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WORKING PAPERS ON THE CAPITALIST STATE

Number 3 — Spring 1975

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Papers de treball sobre l'estat capitalista

Arbetstexter omden kapitalistiska staten

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Working Papers on the KAPITALISTATE 3/1975

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Printed in the United States

EDITORIAL

We would like to apologize to our readers for the long delay in publishing the present issue of *KAPITALISTATE*. The *KAPITALISTATE* group in Berlin was overburdened with work and faced an unfortunate and costly technical failure which occurred during the typesetting process in Germany. After consultations between the groups in Berlin and the Bay Area we agreed that the Bay Area group should assume responsibility for printing *KAPITALISTATE* beginning with the present issue.

The Bay Area group is making every effort to insure that *KAPITALISTATE* will appear on a more regular basis in the future. We are planning to publish issue Four in the fall of 1975. It will be a focus issue on urban and regional problems and the capitalist state. For the future, editors are preparing further focus issues dealing with multi-national corporations and the state, the state educational system, state policy and the labor market, and the problem of legitimation of the capitalist state.

Even though *KAPITALISTATE* has failed to appear regularly, the past year has seen the continued expansion of a world-wide network of groups and individuals sharing their insights and analyses about capitalist society and the capitalist state. The aim of *KAPITALISTATE* is not merely to publish a journal, but, more importantly, to encourage international collaboration on just such work.

Working Principles of the Bay Area Kapitalistate group

The Bay Area *KAPITALISTATE* group does not consider itself an editorial board that accepts and rejects manuscripts. Rather, it is a group of people helping each other and other groups and individuals who are working on theoretical issues and empirical research concerning the state. Two articles in this issue are the outcome of our collective work process: "Watergate" and the review of "The Fiscal Crisis of the State." Our current project is a contribution towards a Marxist theory of political parties, and we welcome suggestions and comments from our readers on this topic. In the future, we hope to expand both our international contacts and those within the U.S. by working on manuscripts by other groups and individuals affiliated with or interested in *KAPITALISTATE*. Reciprocally, we hope to get critical reaction to our own collective work.

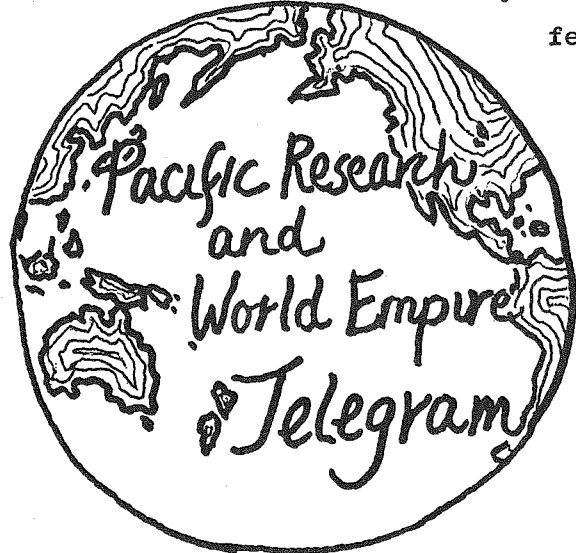
Because of the sudden shift of the printing responsibilities to the U.S., we are not in a position to give adequate progress reports of all groups involved in *KAPITALISTATE*. In the U.S. there are now operating groups in New York, Boston, Madison, Boulder, and East Lansing. Reports on the activities of all international and U.S. groups will appear in the next issue.

International cooperation

We hope that in the future we will be able to publish more collective work resulting from international cooperation as suggested above. At this point, the coordinating group in each country has the primary responsibility for deciding what contributions from that country should be published. All manuscripts will be circulated internationally before publication and coordinating groups in other countries can, in special circumstances and by giving adequate reasons, veto any contributions.

The *KAPITALISTATE* distribution, subscriptions, and sales will remain with the coordinating groups or editors for any particular country.

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Watergate, or The Eighteenth Brumaire of Richard Nixon

*S.F. Bay Area Kapitalistate Group**

The saga of Watergate, with all of its convolutions and mysteries, is a tale of political repression gone awry. Political repression is a normal feature of bourgeois democracies. There may be periods when repression is intense and others when it is lax, times when repression clearly violates the norms of bourgeois legality and other times when it carefully proceeds according to procedural due process of law. The capitalist state never completely abstains from repressive activity directed against its political enemies. As long as such repression is contained within certain broad limits and is directed only at certain kinds of targets, it raises little opposition from the establishment media or from liberal spokesmen and politicians.

Beginning in 1969 the Nixon administration actively pursued a policy of concerted repression directed against the left in the United States. It organized Federal Grand Jury inquisitions in many parts of the country, carried out large-scale illegal surveillance of radicals and radical organizations, practically liquidated the Black Panthers, responded more and more brutally to political demonstrations opposing the Vietnam War, and instigated numerous blatantly political trials. While such actions were opposed by the Left and received occasional criticism in the press (as in the Chicago 7 trial), liberals largely ignored them.

But then, as the 1972 Presidential election approached, something new occurred. The surveillance and sabotage which had, in the past, been directed at the Left was turned against the Democratic Party. There was, of course, nothing more illegal in the bugging of the Democratic Party headquarters than in the surveillance of radical organizations during the previous years. The dirty tricks directed against Democratic candidates were no more a violation of constitutional rights than was the planting of provocateurs in radical groups. What made the Watergate scandal so scandalous was the use of such illegal, repressive means in the political struggle within the ruling class. It was neither the formal illegality of the activities per se, nor the intensity of the political struggle waged by the Nixon forces against the liberal establishment that was scandalous, but the combination of the two.

* Members of the group are: Sue Bessmer, Jens Christiansen, Margaret Fay, David Gold, Clarence Lo, John Mollenkopf, James O'Connor, Jeff Prager, Kay Trimberger, and Erik Wright.

This was not, of course, the first time that the boundaries of acceptable repression had been transgressed. Twenty years earlier Senator Joe McCarthy had violated the limits of acceptable repression when he turned from the attack on the Left in the universities and the media to liberals and conservatives in the Army and Republican Party. Under different circumstances, the Nixon administration moved during the early 1970's from using a repressive apparatus to attack the Left to launching an attack on the Democratic Party. Once the full scope of that attack came out into the open, the political crisis that became known as Watergate was born.

This view of the Watergate scandal raises a number of important questions: 1) What social and political factors set the stage for the extension of repression beyond acceptable limits? 2) Once the Watergate burglary was uncovered, what forces shaped the development of the political scandal into a serious crisis? Why were certain crimes and not others emphasized? What can we learn about the functioning of the state apparatus from the unfolding of the crisis?

We do not have full answers to these questions. But we can offer a tentative analysis of the issues in the hope of illuminating some of the dynamics of the political crisis facing the United States in the 1970's.

I. The Transcendence of Acceptable Repression

When Karl Marx wrote about the farce of the coup d'etat of Louis Bonaparte in 1852 he was faced with the difficult problem of disentangling the general structural forces which underlay that specific historical event from the particular personalities and circumstances of the historical actors who engineered it. The general method by which Marx analyzed this problem was stated succinctly at the beginning of his essay:

Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past.*

1. Structural developments

The U.S. ruling class directly encountered circumstances in the 1960's and early 1970's which have shaped the development of the state apparatus and created the preconditions for the events of the Watergate scandal. With some simplification, these structural developments can be classified under two headings: those that affected the position of U.S. capital in the world economy and those that attacked the mechanisms of social control at home.

By the middle of Nixon's first term it was clear that U.S. hegemony over the capitalist world was weakening. The strength of national liberation movements, seen most dramatically in Southeast Asia, meant that the cost

* Karl Marx, *The Eighteenth Brumaire of Louis Bonaparte*, New York: International Publishers, 1963, p. 15.

of imperial expansion was higher than the ruling class and the professional politicians had envisioned. By 1968, some capitalists and politicians were arguing, sometimes publicly, for a pullback in Asia and a re-evaluation of U.S. foreign policy in other potential trouble-spots. In addition, the rising economic strength of other capitalist nations, particularly Japan and Germany, and the threat of an expanded and unified European Common Market, made the danger of serious competition a reality. At the same time, the potential of the U.S. to reassert its own competitive position through the manipulation of the economy with Keynesian economic tools seemed to be exhausted. The expansionary economics of the Kennedy-Johnson years produced a rising GNP but also increased inflation. Hence this rising GNP did not represent a significant increase in productivity. The expanding strength of other national economies and the relative stagnation of the U.S. combined to transform the situation into an arena of destabilizing competitive forces that threatened to undermine the international system as a whole. These strains boiled to the surface in a series of international monetary crises with speculation running against the dollar and toward gold, the yen, the Deutsche Mark, and even at times, the pound and the lire. To make matters worse for the U.S. among the main speculators were the huge U.S.-based multinational corporations and financial institutions.

The increasing instability of the world economy was accompanied by an upsurge of events in the U.S. that threatened the stability of the internal social structure. In the late 1960's, a series of political struggles surfaced—workers in general, blacks and other third world minorities in particular, university students, women and gay people became more militant in challenging the institutions and individuals who were oppressing them. Poor people organized against the welfare system and against ghetto housing. In addition, new coalitions formed. The anti-war and ecology movements, for example, included not only those most oppressed, but also many non-establishment liberals. Thus the attack on the established social order began to gain hesitant support from those closer to the centers of power.

In addition to these overtly political struggles, there were also collective expressions of deepseated personal discontent. Organized labor, especially rank-and-file groups, exhibited increasing militancy often focussed on non-traditional issues. The strike of auto workers at the General Motors assembly plant in Lordstown, Ohio, was only the most widely noted manifestation of a rising sense of malaise felt by many better paid workers.

To the ruling class, all of these phenomena were interrelated. Though such there might have been differing interpretations as to the prime causes and effects of such phenomena, a general consensus existed within the ruling class that there was a crisis of empire abroad and a crisis of authority at home. The task of somehow shoring up that empire and re-establishing domestic authority fell on the Nixon administration beginning in 1969.

2. The Domestic Crisis

There were three strategies available to the state for attempting to deal with the economic and social crisis of the late 1960's and early 1970's:

a) The existing policies could be continued, with piecemeal modifications of the social-welfare apparatus in response to specific pressures. The warfare-welfare state could remain as the basic response to the problems of surplus absorption and to the social and political manifestations of labor unrest. This alternative was favored by the mainstream of the Democratic Party and by many Republicans.

b) The social-welfare structure inherited from the New Deal and the Kennedy-Johnson years could be used as a spring board for the development of a full-scale social-industrial complex.* This would represent an attempt to fully co-opt those social groups that had been marginalized by the development of monopoly capital since the end of the Second World War. It would necessitate a dramatic expansion of manpower programs, government involvement in raising productivity, health programs, etc. In the late 1960's such a program was only supported by fringe elements in the Democratic Party. By 1972, a substantial number of the supporters of George McGovern, although not McGovern himself, had moved toward this perspective.

c) The social infrastructure of the 1960's could be substantially dismantled, or, at least, rendered ineffective, and be replaced by a much more repressive structure of social control. This was, at least officially, the position of the mainstream of the Republican Party, and the perspective which Nixon adopted when he entered the White House. Such a policy was first implemented at the state government level, most prominently in New York and California in the late 1960's. Governors Rockefeller and Reagan were widely thought of as representing the left and right wings of the Republican Party and both pushed substantially similar repressive policies.

Each of these three alternatives faced different obstacles. While piecemeal, incremental reform might have provoked the least resistance from organized political groups, it also offered the ruling class the least hope for substantially improving the situation. This strategy, after all, had failed to prevent the crisis of the 1960's and, in the view of many, had helped to cause it. In addition, the strategy required to defend U.S. international hegemony appeared to call for a deflation and a re-orientation of domestic production, rather than a continuation of existing domestic policies.

* For a discussion on the warfare-welfare state and the social-industrial complex as alternative capitalist strategies, see James O'Connor, *The Fiscal Crisis of the State*, New York, St. Martin's Press, 1973. O'Connor sees the social tensions of late capitalist society as being manifested in increased demands on the state budget. But since the state's ability to raise the necessary revenue is limited, it finds itself in a growing fiscal crisis and capitalist strategy is frequently geared toward solving the fiscal crisis in order to improve the state's ability to attack the social crisis. One aim of a possible social-industrial complex, for example, is to increase the productivity of state activities and thereby reduce the state's demands on revenue sources.

The alternative of building a full-fledged social-industrial complex faced enormous political opposition. Many capitalists felt that their immediate interests would be threatened by a massive shift in government priorities. This was particularly true for those capitalists whose interests were linked exclusively to the military sector. Some also feared that new and dramatic social ventures would reduce the ability of the government to manage the return to political and social stability that was so desperately needed. Capitalists have always shied away from new departures in state policy over which they felt they could not exert substantial control. The added burden on the government budget, the possibility of mobilizing groups that so far had been denied access to the organized political process, and the threat of changes in tax laws and state regulatory activity, produced an almost united front of capital against developing a social-industrial complex even though it might have been in their long-run interests. They were joined in this opposition by the leadership of organized labor, who also tended to feel threatened by such new policy departures. Despite their many misgivings about the country's political leadership, labor leaders still saw their interests as lying firmly within the mainstream of the Democratic Party.

Finally, the effort to dismantle the existing social infrastructure, the third alternative, faced the obstacles of an entrenched federal bureaucracy with a vested interest in maintaining the social programs of the 1960's, and a Congressional, party, and bureaucratic system whose legitimacy was rooted in the pluralist interest-group politics of federal programs. Many capitalists feared that such a strategy was too harsh and would result in an increased level of political tension. And, of course, labor at all levels knew that it would bear the brunt of such a policy. Thus, to pursue this strategy effectively, it would be necessary to work around the established institutions of the federal bureaucracy and to bypass the pluralistic processes of the Congress and the two major political parties. This is what Nixon attempted to do.

The authority crisis was one of the first issues to concern Nixon. In his account of the early days of the Nixon Administration, Daniel Patrick Moynihan, at the time Nixon's chief advisor in the area of social policy, describes how the administration formulated its policies towards the poor.* The basic problem, in the view of both Moynihan and Nixon, was that the New Deal, New Frontier, Great Society programs of the Democrats, so necessary for muting social conflict in their day, were now doing just the opposite. They created expectations of concrete benefits which the system could not deliver and politicized sectors of the population in ways that were unacceptable to most members of the ruling class.

Thus, these programs now threatened the stability they had originally been supposed to maintain. In Moynihan's view, the increasing role of gov-

* Daniel P. Moynihan, *The Politics of a Guaranteed Income*, New York, Vintage Books, 1973.

ernment in social affairs had undermined the private systems of authority (primarily the family and the impersonal controls of the labor market) on which the society rested. Though Moynihan does not use such language, it is clear that the administration viewed the situation as potentially revolutionary. Indeed, armed insurrection in urban ghettos was always a fear and at times a reality throughout the 1960's. The solution to these problems envisioned by Moynihan, and attempted by Nixon, was to move toward policies that would reinforce the private systems of authority, re-establish private incentives where government intervention had distorted them and bring the repressive apparatus of the state fully to bear on those groups considered the most dangerous.

Proposed Nixon budgets throughout his first administration but particularly during the first two years of his aborted second administration strongly reflect this attempt to reorient domestic policies. The Nixon administration did not seek to liquidate all forms of social welfare expenses. The administration allowed certain programs to expand—for example, food stamps and social security programs which gave direct cash payments to individuals who then made purchases on the market. However, social programs which proliferated bureaucracies at the federal and local levels (such as OEO and Model Cities) were cut, producing a net real decline in federal social spending between fiscal 1972 and 1975.* In general the Nixon administration attempted to stem the growth of social programs and, whenever possible, replace them by more market-oriented and overtly repressive forms of social control.

3. Defense of the Empire

The defense of the empire was undertaken simultaneously by political and economic means. In the area of politics, the United States had to alter its strategies vis-a-vis both underdeveloped countries and its imperialist rivals. A major thrust of foreign policy was to extricate the U.S. from its disaster-

* The Brookings Institution, in analyzing the last Nixon budget, states:

In its budget proposals for fiscal year 1975, the administration is proposing several measures to reallocate federal expenditures. It seeks to end the decline in the defense share of the budget, to continue the rapid growth in cash income maintenance and in helping people buy essentials and to reduce the relative importance of aid for social programs.

...The fiscal 1975 budget, proposed by the administration contains almost no increases in spending for social grant programs in the areas of education, urban development, manpower and health. After correcting for inflation over the past three years, the budget actually implies a substantial fall in the real level of federal activity in these areas. Should the administration's proposals be accepted the relative share of aid for social programs in federal spending would decline over the rest of the decade. (Barry M. Blechman, Edward M. Gramlich and Robert W. Hartman, *Setting National Priorities: the 1975 budget*, The Brookings Institution, Washington, D.C., 1974, pp. 13-14)

ous and expensive direct military role in Southeast Asia while preserving a substantial political presence. To do this, the U.S. government moved toward a new strategy of sub-imperialist states in various parts of the world. It was hoped that the Saigon government could come to play such a role in South East Asia. At the same time, Western Europe and Japan received the message that their new-found strength was viewed by the U.S. as leading to greater competition and less cooperation. This message was emphasized by the improvement of U.S. relations with the U.S.S.R. and China. Thus the old forms of collective alliances were undermined, to be replaced by negotiations towards one-to-one diplomatic arrangements.

The Nixon administration tried to maintain the U.S. position as the dominant world economic power. Some of the policies employed were primarily defensive, designed to ward off and reduce threats to U.S.-based multi-national corporations and to the dollar's role in international finance. Other activities were designed to re-orient the U.S. role in world economic relations and re-establish unquestioned U.S. hegemony.

The initial policy moves of the Nixon administration upon taking office in 1969 were to engineer a recession in order to undercut the exploding wage demands that had been touched off by the Vietnam inflation, and to defend the dollar through a variety of *ad hoc* arrangements. Both moves proved to be only temporary palliatives and after mid-1971, the administration became more aggressive and moved in new directions. They attempted to restrain wages through a combination of direct controls and a reduction in social spending.* At the same time, after the forced demise of the fixed exchange rate system, two successive devaluations of the dollar and a vigorous export promotion policy were designed to turn the balance of payments around and retain, and even expand, U.S. presence in foreign markets.

The results of these actions were mixed. By 1973, the balance of payments had moved toward a slight surplus, interrupting, at least temporarily, the huge deficits of previous years. The oil price increases beginning in 1973 had less of an adverse impact on U.S. balance of payments than was the case with other advanced capitalist countries, because the U.S. imports a much smaller percentage of its petroleum. For a while, the dollar was even being described as a strong currency.

Wages were held in check but the attempts to stimulate domestic productivity were less successful. The devaluations and export stimulants contributed to a revival of inflation, particularly in foodstuffs as a smaller proportion of agricultural output was available for domestic consumption. It was

* As discussed earlier in this paper, Nixon felt that government social programs had contributed to undermining labor market discipline and undercutting the effects of the reserve army of labor. A reduction in this type of expenditure could be viewed as an attempt to reinforce some of the mechanisms that have traditionally restrained wages. See James O'Connor, "Nixon's Other Watergate: The Federal Budget for Fiscal 1974," *Kapitalistate*, no. 2 (1973).

clear that the working class was being forced to bear the brunt of the attempt to regain world hegemony, as their real wages were under attack from several directions. But whether the attempt would be successful or not was by no means certain and there was some feeling within the ruling class that Nixon was not capable of carrying out this difficult task, especially as the Watergate crisis deepened.

There were also a number of structural features that contributed to the lack of a ruling class consensus over policy. Multi-national corporations have increasingly adopted a perspective which no longer draws distinctions between national and international markets and sources of capital, raw materials, and exploitable laborpower. The foreign investments of the multinationals not only contributed to the balance of payments deficits, which then threatened their own expansion, but the same corporations were leaders in the resulting speculation against the dollar. Jobs of U.S. workers and markets for domestic small manufacturers supplying large corporations tended to decline as production ran away to foreign cheap labor havens. The tight money policies designed to fight inflation and protect the dollar wreaked havoc on domestic capital markets and particularly damaged the housing industry. After the devaluations, some foreign capital began moving into the U.S., bringing back some jobs and markets. But much of this increased inflow was in real estate, agriculture, entertainment, hotels, and small banking, bringing foreign capitalists into direct conflict with domestically-oriented capitalists within the United States.

4. Political Strategies

Although many regionally and nationally based capitalists and much of organized labor felt extremely threatened by the power of the multinational corporations, the Nixon administration faced little organized opposition to its attempts to construct a more harmonious and integrated world market in which American multinational corporations would have a relatively free hand. However, the Nixon administration met considerable opposition from the left and from many liberals on its prolongation of the Vietnam War and its attempts to cut back social welfare. As discussed above, left opposition was primarily handled by systematic repression. Liberal opposition was to be contained by following three political strategies.

First, the Nixon administration made a concerted effort to undermine the power of Congress. Needless to say, the power of Congress had gradually been eroded throughout the past fifty years, and it would be a mistake to attribute its weakness to one administration. When Nixon took office, Congress still had a residual influence on policy-making, especially in some areas of domestic affairs. It was still a basic institution mediating the fragmentation of capitalist interests which had for so long characterized the American state. Nixon's continual use of the veto, his impounding of funds authorized by Congress, his creation of a host of new executive positions not

subject to Congressional review, his denying Congressional leaders easy access to the White House, and his disengagement from legislative politics all represented efforts at executive centralization designed to undermine the role of Congress in the formulation of state policies.

Secondly, the Nixon administration tried to reduce the power of various semi-autonomous elements of the Federal bureaucracy. These agencies were tied to serving specific interests and were, along with Congress, the primary manifestations of pluralism in the American state. As such they could potentially impede the more class-oriented political strategy favored by the Nixon administration. The administration tried to side-step these agencies in three ways. First, they were cut off from access to policy making. This was done by taking advisory functions away from Cabinet secretaries who are constrained by Federal bureaucracies and Congressional review, and giving these functions to Presidential aides who were more free to give the advice Nixon wanted to hear. The most notable example of this was Henry Kissinger during the 1969-1973 period. Secondly, when Nixon took office, he attempted to undermine the civil service career lines by appointing many of his own loyal followers to administrative positions. Through such appointments, Nixon hoped to weaken the semi-autonomy of bureaucratic departments and thus undermine their usefulness as access points for many interest groups hostile to the thrust of Nixon's new policies. Finally, the administration tried to dissociate these bureaucracies from the pluralist interests they had served. For example, revenue sharing was to create a direct financial link between the Federal executive and local and regional government, bypassing existing agencies. Similarly, the system of wage and price controls from 1971 to 1974 operated through a newly-formed apparatus that was directly responsible to the President rather than to the Congress or to already established bureaucratic agencies.

In short, Nixon weakened certain federal bureaucracies because the Nixon administration needed centralized state power to implement foreign and domestic policies in the interests of large capital. Some of the administration power struggles with Congress and bureaucracies were motivated by self-conscious collective efforts on the part of large capitalists.*

But centralization in the Nixon administration also stemmed from the desires of Nixon and his advisors to monopolize political power to promote personal ends and special capitalist interests. This two-fold source of centralizing tendencies generated conflicting attitudes within the ruling class. They approved of most of Nixon's policies and realized that executive centralization was required to handle the increasingly complex problems of the world economy, but they harbored a deep suspicion that Nixon and his dis-

* For example, the Ash Commission, composed of leading figures from corporations and business schools, proposed strengthening the Office of Management and the Budget, establishing the Domestic Council, and consolidating federal bureaucracies into eight super agencies.

reputable cohorts would abuse the concentrated power.

The third political strategy employed by the Nixon administration to deal with liberal opposition was the attempt to build a new political coalition that would support the undermining and partial destruction of the welfare state. Nixon mobilized this constituency, first of all, through the use of mass media techniques that his advisors had perfected through their previous experience in advertising agencies. He and his campaign staff deflected public attention away from "bread and butter" issues to "cost-free" symbolic ones, such as returning American war prisoners held by North Vietnam. In addition, Nixon exploited the fears of a substantial portion of the working class. Nixon's new majority was against radicals, hippies, draft dodgers, gays, radical feminists, welfare "shirkers," blacks, other minorities, and the poor; it saw these groups as tax drains, the source of crime in the streets and threats to job status and a settled way of life. This is what Nixon's late hatchet man, Murray Chotiner, called the politics of resentment. Nixon appeared to be successful in building this coalition during the first years of his administration.

Nixon's base of support had implications for general political activism. The coalition was not only opposed to groups because of the nature of their demands and their makeup but also because these groups were politically active. There was a concerted attempt to vilify the act of demanding as well as the content of the demands. In this sense, the name of the coalition, the Silent Majority, was revealing.

The symbolic and negative demands that the Nixon administration encouraged would not require costly drains upon the state's fiscal resources. In fact, we have seen that the Nixon administration attempted to weaken pluralistic groups that were placing *positive* demands—demands of the state budget and demands for favors and subsidies which interfered with coordinated economic policies. Limiting positive demands is in contrast to the political strategy of the Kennedy and Johnson administrations, which sought to manage discontent through increases in social spending. But in the case of *negative* and *symbolic* demands, the silent majority strategy was a continuation of the traditional mechanism of pluralism. The Nixon coalition was a loose affiliation of groups, defined by a variety of personal characteristics, such as their race, ethnicity, religious affiliation, economic status, or, in the case of the National Rifleman's Association, their hobby. In such a coalition each issue splits people along different lines. These divisions insure that while people express their interests, these interests are rarely defined by class and never find expression in the same group of people solidly united across a range of issues. Thus, the people are hung separately, and this assures that the capitalists will not be hung together.

