly accentuate the problems born from the crisis of labor. They also imply in their essence a reorganization of labor in a sense that is not compatible with wage discipline: polyvalency, teamwork, initiative, "involvement" and so on.

### The unexploited innovations

For probably the first time in its history, capitalism appears incapable of integrating a series of innovations which are unexploited. The possibilities that automation holds in terms of the economy of labor, as well as the electronic instruments of communication in terms of circulation and exchange of information and knowledge, are absolutely underutilized, or if one prefers, over exploited but in narrow segments giving priority to the futile and to elitism. A recent book<sup>1</sup> throws interesting light on these questions. As its title indicates, it is one of the most optimistic analyses as to the progressive content of the new methods of production.

But at the same time its authors insist on this fundamental idea: "as long as the new models of production remain enclosed in their narrow private framework they will constitute a restricted modernization, not satisfying demand, which implies the notion of a rationality that interests society as a whole."

Confronted by its incapacity to absorb all its potentialities, capitalism, and this is one of its essential characteristics today, will react by introducing all sorts of processes of differentiation of which we have seen several examples. In the field of the organization of labor, the ten-

### A view from the French ministry of finance...

"THE enterprises exposed to international competition should seek the highest productivity. A policy of low wages could leave them lagging behind in technological development... On the other hand, in the sectors the least exposed to international competition, it is possible to practice a low-wage policy more favorable to employment.

"Household services constitute a very important source of jobs. But the numbers there can only be increased if wages are sufficiently low... to maintain attractive prices. They can, then, only develop if the wages there are very different from those of the exposed sector. This means a growing and significant dispersion of income, like in the United States or even in Japan. Sweden provides the opposite example of a very egalitarian partition of incomes.

It is also the country where the share of private services in total employment is the smallest — this is accompanied by the particularly high weight of the public services. These latter are financed by obligatory deductions... socially acceptable if the benefits provided in return are sufficient. This seems to be the case in Sweden... But this implies a high level of qualification in services, a strong social cohesion and a fairly homogeneous globally active population. Indeed, the population in Sweden, with a very reduced proportion of non-Scandinavian immigrants, is precisely more homogeneous than in the other countries. The American model is without doubt more suitable for offering jobs to a population which is very diversified on the cultural plane and in terms of levels of productivity" (Document of July 1991). ★

dency is not towards the progressive overall extension of its sectors, of forms of organization, and the most advanced methods, it is on the contrary, a logic of selective implantation that is dominant. The two sociologists cited above conclude their work by insisting on the changes that they see as being at the heart of German industry and "which consist, for the enterprises, of rejecting to the exterior, to the extent this is possible, the negative phenomena which accompany the new models of production and, if that is not possible, to concentrate them, on the interior, in isolated sectors" which constitutes "a factor accentuating the formation of segments". This contradiction — which is classically Marxist — between the development of productive forces and relations of production, can thus be formulated in the following way: "can this current dividing up of the world of labor between actors won over to or resigned to rationalization, between workers without any skill, "marginalized", between victims of the crisis, between long-term unemployed, express itself other than by a new form of inequality, contradicting the historical and social conception of modernization?"

Such terms as parcelling out, segmentation, splitting up, fragmentation or disconnection all express the same tendency of capitalism to limit the sphere in which it can develop. This process is powerfully at work at an international level, in the form of a sharpening disconnection between center and periphery: the introduction of new technologies creates a new basis of dependence and accompanies the formation of a tripolar imperialist structure where each of the summits of the "triad" structures zones of low-wage labor where it selectively installs

units of advanced production. The United States is currently reconquering the American continent with the Initiative for the Americas, with multilateral free-exchange treaties which amount to so many dictated treaties between unequal partners in competition. Asia is structured around the Japanese giant in a perfectly hierarchical manner, from the "four dragons" to the poorest countries and those aspiring to industrialization through low salaries like Malaysia or the Philippines.

Europe, meanwhile organizes its different concentric circles less densely, going from the hard core of the center of the European Economic Community (EEC) to the low wage zones of the south and the east. The logic of this model leads, as far as the East European countries are concerned, to a clear prognostic which is being verified: the penetration of the "market economy" will not be across-the-board.

Instead of heading towards the new Eldorado, the international investors are on the contrary putting into place sifting procedures and selecting sectors susceptible to being usefully incorporated into the international division of labor. This process will therefore have the effect of breaking up the societies concerned, by rejecting, marginalizing, "informalizing" and so on, the non-competitive sectors and the segments of labor incapable of adapting to the new technologies. This frontier could shut out certain particularly powerless countries completely.

Capitalism has not therefore emerged from its crisis. But in order to fully grasp the meaning of this diagnostic it is useful

1. Horst Kern and Michael Schumann, *La Fin de la division du travail?*, Editions de la Maison des Sciences de l'Homme, Paris 1989.

to summarize the different ways that this term can be understood. An initial distinction must be established between periodic and major crises: the first result from the normal functioning of the capitalist cycle which always alternates between phases of prosperity and recession and according to the degree of synchronization between the conjunctures of different countries. But from the theoretical point of view the key principle is that capitalism emerges from this type of crisis or recession without appealing to mechanisms other than those arising spontaneously from the cycle.