5. *The Opposition to Nixon and the 1972 Election*

All things considered, the first Nixon administration encountered remarkably little resistance to its program of political reorganization, and the three strategies outlined above were successful in containing liberal opposition. Congress acquiesced to the repeated impounding of funds and failed to override Nixon's frequent vetoes of even widely-supported legislation. In general the Congress put up only a weak fight against executive encroachment. Undoubtedly this was partly because many congressional politicians accepted the basic necessity for the changes. However, Congress also acquiesced because of Nixon's initial success in creating a new coalition.

While the Nixon administration faced only tame opposition to its policies of structural reorganization, many of its substantial policies had generated extensive resistance. As the testimony of various Nixon aides during the Watergate hearings has indicated, the administration took this opposition very seriously. Thus, in 1971, as the election approached, the Nixon administration confronted a mixed situation. The policy of executive centralization which had undermined much of the remaining power of Congress and had largely bypassed the entrenched Washington bureaucracy, was proceeding with considerable success. The repression of radicals showed signs of contributing to a disorganization of the left. However, the administration still felt considerable concern about the capacity of the left to effectively oppose its future plans.

Nixon faced opposition to his policies from the extreme right as well. Rightists opposed detente with China and the Soviet Union and pressed for a continuation of the air war against North Vietnam to secure an even more barbarous settlement in the South. Also, by handling his campaign through the Committee to Re-elect the President, Nixon worked outside the established structures of the Republican Party, thereby angering many traditional Republicans. The F.B.I., concerned about maintaining supervision of domestic investigations, jealously eyed the repressive measures that were being planned in the White House. Nixon was forced to take action against the extreme right in order to implement his policies. For example, he ordered wiretaps not only to cut off information to left wing critics, but also to prevent the Pentagon from jeopardizing detente by leaking the U.S. negotiating position in the SALT talks. The threat of the extreme right took a concrete form in the candidacy of George Wallace, which threatened to split the right wing vote and ease a Democrat into the White House in 1972.

Indeed, there was a considerable uncertainty about the future, especially about plans for the attack on the welfare state. These uncertainties were greatly exacerbated by the recession in 1969-1970, the international monetary crisis, and the soaring inflation which, in August, 1971, required un-

precedented peacetime wage and price controls. Nixon and his supporters feared that the economic crisis would shatter his coalition and lead to his defeat in the 1972 election. While there was little doubt that the foreign policy of Nixon probably would be substantially continued under almost any Democratic President, it seemed likely that there would be a significant re-ordering of domestic policies if Nixon were to lose. The 1972 election was seen as a key juncture in state policy. Many of Nixon's most dedicated followers thought that the first Nixon administration had only just laid the groundwork for the full scale dismantling of the Federal welfare apparatus. The testimony of Mitchell, Erlichman and others during the Senate Watergate hearings, as well as material on the White House tapes, indicated that they feared that a Democratic victory would totally reverse this direction. They were convinced that only a Republican president, through a combination of repression and reliance on older forms of the military-industrial complex, could avoid the creation of a European type welfare state in the United States. These fears were undoubtedly exaggerated, as not even George McGovern favored a radical departure in social spending. Nonetheless, Nixon and his accomplices were probably correct in anticipating that a Democratic victory would have revived the New Frontier and Great Society programs. The overwhelming defeat of McGovern in the election makes it easy to forget how unclear it was a year earlier that Nixon would be re-elected. It was the uncertainty combined with the importance placed on Nixon's re-election by many of his backers that set the stage for the Watergate scandal.

Uncertain elections, in which the participants felt the stakes were extremely important, have occurred in the past, and yet there were no Watergates. Without the proliferation of Presidential agencies and aides, unaccountable to either the Congress or the established bureaucracy, and without the gearing up of the undercover repressive apparatus that accompanied the attack on the left, it seems unlikely that the Watergate affair would have occurred. Given those developments and the specific situation in 1972 it was easy and tempting to turn that illegal apparatus against Nixon's liberal political opponents in the Democratic Party. It was easy, and the paranoid style that has always characterized Nixon transformed that temptation into a project.

The discovery of the burglars and the revelation of their links to the Nixon administration began the transformation of the project into a scandal.

II. The Emergence of the Scandal

The actual Watergate break-in was only one relatively minor element in a highly complex political crisis known as the Watergate Scandal. Many of the offenses of the Nixon administration are in reality quite normal features of American political life. Others are more specific to the particular practices of

Nixon and his cronies. In most cases what is scandalous is the degree of the criminal activity rather than the particular crimes themselves. All Presidential campaigns have involved illegal corporate contributions, infiltration of opposition campaign organizations, dirty tricks of various sorts, and so on. At worst the Nixon administration can be accused of carrying these good old American traditions to excess. It cannot be accused of inventing them.

The Watergate break-in occurred in June of 1972. Then came a series of attempts to contain the political crisis. This succession of containment strategies is usually thought of as the Nixon cover-up. This represents a very one-sided perspective on the political processes involved. It was not only Nixon and his aides who, for personal political reasons, attempted to limit the crisis. Congress, the various investigative bodies involved in ostensibly exposing the scandal, and even the liberal press, so often credited with bringing the scandal to the full attention of the American public, also played an important role in managing the crisis. All of these political actors had a significant stake in limiting the scope of the crisis, defining it in certain narrow ways, and in the end, turning the crisis itself into a reaffirmation of the virtues of the American system. At times these various actors appear at each others' throats in a Manichean struggle of good against evil; but in more subtle ways, their efforts to keep the crisis under control usually coincided.

Rather than present a general summary of the events involved in the unfolding of the crisis, we will try in the following pages to analyze how each of these political actors attempted to define and contain the crisis. The pattern of containment strategies, some bungled, some successful, reveals much about the operations and contradictions of the process of legitimation in the capitalist state.

1. Nixon's Strategies: The Official Cover-up

It was clear to Nixon and his close associates on June 18, 1972, that a cover-up of the Watergate affair was essential for Nixon's political survival. The choice was not whether or not to cover up, but how.

From the very start, the attempts to block the development of the crisis by Nixon and his associates faced two general problems. First, many of the activities in the cover-up themselves had to be covered up. The cover-up became an endlessly self-compounding process. The massive destruction of evidence, the bribing of witnesses, the obstruction of justice, etc., became in time more serious political issues than the break-in itself. Eventually, in fact, Nixon was forced from office not because of his possible participation in planning the burglary of the Democratic National Headquarters, but because of his patent involvement in the cover-up of the break-in, and the subsequent cover-up of the cover-up.

Secondly, many of the usual strategies for containing political crises and shoring up legitimacy which are normally available to the Executive, only served to intensify the crisis of legitimation in the Watergate scandal. One of the classic strategies for coping with problems of legitimation is the creation of special commissions to investigate and report on the problems at hand. This strategy was used effectively during the serious ghetto disorders in the mid-1960's (The Kerner Commission on the Causes and Prevention of Violence) and during the period of political uncertainties following the Kennedy assassination (The Warren Commission). Commissions create the appearance that the state is doing something about a crisis while it actually does not take any substantive political action. In Nixon's case, however, such a commission posed the obvious danger of attaining sufficient autonomy that it might not restore confidence in the Presidency, but rather undermine it further. The fate of the special prosecutor shows the intrinsic problems with such a strategy.

Similarly, Nixon could not effectively use various ideological weapons of legitimation. He claimed to be protecting the sacred constitutional privileges of the Executive for future generations when he refused to allow his aides to testify before grand juries and Congressional committees; and he repeatedly claimed national security as a justification for withholding the tape recordings. But these actions only served to convince many people that he had something to hide. Nixon continued to make appeals to the public in the name of the national interest until the bitter end. But as his credibility deteriorated, these high-sounding, patriotic pronouncements only made him appear even less sincere and trustworthy.

As the scandal unraveled in the two years following the break-in, Nixon attempted to protect himself by blaming the Watergate events on an ever-expanding circle of subordinates. At first, the break-in was called a "third rate burglary" and any involvement by Nixon, his aides, the Committee to Re-Elect the President (CREEP) or the Republican National Committee (RNC) was flatly denied. Very soon, however, it became clear that some of these third rate burglars had long-standing associations with the Republican Party, and that the break-in had apparently been financed with CREEP money. So, the story changed to the claim that, while CREEP officials had neither planned nor sanctioned the burglary, they had been remiss in their duty to prevent the break-in.

By the time of the election it appeared that the containment of the crisis was largely successful. Nixon congratulated John Dean on his fine job in handling the Watergate problem. During the winter, however, as the extortion by some of the convicted burglars increased and as the liberal press continued to uncover revelations about Watergate, the strategy began to fall apart. Gradually members of CREEP became implicated in the break-in, and then members of Nixon's personal entourage. An attempt was made in March of 1973 to force Dean to be a scapegoat, but he balked at the role

and eventually became the principal accuser of Nixon's closest associates and Nixon himself.

The rest of the story is well known. During the Watergate hearings of 1973 the scandal moved closer and closer to Nixon. The revelation of the tapes, and Nixon's subsequent attempts to prevent their release, culminating in the "Saturday Night Massacre," the firing of Special Prosecutor Archibald Cox and Deputy Attorney General William Ruckelshaus, and the forced resignation of Attorney General Elliott Richardson, further shattered his already shaky credibility. During the winter of 1973-74 the administration's inability to cope with the energy crisis and the soaring domestic inflation further undermined Nixon's political base even among his staunch supporters. The ruling class began to wonder whether or not Nixon, increasingly preoccupied with Watergate, could effectively deal with the social and economic problems of the country. By the summer of 1974 when the impeachment committee opened its final deliberations, no one doubted Nixon's involvement in the cover-up. The only question was whether or not these transgressions would be considered sufficiently serious, and the political pressures sufficiently great, to precipitate his removal from office. Once it became clear that he would have to face a trial in the Senate, he resigned from office, and the drama came to an end.

Nixon's cover-up turned into a political disaster. Of the various factors which contributed to his collapse, the one which, in the end, became the most decisive was the existence of the White House tapes. A considerable amount of seriously incriminating evidence had been destroyed immediately after the break-in. If the tapes had not existed, it would have been virtually impossible to prove Nixon's personal involvement in either the cover-up or the break-in itself. Watergate would still have been a serious political embarrassment, but it would not have destroyed the administration. The tapes were particularly damaging to Nixon because they could be used by Congress and the liberal press to contain the crisis and to transform Watergate from an indictment of the political system into a personal attack on Nixon, thus serving the interest of the ruling class.

2. The Liberal Press and Watergate: Personalizing the Scandal

The liberal press played an essential role in the emergence and development of the scandal. Without the investigative reporting by the *Washington Post* it is unlikely that there would even have been a scandal. The perseverance of the liberal press attack on Nixon was motivated partially by his frequent attacks on them. It also resulted from the desire to weaken Nixon's power and thus to thwart his attempts at a radical reversal of American domestic policies. But the press had no interest in making the Watergate scandal into an indictment of American democracy. Thus the press tended to articulate the stories in ways which limited the scope of the scandal.

Nixon and his associates have been accused of hundreds of crimes. The Americans for Democratic Action compiled a list of some 73 offenses which they felt were the most important. This list is grouped under seven headings: corruption in government (18 charges); subversion of the electoral process (6 charges); Watergate and cover-up (9 charges); perversion of government (16 charges); violations of constitutional liberties (12 charges); illegalities in foreign policy (6 charges); and subversion of the press (6 charges). Of these many offenses only a few became the core focus of the scandal as portrayed by the press. The choice of which offenses should be regarded as central served to substantially personalize the affair and to make it an issue of Nixon and his men rather than the system as a whole. Thus, the press emphasized the role of Nixon in the cover-up, Nixon's personal corruption in appropriating funds for his estates and in evading income taxes, and the illegal campaign funds given by corporate officials, rather than on the bombing of Cambodia, the use of provocateurs in radical groups, the Huston plan for the massive denial of civil rights to radicals, and so on. The total range of offenses contained the potential—indeed a potential which has been partially actualized—of seriously undermining the legitimacy not only of the Nixon administration, but of the state. In order to minimize this potential, the press tried to contain the scandal within the bounds of personal corruption and personal misbehavior.

In this context, the tapes became the perfect issue for the press to emphasize in the shaping of the scandal. The tapes constituted actual recordings of the personal dealings of Nixon with his aides. They symbolized Nixon's egomania and his personal style of politics. The constitutional struggle over the tapes could be characterized as Nixon the man resisting the due process of the system. When in the spring of 1974 Nixon pre-empted the court challenge on the tapes by releasing the edited transcripts, there was almost a moan of regret in the liberal press because this act forestalled the ultimate confrontation between the system (the Supreme Court) and the individualized transgressor. The press did its damndest to make Nixon into the devil, so that the proper exorcism—his removal from office—could become the means of restoring faith in the system. When Nixon resigned in August and thus short-circuited the ritual cleansing of a due-process impeachment, and especially when Ford gave Nixon an unconditional pardon, there was considerable indignation in liberal circles. It was not so much that they wanted Nixon's blood. Rather, many liberals believed that only through due process could faith in the American system of justice be restored.

3. Congress and the Scandal

To a certain extent, Congressional efforts at containing the political crisis paralleled those of the press. Most members of Congress wanted to limit

the investigation to issues of corruption and political impropriety. Only a few members of Congress from the left wing of the Democratic Party attempted to keep issues such as the Cambodian bombing alive. But even they tended to articulate those issues as personal crimes of Nixon rather than outcomes of American imperialism.

The two key phases of Congressional involvement in Watergate were the televised Senate Watergate hearings of the summer of 1973, and the House impeachment hearings beginning in February of 1974 and culminating in the televised hearings in July of that year. In many ways the Senate Watergate hearings were the pivotal point in the development of the scandal. These hearings were meant to be the climax of the whole affair. They offered Congressional politicians the opportunity to express publicly their shock and indignation at the behavior of the various people implicated in the scandal and thereby to label such behavior as deviant, as beyond the pale of normal and accepted political practice. The public sessions of the hearing were to be carefully controlled; all witnesses were interviewed behind closed doors before appearing on television, and the committee members attempted to conduct the hearings in a spirit of harmony and cooperation. In short, the Watergate hearings were intended to close the crisis by creating the appearance of a thorough airing of all the facts of the case. The result was to be some mild wrist slapping, some political embarrassment for the President, and perhaps some token campaign reform legislation.

Things did not turn out exactly as desired. In order for the hearing to serve as a vehicle for relegitimation, it was necessary that they provide for at least some semblance of due process, full disclosure, and serious interrogation. Perfectly orchestrated and manipulated hearings would be too transparent. Furthermore, many of the committee members saw the nationally televised hearings as an opportunity to make a political name for themselves, to establish a reputation as an honest politician dedicated to uncovering the truth about Watergate. And, undoubtedly, there were at least a few members of the committee who were honestly indignant at the constitutional improprieties of the Nixon administration, who honestly believed in the norms of an open, full hearing, and thus took their investigative job quite seriously. The result was that the hearings took on a life of their own, a certain degree of structural autonomy that could not be consciously manipulated behind the scenes. As they proceeded, the scandal moved closer and closer to the President. The conflicts in the testimony were so great that the hearings raised more questions than they resolved. And, above all, the hearings revealed the existence of the tapes which meant that the interrogation of witnesses could not possibly close the affair. The requirements for legitimacy in a bourgeois democracy—due process, fairness, openness, etc.—made it exceedingly difficult for the hearings themselves to resolve the crisis and thereby restore legitimacy.

At the time of the close of the hearings, most members of Congress still felt that, at most, Nixon had committed a number of indiscretions. There was little sentiment for impeachment. Even in February when the impeachment hearings began, few people expected that the Judiciary Committee would recommend impeachment, let alone that the House would actually vote articles of impeachment and send Nixon to the Senate for trial. But this situation highlighted the contradictions inherent in the legitimation process. The Senate Watergate hearings had not closed the scandal. Instead they had opened the door for a widening of the political crisis. At the same time other systemic problems were becoming manifested in the energy crisis and the soaring inflation. On the one hand, Nixon was unable to solve either his own political troubles or the wider problems of the system. On the other hand, few members of Congress were willing to impeach him. The worsening of the economic crisis required action and the tapes proved a good vehicle.

The public impeachment hearings in July, 1974, beautifully illustrate the process of relegitimation. In virtually each of the opening statements, appeals were made to the sacred political traditions of the United States and to the need to reaffirm our faith in the Constitution. Both supporters and opponents of Nixon bemoaned the loss of faith in the American system of justice that had accompanied the Watergate scandal, and everyone proclaimed that once the matter was finally resolved, faith would be restored. The committee was united in the belief that the impeachment hearings would cleanse the system and end the problem. Furthermore, in limiting the articles of impeachment to the cover-up of the break-in and to Nixon's personal obstruction of justice, while excluding all wider political issues, the Committee continued the effort at defining the crisis in narrow personal terms of corruption and misbehavior.

The situation in the summer of 1974 thus represented both a continuation and a decisive shift from the conditions of the previous summer. In both cases, Congress wanted to contain the political crisis of Watergate and to protect the legitimacy of the political system as much as possible by defining the crisis in personal terms. But whereas in the summer of 1973, such containment of the crisis implied proving the responsibility of Nixon's aides while leaving Nixon largely untouched, containment in 1974 came to mean getting rid of Nixon altogether. Once this was accomplished, the new President was greeted with open arms, and almost everyone announced that at long last we could get back to the business of running the country.

4. *The Investigative Bodies and the Scandal*

The same basic story which we have told about the press and Congress can also be told about the investigative bodies set up to deal with the scandal, in particular the special prosecutors. Both Archibald Cox and Leon Jaworsky saw their duties as confined to investigating the various personal responsi-

bilities for Watergate and the cover-up. Cox, even after his dismissal from the position, widely proclaimed that the existence of the Office of the Special Prosecutor proved that the U.S. was still a democracy, that in spite of Nixon's actions, the Constitution still retained its integrity, and that eventually things would be resolved according to the due processes of law. However, as in the case of the congressional hearings, the relegitimation process embodied in the creation of the special prosecutor contained its own contradictions. Only by pursuing the investigation could the special prosecutor hope to restore faith in the system, but such an investigation risked uncovering activities that would further undermine the legitimacy of the Presidency.

III. *Conclusions*

1. *Alternative Interpretations of Watergate*

There is an alternative interpretation of Watergate that has achieved substantial popularity among Marxists. This view sees Watergate as a direct extension of long-standing conflicts within the ruling class. There are two versions of this position. One defines the antagonists as Yankees (primarily Northeastern manufacturing and financial interests; old money with a European orientation that has dominated the two major political parties since World War II) and Cowboys (primarily from the South and West with interests in agriculture, natural resources and military production; newer money, often dependent on government largess, such as oil depletion allowances and farm price supports, these interests have a right wing orientation and had been long-time backers of Nixon).* The second version defines the antagonists in terms of financial interest groups. A financial interest group is a coalition of capital units under the general direction of a dominant group of finance capitalists. There are more than a dozen interest groups that have been identified, mostly on a regional level. The Morgan and Rockefeller groups are the largest and have been dominant on the national level.**

In both versions, Watergate represents an attempt by a minority faction of the ruling class to gain complete control of the state apparatus, having got

* For a presentation of the Yankee-Cowboy thesis see Carl Oglesby in *Ramparts*, November 1973 and Kirkpatrick Sale, "The World Behind Watergate," in *The New York Review of books*, May 3, 1973.

** For examples of financial interest group theory see: S. Menshikov, *Millionaires and Managers* (Moscow, Progress Publishers, 1969); Victor Perlo, *The Empire of High Finance* (New York, International Publishers, 1957); and Paul Sweezy, "Interest Groups in the American Economy" in *The Present as History* (New York, MR Press, 1953). For a specific example of this approach applied to the Watergate crisis, see "From Wall Street to Watergate: the Money Behind Nixon," *NACLA's Latin America and Empire Report*, November, 1973, and various editorial statements by Carl Davidson in the *Guardian* (New York), during the Watergate period.

its foot in the door with Nixon's election in 1968, an event that was the result of a coalition of minority and majority factions. The playing out of the scandal, then, is the counter-offensive, with the Yankees or dominant financial groups, working to remove the upstarts. The conflicts are partly over policy (Cowboys, for example, are pictured as foreign policy hawks in opposition to the more conciliatory Yankees) and partly over which capitalists will have access to the state for the purposes of augmenting their own capital.

We have not attempted an extensive critique of these interpretations. But our own interpretation suggests the following points:

1) we place much greater emphasis on the structural contradictions within which the events occurred, rather than the personal origins and connections of Nixon and his circle. Only by studying structural factors can one explain why Nixon, primarily a "cowboy," carried out a "yankee" foreign policy and gave it highest priority. It was an inability to carry it out, not his unwillingness to, that forced the "yankees" to turn against him.

2) The yankee-cowboy and the financial interest group interpretations are strongest in emphasizing conflicts over special favors from the state—for example, the trading of campaign contributions for favorable anti-trust and price decisions by the government, and real estate deals involving Nixon and his coterie. This is clearly a valid point. But it is our feeling that such conflicts are insufficient to explain the gravity of the crisis. Watergate was not only a conflict between factions of the ruling class; the scandal created a serious problem of legitimation for the ruling class as a whole, which was then linked to Nixon's growing inability to deal with the structural problems. This explains why Nixon himself was removed rather than simply removing some of his underlings and waiting until the election of 1976 to replace Nixon.

3) The yankee-cowboy thesis is empirically weak. "Cowboy" capital is often linked to "yankee" capital through boards of directors' interlocks, stock ownership, holding companies, and loan agreements from "yankee" bankers. There is also at best meager data which suggests a radical split in foreign policy orientations of the two factions. "Yankees" can be as "hawkish" and as outrageously repressive as the "cowboys." It was the "yankee" circle around Presidents Johnson and Kennedy, after all, which pressed for the commitment of ever-increasing numbers of ground troops during the war in Vietnam and who originated the techniques of counter-insurgency and limited war.

In short, while the yankee-cowboy and financial interest group interpretations as well as our analysis examine splits in the ruling class, we believe that these splits can only be understood by exploring the domestic and international crisis of the late sixties and early seventies—the crisis caused by the increasing strength of third world nationalism and revolution, the intensified rivalry with Europe and Japan, the continuing internationalization of U.S. capital, and the protests and class struggle that produced a crisis of authority in the United States.

The yankee-cowboy and financial interest group theses make a simple identification between the personnel of the executive, and the economic interests that they supposedly represent. By contrast our analysis has stressed that the groups favoring alternative directions in state policy are coalitions of different, and often conflicting, economic interests and ideological orientations, which do not necessarily represent the interest of a well-defined sector of the economy. Watergate, a period of economic and political crisis, increased the autonomy of these political factions.

Our description of the development of the Watergate scandal also reveals the relative autonomy of political developments. The scandal developed a logic of its own, and eventually required actions more drastic than originally intended by political leaders. But although the process of legitimating the government tended to reveal new facts that intensified the scandal, there were strong countering pressures from liberal media and political leaders to restrict the scope of the scandal to Nixon's personal crimes and abuses of power, downplaying the larger economic and political issues. Watergate is an excellent example of how the state directs attention to certain limited problems and ignores or represses solutions that disrupt the economy or political legitimacy.*

2. *Economic and Political Conflict After Nixon and the Strategy for the Left*

On the morning of August 9, 1974, President Ford solemnly pronounced that the nightmare of Watergate was over. Nixon and his advisors had been driven from office and politically disgraced. But soon, with real GNP, the stock market, and his Gallup Poll ratings sinking, President Ford discovered the same crisis of political economy and legitimacy that prevented two previous presidents from continuing in office. The removal of Nixon's "cowboy" entourage and the shift in the dominant financial interest group represented in the Executive has done nothing to solve the structural problems which confront the American state and which will continue to shape the administration's policies.

Through token responsiveness to pluralist interest groups, Ford has attempted to legitimate his administration (as exemplified by the economic conferences of Fall, 1974). But the economic problems that plagued his predecessors have prevented Ford from making any concessions that would involve federal monies. It appears that the policies of the Nixon administration, resisting budgetary demands and manipulating symbolic negative demands, will continue under Ford.

* Claus Offe, in a number of papers, has developed a theory of the "selective mechanisms" institutionalized into the state apparatus which attempt to exclude from state policy those problems and solutions which disrupt the accumulation process and undermine political legitimacy. See Offe, "Political Authority and Class Structure," *International Journal of Sociology*, v.2, n.1, 1972.

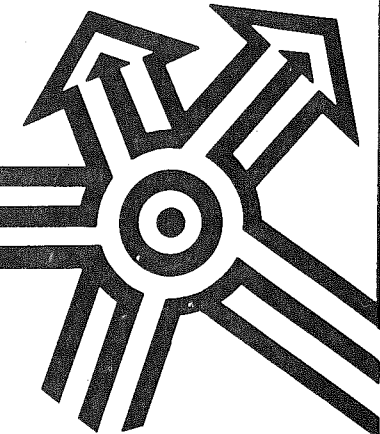
In the months ahead, it is likely that inflation and the steadily worsening recession will lead to a revival of costly claims upon the federal budget. Because of inflation, the costs of existing state services continue to mount. As inflation erodes the standard of living of working and poor people, they will be forced to turn to the state budget for assistance. Reductions in popular consumption, dictated by the high cost of oil and the need for high profits and new capital investments, will increase demands on the state for compensation. Unfortunately for the Republicans, Nixon's and Ford's base of support, suburbanized blue collar workers, small businesses, and the lower middle class, includes many of the groups hardest hit by inflation, recession, and the export of jobs by multinational corporations.