The great crises, like that of the 1930s, marking the passage from the long expansionary wave to the long recessionary wave, are a more or less sharp turn, whose depth threatens all the elements of the mode of growth and which suppose exogenous transformations or the advent of a new framework of functioning, necessary to renew long term growth. But there are two other understandings of the term crisis that must still be contrasted, since the same term simultaneously designates the violent phase of reversal and the long periods where capitalism functions so uncertainly that its legitimacy is questioned.

The crisis of labor is revealed by the inexorable rise of capitalist unemployment, which does not even appear to be significantly reduced in the short or medium term. This rise flows from the slowing down of growth which combines with the progression of productivity to lead to an absolute decline of the number of work hours. Faced with these trends capitalism chooses the solution of unemployment, or in other words expulsion from the sphere of profitable labor.

### **Decline in status of labor**

In all the capitalist countries an overall deterioration of the status of the wage laborer can be noted: undeclared, poorly paid, precarious employment can be seen as occupying a growing part of the economy, amounting in France to one in five jobs. This "Fordism" in reverse signals that capitalist rationality, which makes labor time the measure of all value, can no longer progressively regulate the allocation of labor. The law of value is increasingly in opposition to human progress.

The approach proposed here is perfectly consistent with the central theory of long waves as to the historically dated and non-guaranteed character of the emergence of expansionary periods. But what is happening today does not correspond to a sudden return of the 1940's (fascism and war). Today we see a many-pronged rampant offensive taking the form of a process of whittling away, rather than a frontal attack. The idea is to achieve the same end at the price of an accumulation of partial defeats.

# **In the jungle — without a map**

**THE recent expansive cycle of capitalism has proved longer than expected, beginning in the 1980s and finishing at the start of this decade. However, it was less intense than the phase of expansion which preceded the present crisis, and it was marked by strong imbalances and instability. Moreover, it has not allowed the restoration of rates of profit equivalent to those before the crisis. Finally, it has led up to a new recession of a previously unknown gravity. The question we want to address is: despite all the above, are we witnessing the creation of the conditions for a new long wave of expansion?**

**JESUS ALBARRACIN AND PEDRO MONTES**

**A**CCORDING to the traditional explanation, a substantial acceleration of growth rates is needed to get out of a phase of recession, something that can only be obtained if the class struggle permits it. But some economists consider this criterion false, insofar as very significant changes are taking place inside the system, progressively creating the conditions for capitalism to enter upon a stage of relative economic and social stability.

According to these economists, we are in a transitional period between the recessionary and expansionary phases of the long wave.

The last phase of capitalist expansion on a world scale was long, but its intensity, in terms of growth of Gross Domestic Product (GDP) and accumulation, was lower than that recorded during the phase of expansion which preceded the 1973 crisis. The GDP of the OECD (Organization for Economic Coopera-

tion and Development) countries grew by 3% per annum in the 1983-1989 period, falling in 1990 and 1991 to 2.6% and 1.1% respectively, while between 1960 and 1973 the average rate for the whole of the OECD had been 4.9% and the same for each of the main imperialist blocs.

The restoration of the rate of profit has been carried through in favourable circumstances that cannot be repeated in the coming years. First of all, the world economy was able to count on dynamic expansion in the USA, which, thanks to a huge domestic budget deficit, encouraged exports from other countries and thus an upturn in some of them.

The US current account balance has gone from a surplus of \$7bn to a deficit of \$160bn in 1987 — that is, 3.7% of GDP. This external deficit has been reflected in a substantial increase in the public deficit which remained throughout 1982 to 1988 above 3% of GDP. Then, the fall in raw material prices between

We are therefore, in a transitional phase between a long recessionary wave and an expansionary wave, a period that one could qualify as a rampant crisis.

Is capitalism capable of coming out of this period, shaking off the straight jacket and presenting an attractive social model? The preceding analysis leads us to the conclusion that this is not possible. In the first place there will not be a perspective of returning to Fordism defined as a growth of wages proportional to that of production. Wage austerity and social inequalities are solidly at the heart of the model of growth followed since the beginning of the 1980s.

It is impossible today to perceive a progressive solution to the problem of unemployment in the framework of capitalism. Contemporary capitalism has had its victories: it has brought about revolutionary technological innovations, reestablished profit and contained wages, but it can only function on a narrower and narrower basis. Its current logic implies a consolidation of inequality and exclusion within the imperialist countries as a well as on the scale of the world economy. On all these points the superiority of the Marxist analysis over that of the believers in spontaneous harmony seems to us to have been confirmed. ★

1982 and 1986 and that of oil in 1985 (going from an average of \$27.4 a barrel in 1985 to \$15 in 1986 for oil imported by OECD countries), brought about a substantial transfer of income from the producer towards the consumer countries, contributing to prolonging the upturn.

Finally, and even if this fact does not have the weight of those mentioned above, following the stock market crash of October 1987, governments took short term expansionary monetary measures to avoid a collapse of financial markets in the face of the expected recession.

Together these factors played an important role both in the intensity of the growth in the 1980s and its duration, and this means that it is difficult to see how such growth can be repeated.

This point of view is reinforced if we look at another feature of recent economic development. The high level of indebtedness in all economic sectors of most countries led to a rise in demand and shored up economic activity, while limiting the opportunities for future expansion.

### Continuing rise in public sector debt

Public sector deficits have built up progressively, and, at the start of the 1990s, all countries have a higher public sector debt/GDP ratio than before the upturn. In the EEC, the ratio has risen by 15 points, going from 45 to 60%, with spectacular rises in some countries such as Belgium, the Netherlands and Italy. A 15 point rise has also been seen in the USA. The public deficit in most of these countries is continuing to mount and the charges on the deficit have also risen significantly in many, constituting a significant brake on their fiscal policy. The margin of manoeuvre for most countries to adopt an expansionary fiscal policy has been reduced.

The same is true for the enterprises, where the ratio between their own and external resources on the one hand, and indebtedness in relation to GDP on the other, has been getting worse throughout the decade, despite the recovery in terms of profits.

Finally, the same can be said for household economies whose indebtedness in relation to disposable income has significantly increased. Thus, for example, between 1980 and 1990 household debt increased from 77% to 96% of disposable income in the USA; from 58 to 92% in Japan; from 76 to 87% in Germany; and in Britain from 48 to 105%. Any prospect for an upturn must take account of this increase in indebtedness of all economic sectors and its restrictive effects.

The increase in indebtedness has been accompanied by a perceptible fall in national savings, which is lower than that recorded in the long expansionary wave. For the Group of 7 countries, the savings

rate was 10% in the 1980s, while in the 1960s and 70s it was 13.5% of GDP. For households and family firms, the savings rate in the USA fell from 7.3 to 4.3%; in Japan from 17.9 to 14.3%; in France 17.6 to 12%; in Italy from 21.6 to 15.6% and so on, except for Germany.

The decline in savings has been accompanied by a fall in the average share of investments in GDP, which translates into strongly reduced growth. After an annual rise of 3.8% in the 1960-73 period for the OECD countries, the rate fell to 2% between 1983 and 1990. In the private sector, it did not rise above 1.5% between 1973 and 1990, as opposed to an average of 4.1% in 1960-73. This phenomenon is seen in all countries whatever the differences among them.

Weaker productivity growth is an important feature of the past period but here the pattern is not uniform for all economic sectors. In industry, the core of value production, productivity growth has been stronger than in services; but this growth, contrary to the past, has been essentially due to a reduction in jobs. The new, highly insecure jobs have come in the service sector — and productivity in this sector has thus only slightly increased.

### High rates of permanent unemployment

Furthermore, while unemployment has dropped in the past few years — or at least up until recently, when it has begun once again to rise due to the recession in some countries — it remains very high, confirming a trend for each cyclical upturn to begin with a higher level of unemployment in both absolute and relative terms.

The last upturn was accompanied by strong international economic imbalances. In contrast to the big American trade deficit, the balance of payments of Japan and Germany showed big surpluses. The gap has closed somewhat in recent years, but the financial flows that are needed to regulate the current account balance have not diminished, since, to the financing required for each new deficit must be added the cost of refinancing previous accounts, insofar as these were not covered by reliable sources of income.

These imbalances on payments lie behind the significant growth in international financial flows, but the complexity and the dimensions assumed by the financial sphere go beyond the importance of these imbalances. The interna-



tionalization of capital markets and the deregulation of markets have created an enormous financial bubble forming a swollen and abnormal growth in the body of the real economy, fed above all by speculation.

Furthermore, the problem of the Third World debt is far from being resolved, even if the risks it posed for banking systems have been defused. It has now been made worse by the bankruptcy of the East European countries and the former USSR.

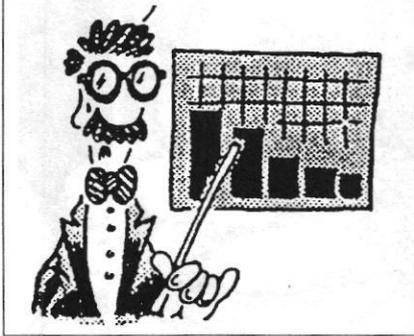
This characteristic of the financial markets may spread to the exchange markets, another arena for speculation. During the 1980s, there was great instability here. The last decade began with a significant revaluation of the US dollar, pushed up by high US interest rates aimed at financing the balance of payments deficit, then saw a sharp fall in the dollar which could not maintain its value at the same time as the deficit on current accounts grew and persisted.

### Speculation and monetary instability

The external imbalances are aggravated by speculation and the absence of a stable currency on which the international monetary system can rest. This also contributes to and encourages a climate of international economic insecurity which is hardly favourable to a stable and solid development of capital accumulation.

As we have tried to show, capitalism is ridden with serious problems which throw a shadow on the results obtained in the past decade and which are so many obstacles to a future upturn. In considering the possibility that this upturn will turn out to be the beginning of a new wave of expansion, it is necessary to emphasize that the successes in restoring rates of profit have been quite limited. If we look at the development of rates of profit in the EEC countries we can see

*Countries must cut wages to stay competitive on the world market...*



that the upturn of the 1980s has not been enough to reestablish the levels of the 1970s.