If the government accedes to the increasing demands, economic problems are likely to be exacerbated. Swollen government expenditures and deficits will accelerate inflation and the fiscal crisis; the demands for subsidies and special favors stand in the way of integrated policies; programs benefitting poor and working people interfere with work discipline and reduce funds available for investments. Thus it is likely that the Ford administration will continue to resist demands for social spending.

Our analysis of Watergate points to some key unanswered questions for the left. Can a political coalition be developed to oppose the state budget which presently serves the needs of large capital, agribusiness, and the military-industrial complex? The groups opposed to the Nixon-Ford budgetary policies have been hostile to each other—in the past, the unionized and non-unionized working class, blacks and other oppressed minorities, students, women, etc. have often opposed each other. Which groups should the left work with most closely? How can the left use struggles around the budget and other government policies to build a class-wide, socialist movement? How can the left take advantage of the ITT and milk price scandals, and other recent exposures of the ties between specific corporate groups and political parties and the state? Otherwise, such scandals can be used to justify corporate liberal plans for executive centralization. While claiming to represent the public interest, and advocating the insulation of decision-making from corrupt politicians, corporate liberals will propose more concentration of power in the high reaches of the federal executive. Finally, in the absence of any satisfactory structural solutions to the current crisis, what is the likelihood of extreme repressive measures? Such measures are likely to be attempted in an effort to suppress working class militancy stemming from forced increases in productivity and reductions in consumption.

These questions must be thoroughly analyzed in order to gain an understanding of the dynamics of state activity. We hope that our analysis of Watergate will contribute to the international discussion of these questions which we believe are crucial in determining a strategy for the left in the seventies.

... some ideas
on where we
go from here



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The Conflicting Functions of U.S. Military Spending after World War II

Clarence Y. H. Lo *

Part I. The Functions of U.S. Military Spending

A recurring theme in Marxist writings on American foreign policy is that military spending is essential to the health of the capitalist system. The existing Marxist literature has been correct in pointing out that the military budget 1. deters the USSR, China, and the left (armed confrontation), 2. effects international trade and capital flows, 3. supports the overall level of aggregate demand (1) and sometimes regulates demand (2) (military keynesianism), and 4. provides profitable investment opportunities for military contractors as well as for the civilian economy (subsidized investment). But the military budget cannot successfully perform *all* of these functions simultaneously. Policies that resolve one set of problems create new difficulties. Often, military spending upsets these four necessary functions, rather than satisfying them. Thus, the existing Marxist literature does not develop the notion that military spending is only a partial, temporary, and self-defeating resolution of capitalist economic contradictions. By the single minded concentration on the functionality of military spending, Marxists have left themselves wide open for criticism by writers such as S. Melman (1970) and R. Barnet (1971), who have been quick to attack the Marxist position by pointing out the obvious ways in which arms spending is detrimental to the economy.

In short, while Marxist social scientists have studied the different effects of military spending, they have not yet analyzed the interrelatedness of the effects. Our next task is to describe the four functions listed above—armed confrontation, maintaining free trade, military keynesianism, and subsidized investment, explaining the origins and historical development of each function, and studying the conflicting elements of each function. Then our task is to give examples of periods when the different functions conflicted—

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i.e., when the fulfillment of one function led to the non-fulfillment of another function.

I. 1. Armed Confrontation and Deterrence

According to the official justifications of the military establishment, the press, and academics, the U.S. needs to spend over eighty billion dollars a year on the military because of the danger of the Soviet Union, China, and left wing movements throughout the world. Although Marxists have been quick to attack this flimsy official legitimization, Marxists have sometimes been too extreme in their criticism, at times arguing that military spending has little to do with the Soviet Union. Joyce and Gabriel Kolko, for example, focus on the second of the functions (maintaining free trade under the domination of the United States) and claim that the American militarism was not a response to Soviet actions, but rather was a continuation of long established foreign economic policies:

"Indeed, if the Soviet Union had not existed, the condition of the Third World and America's response toward it after 1945 would scarcely have been different—for Washington's goals predated the war and even 1917 itself. It would be extremely difficult to identify areas in which greater Soviet collaboration would have altered the outcome of America's fundamental programs." (3)

Other Marxists also de-emphasize deterrence by mentioning military functions in passing, and then proceeding to an analysis of the economics of military spending (4). What is needed is a discussion of both the military and economic dimensions, showing the interrelation of the two.

Military spending is not merely waste production instituted for economic reasons. On the contrary, arms have a military utility which has been an essential support for America's ambitious plans for the world wide restoration and expansion of the capitalist system. For example, in Eastern Europe and Germany, the interests of the Soviet Union were directly opposed to the interests of American business, and the greater military power of the United States furthered the aims of U.S. business. In Eastern Europe, American business favored free trade with the west and an open door for American investments; the U.S. government supported right wing governments. On the other hand, the USSR wanted bilateral and state arranged trading agreements with Eastern Europe and a sphere of influence to protect herself from Germany. Consequently, the USSR favored coalition governments of moderates, socialists, and some communists. Later, as the cold war intensified, the USSR installed puppet governments more responsive to Soviet interests. In Germany, American business sought a capitalist economy integrated with the West; the Soviet leaders sought a neutralist Germany. Diplomacy over these issues rapidly broke down and was replaced by unilateral actions backed by military force, exemplified by the crisis over Berlin in 1948 (5).

Despite the war scare in 1948, the USSR did not have the military capability to launch an aggressive attack against Europe. The Soviet Union would only move against Western Europe in the event of an American provocation. Business and government leaders recognized that a more likely threat was Soviet support of an offensive in the Third World. * The USSR was increasing its military strength and hoped to use this power to gain favorable economic and diplomatic concessions in Eastern Europe and Germany. The increasing Stalinization of Eastern Europe did not directly threaten the American *people*; however, the Soviet actions were a clear danger to American *business*.

Before 1949, an uneasy balance of power existed in Europe. While the Soviet Union and the Eastern Europeans had numerically superior land armies that could overrun Western Europe, the United States had sole possession of the atomic bomb and had the air power to deliver destruction deep into the Soviet heartland. The Soviet explosion of the atomic bomb in 1949 destroyed this fragile stalemate; the Korean War convinced many U.S. government officials that the USSR would attempt to convert military strength into territorial and economic control and political influence.

In 1950, the United States undertook a crash program, not only to fight the Korean War, but also to maintain military superiority in Western Europe so that it could implement its economic policies in the face of Soviet opposition. Even though U.S. policy makers thought a direct invasion of Western Europe was unlikely, they prepared for war with the Soviet Union with dead seriousness. **

The concept of conflicting function is useful in analyzing the three conflicting components of the deterrence function itself. Most American policy makers throughout the postwar period defined the Soviet Union as the main enemy and the advanced industrial economy of Western Europe as the most prized strategic asset. During the Kennedy Administration, another policy current emphasized "limited war" and "counter-insurgency" to confront the left in the third world. (8). The navy and the operations branch of the CIA (to be joined by the strategic air command of the Air Force during the

* As the Committee for Economic Development warned:

"... (W)ould we not expect the Soviets to reserve their more openly aggressive and military tactics for areas like Southern Korea and Indo-China, which are not strategically vital to the United States and where, therefore, the communists may hope to make dramatic gains without resistance... (?). What we may have most to fear over the next few years is the effect of further piecemeal Soviet or communist political or military gains on the morale and cohesion of the free nations, and particularly on their willingness to cooperate with each other and with us for their own security and ours." (6)

** The Committee for Economic Development argued:

"(1) It does not appear likely that the Soviet Union will deliberately choose general war during the next few years in preference to a more gradual strategy for achieving its aim: a world Soviet empire. (2) There are, nevertheless, inherent in the present situation of the world, major risks of all-out war. (3) If total war occurs during the next few years, we should be able to win it." (7)

Vietnam War) declared that China was the most important enemy and that Asia was the most important theater of operations. This tendency is best exemplified by General Douglas MacArthur, Admiral Arthur Radford (Chairman of the J.C.S. in the Eisenhower Administration) and the Congressmen active in the China Lobby—William Knowland, Walter Judd, and Styles Bridges (9).

What are the historical origins and evolution of the deterrence function? William A. Williams has shown that American government hostility to the USSR began during the Russian revolution (10). But in the early cold war years, confronting the USSR was totally subsidiary to the imperative of maintaining a free and expanding economy. Later, as we shall see, confrontation became separate from the economic functions.

During the early cold war years, the dominant ideology was, in the words of *Business Week*, "only a prosperous America can be free." The best deterrence against the Soviet Union was not a large military budget but the strength of the U.S. economy. In the event of a large scale war with the Soviet Union, U.S. industrial capacity could be converted into producing the material of war that was decisive in winning both World War I and World War II. Also, the prosperity of the U.S. economy was necessary for the recovery of capitalist economies throughout the world, and hence was necessary to insure social stability and the defeat of the international Communist movement:

"The present world situation therefore makes even more important what should in any case be the objectives of United States domestic economic policy. We must keep the United States economy free, dynamic, and reasonably stable. This has now become vital to the stability and security of the whole non-communist world." (11)

This view was shared by high policy makers in Washington, including Secretaries of Defense Forrestal and Louis Johnson. However, the Soviet detonation of the atomic bomb, the Berlin Crisis, and finally, the Korean War convinced both businessmen and policy makers that a large military establishment was necessary to make the world safe for American business. In the event of a world war, there would be no time to convert industrial capacity into armaments. A war fought by long range strategic bombing required that the forces exist beforehand, ready for instant use (12).

The shift in views about the nature of war led to changed attitudes about how the level of military spending should be set. The predominant view among businessmen and policy makers before 1950 was that the level of military spending should depend on the condition of economy:

"... (I)t must be recognized that there are limits to the strain that can be imposed safely on the economy in supporting a defense establishment." (13)

As the cold war progressed, policy makers agreed that the military budget also had to be determined by the military capabilities of the USSR, China, and the left. Established academic writers in the field of national security

policy have noted the conflicting, dual determinants of military spending—economic vs. military considerations. In the words of Samuel P. Huntington, the “world of domestic politics,” where the currency is the “resources of society: men, money, and material,” conflicts with the world of “international politics, the world of balance of power, wars, and alliances, the subtle and brutal uses of force and diplomacy to influence the behavior of other states.” Or, in the language of Hitch and McKean, the “budget firsters” conflict with the “need (military need) firsters.” (14).

I. 2. The Free Trade and Investment Function of Military Spending

According to William Appleman Williams, the strategy of expanding U.S. markets crystallized in the late nineteenth century (15). At the end of World War II, the groups who were planning postwar U.S. economic policies sensed that America’s hegemonic position created vast new opportunities for American business expansion. Planning groups stressed the desirability of increasing U.S. exports to Europe, and warned that another Great Depression was likely if exports failed to expand (16).

American economic policy attempted to achieve the export surplus through multilateral free trade. This policy had two components: (1) removing European controls, tariffs, and other obstacles to a free economy, and (2) maintaining a stable disequilibrium in the balance of payments of all countries.

The U.S. government sought to have France and England remove their preferential trade agreements with their colonies, and instead, treat all countries, especially the United States, in a non-discriminatory manner. The U.S. also pressured European governments to lower tariffs, to eliminate import quotas, export restrictions, and subsidies, and to replace bilateral trade agreements with treaties that would extend the trade benefits to all countries. Another American concern was to establish the free convertibility of all European currencies. All parties understood that free trade would mainly benefit the most advanced and competitive economic power, which at that time was clearly the United States (17).

Secondly, maintaining free trade and investments required a stable disequilibrium in the world balance of payments. After the mid 1950’s, the major source of instability was the chronic U.S. deficit. U.S. policy sought not to balance American accounts, but to manage the continued deficit. Often, U.S. policy was to pressure Europeans into accepting U.S. deficits, made more palatable through minor reforms of the international monetary system such as agreements between central banks, Special Drawing Rights, etc. (18). At times, extreme imbalances had to be reduced. For example, the high U.S. deficit during the Vietnam War necessitated capital controls; the sharp increase in the deficit in 1971 was one factor producing Nixon’s New Economic Policy.

In the late forties, the greatest threat to a stable disequilibrium was not a U.S. deficit, but a huge European deficit, the “dollar gap.” Europe had a shortage of dollars with which to buy U.S. goods. The economic recovery of Europe was the major strategy to close the dollar gap. The Marshall Plan and the creation of a European Payments Union would supposedly produce an economic revival in Europe, greater European exports and foreign exchange holdings, and thus, increased imports from the U.S. However, strengthening and unifying European economies threatened to produce a separate block of nations outside the control of the United States. In short, there was a conflict within the free trade function between European recovery and U.S. domination.

On the eve of the Korean War, Europe had neither a free economy nor a stable disequilibrium in the balance of payments, and thus required further American aid. Europeans had managed to retain colonial preferences; the protectionist U.S. Congress stalled reciprocal tariff reductions. Europe was earning insufficient foreign exchange to pay for increased U.S. exports. Despite a \$3.75 billion U.S. government loan to England, the pound was not freely convertible. England hobbled along from monetary crisis to crisis. In 1950, the English dollar deficit was projected to reach \$1.5 billion, and the pound was drastically devalued in September of that year. In 1951, England’s reserves dipped to only 1.8 billion pounds amid increased speculative attacks on the pound. Furthermore, the fiscal conservatism of the U.S. Congress threatened to limit further Marshall Plan aid. Congress had already cut the Marshall Plan appropriation from \$29 billion to \$13 billion for a four year period. The Point Four aid program had passed Congress by a single vote (19).

Military spending provided a temporary way of fulfilling the free trade and investment function. The European Recovery Program was continued as the Military Defense Assistance Program, which Congress approved more easily. The North Atlantic Treaty Organization encouraged West European unity, but firmly within the grasp of American military domination. Since West Europe needed the U.S. nuclear capability and American troops stationed abroad to match the large Soviet bloc land armies, the U.S. had immense bargaining power with Western Europe. The U.S. did not hesitate to use this power to pressure Europeans into accepting the U.S. deficit and removing controls, tariffs, and other barriers to an open economy. For example, during the Vietnam War, the Johnson administration used the threat of troop withdrawals to conclude a series of bilateral agreements in which U.S. allies agreed to hold the glut of dollars (20).

In the forties and fifties, U.S. military spending abroad eased the balance of payments difficulties of Europe. Recently, military spending has been exacerbating an ever increasing U.S. deficit, which is destroying the stable disequilibrium of the international monetary order.

The first two functions, armed confrontation and maintaining free trade, are functions that the U.S. government provides for capitalist economies

throughout the world. The remaining two functions, military keynesianism and subsidized investment, directly benefit a constituency that is within the borders of the United States.

I. 3. The Military Keynesianism Function

"It is, it seems, politically impossible for a capitalist democracy to organize expenditure on the scale necessary to make the grand experiment which would prove my case — except in war conditions...If the United States takes seriously the material and economic side of the defense of civilization and steels itself to a vast dissipation of resources in the preparation of arms, it will learn its strength.

...War preparations, so far from requiring a sacrifice, will be a stimulus, which neither victory nor defeat of the New Deal could give you, to greater individual consumption and a higher standard of life..." (21)

—John Maynard Keynes, 1940

"It (the cold war) increases the demand for goods, helps sustain a high level of employment, accelerates technological progress, and thus helps the country raise its standard of living.

"In the absence of the cold war, the demand for goods by the government would be many billions of dollars less than it is now and the expenditures of both industry and government on technological research would be hundreds of millions less than they are now.

"So we may thank the Russians for helping make capitalism in the United States work better than ever." (22)

—Sumner H. Slichter, Chairman, Research Advisory Board, Committee for Economic Development, 1949

These quotations clearly summarize how military spending maintains and regulates aggregate demand in the U.S. economy. First, arms spending has placed a floor under the business cycle. The budget of the Department of Defense has varied from a high of 13.3% of GNP in fiscal year 1953 (due to the Korean War) and has fluctuated since then between 6.4% of GNP (fiscal year 1973) and 9.4% (fiscal year 1968). The figures are much higher if one includes the expenses of other government departments, such as expenditures for veterans, space, international affairs, and the interest on the national debt, which was mainly accumulated during wartime. Total cold war expenses were 17.7% of GNP during fiscal 1953, and have varied between 13.5% and 9.8% of GNP since then (23). This stream of government spending has bolstered demand in many manufacturing industries, particularly in sectors such as metals and metal products, nonelectrical machinery, electrical equipment and supplies, transportation equipment, ordnance, and instruments (24). Twenty percent of the demand of these sectors stems from military related expenditures. Harold G. Vatter, in *The U.S. Economy in the 1950's*, points out how military expenditures were responsible for the prosperity of three major "growth industries" of the 1950's: research and development, aircraft, and electronics. "The government military demand accounted for about two thirds of the growth in aggregate electronics sales during the 1950's, the period of most rapid expansion of this category ..."

Electronics News concluded that the military and the space program consumed 56.2% of the output of the electronics industry; military missiles alone accounted for 22.5% of the output in 1962 (25).

Besides continuously bolstering demand in key manufacturing industries, the military budget has been used as a countercyclical instrument to achieve high employment (26). Increases in spending during a recession can provide a welcome added stimulus, while decreases in spending can help to ease inflationary pressure. The military budget is well suited for use as a countercyclical instrument. Although armaments spending was 31% of the total federal expenses in fiscal 1973, (27) it was a much larger percentage of the funds that were *controlled* by the budgetary process—the process that begins with the President's annual budget message, involves reviews by Congressional committees, and ends with the approval of appropriations bills by both houses of Congress.

Many budget items are "uncontrollable" by the process. The expenditures for Medicare, public assistance, farm supports, debt interest, and veterans benefits are fixed by Congress for a number of years and cannot be altered except by the passage of new legislation. Since powerful special interests arouse much political controversy when these programs are altered, it is difficult for the executive to change these programs when business conditions change. 94% of the military budget is controllable by the budgetary process. (The major exception is military retired pay, which is set by a special act of Congress.) Military expenditures amounted to 58% of the total federal *controllable* expenditures in fiscal 1973 (28).

During the Kennedy administration, increased military spending lessened the severity of the recession of 1960-1962. By the second quarter of 1960, unemployment was increasing steadily while real GNP declined. By this time, politicians were intensely debating about the "missile gap." In his first State of the Union Message to Congress, President Kennedy announced that he would raise military spending to increase airlift capacity and to accelerate the production of Polaris and Minutemen missiles (29). Between fiscal 1960 and fiscal 1961, national defense spending increased by \$1.8 billion; between fiscal 1961 and 1962, by \$3.6 billion (30). Much smaller in magnitude were Kennedy's much publicized increases in social spending to combat the recession. A Brookings Institution study on federal fiscal policy concluded: (31)

Government expenditures on a national income basis rose sharply during the early recovery stage, and were undoubtedly a factor in the strong rise in the economy in the latter half of 1961. Defense expenditures account for a large part of this increase, and purely (or primarily) counterrecession actions were not vastly different from those attempted in the two previous recoveries...The latest experience confirms that any short-run, administrative speed up of expenditures must depend heavily on the actions of the Department of Defense, which accounts for two-thirds of the budget and perhaps 90 percent of federal procurement of goods and services.

The final component of the military keynesian function is the proper finance of defense in periods of inflation. Often, mobilization for a war or a crisis takes place when the economy is close to full capacity. In that case, keynesian macroeconomic policies dictate that the non-military demand should be reduced in order to avoid inflation. In such periods, the business community, particularly the conservative small and medium sized businesses, are extremely vocal in demanding fiscal responsibility—the reduction of civilian government expenditures, credit restrictions, excise taxes, and income tax increases for the lower brackets to reduce consumption. **

Business and government leaders do not favor increases in arms spending whenever there are signs of a recession. For one, business sometimes favors limited recessions because such recessions often slow rising prices, increase unemployment and hence, labor discipline, and weed out noncompetitive enterprises (32). Also, since the military budget responds to a variety of noneconomic factors and a multiplicity of non-business groups, capitalist pressure to change the level of the military budget will not necessarily produce the intended effect.

Part I. 4. Subsidized Investments Through Military Spending

In the *Fiscal Crisis of the State*, James O'Connor notes that the state contributes to capital accumulation by paying for capital which is then used by private profit making corporations. Examples are expenditures for fixed capital (highways, ports, urban renewal projects) and human capital (education and job training). The procurement part of the military budget is loaded with examples of subsidized investment (33). When a corporation is awarded a contract for armaments, part of the cost of the arms is paid in advance to the company so that it can purchase needed capital goods ("progress payments"). In addition, the government lends government owned capital to private contractors. Between 1957 and 1961, for example, private contractors used \$1.5 billion worth of government supplied machinery, buildings, and other capital, compared with \$1.4 billion of privately owned capital. By 1967, private firms held a stock of government owned capital worth \$15 billion (34). **

** Note that we are arguing here that the effect (i.e. function) of military spending on the economy is to bolster and regulate aggregate demand. This is a *functional* argument and is neither a *causal* argument nor a claim about the *historical origins* of military spending. We have not demonstrated that policy makers in the early cold war years consciously favored military spending in order to regulate demand.

** Other examples of government subsidized *fixed capital* are government financed research and development, and the public works projects of the Army Corps of Engineers. Through the military budget, the government trains pilots and electronics technicians who are later hired by private business firms. Another example of socialized investment in human capital is the general discipline of military personnel, which reinforces capitalist work discipline when the military personnel return to civilian life.

Besides contributing to private investment in military contractors, military spending, through raising the indirect demand for raw materials and intermediate goods, increases investment in civilian industries. During the Korean War mobilization, investments in supporting civilian industries were greatly "accelerated."

The Korean War erupted when the U.S. economy had already significantly recovered from the recession of 1948: (35)

Although lacking the stimulus of a strong price rise in the pre-Korean months, private business showed itself still capable of a lusty recovery power in such areas as manufacturers' new orders, industrial production, and private nonresidential construction. Steel was pressing against capacity limits soon after the settlement of the autumn, 1949 strike. Automobile production also increased rapidly in early 1950, despite a strike at Chrysler that began in January. But the main component of the private investment increase was, as in many past cyclical recoveries, inventory investment—\$7.7 billion out of \$12.8 billion between the fourth quarter of 1949 and the second quarter of 1950.

Keynesian considerations would have dictated the cautious raising of military spending by \$2-3 billion (36). However, American national security managers, deciding to transcend the limited objectives of checking Communism in Korea, embarked on an ambitious program of rearming the United States, Western Europe, and other allies. This project was to cost \$163 billion over the next four fiscal years. One policy option was to reduce civilian government spending and restrict consumer demand through taxation and encouraging purchases of savings bonds. But this alternative would have been difficult to legitimize. The public was tired of the experience of World War II controls and discipline, and was expressing displeasure at high taxation (37). The other alternative was to expand the productive capacity of the U.S. economy, so that it could provide both armaments and the same or higher level of civilian consumption.

The Revenue Act of 1950 allowed corporations to use an accelerated depreciation formula for federal tax calculations, thereby stimulating private investment. The Federal Reserve Board and the Reconstruction Finance Corporation sponsored low interest, government guaranteed loans to corporations wishing to expand their capacity. The result was that steel capacity increased by 9.4 million tons; the production of machine tools, gasoline, aluminum, and other nonferrous metals increased.

Part II. Conflicts Between the Functions.

Thus far we have analyzed *each function*, noting that in some cases the components of the functions are contradictory, either because different political or bureaucratic factions interpret the function in different ways (in the case of deterrence) or because the function required two conflicting strategies (international trade). Our next task is to examine the conflicts *between* the different functions.

a. Conflict between armed confrontation and military keynesianism

If the need for military confrontation (function 1 on chart 1) occurs in a period of inflation, then this conjunction interferes with the regulation of aggregate demand (function 3B) **

If military keynesianism were the sole determinant of military spending, one would expect military spending as a percentage of GNP to remain at a high level, with decreases in periods of inflation and increases during severe recessions. But in the event of an acceleration of the arms race, a crisis, or a limited war, military spending increases, even if the business cycle necessitates decreases. Assume that international crises will be randomly distributed along the U.S. business cycle. While one would expect some crises to occur during recessions (the outbreak of World War II, the Sputnik Crisis of 1957), some will occur during periods of high capacity utilization (the Korean War and the escalation of the Vietnam War in 1965). The Vietnam exaltation is the most striking example of fulfillment of the armed confrontation function producing destabilization of the military keynesian function.

Immediately before the military buildup in late 1965, capacity utilization was 90% and unemployment was 4.5%. The increased military demand, amounting to 25% of the entire increase in GNP in 1966, was a visible strain on an economy already working at capacity. In the first quarter of 1966, unemployment dropped to 3.7% and GNP increased by \$16 billion, an annual growth rate of 7.2%. Inflation began to accelerate; the consumer price index increased 4.2% in 1968 and 6.1% in 1969. High interest rates led to a shortage of mortgage funds and a recession in the housing industry. Skilled labor was short in the metalworking and electronics industries (39).

b. Conflicts between military keynesianism and subsidized investment

b. (1). Subsidized investment (function 4) increases the productive capacity of the economy, thus intensifying the need for keynesian expenditures (function 3A). If demand is cut back for any reason, a recession can result.