This upturn has been supported by a growth in profits derived from the economic expansion itself and above all from the effects of the redistribution of income imposed by austerity policies. In consequence, indirect and deferred wages (the "social wage") have been hard hit as a result of the general campaign against the Welfare State. However neither direct wages nor the Welfare State have been cut back sufficiently to allow a restoration of profits to their level of before the crisis of the 1970s. For the EEC countries, public expenditure grew by 12.7 points between 1970 and 1982 in relation to GDP. Subsequently it has only been reduced by 1 point.

Since the mid-1970s, some French authors have used a new approach to analyze the crisis. While totally or partially adopting (or claiming to adopt) a Marxist reference point, some Keynesian contributions have been added. The contributions of this current are disparate, but they can be classified as belonging to what is known as the Regulation School.<sup>1</sup> Recently, the debate has been enriched by other economists who work within the analytical field of long waves (see box on p. 19) and who underline the importance of external factors in the passage from the recessionary to the expansionary phase, while taking on board a significant part of the schemas of the Regulationists.

According to the latter, a sustained recovery in profit rates is not a sufficient criterion allowing us to know if the capitalist economy is coming out of its crisis; it is also necessary to know if it has attained a certain social stability, whatever the rates of profit or of economic growth, through the creation of new regularities that allow the reconciliation of contradictions with sufficient social consensus and economic efficiency. In their view, throughout the past decade there have been important changes in this sense that can be summarized as:

Firstly, changes have taken place in the

regulation of wages and this can, in the medium term, play the same role as the working class defeats that took place during other long recessionary waves. Previously it was readily admitted that real wages should grow in line with productivity so that their share of income would be maintained. Now, a new principle has been established: that wages should merely maintain their purchasing power. A decline in the share of wages in national income has thus been accepted, which amounts to accepting a rise in the rate of exploitation.

A crisis of labour has occurred in connection with this. During the expansionary wave, employment rose because production was growing more than productivity, and, furthermore, working time was reduced. Today, the growth in productivity is taking place at the expense of employment and with no reduction in working time.

### **Creation of divided working class**

The crisis of employment in the productive sectors, unemployment rates, insecure jobs and marginalization show that a "dualization" of the workers is taking place. The internal division in the working class is not new, but during the expansionary phase there was a tendency to homogenization, notably in wages, while the trend today is the opposite. This implies a considerable change in the behaviour of the wage workers. This is not a decisive victory for the bourgeoisie, but it is a step forward for its interests.

Secondly, according to these authors, the restoration of profit rates has been insufficient because productivity growth has been very low in relation to existing technologies and new forms of organization of work, but, in their view, there are some factors that render the verdict about low productivity growth less clearcut.

First of all, the last phase of expansion was based on services, where productivity is weaker, pushing down the overall growth in productivity — which does not mean that in industry it is not rising. Then, while, there has been no thoroughgoing implementation of technological change, owing to the inability of capitalism to incorporate new technology — these methods are more costly and more difficult to generalize, they involve a slower rate of introduction and so on — the potential is nonetheless there. Moreover, the substantial change that has taken place in the area of wages compensates for lower rates of growth of productivity.

In the third place, the way in which demand has been sustained despite the weak growth in wages implies a significant change. During the phase of expansion, a form of regulation was established in which the share of wages in the national income was maintained, and demand and production grew harmo-

niously, encouraged by household consumption.

Today, at a time when there is growth, it is profits rather than wages that are rising. Consumption based on wages is not rising, but the financial system channels a part of the surplus created in the factories towards non wage-based consumption. In fact, the difficulties in finding profitable outlets for productive investments push significant flows of capital towards the financial system, which is considerably swollen.

But, via high interest rates, a part of the benefits of this fall to rich families whose consumption increases. The growing role of finance in the economy facilitates consumption, by cushioning the negative effects of income distribution to the detriment of wages on the realization of surplus value in the absence of demand.

Finally, according to these authors, one can discern a "new dualism", that is to say a tendency towards the fragmentation of economies into two sectors: on the one side, modern industry and some computerized or computerizable services characterized by high rates of productivity growth, with relatively high wages but creating few jobs; on the other the remaining service industries with low productivity, sheltered from competition, and creating jobs which are, however, often insecure and poorly paid. This dualism is required for the reproduction of capital, given the changes indicated above.

In fact, during the last phase of expansion the contradiction between the recovery of profit rates and the maintenance of growth in demand has been dealt with by the replacement of wage-based by non wage-based consumption.

But this cannot provide a permanent solution, for, in the long term, the contradiction remains and the only solution consists in disconnecting the determination of profit rates from the maintenance of demand by a new dualism: on the one hand, a competitive sector with high productivity growth and high profit rates; and on the other, a sector not subjected to the demands of capitalist profitability or which compensates for low productivity growth by lower wages, but which creates jobs.

### **A prolonged intermediary phase**

In conclusion, for these writers, the recessionary phase has been characterized by a less sharp fall than in previous waves; and we are now in a prolonged intermediary phase in which the growing dualism can play the same role as fascism, for example, in the previous wave.

The new wave of expansion will involve a degradation of the living conditions of a large part of the workers, meaning that capitalism will not be "more progressive". But there can be a way out

from the recessionary phase without a big leap in accumulation and growth if capitalism can find a form of social stability different from that of the 1950s and 60s (when it was based on rising wages for all, the Welfare State and so on).

Sustained growth, even if it is weak, can allow the system to maintain a certain amount of social support, stabilize social relations and obtain a certain consensus and legitimacy, in spite of the dualism. Furthermore, in the last resort coercion can always be used. In any case these bases are not yet finally established: they require the working class to be far more thoroughly squeezed, to a point where people will accept any job they can find. This will not be easy for capitalism, but this is the way in which it will try to get out of its crisis.

events of great scope, in which the class struggle will play a decisive role.

One of the problems with Regulationism is its tendency to see elements present in any crisis as specific characteristics of a particular period. This leads to unfounded generalizations and gives certain phenomena a centre stage role. This is the case with "neo-dualism", which is not a new phenomenon in capitalist crises and cannot be considered as a mechanism for the regulation of the current crisis.<sup>2</sup>

Unemployment, as the first expression of this dualism, has been equally high at other moments in history and its sequel, in terms of the weakening and splitting up of the working class, the super-exploitation of some sectors of the latter or the deterioration of working conditions are the normal signs of any crisis. Social dualism tends to increase in times of stagnation and decline in times of expansion. Historically, this has not been the means by which the rate of exploitation has been raised sufficiently to permit an upturn in the rate of profit.

### Maintenance of purchasing power

In the same way, the Regulationists underline the importance of the new "wage norms", in which the maintenance of existing purchasing power becomes a minimum objective as opposed to wage rises equivalent to rises in productivity. Besides the fact that "wage norm" is a problematic Regulationist concept, it is hardly a novelty that in times of crisis the workers should be in less favourable conditions for wage negotiations. Furthermore, in the present period, it is necessary to highlight certain facts that restrict the weight of the gains obtained by capital.

During the 1980s, wages rose by less than productivity in most countries, but this situation has been reversed in recent years in many countries — the line taken by governments, to the effect that the best way to hasten an upturn and halt unemployment was to moderate wage demands, has lost its force. Furthermore, while wage rises slowed in the 1980s, so did the rise in productivity and the difference obtained by capital, of around 1%, can hardly be considered as a great victory. It is not the regulation of wages, then, that will give a minimum underpinning to an exit from the crisis.

The problem of weak productivity growth is more important in the development of the system than the Regulationists suggest. If one takes the "dominant wage rule" it might seem harmless, but, as we have already said, this norm is not stabilized and does not offer great advantages in the distribution of income.

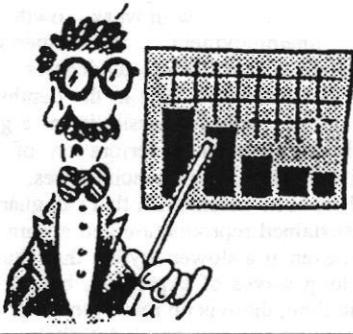
Finally, it is necessary to take into account the fact that the rate of profit is not independent of productivity. The for-

mer grows in proportion to the latter when there is a distribution of income in favour of profits, and declines when capital intensity increases. Productivity advances also have a bearing on demand; for a given difference between productivity growth and wages the level of the two variables is not the same. The political angle, furthermore, should not be ignored; the system will appear more progressive if it is more productive.

The positions of the Regulationists on the abnormal over-development of the financial sector have to be modified at two levels. First of all, we cannot accept the importance they give to this as a new way of resolving the demand problem. Then, it is necessary to take into account the instability that it introduces into the system, which is far from being neutralized.

In phases of prolonged stagnation — and this is a feature of the history of capitalism — in the absence of sufficient capitalist profitability in the field of production, speculative activities develop implying an additional method for exploiting the workers. This is not new, even if it remains useful to underline the fact that this form of exploitation has never served as a means to go beyond

*Thus, the USA cuts wages to compete with Japan, Japan does the same to compete with Korea and so on...*



Opinions on the situation — the modest results obtained by capitalism during the last upturn, the special features of the latter, the growing "financialization", the social dualism, the insufficient upturn in rates of profit, the elements of instability — based on an examination of the prevailing economic and social conditions in most countries — constitute a substratum common to the entire left.

It also appears to be common ground that the conditions do not yet exist that would allow capitalism to experience a vigorous upturn as a prelude to the start of a new phase of expansion.

However, the assertion that there is a clear way ahead for capitalism, paved by some of the changes currently underway, is also questionable. The Regulationists think that such a way exists and see in it a logical and predictable future. For our part, while it would be rash to say that such a future is totally impossible, we hold that the changes underway do not have this significance and are in fact not all that different from what has been seen in other phases of capitalist crisis. We do not see any reason to say that we can expect a stabilization of the system. As at other comparable historical moments, the outcome will be the product of turmoil and will be tied to social and political

1. See Michel Aglietta, *A Theory of Capitalist Regulation: The US Experience*, London, 1979 and Robert Boyer, *La Théorie de la Régulation; Une Analyse Critique*, Paris, 1986 and "Technical Change and the Theory of 'Regulation'" in G. Dosi et al., eds., *Technical Change and Economic Theory*, London 1988.