As we noted earlier, during the Korean War the U.S. government policy of accelerated depreciation and low cost loans produced a large expansion in the capacity of many basic manufacturing industries. Increased capacity required a corresponding increase in aggregate demand, and thus provided an added burden for the military keynesian function. So long as the war in Korea and the rearmament program continued, aggregate demand was high. But at the end of the Korean War, Eisenhower's reduction of the military budget caused a severe recession. Total national defense expenditures were \$50.4 billion in fiscal 1953, \$46.9 billion in fiscal 1954 (down \$13.5 billion) and \$40.6 billion in fiscal 1955 (down \$9.8 billion from 1953) (40). A tax cut, effective on January 1, 1954, was not large enough to match the deflationary effect of the military cutbacks. After the Korean War, Eisen-

** Similarly, when the end of a war or the easing of military tensions coincides with a fall in other components of aggregate demand, a severe recession can result.

hower decided to keep arms spending at about 10% of GNP, not only because of the deterrence function, but also because further reductions in military spending would have intensified the recession.

b. (2). In order to regulate aggregate demand, policy makers may reduce military spending or slow its increase (function 3B). These cuts can cause overcapacity in the military contractors and hence, the cessation of new investments in the contractors (interference with function 4B).

The late sixties were a period of rapid inflation that threatened a total disruption of the international monetary system. In 1970, the Nixon administration decided on a policy of "managed" (i.e. deliberately induced) recession as a temporary relief to U.S. economic problems. Cuts in military spending were ordered to cool down the economy. At the same time, many aerospace corporations were just finishing production of existing weapons systems and badly needed new contracts. However, the imperatives of restricting aggregate demand meant severely limiting new contracts. The resulting widespread layoffs of workers were dramatically evident in cities such as Seattle with high concentrations of defense industries.

c. Conflict between armed confrontation and subsidized investment in military contractors

c. Subsidies for defective, obsolete, or otherwise useless weapons can aid military contractors (function 4B), but reduce the ability of a nation to effectively conduct armed confrontations (function 1). Also, excessive costs of weapons systems, which represent a subsidy to contractors, reduce the amount of arms that can be purchased for a given level of expenditure.

Often, contractors will lobby for the expensive weapons systems that do not add to the ability of the U.S. to oppose the USSR, China, or the left. For example, contractors, aided by the military, lobbied for the anti-ballistic missile system, the B-1 bomber, and the Skybolt air-to-ground missile. All of these systems were opposed by McNamara on the grounds that they contributed nothing to U.S. national security (41). At times class conscious businessmen also oppose military spending which is wasteful from the overall capitalist point of view, even though it is useful to particular military contractors. This conflict demonstrates that the "military industrial complex" is only a faction of the ruling class, whose interest sometimes conflicts with the interest of other sections.

d. Conflict between armed confrontation and maintaining free trade and investment

An armed confrontation (function 1) may require military spending that intensifies balance of payments deficits (interfering with function 2B) and interferes with economic recovery (function 2B [1]) by causing inflation and diverting investments from the export sector.

The Korean War and the resulting rearmament of Western Europe increased European deficits and interfered with the European Recovery Program. Rearmament caused severe shortages of strategic raw materials and thus worsened European inflation. In France, for example, the consumer price index rose by 20% between 1950 and 1951; wholesale prices jumped by almost 35%. Inflation, by raising the price of European exports, increased the balance of payments deficit of Western Europe to over \$2 billion a year (42).

e. Conflict between military keynesianism and maintaining free trade and investments

A nation attempting to reduce a chronic balance of payments deficit (fulfilling function 2B) cannot pursue keynesian policies to maintain high employment (upsetting function 3B).

All past and present international monetary systems compel nations with a continuing balance of payments deficit (providing that the country is not the hegemonic power) to reduce their deficits. Generally, high deficit European nations are required to pursue restrictive fiscal policies to limit inflation and hence, the price of exports, which supposedly increases the volume of exports. Cooling off the economy also reduces imports. The deflationary policies are in direct conflict with the keynesian policy of government expenditures to maintain high employment (43).

An example is the way in which the European Recovery Program attempted to cure the "dollar gap." As a condition for receiving Marshall Plan aid, European countries were required to control inflation, reduce government spending, and limit consumption in order to increase exports and productive investments. When labor unions or social democratic parties objected to wage and budget cuts, their opposition had to be neutralized (44). ** Reducing the English deficit conflicted with not only social spending and consumption, but military keynesianism as well. The Committee for Economic Development recommended:

Military production competes directly with current exports and balance of payments equilibrium and with industrial investment... We believe that a way must be found... to increase the supply of capital goods needed to expand the capacity of British industry. To the extent that this cannot be done by reducing consumption, further modification of the British military program will have to be contemplated. (45)

** As the Committee for Economic Development argued:

The Committee believes that the British should consider whether the present rate of public investment in less productive sectors could not be reduced. They should consider whether existing governmental policies could be reoriented to promote investment in the mechanical and metal working industries, particularly in the capital goods sectors, where the best opportunities for exports exist.

...(W)ill not increase in wages and other incomes and in government social welfare payments in the United Kingdom have to be kept within conservative limits until the growth of productivity makes possible a more rapid increase? The now slower growth of British production suggests that this will be necessary to maintain monetary stability. (46)

When the U.S. was enjoying the fruits of its balance of *trade* surplus and its unchallenged hegemonic position, the U.S. was the exception to the rule that deficit countries must deflate. However, beginning in the late fifties, maintaining a stable disequilibrium in the U.S. balance of payments required policies that conflicted with the keynesian pursuit of high employment. Eisenhower held the perhaps unwarranted belief that more expansive fiscal policies would increase inflation, undermining the role of the dollar as the chief international currency. Kennedy's concern about the increasing U.S. deficit placed a constraint on keynesian policies to increase employment and growth (47). The Nixon administration had to resort to a managed recession to try to bring the U.S. deficit back to reasonable limits. But partially due to domestic political opposition to recessions, American policy makers have resisted European demands for a reduction in the U.S. deficit. This policy is ironic, given the U.S. insistence in the forties that European deficit countries had to deflate their economies.

f. Conflict between subsidized investment and maintaining free trade and investment

Subsidized investment in military contractors (function 4B) often is at the expense of investment in the export sectors of a nation's economy. Hence, that nation's goods become less competitive, interfering with the maintenance of a stable disequilibrium in the balance of payments (function 2B).

Further research needs to be conducted on this proposition, which was first advanced by S. Melman (48). Early in the cold war, subsidized investments and research in military contractors contributed to developing civilian products that could be exported. The overseas sales of the aircraft and electronics industries were a positive addition to the U.S. balance of payments. However, military technology is becoming increasingly inapplicable to civilian production. Furthermore, to the extent that there are shortages or rigidities in the commitment of capital, strategic materials, or skilled labor or scientists, the subsidized investment in military contractors reduces the productivity and competitiveness of the export sector.

PART III: Conflict and Contradiction in the Warfare State

The patterns of functions and their conflicts are shown in chart 1. The chart should not be construed as a model at a given point in time; on the contrary, it is intended as a guide to research into the historical development of the *contradictions* of military spending. A contradiction is a problem of capitalism that must be solved but whose attempted solutions become detrimental to capitalism (49). The very successes of short run solutions contribute to long term changes in economic structures that both create new dysfunctions and reduce the policy's effectiveness in alleviating the original problem.

Rapid innovation in military technology is a short-run solution which eventually becomes dysfunctional. Effective armed confrontations with the Soviet Union, U.S. domination of NATO, and arms sales abroad require that the U.S. weapons makers have a technological superiority over all rivals, communist and capitalist alike. In addition, technological change in military production means that each succeeding military contract is qualitatively different from the previous contracts, and thus will require completely new capital goods. Demand will be high in the capital goods and manufacturing industries that supply the military contracts. Although this rapid turnover of capital is beneficial to the suppliers, it is a problem for the military contractors. If capital becomes obsolete faster, military contractors will find it more difficult to accumulate capital, and will therefore become more dependent on government subsidies for the high costs of capital. Furthermore, the highly sophisticated technology of weapons is becoming increasingly inapplicable to developing and modernizing civilian products.

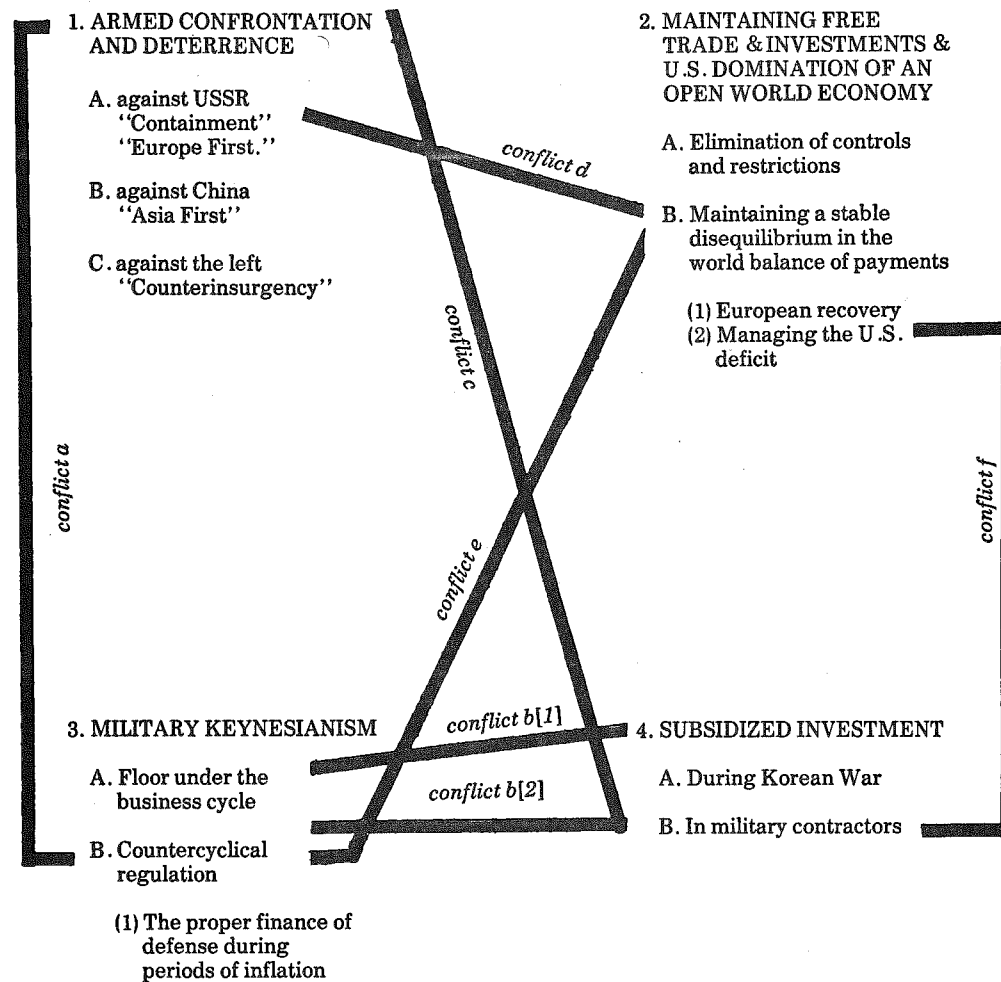
Another important direction new research is to study inflation as a necessary consequence of the short term successes of military spending. To what extent is inflation caused by the very achievements of keynesianism—moderating the business cycle and maintaining high employment? Another explanation of inflation stresses the political decisions about the financing of military spending (50).

No matter how national security policy makers respond to inflation, intensified problems are the result. On the one hand, restraining the increases in arms spending, producing a real decline in the military budget, causes overcapacity and unemployment for defense contractors and reduced indirect demand for suppliers. Another detrimental consequence is the weakening of military strength, which can lead to dramatic defeats in foreign policy, as popular movements in the third world become more and more costly for the U.S. to suppress.

On the other hand, if arms spending rises in response to the demands of military contractors or the needs for armed confrontation, inflation increases, threatening even larger U.S. deficits and further strains in the international monetary system. Even more drastic cuts in social spending and other recession inducing measures then become needed to bring inflation under control.

In the future, arms expenditure will become increasingly unable to sustain economic growth, and high employment and slowly rising real incomes for the upper strata of the American working class. What combination of left and right wing political movements will arise from worsening economic conditions? More research is needed into the political implications of the contradictions of military spending.

CHART 1
THE CONFLICTING FUNCTIONS OF U.S. MILITARY SPENDING



FOOTNOTES

1. The author wishes to thank the San Francisco *KAPITALISTATE* Collective and the members of his dissertation committee for their suggestions.
- Paul Baran and Paul Sweezy, *Monopoly Capital*, New York, 1966, pp. 178-217.
2. Cypher, 1975, Weidenbaum, 1969.
3. Kolko, 1972, pp. 671, 714-15.
4. Reich and Finkelhor, 1970, pp. 3-4. Horowitz, 1969, p. 173.
5. Kolko, 1968, p. 389-427; Paterson, 1968, Alperovitz, 1967, and Block, 1974.
6. Committee for Economic Development, September 1952, pp. 10-11.
7. *Ibid.*, p. 8
8. Huntington, 1961, p. 348.
9. Schurmann, 1974, p. 170. Janowitz, 1960, pp. 283-301.
10. Williams,
11. Committee for Economic Development, 1952, p. 21.
12. Huntington, 1961, 298-312.
13. First National City Bank of New York, *Monthly Letter on Economic Conditions, Government Finance*. February, 1949, p. 18.
14. Hitch and McKean, 1967, p. 46. Huntington, 1961, p. 1.
15. Williams, 1969.
16. David Eakins, "Business Planners and America's Postwar Expansion," in Horowitz, 1969.
17. Calleo and Rowland, 1973, Block, 1974, Kolko, 1972.
18. Block, 1974, pp. 312-346.
19. Kolko, 1972, pp. 456-9, 473, 632, 445, 454. Block, 1974, pp. 167-76.
20. Block, 1974, pp. 349-51.
21. John Maynard Keynes, "Editorial," *The New Republic*, July, 1940.
22. *New York Times*, October 26, 1949. News article about a speech by Sumner H. Slichter of the Committee for Economic Development.
23. Department of Defense, 1972, pp. 191-2.
24. Reich and Finkelhor, 1970, p. 10.
25. Vatter, 1963, p. 167; John Ullmann, ed., *Conversion Prospects of the Defense Electronics Industry, Hofstra University Yearbook of Business*, Series 2, volume 1, 1965.
26. This form of keynesianism whose goals are high employment and the moderation of severe recessions must distinguished from the keynesianism of the labor movement, which favors fiscal policies to produce full employment. Another variant of keynesianism is the conservative keynesianism of the Eisenhower administration, i.e., the use of fiscal policy to produce lower inflation and higher unemployment than the corporate liberal version of keynesianism.
27. Total government spending includes Trust Funds. If these are eliminated, national defense expenditures (i.e. DoD budget plus spending for military aid and atomic energy) compose 42% of the "Federal Administrative Budget."
28. Department of Defense, 1972, pp. 108-14. See also Reich and Finkelhor, 1970, for a further discussion of the political reasons why military spending is suitable for regulating and maintaining aggregate demand.
29. U.S. National Archives and Records Service, *Public Papers of the Presidents of the United States, 1961*. Washington, D.C., 1962, pp. 19-28.
30. U.S. Department of Commerce, *Statistical Abstract of the United States, 1963*, p. 256.
31. Lewis, 1962, pp. 270-4.
32. Cypher, 1975, p. 22.
33. O'Connor, 1973. O'Connor's term is "social investment."
34. Melman, 1970, pp. 75-83, 46-8.
35. Vatter, 1963, pp. 170-1.
36. *Business Week*, July 1, 1950, p. 15.
37. Samuel Lubell, *The Future of American Politics*, New York, 1956, pp. 230-4.
38. *Business Week*, October 7, 1950, pp. 20-1, 106, 132; Edward C. Welsch, "Government Aid to Business Expansion," *American Economic Review*, XLII (May, 1952), pp. 418-26. Hickman, 1960, p. 291.

39. U.S. Executive Office of the President, *Economic Report of the President, 1972*, Wahsington, D.C., 1972. Michael Best, "Notes on Inflation," *Review of Radical Political Economics*, IV (August, 1972), pp. 87-89. Arthur P. Okun, "Remarks to the American Ordnance Association," October 12, 1966, in U.S. Congress, Joint Economic Committee, *Hearings: The Economic Effect of Vietnam Spending*, (April 24-27, 1967), pp. 539-43. James L. Clayton, *The Economic Impact of the Cold War*, New York, 1970, p. 202.

The inverse of conflict (a) is a conflict as well. I.e., attempts to control inflation through limiting government spending can adversely effect a country's military strength.

40. U.S. Department of Commerce, *Statistical Abstract of the United States, 1961*, Washington, D.C., 1962, pp. 301, 369.

41. Rosen, 1973, pp. 135-156.

42. Bissel, 1952, pp. 310-16. Committee for Economic Development, 1953.

43. See Magdoff, 1969, pp. 138-49 for a discussion of a similar process in Third World nations.

44. Kolko, 1972, pp. 359-76.

45. Committee for Economic Development, March, 1953, pp. 30.

46. *Ibid.*, pp. 28-9.

47. Herbert Stein, *The Fiscal Revolution in America*, Chicago, 1969, chapters 11-14.

48. Melman, 1970, pp. 184-9. for an earlier formulation, see *Our Depleted Society*, New York, 1965.

49. *Contradiction* needs to be differentiated from instability, sectoral imbalance, inter-imperialist rivalry, and problems of timing. A situation or variable is *unstable* if changes in the variable produce additional pressure to increase change in the same direction, rather than restoring the situation to the previously existing conditions. For example, if the English balance of payments deficit increases, speculators and multinational corporations attempt to reduce their holdings and debts in pounds, further increasing the deficit. *Imbalances* can occur between sectors (for example, too little investment in the export industries and too much in military contractor). Imbalance can also occur between a particular sector and the rest of the economy (conflict between waste in military contracts and effective armed confrontation benefitting capital as a whole). *Inter-imperialist rivalries* are reflected in conflicts over who is allowed to run deficits and who is compelled to deflate and devalue. Inter-imperialist rivalries and the absence of a clear hegemonic power inhibit international agreements necessary to maintain the international monetary system. And finally, changes in the military budget can often be *mis-timed* with respect to the business cycle, upsetting keynesian functions.

50. See *The Review of Radical Political Economics*, Special Issue on New Economic Policy: The New Economics and the Contradictions of Keynesianism. IV (August, 1972).

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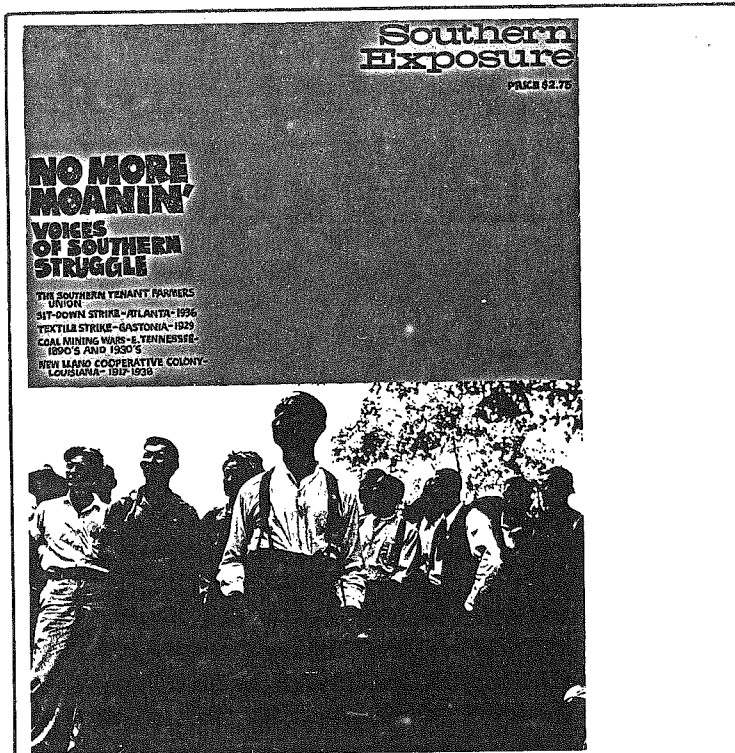
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An Institutional Economic Theory of the Military—Industrial Complex

James N. Cypher*

Ever since President Eisenhower's speechwriter coined the phrase Military-Industrial Complex this pejorative term has normally been associated with and thought to be an adequate depiction of the military-industrial relationship. This turns out to be an unfortunate association as it has either evoked an impression of a small enclave of industrial 'dinosaurs' who are dependent totally upon military contracts, or the impression that the 'Merchants of Death' are being led on by a group of war-lusting generals who have the independent power to control the military contracting corporations, and to embroil the nation in obscure Asian wars if they so desire. This is a highly simplified image which does not in any way adequately describe the marketing relationship between the industrialists and the military. While there are several aerospace 'dinosaurs' which do virtually all of their work with the Department of Defense, these firms are relatively few in number. The military market entails much more than aerospace. Of the 500 largest manufacturing corporations in the U. S., 205 do some business with the Department of Defense (1).

The microeconomics of the military-industrial complex concerns the relationship between the Department of Defense and those firms which produce for this military market. A descriptive analysis of this market has been undertaken several times and no attempt will be made to duplicate that effort. The military market has been termed the largest single market in the American Economy. At least through 1970 this appears to be true if one is thinking in terms of final demand. In 1970, for example, some 48 billion dollars worth of materials (to be distinguished from wage payments) were purchased directly by the Department of Defense, with perhaps as much as 3 billion of the total of 3.8 billion from the N.A.S.A. budget going for material, along with another 2 billion for A.E.C. material (2). By comparison, the next largest single final demand would be for the automobile. The selling of new and used autos, plus parts and repairs, amounted to approximately 46 billion dollars in 1970 (3).

In order to develop a realistic microeconomic theory of the military-industrial complex it is necessary to briefly clarify the macroeconomic context which necessitates this complex. The military market exists in the postwar economy because of an ever growing demand for the products of this market. *This military market exists because the mature capitalist system must face the repeated possibility that the supply creating capacity of the indus-*

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trial system can outrun the growth of effective demand. In such a situation the reason for and desire to invest will be eliminated. When this is the case the economy has potential to stagnate, or function well below capacity for long periods of time. As the experiences of the 1930s showed, and as J.M. Keynes was wont to argue when he noted that men will not always starve quietly, a prolonged depression necessitates some sort of remedial action on the part of those who hold power or, at the outer limit, that power will be taken away. The dilemma became, then, social reform or stagnation. Into this stalemated situation, which was truly a Hobson's choice from the capitalist's perspective, came the Second World War. The effect of the war on the economy, coming as it did on the heels of a severe depression, constituted a profound learning experience for those who held power. Military expenditures could be a great engine for growth and stability. But the recession of 1948 seemed to confirm the industrialists' fears of a postwar depression. This time, however, the cold war could be used as an unquestionable reason for the 'necessity' of rising military expenditures. Since 1948 the American economy has been sustained largely through the employment and profits generated by nearly \$2 trillion in military related demands (4). (Such expansionary effects are not without their own contradictions. The expansion of demand also expands supply capacity through plant and equipment subsidization as well as new production via military subsidized research and development. In addition, the more obvious contradictions of inflation and political-social divisiveness are, at times, engendered.)

The microeconomics of the military market takes place within the above macroeconomic framework. *The hypothesis of the institutional-economic theory of the military-industrial complex is that industrialists in the military sector strive to increase the role of that sector and are only constrained by the executive branch of the state and its industrial advisors, such as the Business Council and the Council on Foreign Relations, to the extent that they must not encroach upon other markets within the economy.* Industrialists in the military market are the *active partners* in the military-industrial complex. Industrialists bring their power collectively to the state in the form of organized industrial associations and advisory committees. These industrial associations and advisory committees are operated by those who control corporate power. They form the locus of power which generates the arms-race and rising military expenditures, via interaction with the civilian state and its corporate advisors. Such expenditures are accepted up to the point of 'full-employment' (4-5 percent unemployment). *Military expenditures, then, are generated by industrialists, and the military market is controlled and operated by the industrialists who function in the military sector operating in concert through the institutions of the industrial associations and advisory committees.* The military bureaucracy, to the extent that it is not synonymous with the industrialists, functions strictly as an *ancillary phenomenon*, building up public support for military expenditures, and gen-

erally handling the public relations aspect of the military market (5). The theory advanced here, then, is directly counter to the liberal view of the 'complex' as presented, for example in Seymour Melman's *Pentagon Capitalism*.

Military men have sometimes acknowledged this relationship. For example, 'Officer W.' argued that the military market is one in which:

...industry is the *dominant partner, the seller rather than the buyer*. Uncle Sam often ends up buying products tailored not to the needs of the military but the demands of the industry—and at inflated prices (6). (Emphasis added.)

When major weapons systems are planned ". . . it is not unusual for industry's contribution to be a key factor." (7) Industry, according to these accounts, is the dominant factor in the military-industrial complex. The institutional-economic theory of the military-industrial complex suggests that *within the limits posed by corporate leaders and the civilian state apparatus* (i.e., military demands should not encroach upon other markets), industrialists are the dominant factor in the complex. (Wars are not particularly desired, as the pursuit of victory introduces a degree of indeterminacy into the military market. War may push the economy too close to full-employment, thereby pushing up the price of labor. War, however, may be necessary at times to guarantee the 'free flow of capital' throughout the world.) Industrialists dominate the complex through sales efforts on the individual level, and through industrial associations on the collective level.