2. Some phenomena of the present crisis, such as the creation of insecure jobs, low wages in certain sectors and the sectoralization of the working class may seem new, but are in fact not. In the 1930s, for example, piece workers did not know in the morning if they were going to earn anything or not and wage inequalities were just as big — such as between those on weekly and monthly wages, between piece workers and those on a fixed wage or between public and private sector workers.

In a period of price deflation the immediate interests of different layers of the workers often diverged. Thus, for example, piece workers would see their wages fall with lower prices but this was not the case for white collar workers who saw their purchasing power rise month by month.

*... with the result that workers everywhere no longer earn enough to buy what they produce!*





*'Why, yes! A recession! I believe a recession is indeed a possibility!'*

long depressive waves. Such exploitation does not offer any stability to the system and indeed robs it of a part of the legitimacy it obtains by the sterilized exploitation effected through the "neutral and efficient market", including the labour market.

The "financialization" of the economy is more complex than a method of regulation. The extraordinary development of financial activity which took place during the last phase of expansion and the speculative rises in the equities markets and the property sector, which have not yet entirely deflated, are a time bomb fixed on to the system which can explode at any moment and provoke a crisis with unforeseeable consequences.

### The casino of modern capitalism

A multitude of new financial instruments, new markets, new institutions and new forms of transaction have turned capitalism into a huge casino where mind-boggling amounts of floating capital, which have almost no relation with the real flows whose value they multiply hundredfold, look for financial killings through speculative gambles every second of every hour of the day.

The intrinsic instability of this entire contraption is beyond all question, and, finally the financial commotions we have seen, such as the stock market collapse of 1987, and its repeat in 1989, or the panic provoked by the outbreak of the Gulf conflict, the fall of more than 30% on the Tokyo stock market since 1990 must be interpreted as signs of something that must eventually happen — the bursting of the financial bubble.

It is true that the sheer size of today's

financial sphere is historically unprecedented, even in the years before 1929. The level of quotations on the main stock markets, with the exception of Tokyo, is even higher than on the eve of the 1987 crash, after having recovered from that test and several that have followed it. Such levels mean that yields from dividends are lower than those from interest rates on the financial markets, although investment in the latter does not produce surplus value owing to its speculative character; this along with various capital movements means that new financial convulsions are not to be ruled out.

Before entering on a new cycle of expansion such as that of the 1980s, and above all before entering on a long wave of expansion, a cleaning out of the system is needed to destroy a proportion of financial capital. No sustained upturn can take place until the obstacle of financial hypertrophy is overcome.

Thus, without neglecting the role that "financialization" has played in these last years as an economic regulator, as a way of closing the gap between production and demand under certain conditions of income distribution, its effect has not been as significant as has been suggested and cannot hide the insane dimensions attained by the financial sphere.

The development of the latter as a support mechanism for economic expansion is a repetition of other moments in the history of capitalism, but its size and its characteristics reflect conditions specific to the current period, with the internationalization of capital, the breakdown of the international monetary system and the deregulation of markets, which make even more unstable and dangerous the house of cards built up by financial expansion and the development of credit.

A new long wave without a cleaning out of all this seems impossible to us.

Some Regulationists suggest that capitalism is passing through a transitional phase between a long wave of recession and another expansionary wave, meaning a powerful move out of its crisis. We do not believe this to be the case.

We do not see decisive changes underway that would allow us to say that the conditions for capitalism to enter into a new expansionist phase have been created or are in preparation — which is what the Regulationists mean when they talk about a transitional phase; furthermore the internal regularities are not even able to assure a stable phase of moderate growth. The near future will be strongly marked by instability both on the surface — with weak growth, rising unemployment, inter-imperialist frictions, protectionist tendencies and financial turmoil — and in the depths of the system, with the possibility of a generalized recession, deterioration of the social situation, and financial crises.

There is no mechanism that can guarantee sustained reproduction and accumulation, even at a slower rhythm than during the long waves of expansion, but, at the same time, there is no reason to think that this situation can be indefinitely prolonged.

### Towards a two-tier society

The moves towards a two-tier society to which so much weight is given tend towards class confrontation. The bourgeoisie will try to use the weakening of the position of the workers to impose the policy it needs to get out the crisis. For this it needs a drastic recovery in the rate of profit, and thus a significant rise in the rate of exploitation, and this in its turn requires that the workers be politically defeated. The corrosive effects of the crisis is weakening the working class, but defeat is not inevitable.

The workers, faced with a constant deterioration of their situation and without prospects of improvement, may put up a fierce resistance including wage struggles of sufficient intensity that they force the bourgeoisie to suspend its projects for fear of putting the system itself in danger.

In this case, there will be a turn in economic orientation of which liberalism as a doctrine and the market as a panacea will be the victims. This would open the way to an interventionist policy by the state and support for demand, and a rehabilitation of the Keynesian tradition. ★

# Towards global involvement

**US PRESIDENT George Bush's visit to Japan in the second week of January — and his spectacular collapse at an official dinner — put US anxieties about growing Japanese economic power into the headlines. Junichi Hirai, a leader of the Japan Revolutionary Communist League (JRCL — A Trotskyist organization), explained to *IV* the nature of the US/Japanese relationship and recent changes in the Japanese social and political landscape.**

## JUNICHI HIRAI

**I** WOULD like to start by talking about the meaning of the recent talks between the president of the USA George Bush and the Japanese Prime Minister of Japan Kiichi Miyazawa.