In the military market the military bureaucracy does not simply mismanage the procurement process. Rather, it is an integral part of the sales effort within the military market. *It becomes a steward for the interests of the corporations, an extension of corporate power, but it does not usurp power.* Kolko argues: "The military is a most conformist and pliable aspect of the power system, quite drably bureaucratic, and it serves the purposes of capitalists and politicians without much reticence." (8) The bureaucracy does, however, become an effective sales force as Al Toffler noted in his examination of the airpower lobby:

The industry doesn't do much direct lobbying here on the Hill. To sell a project to Congress is the hard way to do it. It's much easier to sell the idea to the Air Force and let the Air Force do the pushing (9).

While the military bureaucracy works effectively as a lobbying group for the contracting industrialists, it also acts as an industrial advocate in the actual weapons development program. Thus, even the supposed regulatory rules governing the nature of the procurement process are written or approved by the military contracting industrialists prior to their inception. Admiral Rickover noted this situation:

When the Department of Defense decides to make a change in the Armed Services Procurement Regulation, it conducts a prior check with industry to make sure that the change does not impinge too greatly on the latter. Sometimes it sends proposed changes to manufacturers and advisory groups for comments. This leads to a situation in which the Department of Defense negotiates with private industry over each of its own regulations (10).

The policing functions which the Department of Defense ostensibly carries out through audits, negotiations, plant representatives, the truth-in negotiations law, and the Renegotiation Board, are strictly to maintain a public image of being in control of the procurement market. Aside from pillorying an occasional small contractor, *these powers remain unused*. When the occasionally competent civil servant attempts to perform his job according to the letter of the law, he finds himself in conflict with the military bureaucracy. For example, A.E. Fitzgerald, in his capacity as cost analyst for the Pentagon was suspicious that the Lockheed Corporation was 'overrunning' its contract at an extremely high rate. He attempted to complete an audit of the program, but was called off the case, after his suspicion had turned to certainty on the basis of the audit, and was told by the military bureaucracy that he could not publish or formally report his findings (11).

The military bureaucracy, then, is important as a public relations extension of the military market on one hand, and on the other hand it provides the image of responsibility for careful management of the market which allows the process to continue without public scrutiny or criticism. The prevailing image of the military market (*viz. Pentagon Capitalism*) appears to be one where the military contracting firms wait patiently for the Pentagon to suggest that there is a need for a particular type of weapon system, in which event the corporation dutifully sets out to meet the engineering and cost specifications as best it can. The reality of the situation conflicts strongly with this view.

The basic sales effort involves coming up with new ideas and projecting them into the Soviet system, however fanciful that may in fact be, and thereby, as it is said in the industry, creating a need. At that point a briefing with a procurement official is necessary. Military contracting firms are quite well set up to make such briefings as they do keep track of all personnel in the procurement departments of the services. For example, one trade magazine, *Missiles and Rockets*, publishes a "Guide to Key Procurement Contracts" which is a complete list of all procurement officers including their addresses and telephones and their personal interests in weapons systems! (12) After the briefing it may be necessary to send to the services an unsolicited proposal. Most weapons systems originate through these unsolicited proposals. If the corporation is very successful the services end up writing up a Request for a Proposal on the basis of the briefing. Since a given corporation has created the need for the proposal in the briefing, chances are quite high that that corporation will get the contract. Nevertheless, it often *appears* to the casual observer and sometimes to the services, that the services are determining the military market. However:

Industry has the initiative in the new and more complex military technologies. There are now engineering departments within some military agencies, but industry rules in the area of advanced technology, where it enjoys considerable leverage. A member of Pratt and Whitney's marketing office boasted, 'We have the technical superiority and are on the offensive. We spoonfeed them. We ultimately try to load them with our own ideas and designs, but in such a way that, when they walk away from the conference table, they are convinced it was their idea all along' (13).

Once the industrialists have managed to convince the military bureaucrats that a particular system is necessary, if there appears to be any problem generating adequate funding for development of a system the bureaucrats and the industrialists work as a team to pressure the Congress to accept the idea.

The dynamics of the military market, then, stem from the corporations who operate in that market. At the level of the macroeconomy the amount of military expenditures is limited by the degree of labor and capacity utilization which is considered desirable by those who own and control corporate power. However, given the contradictions of the economy such as timing problems, inflation problems, balance of payment problems, and failures of estimation, military expenditures have never been utilized so perfectly as to yield a 'steady-state' condition of economic growth. ('Steady-state' growth is a normative objective apparently not shared by all policy makers.) The link between the objectives of the individual corporation operating within the constraints of a given military market and the capacity for that corporation to act in concert with all others in the market to determine how much military spending can be achieved and how, generally, it will be spent can be found in the industrial associations and advisory committees.

The entire military market functions in concert through the various industrial associations. The oldest trade association is the Navy League, which was begun before W.W.I. Some of the more powerful trade associations in the military market are the Aerospace Industries Association, whose published aim is to promote the manufacture and sale of aircraft and astronomical vehicles of every nature and description, the National Security Industrial Association, whose aim is to establish a close working relationship between industrial concerns and national security agencies (14), the American Ordnance Association and the largest and most powerful of them all, the Council of Defense and Space Industries Association (CODISA). Numerous individuals who have been close to the actual workings of the military market, such as Senator Proxmire, Admiral Rickover, Richard Kaufman, and A.E. Fitzgerald, are convinced, it seems, that these institutional agencies determine the nature of the defense market and to some degree the general level of military expenditures.

Although the industrialists who function in the military market band together in such a way as to control a great deal of that market, the market itself is subject to limitations placed upon it when the growth of that market conflicts with other sectors of the economy. There is, however, interaction between the military market and the representatives of high level corporate power in general. The institutional form for this interaction is termed the Industrial Advisory Council. This council, formed in 1962 and originally known as the Defense Industry Advisory Council, is something of an institutionalization of the planning function carried out periodically up to 1962 by the Finletter Commission (a government committee which recommended that military expenditures, particularly on aircraft, would be increased in

1948 and thereafter), the National Security Council (which recommended in its memorandum 68 that overall military expenditures should be vastly increased in 1950 and thereafter), the Rockefeller Commission and the Gaither Commission (both groups were composed of the highest level corporate and government officials and both groups recommended, again, that military expenditures should be increased during the post-Korean 1950's). Just as the policy statements arrived at via these Commissions and reflected in N.S.C. 68 were formulated by those who operated the highest positions in the corporate hierarchy, so too is the Industry Advisory Council (IAC) comprised of such people.

Decisions of all magnitude appear to be discussed by the IAC (15)—everything from maintaining the public image of military contracting firms to determining the levels of military expenditures. Like the Gaither Commission, and similar highest level advisory groups, all of the meetings of the IAC are secret. The IAC meets at least three times a year. The 24 members of IAC are chosen by the Secretary of Defense, apparently for indeterminate terms. According to the Department of Defense's official statement:

From an industry standpoint, the Council provides a regular forum for presentation and consideration of industry views and problems at the highest policy levels in the Department of Defense. Therefore, the Council is serving as a focal point for the review and discussion of mutual problems, presented at the initiative of either officials of the Department of Defense or Council members from industry. It is providing a continuing and regular channel for two-way communication between the top levels of Defense management and this representative group of industrial leaders(16).

Membership on the IAC is limited only to representatives of great corporate power and wealth. In 1969, for example, some of the members included the Chairman of the Boeing Corporation, the Chairman of Brown and Root, Inc., the former Vice President of IBM, the President of Western Electric, the former Chairman of Sears, Roebuck, & Co., the President of Ford Motor Co., the President of General Dynamics Corporation, the Chairman of Olin Matheson Corporation, and the Chairman of Tenneco, Inc. (17). Little is known about the activities of the IAC, although it appears to be the link between corporate capital in general and the military-industrial complex. The IAC was credited by Senator William Fulbright with turning foreign military sales from "a lackluster outlet for American weapons to a booming industry." (18) A.E. Fitzgerald suggested that the IAC was responsible for the pervasive inefficiency which exists in the military market and which some military bureaucrats have termed 'national policy' (19).

While economic analysis is limited by the secret nature of the IAC, all the circumstantial evidence strongly suggests that the IAC is the formal link between corporate power within the market and federal power as well as corporate power which is not totally immersed in that market. The institutional-economic theory of the military-industrial complex can, by asserting that the military market is run by and in the interest of corporate capital, incorporate all the known elements of the military market without engaging in hypotheses which are unsupported (viz. *Pentagon Capitalism*), or which are repeatedly contradicted by the actual workings of the

market (20).

The institutional-economic theory posits a historical continuum from the days of corporate dominance of the entire military procurement apparatus during the W.W. II years through the maneuverings exemplified by the Finletter Commission to the IAC. The procurement process is dominated by industrialists, with the military performing an ancillary role as a public relations agency, and unquestionably, as a lobbyist for large expenditures.

Footnotes

1. Charles E. Nathanson, "The Militarization of the American Economy," in *Corporations and the Cold War*, ed. by David Horowitz (New York: Monthly Review Press, 1969), p. 231.
2. U.S. Department of Commerce, *Defense Indicators*, No. 72-8 (August, 1972) 4; N.A.S.A. expenditures and A.E.C. figures from the U.S. Department of Commerce, *Statistical Abstract of the United States* (Washington, D.C.: Government Printing Office, 1971), p. 380.
3. U.S. Department of Commerce, *Survey of Current Business*, LI (July, 1971), p. 24.
4. J.M. Cypher, "Military Expenditures and the Postwar Performance of the U.S. Economy: 1947-1971," (unpublished Ph.D. dissertation, University of California, Riverside, 1973), pp. 136-137.
5. See, for example: Herbert I. Schiller and Joseph D. Phillips, eds., *Super State* (Urbana, Illinois: University of Illinois Press, 1970), pp. 8-9.
6. "The Military Industrial Complex," *Congressional Quarterly Weekly Report*, XXVI (May 24, 1968), p. 1165.
7. *Ibid.*, p. 1162.
8. Gabriel Kolko, *The Roots of American Foreign Policy*, (Boston: Beacon Press, 1969), pp. 33-34.
9. Al Toffler, "The Airpower Lobby," *The Nation*, CLXXX (November 30, 1957), p. 402.
10. U.S. Congress, Joint Economic Committee, *Economics of Military Procurement*, Hearings before the Subcommittee on Economy in Government of the Joint Economic Committee, 90th Cong., 2d sess., 1968, Pt. II, p. 70.
11. *Ibid.*, pp. 336-337.
12. The Editors, *Missiles and Rockets* (March 29, 1965), 143-150.
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20. See: J.M. Cypher, "The Liberals Discover Militarism," *The Review of Radical Political Economics* IV, (Spring, 1972), pp. 109-117.

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The Distributional Impact of Federal Government Subsidies in the United States

by Larry Sawers*/Howard M. Wachtel*

The Joint Economic Committee (JEC) of the U.S. Congress, in their work on *subsidies*, has recently analyzed the distributional impact of federal expenditures. They define a subsidy as:

the provision of Federal economic assistance, at the expense of others in the economy, to the private sector producers or consumers of a particular good, service or factor of production. The Government receives no equivalent compensation in return, but conditions the assistance on a particular performance by the recipient—a quid pro quo—that has the effect of altering the price or costs of the particular good, service, or factor to the subsidy recipient, so as to encourage or discourage the output, supply, or use of these items and the related economic behavior. (JEC 1972, p. 18)

Explicit cash payments and implicit payments through reduced tax liability, low-interest loans, below market price government-produced goods and services, above-market price Government purchases, and price fixing through Government regulations all constitute subsidies (JEC 1972, p.18). The Committee fails to examine some large subsidies, particularly those implicit in international tariffs and defense purchases above market prices (including subsidies in the form of progress payment and subsidies attained via government regulatory activities) (JEC 1972, p.19). Subsidies from state and local governments are also excluded.

Even with these important exclusions, the JEC estimated federal subsidies to be over 63 billion dollars in 1970, with the vast majority going to *producers* rather than consumers (JEC 1972, pp. 4 and 5). A breakdown of those subsidies by financial form is provided in Table 1, and a breakdown of subsidies by program is provided in Table 2.

The following discussion closely examines the interpersonal distributional effect these subsidies and subsidy programs have, starting with *federal tax subsidies*, the largest category.

1. Federal Tax Subsidies

Although a tax loophole does not differ conceptually from an outright subsidy to the same beneficiaries, it certainly is less visible and public. For this reason economists have traditionally argued against implicit subsidies, for they obfuscate the true nature of transfers. Erosions of the tax base, though, are truly enormous. A recent study has shown that an additional \$77 billion in

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TABLE 1
SUBSIDIES BY FINANCIAL FORM, 1970

<i>Form of Subsidy</i>	1970 (millions of \$)
Cash Payment Subsidy	11,801
Federal Tax Subsidy	38,480
Federal Credit Subsidy	4,183
Benefit-in-Kind Subsidy	9,245
	63,709

Source: Joint Economic Committee, *The Economics of Federal Subsidy Programs* (Washington: Government Printing Office, 1972), pp. 26, 31, 34, 38, 39, and 40.

TABLE 2
SUBSIDIES BY PROGRAM, 1970

<i>Program</i>	1970 (millions of \$)
Agricultural Subsidies	5,202
Food Subsidies	1,593
Medical Care Subsidies	8,740
Manpower Training Subsidies	2,541
Education Subsidies	3,604
International Trade Subsidies	1,183
Housing Subsidies	8,425
Natural Resource Subsidies	3,034
Transportation Subsidies	672
Commerce and Economic Development Subsidies	19,623
Subsidies, not elsewhere classified	9,092
	63,709

Source: Joint Economic Committee, *The Economics of Federal Subsidy Programs* (Washington: Government Printing Office, 1972), pp. 87, 99, 105, 114, 125, 140, 152, 167, 181, and 187.

revenue would be collected by plugging federal personal income tax loopholes alone (Pechman and Okner, p.23).

Following accepted rules, we define personal income as the sum of consumption, net of the change in the value of assets, and net of direct taxes. Corporate income is defined as receipts minus costs (including depreciation of assets). The exemption of income from taxation takes place in a number of ways, but the quantitatively most important tax subsidies are as follows (1).

For personal income taxation, favorable treatment of *capital gains*, which are taxed no more than 25% to 35%, costs some \$9.3 billion. If capital gains on *gifts and bequests* were taxed, an additional 4.4 billion would be raised. *State and local bond interest* is not taxed at all (a revenue loss of 1.2 billion). Interest on *life insurance savings* is also not taxed, for a loss of 2.7 billion, nor are *imputed rents for home ownership*. Homeowners may also deduct mortgage interest and property taxes, which together lead to a revenue loss of 9.6 billion. Non-taxation of *transfer payments* loses 13.1 billion, *dividend income exclusion* of the first 100 dollars of dividend income loses .7 billion, and *income splitting*, where husbands and wives treat their income as if it were divided equally between them, loses 21.5 billion. This last practice produces large savings for middle and upper income families and discriminates against the unmarried (Pechman and Okner, p.23).

Some subsidies affect both personal and corporate taxes, but the losses from the latter are much heavier. *Depreciation allowances*, particularly accelerated depreciation, "offers an interest (time-discount) gain to investors . . . moreover it reduces risk and uncertainty" (Herber, p.246). The famous *gas-oil depletion allowance* allows taxpayers to deduct 22% of any income from the sale of gas or oil (other minerals have lower rates). Exploration costs are treated as expenses rather than depreciable investments, which together costs the Treasury some 1.2 billion annually (Pechman, p. 130).

For corporate taxes the *investment credit* is central. Beginning in 1962, business firms have been permitted to deduct as a credit against their tax liability a percentage of the value of their new investment. This percentage varies with the expected service life of the asset. In 1969 this cost the Federal Treasury about 2.5 billion (Pechman, p. 127). *Financial institutions* have also been favored. Banks have been allowed to maintain a reserve for bad debts that greatly exceeded actual loss experience, thereby lowering tax liabilities by significant amounts. This loophole has cost the Treasury billions but is gradually being plugged up.

The most striking aspect of this list of tax subsidies is that all but two of them—the exclusion of transfer income and income splitting—are associated with the *ownership of property*. With respect to the personal income tax all of these provisions, except the exclusion of transfer income, benefit high income taxpayers more than low income taxpayers. But this is not very remarkable; it only means that the tax structure is less progressive than the nominal rates would lead one to believe. What is salient about the erosion of

the personal tax base is that almost all of the large loopholes favor unearned [property] income over earned income.

Likewise with the corporate income tax. It is not surprising that the provisions mentioned above lower the average tax rate. But it is interesting to note that all of the above provisions favor firms which are capital intensive more than those which are labor intensive.

The larger tax subsidies are unequally distributed among income groups, with higher income groups receiving disproportionately higher tax subsidies. In Table 3 we present data for the overall distribution of tax subsidies, along with data for tax subsidies for tax-exempt interest on bonds and for capital gains, by income group. At the upper reaches of the income distribution (individuals earning 1 million or more), the average tax subsidy amounted to over \$720,000 in 1972.

The unequal distributional impact of personal income tax exemptions is repeated in the corporate income tax through a variety of subsidies (usually called "tax incentives") which benefit the larger corporations disproportionately. In 1971, for example, 11 of the top 45 corporations in the Fortune 500 list paid corporate income taxes of 10% or less on a "taxable income" of nearly two and three-quarter billions of dollars (JEC, 1973, p.8). The acceleration of this trend toward unequal tax subsidies among corporations has exacerbated the trend toward concentration in American industry.

Taxation, however, is only one form of subsidization. Next we will discuss the larger program subsidies—agricultural subsidies, manpower training subsidies, and housing subsidies.

TABLE 3
TAX SUBSIDIES BY INCOME GROUP, 1972

Income Group (thousands of \$)	Average Annual Tax Subsidy (\$)		
	Total	Capital Gains	Tax-Exempt Interest on Bonds
3	16	—	—
3-5	148	1	—
5-10	340	9	—
10-15	651	24	1
15-20	1,181	55	1
20-25	1,931	120	4
25-50	3,897	534	24
50-100	11,911	3,795	205
100-500	41,480	22,630	3,630
500-1,000	202,752	165,000	19,167
over 1,000	720,448	640,667	36,333

Source: Philip M. Stern, "Statement Before Joint Economic Committee," in Joint Economic Committee, *Hearings Before the Subcommittee on Priorities and Economy in Government* (Washington: Government Printing Office, 1972), pp. 80-81.

2. Federal Agricultural Subsidies

Born in the midst of desperate rural poverty during the Great Depression, agricultural programs epitomize the unequal distribution of federal government expenditures. This phenomenon has important *qualitative* and *dynamic* dimensions. The original rhetoric of our agricultural programs was highly egalitarian: to relieve the extreme conditions of poverty in rural areas and to mitigate the seasonal and cyclical fluctuations in farm income. In reality, however, farm programs have drastically altered the structure of farming in the United States. First, government policy fostered the *corporatization* of farming through technical assistance offered by the Agricultural Extension Program. Second, it fostered the *concentration* of farm ownership. Third, to accomplish this, millions of previously independent farmers were forced to leave their independent self-reliant existence and enter the labor market as wage laborers (See Wachtel 1971, p. 12). Thus, the classic pattern of capitalist development was telescoped in agriculture in the past 40 years: millions of small scale owners became decapitalized, forming the pool of wage laborers for the large scale concentrated corporate farming structure which dominates the landscape today.

The result of this policy is the highly unequal distribution of farm benefits revealed in Table 4. With Gini Coefficients ranging from .40 to .80 for program benefits, the farm program typifies the unequal distribution of federal government expenditures. Yet even these data fail to reveal a severe class bias: while farm owners are paid not to produce, displaced workers are hardly paid not to work!

3. Federal Manpower Training Subsidies

Manpower training appears to be the most permanent, if not the only survivor, or the 1960's social welfare "experimentation." From its modest beginnings in 1964 the program has grown to a 1.5 billion dollar outlay in 1971 for 1.5 million enrollees. The conventional argument views these training programs as solely redistributive in that they enhance individual economic opportunity.

Such a view is, at best, incomplete. Manpower training programs have increasingly become training subsidies for the largest corporations (See Wachtel 1971, pp. 12-16). Funds have shifted away from generalized institutional training, which maximizes benefits to the individual worker, to job-specific or on-the-job training (OJT), which maximizes benefits to the employer. On-the-job training as a percent of MDTA programs increased from 5 percent in 1964 to 20 percent in 1966, to 41 percent in 1968. The General Accounting Office, (p.i), a conservative auditor of federal programs, has reached the same conclusion:

OJT contracts had served primarily to reimburse employers for OJT which they would have conducted even without the Government's financial assistance. These contracts were awarded even though the intent of the program was to induce *new or additional training efforts* beyond those usually carried out. (emphasis in original).

TABLE 4
DISTRIBUTION OF FARM INCOME AND COMMODITY PROGRAM
BENEFITS BY FARM SIZE, MID-1960S

Source and Year	Farm Size						Gini concentration ratio*
	Lower 20%	Lower 40%	Lower 60%	Top 40%	Top 20%	Top 5%	
Farmer and Farm Manager total money income, 1963	3.2	11.7	26.4	73.6	50.5	20.8	0.468
Program benefits							
Sugar Cane, 1965	1.0	2.9	6.3	93.7	83.1	63.2	0.799
Cotton, 1964	1.8	6.6	15.1	84.9	69.2	41.2	0.653
Rice, 1963	1.0	5.5	15.1	84.9	65.3	34.6	0.632
Wheat, 1964							
Price Supports	3.4	8.3	20.7	79.3	62.3	30.5	0.566
Direct Payments	6.9	14.2	26.4	73.6	57.3	27.9	0.480
Total	3.3	8.1	20.4	79.6	62.4	30.5	0.569
Feed Grains, 1964							
Price Supports	0.5	3.2	15.3	84.7	57.3	24.4	0.588
Direct Payments	4.4	16.1	31.8	68.2	46.8	20.7	0.405
Total	1.0	4.9	17.3	82.7	56.1	23.9	0.565
Peanuts, 1964	3.8	10.9	23.7	76.3	57.2	28.5	0.522
Tobacco, 1965	3.9	13.2	26.5	73.5	52.8	24.9	0.476
Sugar Beets, 1965	5.0	14.3	27.0	73.0	50.5	24.4	0.456
Agricultural conservation program, 1964							
All eligibles	7.9	15.8	34.7	65.3	39.2	n.a.	0.343
Recipients	10.5	22.8	40.3	59.7	36.6	13.8	0.271

*The higher the Gini coefficient, the more unequal is the distribution.

n.a.; not available.

Source: Charles L. Schultze, *The Distribution of Farm Subsidies. Who Gets the Benefits?* (Washington: The Brookings Institution, 1971), p. 16.

Other programs which did not mask their direct subsidy character were also introduced. The JOBS program, for example, subsidized members of the National Alliance of Businessmen, an elite group of large corporations drawn primarily from among the more liberal members of the Fortune 500. In 1971, 169 million was allotted to this program.

In sum, the benefits of training, though normally examined through returns to the individuals trained (which generally are low or close to zero), should properly be examined by assigning benefits to the corporate subsidy recipient as well. If this were done, any supposed redistribution toward low income groups might well be completely eliminated.

4. Federal Housing Subsidies

A wide variety of federal programs influence the housing market. By examining what the federal government does—not what it says—one can isolate three major themes: 1) most government housing subsidies encourage home ownership; 2) most of what the government has done aids mortgage lenders, the construction industry, or land speculators; 3) a small amount of housing subsidies have gone to groups in the population which were temporarily insurrectionary—urban low income populations in the late 1960's—in order to quell their dissent.

a. Tax Subsidy of Housing

A major thrust of housing policy in the United States has been to encourage home ownership for middle-income families. The most important programs which encourage home ownership are tax subsidies for home ownership (described above), insurance of mortgage credit, and various federal credit institutions. Referring to the largest single housing subsidy program (tax subsidies) one baffled liberal observer writes: “with respect to any conceivable policy objective, the pattern of tax benefits seems to be capricious” (Aaron b, p.20). But the rationale for encouraging home ownership is obvious, and it is precisely the “alleged, but unsubstantiated benefits accruing to the community when households come to own their own homes...” (Aaron b, p.7). A government commission has made explicit these benefits to the “community.”

Home ownership encourages social stability and financial responsibility. It gives the homeowner a financial stake in society with a built-in inflation hedge ... It helps eliminate the “alienated tenant” psychology. (Douglas Commission, p. 401).

By making the homeowner into a mini-capitalist and property owner, the government housing policy fosters a petit-bourgeois mentality in the middle-income stratum.

Homeowner's preferences in the federal income tax flow disproportionately to upper income families since they depend upon one's marginal tax rate (i.e., one's “tax bracket”). The homeowners subsidies are worth on the average only 66 cents per year to the lowest income group but over \$6,000 to the highest income group (Stern b, p.60).

b. Mortgage Credit

The federal government, since the early 1930's, has created several credit institutions—the most important of which are FHA and FNMA—which have dramatically increased the availability of mortgage money. These programs have both encouraged homeownership by middle income persons and have proven to be an enormous boon to the mortgage banking industry. Home mortgages in 1966 amounted to 225 billion with 55 million in new mortgages

being written every year (Stone, p.27). Mortgage lending is a giant industry and has gained enormously from a government policy which results in millions of families demanding mortgages.

In the depression of the 1930's, the mortgage market collapsed and the government intervened in order to give a boost to the construction industry as well as bail to bail out the homeowner (Aaron b, p.77). Housing starts fell by 90% from 1929 to 1934 and the industry was in a crisis (Douglas Commission, p. 94). Mortgage interest rates were relatively high, repayment periods short (7 to 10 years) and down payments were high (35% or more). Periodic payments were for interest only, with the principal due at the expiration of the mortgage.

The Federal Housing Administration (FHA), created in 1935, was willing to insure mortgages with much longer repayment periods (up to 25 years by 1938), low down payments (as little as 10% by 1938, no down payment on inexpensive houses by 1965), with the principal amortized over the period of the loan (Douglas Commission, p.96). The home buyer paid an insurance premium of one-half percent of the principal per year. Contrary to any other kind of insurance, the one insured against risk (the lender) does not pay the premium.

Since 1965, only about 15 percent of all mortgages have been insured by FHA, but the impact of the federal mortgage guarantee since 1935 has been to revolutionize the mortgage market (Aaron b, p.27).

Another group of federally sponsored institutions aids the homeowner. In 1938 the Federal National Mortgage Association (FNMA) was legislated to create a secondary mortgage market. FNMA increased the liquidity of lenders by allowing them to sell off mortgages and encouraged new money to enter the mortgage market by offering its shares on the short term securities market FNMA also partially insulates the mortgage market from cyclical variations in other securities markets, thus making it an attractive investment. FNMA was so successful that in 1968 it was turned over to private investors. The Government National Mortgage Association (GNMA) was then created to take over FNMA's unprofitable activities.

c. Housing the Poor

The thrust of federal housing policy has been to subsidize home ownership among middle income groups and to structure the mortgage industry to encourage home ownership and enhance the profitability of mortgage lending, construction, and real estate development. Neither of these policies directly aid the lower income strata since a house is far too expensive for most low income families to purchase. The poor in this country are largely housed in the discarded dwellings of the slightly more affluent. Elaborate construction codes and zoning ordinances in fact assure that little housing is built for the poor by making it illegal to construct inexpensive dwellings.

Even without the construction codes, decent low cost housing would be difficult to build. Liberals and conservatives typically blame this on the rapidly rising wages of construction workers, but in fact rising labor productivity in construction reduced the labor share of housing costs between 1950 and 1966 (Stone, p.29).

High and rising housing costs in reality accrue to the land speculator and creditor. According to Stone (p.29) "During the last few decades land has been the fastest rising major element in the cost of new housing." After the house is bought, interest is the single largest component of housing expenses. Thus, one of the most important reasons why decent housing is unavailable to the poor is that the government has seen fit to maintain interest rates at high levels. For higher income families, the government subsidizes a portion of these enormous interest costs via the Federal income tax, but lower income families receive no such subsidy.

d. Public Housing

Two and one-half million people live in federally subsidized public housing, and over three-quarters of the households living in public housing have incomes of less than \$4,000 per year. (Aaron b, pp. 108, 115). In 1966, public housing tenants received a subsidy of over one-half a billion dollars as measured by the difference between rents charged public housing tenants and equivalent private housing. (Aaron b, p. 123). Benefits have risen substantially since 1966 as the number of units of public housing has increased. (Aaron a, p. 571). Federal outlays on public housing are currently just over one billion dollars per year (Aaron b, p. 113). (This figure does not include the tax subsidy to high income investors who purchase the tax exempt bonds which finance public housing.) Thus, public housing represents the only housing subsidy directed mainly at the poor. It was not conceived for this end, however, but as an anti-depression measure. After successfully serving its original purposes of stimulating construction, housing depression and war-era workers, federal public housing was very nearly ended in 1949. The Korean War gave the program new life by exacerbating housing shortages, but the Eisenhower administration was decidedly hostile to public housing. The program fared only slightly better in the Kennedy-Johnson era. It was not until the urban racial insurrections of the mid-1960's forced the government to act that public housing again found favor in Washington. In sum, federal aid to public housing was not originally a program to aid the poor, but was designed to meet other needs. As these needs vanished, the program continued, grudgingly giving a few crumbs to the poor.

Public housing is popularly seen as a major attempt to relieve the housing problems of the poor—a perception which stands in sharp contrast to the facts. Instead, we see that:

congress has never appropriated enough money to make public housing work, local public housing authorities have not even spent what little money the federal government has authorized, and those to whom our institutions have given control over public housing have no intention of redirecting the program in order to improve dramatically its contribution to the low-income housing stock in urban areas. (Gordon b, p. 361).

e. Urban Renewal

Urban renewal is normally thought of as a housing-oriented program designed to improve life for low income households. This conception could not be farther from the truth.

Urban renewal, begun in 1949, is a program which buys up urban land, clears the property, builds needed infrastructure, and then sells the land to private developers. The subsidy goes to the developer and the new user of the land. The subsidy comes from several sources. First, foreknowledge of renewal plans understandably causes property owners to reduce their maintenance and repair outlays, and thus the neighborhood begins to deteriorate physically and economically. When the urban renewal authority takes possession of property, it pays the current market value, not the value of the property at the time that the area was designated for urban renewal. Property owners as a result absorb considerable losses which become, in effect, a subsidy to the new users of the land.

A second source of subsidy arises from the fact that the property owners are forced to sell their land whether or not they wish to. Property owners are remunerated at the "fair market value", as determined ultimately by the courts. But many property owners clearly would not choose to sell if they had the choice. Since the price they would voluntarily accept for their property is higher than the amount they are forced to accept, this difference is a subsidy to the new users of the land.

A third source of subsidy arises from the fact that businesses are reimbursed only for the physical assets which they lose. A small shop may have spent a generation building a clientele within a community and its "goodwill" is by far its most important asset. Renewal may thus be catastrophic. One study has shown that over three-fifths of the 750 small businesses displaced by one urban renewal project never reopened. (Cited in Ives, p. 75). The size of the subsidy to the new owners is the difference between what the shopkeepers would voluntarily accept as payment to move and the far smaller sum which they actually do receive.

The fourth source of subsidy is the actual "write-down" which is the difference between the urban renewal authority's outlay for acquisition, clearance, and site improvement of the land and the smaller sum which the private developers pay. The federal government pays two-thirds to three-quarters of the write-down, depending on the size of the sponsoring jurisdiction. By 1971, the federal government alone had spent over ten billion dollars on the program. But most of the subsidy of the new property owners was paid by the former property owners, not the government.

The new uses of urban renewal land are typically commercial facilities, upper-middle income or upper income housing, and the cultural facilities which service these income groups. Some low and moderate income housing has been built, but this has not been the thrust of the program.

Urban renewal, in fact, has reduced the supply of low cost housing and thereby driven up rents in the remaining units. Renewal did not even remove the worst dwelling units from the housing stock! From the early fifties, urban renewal concentrated on the "gray" areas rather than on the slums *per se*. (Douglas Commission, p. 156). By displacing blacks, urban renewal also exacerbated racial divisions outside the dominant class, thereby strengthening its power.

By the late 1960's, in response to popular uprisings by the urban poor, minor reforms in the administration of the urban renewal program—such as increased community input—were instituted. The thrust of the program, however, remained the same. Categorical grants for urban renewal were ended in 1973 and are being replaced by revenue sharing for community development. LeGates and Morgan argue that this will 1) increase the flow of federal funds to small towns and suburbs at the expense of large, deteriorated central cities, 2) reduce overall spending for community development as revenue sharing funds are used to lower local taxes, 3) work to reduce progressive elements of urban renewal administration such as community participation and relocation benefits, and 4) lead to a rise in the non-residential use of urban renewal land. Thus the meager benefits that the urban poor received from urban renewal in the 1950s and 1960s will be further reduced.

f. Other Housing Subsidies of the Poor

The federal government has a number of other housing programs which generate a subsidy for the poor. The most important ones are homeownership and rental assistance, below market interest rate loans to developers of multifamily housing, and rent supplements (2). These subsidies taken together are currently about half the size of federal outlays on public housing, pale beside housing subsidies of those with higher incomes, and like manpower programs benefit capitalist institutions as much as poor recipients.

Low income groups probably do not receive the major share of the subsidy from the National Housing Act of 1968. In purchasing a house under its Section 235, the family pays a fixed amount, no matter how much the house costs, and the federal government pays the rest. This has allowed real estate speculators to buy up nearly worthless property and sell it to unsophisticated purchasers—often with hardsell tactics—at exorbitant mark ups. The new owners often do not have the resources to pay the enormous repair and maintenance expenditures on a dwelling that is unfit for habita-

tion. The new owners default, giving themselves a bad credit rating. FHA picks up the tab. It is possible for FHA to auction off the same house to the same speculator so that the process may repeat itself. A recent government study concluded that "speculator profits of 60-70 percent on houses held for less than 8 weeks are not uncommon." (Committee on Government Operations, p. 4).

The Section 236 program provides similar below-market interest rate loans on multifamily housing, and has been subject to many of the same difficulties. The program was quite profitable to developers and financiers, largely because of the special depreciation provisions which offered high income investors lucrative shelters from the federal income tax. (Solomon, p. 90).

Another program to subsidize housing for low income groups is the rent supplement program. A limited dividend corporation or cooperative constructs an apartment building and the federal government contracts to supplement that part of rent payments which exceeds 25% of the family's income. The contract expires after 40 years, and tenants are required to pay at least 30% of the fair market rent. Beneficiaries are poor; eligible families have incomes below public housing limits. When originally proposed in 1965 the program was to have 500,000 units constructed in the first four years. But by 1972, fewer than 46,000 units have been started and the subsidy in 1972 was only \$91 million.

The major federal programs which subsidize housing for low income groups are public housing and several sections of the Housing Act of 1968. As was pointed out earlier, public housing was not originally designed for the poor. It becomes clear that more recent subsidy programs, bad as they were, responded to the growing militancy of the civil rights movement and the urban unrest of the mid-1960's. At present there is no longer any need to "buy off the poor with crumbs," and therefore the Nixon Administration's 1973 budget allocated *no* new funding for any of these programs. Most of the federal subsidies of housing, however, have never gone to the poor but instead to middle and upper income groups, land owners and financiers. The recent "economy" moves, of course, do not touch these far larger subsidies to the privileged.

5. Final Thoughts

This laborious recitation of the jungle-like character of the U.S. federal government activities merely scratches the surface of a comprehensive analysis of the distributional impact of government activities in the United States (3). Nevertheless, it is precisely this kind of investigatory work which is needed to obtain a better fix on the complex role of the state in advanced monopoly capitalist countries. And as the contradictions in these countries (and throughout the capitalist world) mature we can expect even greater penetration of the state in more and more aspects of daily life setting in motion a politicization of people in the struggle surrounding the control and

benefits of state activity. These notes are simply what any set of notes should be: an initial investigation into the complex character of federal government subsidies in the United States.

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Footnotes

1. It is difficult to define tax subsidies precisely. Some argue that the notion involves comparison with some ideal, and is thus inherently value-laden and ambiguous. Others feel, for example, that on efficiency grounds capital gains should be taxed at lower rates, and is thus not really a "loophole." We follow, however, orthodox public finance theory by defining any variation in tax rates due to the *source* of income as a subsidy. Such deviations from horizontal equity are discussed in Boris Bittker, et al. See also Goode and Pechman (pp. 67-104). Pechman (pp. 107-109) and Musgrave (pp. 164-171) discuss the corporate income tax base.

2. For a complete list of housing subsidy programs, see Aaron b, Appendix A.

3. In the larger paper from which this is excerpted we also discuss the theory of the state especially in relation to its expenditure and taxation policy and in relation to social welfare policy, transfer payments, state and local government activities, and government purchasing policy.

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Dependent Capitalism and the State: The Case of Mexico

*Nora Hamilton**

The purpose of the proposed research is to explain the emergence of the existing pattern of economic development in Mexico—i.e., one of dependent capitalist development, characterized by the dominance of a coalition of foreign interests, foreign-linked domestic bourgeoisie and the state bureaucracy, which has resulted in high and relatively sustained growth rates on the one hand and increasing inequality on the other. This pattern is seen as problematic in view of the expansion of the functions of the state, particularly during the 1930's, for the purpose of implementing the goals of the Mexican revolution of 1910-1917, including the end of Mexico's direct dependence on the U.S., establishment of the basis for autonomous capitalist development, and expansion of the economic role of the state, both in production and in the distribution of benefits to Mexico's peasants and workers. The focus will be on the changing functions of the state since the revolution, and particularly since the 1930's.

I. Theoretical Framework

The analysis of the origins of the existing structure of Mexico will be based on the theory of the state in dependent capitalist societies, which in turn takes into account (1) the historical effects of the penetration of capitalist economies into areas where the productive forces are at a lower, generally pre-capitalist, level of development, and (2) the function of the state in capitalist and in underdeveloped societies.

a. Dependency and underdevelopment

The effects of the penetration of capital into pre-capitalist areas generally include some form of dependence and underdevelopment, in which the productive potential of a given area or society is eroded through loss of surplus, dequalification of labor, ruin of land, loss of mineral resources, or shifting the productive base and structure in a manner which distorts the productive process.

* Nora Hamilton may be reached at the Department of Sociology, University of Wisconsin, Madison, Wisconsin. She would be interested in criticism and comments from others who are doing research on the state in dependent societies, particularly in Latin America—especially comments regarding data on trends in Mexico and other Latin American countries which would tend to confirm or contradict the theoretical model sketched here. Although a comparison with Brazil is beyond the scope of this study, comments regarding similarities or differences between Brazil and Mexico are also of interest.

The nature of economic dependence in Latin American societies at a given stage of history is a function of the stage of development of world capitalism and the historical development of the productive forces within the dependent society. The latter in turn depends on such factors as population size, its degree of mobilization, the existence and nature of natural resources, and the mode of previous integration into the world economy (to some extent a function of the first three factors).

On this basis one may identify two fundamental types of dependent economies in Latin America today. The export enclave economy is dominated by the production of one or two commodities for export (agricultural or mineral). The enclave is foreign controlled (either through direct ownership or another mechanism such as control of markets and technology); foreign ownership of mineral rights, plantations, etc., may be accompanied by foreign ownership of utilities, transportation, communications. Capital accumulation is frustrated by profit repatriation. There is an implicit conflict between foreign interests on the one hand and the (actual or potential) native bourgeoisie and the state on the other, although a key sector of the population (e.g., the commercial and financial bourgeoisie, or perhaps to some extent the state itself) will collaborate with foreign interests. Generally the population is small or relatively unmobilized.

The second type is the dependent capitalist economy with foreign ownership concentrated in manufacturing, attracted by low wages and taking advantage of existing markets, implying a previous stage of mobilization. (An alternative possibility is that production is oriented to the export of manufactured goods to other dependent economies.) Basic sectors of the economy (minerals, transportation, utilities, and finance) may be controlled by the state and/or private national interests; the most dynamic sectors, however, are to a large extent foreign controlled. The population is sufficiently large to provide an industrial labor force and perhaps a market, although production for an internal market is often oriented to high income groups. The use of capital-intensive technology limits industrial employment to a small and perhaps decreasing proportion of the labor force and results in substantial dependence on imports of capital goods from the metropolitan country. Within the dependent capitalist economy there is a relationship of collaboration between the state and foreign interests which generally includes an important sector of the domestic industrial and commercial bourgeoisie. Accumulation is facilitated by the authoritarian state through regressive income distribution (inflation with wage control), and by foreign credits. The loss of capital through repatriation is compensated (temporarily at least) by the inflow of investments and loans, resulting in a dramatic growth of foreign debt and dependence on foreign creditors.

The economic history of Mexico during the 20th century has been the history of its transition from an enclave economy during the administration of Porfirio Diaz (1879-1910), when the basic sectors of the economy and half of the country's wealth were in foreign hands, to a dependent industrial

economy today. But the continuity of this transition was interrupted by the Mexican revolution and subsequent nationalist development during the 1930's which, paradoxically, offered at least the possibility of independent national development but at the same time established the basis for a more advanced form of dependent capitalist development.

b. The role of the state in dependent capitalist societies

1. The capitalist state

The overriding function of the capitalist state, encompassing all historical epochs, is the preservation (reproduction) of the capitalist system. Given the dynamics of this system, involving the accumulation, reinvestment, and thus continuous expansion of capital, and the contradictions between the development of the productive forces and constant expansion of production, on the one hand, and the constraints imposed on its realization by the system itself on the other, the state role in preserving the system involves the establishment of conditions for capitalist production and (increasingly) the management of contradictions arising from this process of capitalist production.

The contradictions arising from capitalist production include: (1) contradictions at the level of production and realization, due to the absolute development of the forces of production on the one hand and the restrictions on product realization (markets), due to the relations of production, on the other; (2) contradictions arising from the anarchy of capitalist competition at the national and international levels; and (3) contradictions at the political level (superstructure) due to class conflict. The nature of these contradictions, and thus the particular functions of the state in their management, vary according to the state of capitalist production and the historical stage of development of capitalist societies.

Within contemporary capitalist societies, the function of the state is to manage contradictions at the level of production and at the level of the market, including the provision of investment and production subsidies, maintaining aggregate demand and often even some form of overall economic planning.

The management of contradictions arising from competition at the national level involves the mediation of conflict within the capitalist class, both between and within sectors (e.g., the regulation of trusts). The management of contradictions arising from international competition involves the protection of home markets from foreign competition (tariffs, import quotas, etc.) and the securing of external natural resources, markets, and production inputs through colonial conquest, international aid and diplomacy, and capitalist wars.

The management of contradictions at the political level requires the management of class conflict so as to insure the necessary order and stability for capitalist production. The means include:

(1) the institutionalization of class conflict through labor legislation, arbitration of labor disputes, and the direct or indirect incorporation of class parties or organizations into the existing political framework;

(2) the weakening of class conflict through reform (full employment and welfare policies, social security, medical care, housing, etc.);

(3) various forms of socialization and social control, including the elaboration of ideology and its propagation through the educational system, media, etc.; and coercion (strike-breaking). The insurance of order and stability on a world scale occurs through diplomacy, aid, colonization, direct or indirect intervention (e.g. military and economic support of sympathetic regimes). In dependent economies, the state plays the role of insuring order and stability for foreign capitalist interests as well as the national bourgeoisie. Subimperialist powers (Brazil) may perform this function in neighboring countries in the interests of an imperialist power.

2. The capitalist state in underdeveloped societies

Given the contradictions arising from capitalist underdevelopment as a result of the historical experience of dependence, and the increased economic and technical requirements for the higher social concentration of production of 20th century capitalism (in comparison with 19th century capitalism), the state in the underdeveloped society may (initially at least) perform the historic role of the capitalist class in the accumulation of capital. Unlike in advanced capitalist societies, the class nature of the state in underdeveloped societies is problematic in that it varies among countries and may also vary within a given country over a period of time. Partly as a consequence of its role in capital accumulation and investment, the state may enjoy a certain amount of temporary autonomy vis-a-vis class interests—particularly at critical periods as immediately following independence, revolutionary, or other social upheavals, and a sharp break or change in dependency relations. In Mexico this occurred in the 1930's following the Mexican revolution, the temporary partial withdrawal of the pressures of imperialism as a consequence of the world depression, and a resurgence of political unrest in the Mexican working class due to the effects of the depression in Mexico. Given a situation of temporary state autonomy, the cumulative decisions by the state will tend to favor one of three basic groups, resulting in a specific class orientation and an indication of the direction that developments will take:

(1) workers and peasants (or rural proletariat), favoring development on a socialist model;

(2) national bourgeoisie (actual or incipient)—those not linked to foreign capital, which may lead to development on a nationalist capitalist model (e.g. Japan);

(3) foreign capital and linked national interests, resulting in continued dependence upon the metropolitan country and the model of dependent in-

dustrial economy.

A fourth possibility is the development of a powerful class of state bureaucrats based on continued state control of the means of production and at least initially working class and perhaps peasant support, though not real power. This would lead to a model of bureaucratic state capitalism, with the state continuing to perform the traditional role of the capitalist in production relations.

The role of the state in dependent capitalist societies corresponds in part to its function in capitalist societies in general, and in part to its functions in underdeveloped countries. With respect to Latin American societies, two historical models of the state in dependent industrial economies have been suggested, the second tending to supersede the first as a consequence of the shift from import substitution to the production of intermediate and capital goods, and changes on the international scene (Pompermayer and Smith).

The first is the populist state, consisting of the vertical integration of sectors of the industrial bourgeoisie, remnants of the agro-export oligarchy, professional sectors of the middle class and armed forces, and organized industrial workers who share control of the state, with the partial separation of the state from the dominant class structure. The political incorporation of popular sectors is accompanied by economic expansion of markets. The populist state emerged in various forms in several major Latin American countries as a consequence of the severe effects of the depression on dependent economies in the 1930's, and was oriented to economic independence on the basis of national industrialization and import substitution.

In contrast, the second model, that of associated development, is characterized by a horizontal class alliance of those sectors of the national bourgeoisie favored by internationalization of the domestic economy, parts of the old political elite, segments of the state bureaucracy, and the armed forces. This stage marks the end of the progressive incorporation of popular sectors into the economy, as manifested in stagnant and declining consumption rates, decreasing shares in national income, and political demobilization. Continued industrialization is oriented to a restricted market, with a concentration of income and ability to consume. The armed forces and the technical-professional bureaucracy provide the necessary stabilization for dominant economic groups unable to control the state on their own.

II. The Existing Political-Economic Structure in Mexico

Various studies (see bibliography) have described and analyzed the conditions of the coalition between foreign interests, certain sectors of the national bourgeoisie and sectors of the state bureaucracy, of growth and inequality, and of foreign penetration of the economy; a few indicators of these conditions are given below.

a. The dominant coalition

The role of the state in the economy is indicated by its share in gross investment ($\frac{1}{3}$ to $\frac{1}{2}$ of the total), its control of key sectors (petroleum, electricity, railroads), and control of financial and investment policies via such institutions as the Banco de Mexico and National Financiera (NAFIN), the major development bank. Access to the government by members of the domestic capitalist class is both formal and informal: leading members of the private sector sit on the boards of the Banco de Mexico and NAFIN, participate in various advisory committees (such as license committees which advise on granting license requests for the import of items having quotas) and advise on important economic decisions through business chambers and confederations. Recruitment of the government and party administration does not seem to draw heavily upon the dominant class, with the possible exception of the mixed-enterprise sector. However, there has been a significant flow of personnel from the public to the private sector—including four ex-presidents who have become private entrepreneurs—and numerous instances of sudden enrichment of government officials at all levels.

Government support to private enterprise is indicated by low costs of government controlled industries (electrical power, petroleum, transportation) which amount to a subsidy to private industry; import policies maintaining high tariffs of consumer items manufactured in Mexico and relatively low tariffs (sometimes tariff exemptions) for industrial imports (raw materials and capital goods); tacit support to policies whereby productivity increases accrue to profits rather than to wages; and interest rates which tend to favor large enterprises over small businesses and consumers.

The interrelationship between the state bureaucracy, foreign interests, and the national bourgeoisie is more complex. Legislation on the books stresses "Mexicanization"—i.e., control of the economy by Mexicans, translated into specific terms of Mexican ownership of at least 51% of all enterprises and larger proportions or total ownership in certain key sectors. But enforcement of these laws has been lax—yet even if the laws were rigidly enforced they are not likely to result in substantial changes in view of the mutual benefits derived from Mexicanization by domestic owners and foreign capital.

The dominant sectors of the national bourgeoisie are concentrated in a small number of wide-ranging economic groups: recent studies suggest that approximately six private banks control virtually all the deposits in the country and constitute the nucleus of these groups of financial, industrial and commercial enterprises. Some of the groups (e.g., the system of the Banks of Commerce) are linked to large foreign enterprises. Some authors have identified at least two coalitions of state-national bourgeoisie: the first, including foreign linked bourgeoisie, foreign interests, and the military-technical bureaucracy which support them; the second including that sector

of the national bourgeoisie oriented toward autonomous production and those sectors of the state bureaucracy which support them. The latter tend to favor expansion of the internal market and state intervention to insure conditions of national production; the former, which is dominant, favors development on the existing pattern with growth based on the internationalization of the economy.

The coalition oriented toward autonomous national development has its origins in the Cardenas government of the 1930's, during which the state actively intervened in the economy in an effort to end foreign domination of the economy and to implement the social goals of the revolution. It was during this period that the most massive land redistribution program took place since the revolution, which effectively broke the power of the land-owning oligarchy; government arbitration of labor disputes shifted to favor labor and the constitutional rights of labor to organize and strike were ratified. The Cardenas government was responsible for the first major expropriations of foreign-owned property with the nationalization of U.S. and British oil interests in 1938. Cardenas also restructured the revolutionary party, which monopolized control of the government, to include organizations of major sectors of the population—the largest and initially most important of these being the Confederation of Mexican Workers (CTM) and the National Peasant Confederation (CNC), the former including several major labor federations, the latter organizing beneficiaries of the agrarian reform. The stated objective of this structure was to insure that all sectors within the population, and particularly the peasants and workers, would be able to exercise some control over decision-making within the party and government.

Cardenas envisioned socialism, with workers controlling the means of production, as Mexico's ultimate goal, but considered it an unrealistic one for the immediate future. He therefore encouraged economic development generated by a national capitalistic class with the state nonetheless maintaining control over key sectors of the economy which would enable it to control and direct national investment. At the same time, Cardenas recognized the class conflict inherent in capitalism and conceived the role of the state as mediating this class conflict on the side of the workers.