The discussion between the two leaders was held on January 8-10, 1992. The main theme was economic issues, and above all the economic conflict between the US and Japan. The Bush government is putting very big pressure on the LDP (Liberal Democratic Party) government to solve the American deficit in foreign trade between the two countries. Basically, the Japanese government accepted these pressures from Bush.

The Japanese government promised Bush to import 20,000 more American cars in a year. Japanese capitalists promised also to purchase \$19bn worth of car parts in 1994. Generally speaking, the Japanese government accepted the American pressures to support the US economy, which is in deep crisis.

The second point in the discussions was about building a global partnership between US and Japanese imperialism. As a big economic power, Japan is increasing its commitment to US global policies, especially in Asia, but also Japan will help with the so-called aid policy towards the Soviet Union and elsewhere.

In Asia, there are two important issues for the Japanese bourgeoisie and the American government. The first is the so-called normalization process in China and the tensions in the Korean peninsula. The US/Japanese joint statement issued by the two leaders considered Asia as an unstable area where there are big potential conflicts. In this context the statement confirmed the need for an advanced deployment strategy by the US which Japan would support. Japan is to step up its political and perhaps also semi-

military contribution to this strategy.

Until recently the military alliance was mainly directed against the former Soviet Union. Now the USSR has disintegrated and a decrease in tension has taken place. In this framework there have been various disarmament talks in Europe. In Japan however disarmament has not been on the agenda. Here the military capacity is to be shifted towards Asia.

Despite the economic conflict, the Japanese bourgeoisie supports the US global political framework. They want to preserve the relation between the US and Japan. Thus they are obliged to accept various US economic demands. The opinion of the mainstream Japanese bourgeoisie is that if Japan is to maintain its position on the world market, it must support US military and political hegemony. Without that, in the view of the Japanese bourgeoisie, it would be extremely difficult for it to keep its current economic power.

## Financial support for Gulf crusade

When the Gulf War broke out there were strong voices in the ruling LDP saying that Japan should take part in the US-led crusade against Iraq. In fact Japan gave strong financial support (\$13bn) although it did not send military forces. After the war, Japan sent a fleet of mine sweepers to the Gulf; this was the first time since the war in which Japan has sent military forces outside the country.

The Japanese postwar constitution forbids Japan from engaging in any overseas military action and prohibits the formation of a Japanese army. Now, a new argument is being put forward by powerful voices in the LDP about this

constitution to the effect that, as the United Nations is an international peace-keeping institution, there is no conflict between the Japanese constitution and the commitment of forces under the UN flag. To support the UN is to support the aims of the Japanese constitution. This argument is the new rationalization for the sending of Japanese forces overseas.

Last year a draft law was proposed in parliament by the LDP and some elements in the Buddhist Komeito party. This is the UN Peace-keeping Draft Law to legalize the participation of Japanese military forces in UN peace-keeping forces. Eventually this law was not passed. However, now a new effort is being made to get an amended law on this question adopted. The immediate aim of this new legislation is to allow the sending of Japanese forces to Cambodia.

There is a new change in popular mood in relation to these questions. In the past, people say, Japan enjoyed prolonged peace, but now there is a widespread feeling that to maintain peace in Japan that country must take part in global peace-keeping efforts through the UN. Thus the leadership of the strongest trade union confederation Rengo supports such an involvement.

However in other Asian countries there is a feeling of threat from this development in Japan. They fear a new stage of Japanese imperialism. This is true not only among the people; the governments of South Korea and China have denounced this new legislation. There are a number of reasons why these governments take such a line. One of them is the experience of the Second World War, when the Japanese killed millions of people in the occupied East Asian countries. The memories of this remain very strong.

## Resentment of Japanese neo-colonialism

Another reason, especially among the ordinary population of East Asia, is resentment of Japanese neo-colonialism and economic domination. This is a massive sentiment. Most of these countries are part of the great scheme of Japanese imperialism. For example in South East Asia there is a process of industrialization. However this takes place as a part of the global strategy of Japanese capitalism. Thus industrialization means an increase in Japanese involvement. So-called Japanese economic aid goes to ruling layers and the masses do not necessarily benefit. In this situation a new critical awareness of Japanese economic domination is developing.

The Second World War was a colonial war by Japan, but even now the Japanese government has never officially and honestly apologized for this war and no substantial compensation has been paid. At the same time in the ruling circles there

is a substantial current opposed to any form of apology to the East Asian countries. They felt that the war was in some ways legitimate.

In this context, more direct Japanese political and military involvement in this area will come into direct conflict with popular feeling.

On the Japanese domestic situation: in the last 40 years only one party, the Liberal Democratic Party (LDP), has formed the government. In 1989 there was an Upper House election and an upset; half of the members of this house must be elected every six years and this time the biggest opposition party, the Socialist Party, got more seats than the LDP. There were two reasons for this victory; the first was that the leader of the SP was a woman, Ms. Doi, with popular appeal. Various groups outside the traditional framework of the trade unions supported her. At the same time the LDP was in very bad state due to constant scandals and big problems with the peasantry due to US pressure over the liberalization of agriculture trade.