Over the past thirty years, the state machinery established during the 1930's with the ostensible purpose of carrying out the goals of the Mexican revolution has become oriented to economic growth based on the internationalization of the economy, which benefits foreign capitalists and the foreign-linked domestic bourgeoisie with little if any distribution of these benefits to poorer sectors of the population, specifically peasants and workers. The problem is to understand the process by which this transition occurred. It will also be important to determine the extent to which the existing pattern of relationships among foreign capitalists, domestic bourgeoisie and sectors of the state bureaucracy is the result of historical conditions in Mexico, particularly the revolution, and the extent to which it is a variation of a pattern emerging in other dependent capitalist countries such

as Brazil. Another way of putting this question is to ask what has been the function of the Mexican revolution (and efforts to implement its goals) in creating the necessary conditions for Mexico's present pattern of economic development?

b. Growth and inequality

Between 1940 and 1970, GDP (Gross Domestic Product) has grown at an annual rate of 6.5%—one of the highest sustained growth rates in the world. At the same time, studies of income distribution indicate that relative inequality has increased, with 50% of the population receiving 19% of the income in 1950 and 15.5% in 1963, whereas the top decile continues to receive 50% of the income. Indicators of production, wealth and income also demonstrate sharp urban-rural differences and regional imbalances. Concentration of ownership, wealth and production also characterized different sectors of the economy.

c. Economic dependence

Foreign investment is concentrated in manufacturing, particularly the automotive industry (80% controlled by foreign capital), machine industries (60%) and electrical products (60%)—i.e., the most dynamic sectors. Of the 100 largest firms in Mexico, 56 were foreign controlled or had strong foreign participation (1962).

While direct foreign investments have been increasing, their significance has been declining in relation to foreign loans. In 1946—52 foreign direct investments represented 72.7% of total foreign financing; in 1963-67 they represented 19.6% (1).

III. Problems and Hypotheses

The pattern of state involvement in economic development fostered by the Cardenas government—favoring both the national bourgeoisie on the one hand and the workers and the peasants on the other—has been identified as a variation of the populist state. In view of the inevitability of class conflict between the bourgeoisie and the proletariat, the populist state is obviously a transitional form; ultimately the state must confront the conflict between its two basic support sectors, involving a choice between the two and a transition to some other form.

The problem is thus to explain how this particular transition—from the populist state to state-supported dependent capitalism—occurred. The question may be divided into three parts:

(1) What continuity exists between the Mexican state in the pre-revolutionary enclave era and today?

(2) To what extent were conditions established or maintained during the 1930's, especially during the Cardenas administration, conducive to the

emergence of the dependent capitalist state?

(3) What changes occurred between 1940 and 1958 (by which time state autonomy had ended and foreign investment had begun to accelerate) which made this transition inevitable?

The following is a summary of hypotheses or propositions which provide a tentative explanation of the state transition, and which will be investigated further in the course of the research:

(1) There were several important elements of continuity between the Diaz era and the post-Cardenas era, among them the continued existence of a domestic bourgeoisie with links to foreign capital. While their economic base was undermined by the revolution and subsequent state intervention, their continued links with foreign capital enabled them to re-establish themselves in new enterprises. It is doubtful, however, that the continued existence of this class constitutes either a necessary or sufficient condition for dependent capitalist development—first, because international capital is in a position to attract new sectors of the domestic bourgeoisie, and second because their position relative to the state was initially relatively weak. A second element of continuity was the continued existence of a landowning class which, while it lost power at the national level, was able to retain power locally (in relation to ejiditarios and small landowners) through its control of credit, technology and marketing, and its consequent ability to manipulate state institutions at this level.

(2) International and internal conditions (mentioned above) enabled the Cardenas administration to base its support on the peasants and working class and to operate more or less autonomously with respect to national bourgeois and foreign interests. Cardenas utilized this opportunity to enlarge the state role in the economy, broaden the economic and political participation of labor and of the peasantry, and establish conditions for economic development, including the extension of the market (through income distribution) and the institutional basis for economic stability and state legitimacy. While the populist state was transitional, there were at least several tentative directions this transition could take, among them socialism, bureaucratic state capitalism, and state supported national capitalism.

(3) By 1958, however, the Mexican bourgeoisie had become sufficiently strong to dictate terms to the new president (Lopez Mateos, 1958-64), indicating that the ability of the state to operate autonomously had ended by that time if not before, and that the options of state capitalism as well as socialism had been eliminated. But development on a national capitalist model is not a viable alternative for underdeveloped countries in view of the internationalization of capital and the traditional profit motive of the bourgeoisie, leading them to join more profitable foreign capital. In view of the relative weakness of national capital in the underdeveloped countries, particularly since control of technology remains in the hands of the capitalist class of advanced capitalist countries, this association results in dependent

capitalist development, with the characteristics described above.

(4) Foreign capital, particularly in manufacturing, was again attracted to Mexico during the 1950's, partly by the size of the market, and by the availability of cheap labor. Tariff barriers to protect new Mexican industries also precluded reaching these markets through exports. Manufacturing subsidiaries would also provide a market for capital goods imported from the home company. Mexico's proximity to the U.S. and the existence of financial links to the Mexican bourgeoisie and trade contacts (the infra-structure of dependency) were undoubtedly factors, although it is probable that such an infrastructure could be established or re-established over a somewhat longer period of time.

(5) The acceptance (and indeed encouragement) of foreign capital by the Mexican state indicated a shift in the class base and orientation of the state, from workers and peasants in temporary coalition with the national bourgeoisie to those sectors of the bourgeoisie in a position to benefit from foreign capital. The rapidity with which this transition took place indeed raises questions regarding the strength of the class base during the Cardenas administration and strongly suggests that the state retained its autonomy and its ability to shift its class allegiance and orientation beyond this period. This in turn suggests that in the collaboration of the state with peasants and workers, the state was in the stronger position and that the institutions structuring this collaboration (labor legislation, the incorporation of peasant and labor confederations in the government party and the ejidal bank) could as easily be utilized as instruments for the control of workers and peasants, as indeed they were. For example, the landowning class, which continued to exert power at the local level, was able to utilize local government and state institutions—poorly subsidized from higher levels—as a means of controlling the peasantry. The CTM became an instrument for controlling the workers and was in turn under the domination of the governing party. Without their tenuous alliance with the working class, the nationalist sectors of the bourgeoisie were in a weak position in relation to those sectors of the bourgeoisie and the state bureaucracy attracted by foreign capital and technology.

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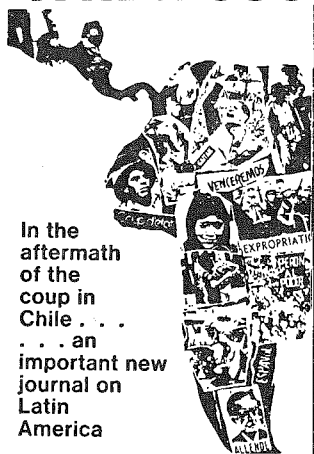
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Economic Policy and State Power: A Case Study of Chile under Allende

Barbara Stallings, Richard Feinberg

Much of the left regards the military coup in Chile as definitive proof that major structural changes, improving the conditions of the working class and moving toward a socialist mode of production, cannot be accomplished by using the bourgeois state apparatus. Those holding this view, however, have not made a detailed analysis of the use of the instruments of the Chilean bourgeois state to see specifically when and why they failed. Thus the question is left open as to the relationship between these tools and state power. Our hypothesis is that these tools can be used by a leftist group that wins control of the executive branch in order to make important structural changes in the short run. These changes, in turn, may create conditions favorable to the seizure of state power by the left. In the long run, however, unless complete control of state power is achieved, the initial gains cannot even be maintained. This paper attempts to demonstrate this proposition (1).

The Unidad Popular (UP), a coalition of six Marxist and social democratic parties, won control over part of the executive branch, the presidency, in September 1970. They had three major short-term goals.

First, they sought to improve the economic conditions of the working class by redistributing income, expanding employment, and increasing and restructuring production so as to produce more wage goods. Secondly, they intended to increase state participation in the economy. Finally, they wanted to increase the political support for the regime. But, in addition to, and in combination with, these short-term aims, the UP also wished to begin to move Chile from a capitalist to a socialist mode of production, which they saw as a long term process. It was obvious that the power the UP had in 1970 was not adequate to fully achieve all of these goals. They had control only over part of the executive branch (they did not control the contraloria and had only formal control of the military and the police) and, as measured by election results, the backing of 36 percent of the population (2).

On the other hand, control over most of the executive branch automatically gave the regime control of a number of economic tools which could

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help them in achieving their goals. These included the ability of the government to manipulate monetary and fiscal policy, to initiate wage-price controls and exert some control over exports and imports. Over and above these, the regime also confronted specific economic conditions which could be used to further its economic policies. These included idle capacities, both physical and human, stocks and foreign exchange reserves. It was (or should have been) clear that these advantages were of limited utility since it was in the nature of many of them that they would either disappear or lose their usefulness. This was certainly the case with the excess capacity, stocks, and reserves. Increasing the money supply was also a short-term policy because it was bound to increase inflation to the point of its becoming counterproductive.

Thus the Allende regime was caught in a fundamental contradiction. On the one hand it had goals for which its power resources were inadequate. On the other hand it was unwilling to augment its power by any but constitutional means, a slow process at best. In this context it began to pursue its goals through an expansion of the economy, making use of the tools at its disposal, and made major strides during the first-year-and-a-half. But, as noted above, this expansion was grounded in the use of tools which would soon exhaust their usefulness. At the same time the regime had no strategy for seizing state power, principally because of serious conflicts within the coalition, especially between the Socialists and Communists, about timing and methods of gaining state power. The result was that when their expansionary strategy stalemated, they had no other power resources and no strategy for attaining more. The position of the regime was, then, especially precarious because the right had a very clear strategy for regaining that portion of state power which it had lost.

This paper analyzes the initial success and later failures of the expansion policy, focusing on monetary policy, a traditional instrument of the bourgeois state for influencing the economy. The emphasis is on monetary policy because it was the most useful of the instruments mentioned above. The bourgeoisie had no means with which to halt or directly counteract it, whereas they succeeded in frustrating many other UP initiatives. Control over the money supply gave the UP power to act without entering into immediate and direct confrontation with the entrenched opposition.

It must be pointed out that monetary policy in Chile essentially meant use of the printing press. Because the capital market in Chile had traditionally been small, opportunities for financing budgetary deficits or monetary expansions through open market operations, through the issuance of government debt, did not exist. Furthermore, the opposition-controlled congress prevented any kind of effective fiscal policy, like tax increases or a progressive tax reform. Under these circumstances, fiscal and monetary policies were closely bound to the printing press. Thus, the usual demarcations between fiscal and monetary policy that apply in advanced capitalist nations are misleading in the Chilean case.

Monetary policy, in combination with fiscal measures, is regularly used by capitalist states to counteract business cycles as well as to "legitimate" the system by meeting certain demands of important pressure groups. However, the financial resources derived from controlling the printing press may be consciously applied to further socialist goals. For example, fiat money can be used to increase state control over real resources in a drive to wrest economic power from the private sector. Increased state consumption immediately serves this end. Fiat money can also be used by the state to acquire control of means of production, either by purchasing already existing capital assets from their owners or by undertaking direct state investment. At the same time, the state can influence production in the private sector through selective disbursement of credit. Planned public consumption and credit rationing, when combined with an income redistribution program, can both increase and restructure production. For example, more emphasis can be put on the production of wage goods. Likewise, more resources can be directed into social as opposed to private consumption.

Control over monetary policy gives the state various direct and indirect instruments with which to affect income distribution. Fiat money can cover the increases in wages granted government employees and can finance augmented social security benefits. Moreover, wage increases in the private sector, won either through government decree or workers' struggle, require "validation" through the printing press. Should the government decide to hold the money supply constant in the face of rising wages and prices, serious disequilibria develop, and wage increases become impossible. Capitalist policy makers are well aware that heavy inflation, easily produced by an increase in the money supply, can alter the distribution of income and wealth. Keynes argued for gentle inflation as a method of surreptitiously lowering real wages. But there is no inherent reason why inflation should cause wages to fall relative to profits. This depends on the class in power. Likewise, those assets held by the workers, such as savings accounts, can be made to retain their value over assets more commonly held by the bourgeoisie, such as corporate securities.

We will not illustrate the advantages and limitations of these mechanisms in the Chilean case. Prior to the UP victory in 1970, the state had attained a powerful role in the economy. One of its instruments was use of the monetary system. Central banking was established in Chile in the 1920's, the immediate product of the Kemmerer Mission, a U.S.-based financial advisory group that literally toured the world establishing mini-federal reserve systems. Their objectives were to guarantee repayment of international loans by integrating Third World countries into the international monetary system. This would facilitate the creation and maintenance of their dependent status.

Through deficit spending, as well as tax increases and foreign loans, the Chilean state began to control ever larger percentages of the GDP (Gross Domestic Product) and to account for an ever larger share of total investment. By 1970, the fiscal budget was approaching 20 percent of GDP, which combined with the autonomous agencies and government-owned industries, placed nearly 50 percent of the national product under state control (3). By 1969, public investment accounted for 11.4 percent of GDP. Investments financed by the public sector, including capital transfers to the private sector, amounted to 61 percent of total gross investment in fixed capital in 1965 and 75 percent in 1969 (4). These capital transfers, tendered at effectively negative rates of interest, were subsidies obtained by an ailing private sector. They reveal the close links that existed between the private and public sectors, as well as the subservience of the state to monopoly capital. Such subsidies, primarily to the big capitalists, increased despite their evident contribution to Chile's chronic inflation.

Even before Allende, the Chilean state was, with the exception of Cuba, probably the strongest state in Latin America in terms of its economic role. In addition to its investment role, the state set minimum wage scales, participated directly in the wage-bargaining process, fixed prices on many basic items and intervened in foreign trade. Moreover, the state played a central part in the import substitution industrialization process begun in the late 30's. Thus, the state gained direct ownership of such basic industries as oil, electricity, telecommunications, and joint ownership of others including steel, copper, chemicals, etc. (5).

On the other hand, the Chilean state was also more bound into the bourgeois form of checks-and-balances than any other Latin American country. There was a strong congress with total power over taxation among other crucial areas, an independent judiciary, and an additional check called the *contraloria*, an institution with power to rule on the legality of any executive or legislative action. The Chilean president had only limited power of appointment over the judiciary and the *contralor*. Congressional elections were timed so as never to coincide with presidential elections. Thus a newly elected president might have to deal with an old congress for up to two-and-a-half years, as did Allende.

The effect of this type of strong but segmented state structure is that when one class or class fraction controls all parts of the apparatus, it has a very powerful instrument. When this power is divided, however, a stalemate may result. The Allende government was precisely one of divided control of the state apparatus. The working-class dominated UP coalition won control over part of the executive branch. But the bourgeoisie maintained its control of the congress, judiciary and the *contraloria*. In addition, the bourgeoisie was dominant in other areas of the superstructure, especially the communications media and education.

An initial expansion of wages and public spending, i.e., an expansion of effective demand, was deemed necessary by the UP to shock the economy

out of its four-year recession which had been exacerbated by the post-election decline. These Keynesian measures coincided with the basic UP strategy. Public investment in education rose 46 percent in real terms between 1970 and 1972, 86 percent in health, and 65 percent in housing. Fiscal expenditures for social security and family allowances increased by 80 percent. Each program was oriented toward redistributing benefits to the workers. The poorest neighborhoods saw marked improvement in health care as local clinics were installed. Popular housing projects were erected in all parts of the country. In two years total current fiscal expenditures rose nearly 60 percent in real terms while revenues actually declined by 12 percent (see Table 1). In the absence of a market for government securities, only the printing press could fill the gap.

Wage payments in the fiscal sector also increased, growing 43 percent in the two years. Minimum wage levels were raised for both blue collar (77 percent) and white collar workers (44 percent). Wage increases in the private sector tended to outstrip productivity gains as the workers felt free to demand increases even beyond the officially sanctioned level. Between 1970 and 1972, the percentage of national income going to wages and salaries rose from 55 to 66 percent. In addition, there was a strong decrease in the concentration of income; the gini coefficient fell from .52 to .42. With this rising consumption power of the workers, the money supply had to expand.

The increasing demand arising from the redistribution of income, along with the increased budget deficit, caused production to rise to record levels. GDP increased 8.3 percent in 1971 while industry grew at 12.9 and agriculture at 5.1 percent. These figures compare with 3.8, 3.6, and 3.1 percent averages respectively for the preceding five years. In addition to significant quantitative gains, qualitative differences were also important. For at least a decade, the production of durables had been growing two to four times as fast as the basic consumer goods sector. The UP, however, managed to reverse this trend. Basic consumer goods grew by 16.2 percent between 1970 and 1971, while consumer durables increased by only 6.7 percent. The production of intermediate goods grew 14.4 percent. Thus a start was made at redirecting the productive structure in order to concentrate on satisfying the needs of the working class rather than the more privileged sectors of the population.

Use of the Keynesian expansionary strategy based on deficit spending and wage increases was not new in Chile. It had long proved useful as a short-run tool, but was always followed by a cutback as a foreign exchange bottleneck developed. The economy was very dependent on foreign exchange, not only for luxury imports, but also for most capital goods as well as for intermediary inputs and, increasingly, for food. The dependence of the industrial sector on imports meant that, in the absence of foreign exchange, industry could not grow and even had to operate below capacity.

Historically, this constraint produced cycles, in which periods of foreign exchange availability would allow for high industrial output and increased consumption, only to falter as reserves diminished. Then the government would have to put the brakes on the economy and usually appeal for foreign credits.

The UP was lucky to come to power when high copper prices had allowed some 380 million dollars in foreign reserves to accumulate. The UP did not hesitate to use these reserves to support their policy of economic expansion and income distribution, and imports of intermediate goods and food picked up. However, in the presence of falling copper prices and an external credit blockade, the decline in reserves was unavoidable. An expansionary strategy based on reserve utilization necessarily faced a short time horizon.

As reserves shrank, the UP sought to ration foreign money, by administrative as well as by price mechanisms, and a multi-tier exchange system was set up: food imports received preferential treatment, spare parts and capital goods were assigned intermediate rates, while luxury items faced discriminatory exchange rates. Despite these maneuvers, the shortage of foreign exchange became a biting constraint on the economy. Since foreign reserves constitute part of the money supply, the outflow of dollars threatened to reduce the monetary base and undermine the UP's expansionary policies. The government boldly offset this fall in reserves by increasing domestic credit.

During the first year, the UP ended the existing practice of periodic devaluations and held the exchange rate fixed. This aimed at removing the inflationary effects of devaluation and was nationalistic in its motivation. Such a policy of fixed rates in the presence of domestic inflation might be expected to reduce exports, but the physical volume of exports actually increased in 1971. Again the policy proved viable in the short run. By 1972, however, the overvaluation of the escudo was so great as to contribute to the decline in exports in numerous sectors. It was more profitable to sell in the buoyant and higher priced domestic market. Finally, the UP was forced to devalue, but did so insufficiently and with hesitation. Considerable uncertainty as to future exchange rates was a disincentive to exporters.

Public financial subsidies in industry became a central factor in the Chilean economy. Here, as elsewhere, Allende took a traditional tool, reversed its orientation, and pressed it to its limit. The UP permitted credits to the private sector to stagnate, as private investment slumped, while credits to the state sector skyrocketed. Credits to the combined categories of fiscal, public institutions and the nationalized industries rose from 8441 million escudos in 1970 to 22861 million by December 1972 and reached 29949 million by June 1973 (all in 1967 escudos). Some of these credits to socialized firms were necessary to offset prices which were set below the

costs of production in order to benefit workers' consumption. Their size and who would get them was determined in conjunction with the government's investment targets and its policy of concentrating new capital stock in the state sector.

While the state was using its leverage over the money supply to seize control over current consumption and investment, in benefit of the workers and a national planning system, the printing press also served to gain control over existing means of production. Since the UP rejected seizure of power by non-constitutional means and as it did not control congress, it was forced to work within the existing legislative parameters. Therefore the Allende government offered monetary compensation to select dispossessed capitalists. In the agrarian reform, landowners were granted immediate payments of ten percent of their land's value with the remainder to be paid in long-term indexed bonds. Massive stock purchases enabled the state to gain control over nearly all of the private banks, as well as over numerous subsidiaries of multinationals; sometimes stocks were purchased on the exchange floor, sometimes after direct negotiations with the owners. (In many other cases, however, the state simply took control over factories through existing legislation which permitted it to "requisition" or "intervene in" factories where production declines threatened necessary consumption or where labor disputes paralyzed production.) Control of Chile Films, combined with acquisition of the major publishing house, Zig-Zag, and of an R.C.A. subsidiary, provided the material foundations for an upsurge in popular revolutionary culture.

For costless money, the state—now in the hands of progressive forces—was acquiring real resources (see Table 1). Each current fiscal expenditure, as well as each nationalization, had a specific goal; yet taken together, they were providing the state with control of an expanding share of national income. This control would be essential in the struggle of the socialist forces to gradually overcome the forces of private accumulation.

The Unidad Popular had hoped that these actions, aimed at increasing state social services, improving income distribution, and reducing unemployment, would gain the popular support needed for the continuation and acceleration of the transition process. Indeed, electoral support rose rapidly, from the 36 percent won in the presidential contest to 51 percent just six months later, in the April 1971 municipal elections. But this was insufficient. A necessary step in carrying out a "legal revolution" would have been a majority in congress. For reasons beyond the scope of this essay, control of the congress was never achieved.

The initial advances gained with the aid of the printing press owed much to relative price stability. In spite of an increase of 116 percent in the money supply, prices rose by only 22 percent in 1971, less than in any year since 1966 (see Table 2). This stability was due partly to lags resulting from the slow adjustment of the public to the newly acquired money

balances. Also supply increased as idle capacity was mobilized and stocks depleted, in response to the created demand. These forces were combined with the executive's determination to make official price controls stick. However, the continued massive injections of money throughout 1972 (another 165 percent) made inflationary pressure unbearable, and the lags began to work themselves out (7). Finally, in July of 1972, the government felt compelled to take the lid off selective items, and the official price index began rising at some 15 percent per month. Price rises began eating up the new money emissions, and the government's control over relative prices and over wages and profits, interest rates, and consumer goods, diminished. The usefulness of monetary expansion as a policy tool was drawing to an end.

Before examining the generally negative political repercussions of the released inflation, it is worth explaining that, especially in the earlier period, but even in the second half of the UP experience, the increase in the money supply and the eventual inflation did not have nearly as adverse effects on overall economic activity as even sympathetic observers have imagined.

Inflation is generally considered to have a negative effect on financial savings, and if unchecked, may degenerate into exponentially rising prices and a resulting decline in real output. Moreover, the instability of relative prices may distort investment allocation, as well as radically alter income distribution and consumption expenditures. An examination of the figures, however, reveal that these potential negative side effects of increasing the money supply were, in fact, largely attenuated in the Chilean case. Chileans, accustomed to inflation, had geared their economy for it; and the UP government intervened to further reduce the potentially adverse effects of its easy money policy.

The fear that expectations of continued inflation would produce a run on the banks proved unwarranted. Private financial savings, as indexed to the official price level, actually rose throughout 1971 (see Table 3) (8). The spurt of the consumer price index (CPI) in the second half of 1972, combined with falling real income, account for the relative fall in the savings-CPI ratio. Notably, however, this ratio was rising again at the time of the first coup attempt, in June, 1973. The rise of these ratios was partially due to the government's attempt to hold down the price level. An alternative measure, the ratio of private financial savings to the money supply narrowly defined, is less favorable. However, lags in savings propensities and in portfolio adjustments help explain why the money supply temporarily ran ahead of savings. In any event, this ratio's fall was limited and acute financial disintermediation was not occurring. Financial savings continued because many savings instruments, such as passbook accounts in the Banco del Estado (the State Bank) traditionally were readjusted to the official price index. Moreover, keeping the price level down caused demand

to exceed supply, and people were simply forced to save, though much of this savings was channelled into black market dollars.

Nor was Chile heading toward a disastrous hyperinflation. Velocity, as indicated by the ratio of nominal GNP to money (see Table 3), actually fell in the first year. Later, when people's desire to be rid of the debased currency increased, the UP policy of price control prevented consumers from freely bidding up the price level. Extreme inflation was stymied. The instability of relative prices might have produced inefficient investment patterns. However, the private sector was hardly investing and the public sector could plan its investments without regard to current market prices. Moreover, in a dependent economy, investment is as much a function of foreign credit as of domestic market conditions.

By late 1972, many changes began to occur. The highly favorable conjuncture of 1971, created by the expansionary policy, passed without the UP's being able to take advantage of it to complete its control of the state. This failure left it forever on the defensive. The rate of inflation increased and the government could no longer control it. This resulted in a deterioration of the UP's position with respect to income distribution and production. It also altered the quality of state participation in the economy and the political support for the regime. As the class struggle increased in intensity, the manipulation of the monetary system not only became less effective as an instrument of state policy, it also began to produce side effects which contradicted the UP's goals.