With the outbreak of the Gulf crisis and war, the Japanese bourgeoisie started a big offensive arguing it was Japan's duty to support this effort. This also involved a big ideological offensive against the SP, to which that party capitulated and shifted to the right. Ms. Doi lost the party presidency to be replaced by Mr. Tanabe, a member of an explicitly right-wing faction whose idea is to base the party on the Rengo trade union confederation. The Socialist Party has also been renamed as the Social Democratic Party (SDP).

### **Socialist Party seeks consensus framework**

Tanabe wants first of all to formulate a consensus framework on international and domestic policies. This is one basic target. He is trying to bring together all the social democratic forces in a single parliamentary party on this basis. He says that if the SP wants to be an alternative government party it must be responsible.

The Japanese Communist Party (JCP) is a rather big party in comparison to the CPs in most other imperialist countries. Recent events in the Soviet Union and all that have made life very difficult for this party; its response has been conservative. They just say that they have been a nationally based independent party since the end of the 1960s and have for a long time denounced Soviet hegemonism. Thus it all has nothing to do with them.

At the same time the JCP is very critical of the capitalist restorationist developments in Eastern Europe and the Soviet Union. They have also denounced the European CPs for abandoning socialist ideas. Internally the CP is tightening its bureaucratic monopolistic structure,

suppressing the potential for internal dissidence. However, the CP is very much on the defensive in Japan. There is a definite trend towards falling electoral support, although it is not dramatic.

There are various currents in Japanese society which reject the current right-wing shift of the SP, but this does not necessarily translate into support for the JCP. These currents remain within the broader SP framework.

The Japanese popular response to the government's attempts to get involved in the Gulf war effort was weak in comparison to what was seen in the USA for example. The CP held several mass rallies, with audiences of around 10,000. As for the SP and Rengo, they never took any initiative to organize mass protests against the war. The independent left groups and trade unions took various joint protest actions, but the mobilizations were very limited — a few thousand people in Tokyo for example.

When the UN peace-keeping law was before parliament there was a joint campaign against it between the independent left and leftwing elements in the SP. The biggest demonstration gathered about 12,000 people in Tokyo — a bit better than during the Gulf War. This campaign had some impact on the SP as a whole, influencing it to take a clear position in opposition to this legislation.

### **Opposition to law on overseas troop deployment**

The fact that the SP took an opposition position to the UN law was one of the reasons why the legislation was unsuccessful in Parliament last year. In general, the situation of the popular mass movement independent from the SP and the CP is rather difficult. Those movements are scattered regionally, are quite dispersed and have no nation-wide expression. So the independent forces of the popular mass movement are very weak. In this context, among the popular independent movement there is a strong tendency to accept the SP framework.

The other tendency, to which we want to give an independent expression, is very weak. We need a popular political nationwide initiative independent from the SP and CP. In order to realize this, a base in the trade union movement on a nationwide scale is needed. If there is no independent current in the trade union movement it will be impossible to build an independent movement. So far there does not seem to be much potential for this in the trade union movement.

In this context various popular spontaneous movements have arisen that are more and more localized and depoliticized and more and more concerned with various single issues; for example environmental and nuclear power station issues. As for ourselves, the Trotskyists, we have been quite weakened over the

last six or seven years. We are in a difficult situation.

Until the recent past Japan was a somewhat closed and homogeneous society, although of course there have been Koreans in Japan for decades. In that context there have been various discriminations against Koreans in Japan. Ordinary people felt Japan was homogeneous — when the government says that Japan is a homogeneous society ordinary people tend to accept that idea.

Since the mid-1980s many Asian immigrant workers have begun to come to Japan and to become part of the Japanese workforce; not only from Asian countries like Pakistan, Iran, Bangladesh or the Philippines, but also from Latin American countries, mostly second and third generation Japanese emigrants who have been coming to Japan as a supplementary workforce.

There are no official government statistics about the number of those workers in Japan but there are hundreds of thousands of these immigrant workers. They are now an indispensable component of the Japanese workforce, especially in the building sector and subcontracting enterprises in the manufacturing sector. Without them the construction sector and those subcontracting sectors could not function.

### **Immigrant workers lack legal status**

The current legal system in Japan prohibits any unskilled workers from coming to and working in Japan. So officially, these hundreds of thousands of immigrant workers are working illegally. Therefore, the working conditions of those workers are very harsh and wages are very low. When they are injured they have no social security support at all. The size of the immigrant workforce is sure to increase.

So far in Japan there has been no open fascist-type campaigns against these workers like we have seen in Western Europe. However, in the consciousness of ordinary Japanese people there is a potential chauvinist element. We must not underestimate the potential of this reactionary aspect of the consciousness of the ordinary masses. So far there is a shortage of labor, but were there to be a serious economic recession there might be some kind of explosion of chauvinistic sentiments.

Though there is no national campaign there are various local initiatives to help, support and defend immigrant workers. This is very new. We think the number of immigrant workers will continue to increase and this is a new element of the Japanese situation. In this context the new initiatives to support immigrant workers are extremely important. This is why we have taken part in such initiatives. ★