As explained above, inflation, the main negative effect of the UP use of the monetary system, began to take off in July of 1972 when the government tried a New Economic Policy. The idea was that since Chile was still operating within a capitalist mode of production, it was necessary to get relative prices back into adjustment so as to stimulate production in the private sector as well as to increase government revenues. The latter was a problem because prices in the state-controlled factories had increased less than in the private sector. Whether or not one thinks the new price policy was a good idea, it was very poorly executed. Increases began with basic food and clothing items, and these changes alone caused such an increase in the consumer price index that the prices of luxury items (durable consumer goods) were never raised. Thus the workers were hit hardest by the price hikes. Finally, rather than waiting for the usual January adjustment, an extraordinary cost-of-living wage increase was granted in October, but much of the buying power of the workers had already been lost by then. The next wage readjustment came in June, 1973, retroactive to April, but again fell short of the rapidly rising cost of living. This situation probably caused a drop in the workers' share of the national income, though indications are that it remained above the 1970 percentage.

The other major problem was the supply of goods. The spectacular 1971 increases slowed down considerably in 1972 and turned negative in 1973.

Industrial growth started to slow down early in 1972 and was negative after August of that year. The industrial production index for the last six months of the UP period was back down to below the 1971 figures for the corresponding months. Among the sectors hardest hit were food, clothing, and other wage goods. Inflation undoubtedly had something to do with these production drops in the sense that it heightened uncertainty. Moreover, the attempt to hold down inflation, i.e. price controls, left the private producer feeling that his profit margins were more a function of administrative fiat than of supply and demand factors. But these explanations are probably secondary. A more powerful reason for the downturn in real output is that the economy was entering the type of cyclical slump following an induced expansion that had plagued previous administrations. Further, especially in 1973, the economic difficulties were, to a large degree, caused by actions on the part of domestic and international opponents of the Allende regime. These included overt campaigns to create economic chaos by depriving Chile of needed raw materials, spare parts, and foreign exchange in general. Furthermore these actions consisted of investment boycotts by the private sector, work stoppages, buying panics created by the reactionary media, direct sabotage, etc.

Of greater import than the production drops, however, was the decrease in supply caused by hoarding and the black market. The famous *colas* (lines) in front of stores were largely due to the shift of goods from the "white" to the black market. Much of the very large amount of money circulating in the private sector was turned into speculative capital as all kinds of people—from ex-domestics to small shopkeepers to the industrial bourgeoisie—invested in all kinds of products—from cigarettes to chickens to cars—and sold them weeks or months later for many times their purchase price. This activity made both political and economic sense for the opposition. On the one hand, it produced much larger profits than any other activity and on the other, it exacerbated the economic, and therefore the political, difficulties of the government.

By 1973, it was obvious that the scarcities and the increasing inequalities in the income distribution could no longer be ameliorated by monetary methods but could only be handled by direct state intervention in the distribution process. The Minister of Economics formally proposed a rationing system in January of 1973, but the opposition made such skillful propaganda use of the proposal ("rationing equals political control through the stomach") that the government backed down. Nevertheless, a National Distribution Secretariat was set up to plan and "rationalize" distribution. The state increased its control over wholesale distribution and, by September 1973, a rationing system was ready to go into effect.

Two other goals which originally were furthered by use of the monetary system to increase government resources also passed into the realm of the ever-intensifying class struggle. With respect to increasing the Social Area,

very little was being done via stock purchase or direct sale agreements by late 1972 and 1973. Almost all of the banks were already under state control. Those factories and farms which were being taken, were seized directly by the workers or through the requisition and intervention powers, since the right had mounted a very effective campaign against sales of property to the state. Although the right tried very hard to increase its support by capitalizing on the high inflation rate and scarcities, the March 1973 congressional elections demonstrated its failure. It is political history in Chile that the president's party always loses support in the mid-term elections. In spite of very severe economic problems, however, the UP defied this trend and increased its support from 36 percent in the 1970 presidential election to 44 percent in March 1973. This phenomenon can only be explained in terms of increasing sectors of the working class, as well as other low income groups such as small farmers and urban self-employed sectors, coming to understand that the UP represented their long-run class interests in spite of all its failings. As one UP party slogan in the 1973 election went: "This government may be shit, but at least it's ours." It was increasing class consciousness, rather than material benefits, which increased the UP support.

The monetary tool which served the government well during the first year-and-a-half became relatively useless by 1973. It was obvious that it was no substitute for state power. Lenin wrote that the inflationary printing press is "that machine gun which attacked the bourgeois regime in its rear, through its monetary system." "Honor to our printing press," he said. But when the hyper-inflation of the early 1920's reached its peak, the Bolshevik party was well on its way to militarily defeating the forces of reaction and establishing state power; these are preconditions for successfully completing a transition to socialism initiated by a bold and progressive monetary policy.

FOOTNOTES

1. It might be argued that the historical situation in any particular country is unique and therefore conclusions drawn from one case cannot be applied to other cases. However, the Goulart regime in Brazil and the attempts by coalitions dominated by the working class to win the presidency in Uruguay and Venezuela suggest the relevance of the Chilean experience to other Latin American countries. Further, the Communist-Socialist coalition nearly won in France and a similar coalition may win in Italy. Again, the lessons of the Allende period might be useful to potential socialist regimes in Western Europe.

2. It is also important to note in this context, that the dominant faction of the UP was unwilling to seize power not delegated to the Coalition through constitutional processes.

3. The so-called public sector budget in Chile was composed of these three parts: 1) fiscal sector, 2) autonomous agencies, and 3) government-controlled industries.

4. The source for these figures, as well as all others in this paper, is Barbara Stallings, *Economic Development and Class Struggle in Chile, 1958-1973*, Ph.D. dissertation, Stanford University, forthcoming.

5. This description of the strong role of the state might seem to contradict the discussion of the Latin American state by Hein and Stenzel in *Kapitalstate 2*. In reality, however, two different subjects are at issue. The Hein/Stenzel essay focussed on the dependent nation-state vis-a-vis the advanced capitalist countries. The present discussion concerns the state with respect to the internal economy. Not only are the two non-contradictory but closely interrelated, though this interrelationship cannot be spelled out here.

6. A history of Chile's external sector can be found in North American Congress on Latin America (NACLA), Newsletter, *Chile: Facing the Blockade*, Jan. 1973.

7. In discussing the UP monetary policy, it is important to distinguish between those aspects that were more of a working out of intentional and voluntary UP policy, and those that were more an expression of the multiple pressures surrounding the UP government. In general, in the 1970-72 period, the UP monetary policy moved ahead in the desired directions, but at an unforeseen pace. For example, the UP was quite prepared to use its financial power to subsidize firms within the social area. But the divergence between inflating costs of production and the official prices of goods produced in the socialized firms became tremendous. Similarly, wage levels were supposed to rise, but not to the extent that they actually did. The additional wage increases were a product of pressures from within the working class, as well as from opportunistic political elements. At the same time, the UP government was unwilling to use the repressive forces of a still-bourgeois state against the workers. In the case of wages and credits, as in other cases manageable and rational policies were pushed to the point where they became counterproductive. Also, it should be mentioned that the expansionary policies planned in the immediate post-electoral period contemplated such compensatory measures as increasing workers' savings through the issuance of government bonds. Congressional opposition combined with retrenchment within the UP to kill this vital, complementary measure.

8. Another indicator of savings, the ratio of currency, demand and time deposits to nominal GNP also indicates ample financial savings through 1971, after which GNP data is unpublished.

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Momente des bürgerlichen Staates in der griechischen Polis + Zur Problematik der Wirtschaftsreformen 1963-1968 in der CSSR + Wie können Tunten Sozialisten sein + Der Einfluß der jacobinistischen und sozialdemokratischen Tradition auf das leninistische Organisationskonzept + Redaktionskollektiv Klassenanalyse - Notizen zur Klassenanalyse der BRD durch das PKA + Zur Kritik bürgerlicher Inflationstheorien + Inflation und Krise der Kapitalverwertung

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Australia, Multinational Corporations and the Pacific Rim Strategy

Bruce McFarlane & Bob Catley

At the time of the Whitlam Labor government's accession to office in December 1972, Australia had emerged from its status as European satellite and the provider of raw materials; it had a manufacturing base (largely foreign owned), an orientation to the Asia-Pacific Basin, and a growing surplus of foreign exchange. It was ripe for sub-imperialist status and the discarding of its older colonial one. The Labor Parliamentary leadership was quick to discern this change and moved steadily to mobilise its resources for taking advantage of the opportunities if offered. It intensified its demands for an end to the Vietnam War while developing something new—a Pacific Rim Strategy.

By 1970 Australia was clearly being integrated into the Pacific Basin or Pacific Rim international subsystem of the world capitalist market. "The Pacific Basin had become a major economic force, one which some economists foresee as *the* global centre of trade by the year 2,000", argued the Chairman of Standard Oil of California. Peter Wiley described (1) its structure in the following terms:

The United States and then Japan stand at the apex of the hierarchy of economic development. They draw resources from the next tier, Australia, Canada and New Zealand while selling goods in their markets. The advanced countries moreover regard the integration of the neocolonial (chiefly Asian) countries of the Pacific Rim ... as essential to the future of the international division of Labour in the Pacific. First, because (of) ... their potential as markets ... Second, the advanced countries view the raw materials of these countries as increasingly important to their economic wellbeing.

The three tiers of the Pacific Basin were: first, Japan and America, technologically advanced metropolitan economies; second, including Australia, recipients of metropolitan industrial capital, providers of minerals and foodstuffs; and third, including Southeast Asia, sources of cheap labour, industrial raw materials and energy supplies. Under the Nixon Doctrine the defence of this structure at its most vulnerable point, the third tier, would rest primarily on the armed forces of the comprador regimes trained, supplied and supported by metropolitan forces.

In 1970 the influential Australian Institute of Political Science held its annual summer conference on *Big Business in Australia*. In a key address (2) the Australian Paris-based correspondent for the *Wall Street Journal*, Neil McInnes, argued that Australia was boxed into the world that the multinational corporations were creating. He suggested that if, as was the

case, Australia found this uncomfortable, it should, set about creating multinational corporations of its own to act in concert with the existing giants, especially in capitalist Asia. Foreign firms could introduce new-technology industries to Australia; Australian firms could establish old-technology industrial subsidiaries in Asia. He pointed out, "The role of active junior player in a foreign captained team suits Australia in politics, and there is no reason why it shouldn't suit them in international business." Within months, E.G. Whitlam, who was reportedly very impressed by Neil McInnes' paper, addressed the American Australian Association in New York. He said (3):

Investment in Australia can be effective indeed ... if that investment is primarily directed not merely to catering for the extension of the American market represented by twelve and a half million affluent Australians but as the stepping off point, the launching pad, for the development of the hundreds of millions of people who form markets that are around Australia ... I think there are advantages for American investors to have Australia as a factory in the 18th century sense of an offshore factory for South East Asia.

He had already been arguing (4) that Australian investment in Southeast Asia should be increased and in fact the 1960s had witnessed such a development. While still small by international standards the level of Australian external investment had risen from \$A 6 million in 1961 to \$A 57 million in 1968, although it is difficult to distinguish "Australian" from Australian-based capital. The Liberal government was already encouraging such tendencies. In addition, on his return from America, Whitlam implied that the defence perimeter against communism should be redrawn in Indonesia, Malaysia and Singapore, rather than Vietnam, by increased military aid and the provision of military advisors. During his barnstorming Asian tour in February 1974, the Labor Prime Minister became an enthusiast for the ASEAN alliance. Trade Minister Dr. Cairns, following a visit to the U.S., argued that the interests of American capitalism had not been served by the intervention in Vietnam, as American business had come to recognise. A socialist society with an expanding economy provided a more reliable trading partner than a stagnant, parasitic Asian despotism which was costly to maintain. Further, while the need to withdraw from Vietnam was increasingly emphasized by Labor, it was accompanied by a growing demand for a special relationship with the Indonesian military government (5).

During the two years which elapsed between Whitlam's public pronouncement of his "springboard" strategy for Asia, and the election of a Labor government, a number of new developments in the Pacific Rim opened up further opportunities for Australian penetration of the area. First, the decline of American imperialism became increasingly evident. Washington was forced to accept an eventual withdrawal from Vietnam, Cambodia and Laos and the re-drawing of a defence perimeter based on the ASEAN states. Similarly it was forced into a detente with China and new hopes of a large reliable market were awakened. A more competitive

and aggressive economic posture by Japan destabilized the Pacific Rim hierarchy. There was an acceleration of industrial development in Southeast Asia based on the subsidiaries of the multinational corporations. In some cases, the most ambitious of such plans were Australian-based, precisely along the lines advocated by Whitlam and McInnes. In 1970 the Ford Corporation established Ford Asia-Pacific Inc., headquarters Melbourne, to develop,

a complete new multinational auto industry based on a system of regional free trade in motor vehicles and components ... Each country would undertake production of a different set of components at high volume for supply to the whole region. Each country would also undertake vehicle assembly from components made within the region and each government would permit imports equivalent in foreign exchange value to its exports of parts and vehicles. There are eighty Australians in management positions throughout the region and sixteen Americans (6).

In 1973 the President of Ford International declared, "We talk about complementation and we always talk about Australia as the lead dog—the lead cow—of the whole operation. The Philippines is part of it with its stamping ground (but) Australia is the ideal manufacturing base for our entire Asia-Pacific operations" (7). Other multinationals, General Motors, Dunlop, I.T.T., Coca-Cola, etc., were adopting similar strategies. Third, as was previously noted, the great boom in the price of raw materials and energy supplies led to a growing inflow of capital into Australia and a dramatic rise in the balance of payments surplus to more than 4 billion Australian dollars. In addition, the boom heightened the importance of Southeast Asian commodity production and accelerated the drive to discover more energy sources in the area. The outflow of Australian capital to Southeast Asia also accelerated, especially investment in Indonesia, where it has approached \$A 200 million, while in its 1973 budget, the Whitlam government doubled its civil economic aid to Indonesia.

The previous Conservative coalition government had not been totally unaware of these developments, and some efforts had been made to adopt policies to suit them. Contacts were opened with China; new restrictions were placed on capital inflow into speculative areas; an earlier version of Australian Industries Development Corporation was established by McEwen in 1970 "with the object of raising loans abroad to finance participation in large-scale development projects including equity involvement and to provide finance for a wide range of industries" (8). Significant study groups had been established to examine the need for a new Australian Pacific Rim strategy (9); open admission was made that Australia faced no military threat; greater encouragement was given to Australian investment in Asia; and a new urgency was given to the consolidation of Australia's political and economic relations with the ASEAN states. But the coalition of government's twenty-three year legacy of unbridled capitalism, the 1971 economic mismanagement, a brief, if mild recession in 1971-2, its discredited legacy of stark reaction in Asia, and the decline of social services, finally proved sufficient to win Labor the December 1972 election.

The speed with which Labor began to implement its plans occasioned some surprise and evinced concern on the stock markets. Labor's domestic objectives included the resotation of social peace, a harmonisation of class relations, a concomitant improvement in social services and the consolidation of the industrial base of the Australian economy. Many of its efforts to implement indicative planning and anti-inflationary measures have so far foundered on the resistance of both the working class (to an income policy) and the bourgeoisie (to a reduction of privilege in areas of health and education services, and higher business taxation). In any case, the commitment of the Labour Party to thoroughgoing improvements in the condition of the working class relative to that of capital, has been severely diluted in the last decade by the impact of a "technocratic Laborist" leadership headed by Whitlam (10). But it is the Social Democrats' strategy for Australia's new role in the international arena which most concerns us here.

Shortly after assuming office Whitlam announced that "foreign policy must now be fully integrated with domestic policy". He added that "the tactics of containment, forward defence and ideological confrontation are not only no longer relevant but counter-productive". External relations, like exchange rates, tariffs, manpower and industrial policies, were to be integrated into an overall strategy for the consolidation and expansion of Australian capitalism. We may conveniently examine this strategy with reference to five major themes: handling the multinationals; resources diplomacy; penetrating the Pacific Basin; relations with the socialist bloc; and defending the Pacific Rim.

Despite the frequent criticisms of the multinational corporations made by both ministers and unions, there has been no across-the-board curtailment of foreign investment as explained in the previous section. Moreover, in his 1973 address to the American Australian Association in New York, Whitlam adopted a different posture to 1970:

It should be quite clear that this does not mean we have no further wish to see foreign capital flow into Australia. But in the future we will cast a more critical eye over individual investment proposals. We intend to make sure that future capital inflow is associated with *productive* investment which will add to Australia's real resources and that foreign capital is employed in real *partnership* with Australian owned capital.

In this conception we have foreign capital for productive tasks (in alliance with local capital boosted by savings), and a new resource diplomacy using Australia as a regional centre. It is the 1970 junior partner scheme in a new dress. In late 1973 a consortium of American and Japanese interests were prevented from building a petro-chemical complex in South Australia until 51 percent Australian capital was admitted. The Whitlam government had made its point; it, rather than compliant state governments and private interests, would determine investment policy.

The field of resource diplomacy is more complex. Briefly the Labor government shows little sign of either participating in Organisation-of-

Petroleum-Exporting-Countries type arrangements with Third World countries to improve their position vis-a-vis the metropolises and the multinationals, nor, except in special cases (like uranium) of reducing output of commodities. It involves, rather, establishing stricter government control over leases to ensure better prices and royalties; greater Australian participation in mining industries; the establishment of government-led sellers' cartels to face the multinationals; protection of Australia's future industrial needs; and a reduction of government subsidies for oil and mineral search operations. Supplies will be continued on more favourable terms and at the expense of private Australian mining interests and over-enthusiastic State governments. Such a policy, as we have seen, had also been favoured by sections of the Liberal coalition government, especially Garton and McEwen. The commodities boom plus a different electoral base gave Labor the opportunity to implement it.

On 30 September 1973 Dr. Cairns, then Minister for Secondary Industry and Trade, announced that the Pacific Basin was ripe for Australian expansion. His department was certainly seeking to facilitate such penetration. On 15 June he had told businessmen that a "constructive attitude to our balance of payments situation would consist, for example, in encouraging Australian firms to invest overseas". The 1973 Budget announced the establishment of a committee to examine and report on the encouragement of private investment overseas. On 10 October 1973 Cairns announced he would send an official survey mission to Thailand and Philippines to encourage private Australian investment to go abroad. This would secure markets for processed products, provide a larger base on which to build Australian technology and management skills, strengthen Australia's political position in the Pacific Basin and enable Australian companies to gain a better perspective of the world, Dr. Cairns explained. Later he added that government assistance would be given to firms setting up processing plants for Australian minerals in Third World countries. In January 1974 it was revealed that a German consortium had led the way, building a steelworks in Indonesia to process Australian ore. Nonetheless an Australian trade mission in November 1973 anticipated such investment on a smaller scale by Australian industry. In February 1974 it was announced that Australian National Industries would establish a steel forging industry in the Philippines. During the same month, while visiting Thailand, Whitlam was informed that the government there favoured his policy of encouraging Australian investment in Thailand. Australian companies, particularly the steel giant Broken Hill Proprietary, have joined the international consortia scouring Southeast Asia for energy supplies, and BHP has announced three oil strikes. The major Australian banks have already established subsidiaries in Djakarta. As Whitlam indicated during his 1974 tour of Southeast Asia, "Australia wanted to facilitate trade with its near neighbours in a mutually beneficial basis and promote economic development through constructive aid programmes".

The darker side of this penetration is reserved for the Trade Department's handouts to Australian businessmen. Noting the Indonesian wages range from 90 cents to \$A 1.35 a day for labour, one document points out (11) that "Industrial relations since the banning of the Communist Party in 1966 have been generally calm...At present strikes are banned". Further, the Australian Labor Government in a development of its predecessors' policy has concluded an unprecedented private investment agreement (12) with Djakarta that Indonesia will not nationalise firms nor block the outflow of profits. In this event Australian investors can seek arbitration or recoup losses from the Australian government. Inviting such investment the Indonesian Ambassador to Australia, Mr. Her Tarning, explained:

The most useful form of investment would be the processing of Indonesia's raw materials, with the added attraction of cheap labour, for export markets. Foreign investors were protected by legislation which guaranteed their investment and ensured retention of profits (13).

Whitlam has consistently argued that "Indonesia should serve as an indication of the approach we shall increasingly adopt in future to Australian activity of this kind overseas...the economic problems faced by Indonesia are common to most of the developing countries of the region" (14). The expansion of Australia into the Pacific Basin proceeds: investment to utilise a cheap and docile labour supply; energy exploration to provide against the depletion of Australian reserves; the provision of a springboard for those advanced technology industries beyond Australia's capacity, which may permit Australian equity participation, given sufficient pressure from Canberra.

Relations with the Asian socialist states have undoubtedly improved under Labor, though the policy is now largely bipartisan and trade with China had flourished even during "defence in depth". Dr. Cairn's 1973 trade mission to China was composed of Australia's leading industrialists and followed complaints that the China market was being inadequately explored by the Liberals. Glowing departmental reports were issued and during Whitlam's later visit a trade agreement followed. A nearly-abortive sugar deal, a \$A 20 million iron ore contract and a three year wheat agreement were negotiated. As Dr. Cairns put it, "I would rather have the position in the Pacific that we have a three leg stool—the U.S., Japan and China—than a two-leg one" (15).

Finally we may turn to Canberra's plans for defending the newly drawn Pacific Rim. First, Australia continues to regard ANZUS as its main security treaty and despite the agreement on the North West Cape base will not seek the removal of American military installations. Second, although Whitlam has continued to assert that Australia would never again send troops to fight in mainland Asia—"We believe that Australia should not intervene militarily even when the contest for power and for control leads to violence" (30 November 1973)—he insisted at his Singapore Press Club address (8 February 1974) that Australia would continue its defence

cooperation with Malaysia, Singapore and Indonesia and could retain its RAAF units in Malaya. The decision to withdraw the Australian battalion "in no way repudiates or downgrades the five-power arrangements". Previously it had been made clear that some Australian troops *would be* retained in Malaya (16). Further, in September, Australian air and naval forces participated with those of the U.S. in a major exercise in the North Pacific, and in London in January 1974 the Defence Minister called for far more joint exercises by ANZUK powers in Southeast Asia (Malaysia, Singapore, New Zealand, Britain, Australia). Of particular importance in view of Whitlam's remarks that relations with Indonesia provide a model for Southeast Asia, there is the provision of defence equipment, armaments and training facilities to Indonesia that were increased in the 1973 budget. These led even the *Australian Financial Review* to criticise the ALP for too openly identifying with the Indonesian junta to the tune of \$A 20 million in aid. (In 1973 Malaysia would receive \$A 6.1 m. in defence aid, Singapore \$A 1.2 m., Indonesia \$A 5.1 m.). In all these respects Australia's plans for the defence of the ASEAN perimeter differ from Washington's only in their exclusion of Vietnam and Cambodia as sites for last-ditch resistance.

Footnotes

1. Peter Wiley, "Vietnam and the Pacific Rim Strategy," *Leviathan*, June 1969.
2. This important paper has become increasingly influential in official circles — "The Challenge to Australia of the Multinational Corporations" published in G. J. Masterman (ed.), *Big Business in Australia*. The argument put forward is that multinational corporations should be allowed entry into the Australian economy if they invest in the kinds of technology that Australia has not yet developed. In turn we should promote our own multinationals and receive the assistance of the sales division of our foreign guests to sell more of their products based on existing technology (steel and aluminum, for example) in overseas markets and especially in Asia. To this end costs on "old" industries ought to be held down. The foreign guests can then interlock with the Australian system as a base for their operation elsewhere, with Australia providing a prop as "junior partner" in overseas capital exports.
3. E. G. Whitlam, *Speech at American Australian Association*, New York, 14 July 1970 (Press Release).
4. *Australia, Base or Bridge*, Sydney, 1966.
5. See D. McLean's comprehensive "Australia in Indonesia," *Pacific Research and World Empire Telegram*, May 1973 for attempts by multinationals to penetrate Indonesia. On labor's plans for Indonesia see H. McQueen, "Living Off Asia," *Arena* (Melbourne) 26, 1971 and Bruce McFarlane, "A Neo-Colonial Policy for the Pacific Rim," *Arena*, 32, 1974.
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Problems in Marxist Theories of Inflation*

Otto Jacobi, Joachim Bergmann, Walther Mueller-Jentsch **

The following notes attempt to clarify the theoretical problems involved in providing a Marxist-oriented explanation of secular inflation. Our central interest will be to illuminate the relationship between inflation and the crisis tendencies of late capitalism and to define more accurately their function in the politico-economic system. The first part deals primarily with questions immediately linked to theorems of Marxist political economy; the second part enters into a discussion of Marxist theories of inflation.

The relative economic stability of postwar capitalism has been accompanied by permanent inflation. In contrast to the traditional types of capitalist inflation with their abrupt and explosive rises in prices and subsequent price collapses, secular inflation is characterized by a general, constant and long-range upward movement of prices. It is apparent that this process of inflation becomes an endless flight of stairs, i.e. there is no descension from price levels once achieved; we are dealing with a typical ratchet-effect.

In the 13 most important industrial capitalist countries, consumer prices rose on the average by 2.1% annually between 1958 and 1965; during the period between 1965 and 1972 the average rate of inflation was 5.2%. In 1973 the rate of inflation was beyond 8%.

Part One: Theorems of Marxist Political Economy

I. The Relationship between Values and Prices

Marxist attempts to explain the phenomena of creeping inflation are faced not only with the question of the causes and effects of the process of the devaluation of money, but also with the problem of how to define the relationship between values and prices. Marx's approach to this relationship was two-fold:

* The following paper was originally prepared for seminar discussion. It was written collectively by a team studying the effects of trade union policies on the economic process under conditions of full employment. This resulted in a particular bias. Since this paper was written, further studies have been published in which the problems of Marxist theories of the inflationary crisis process have been tackled. See, for example, A. Glyn and Be. Sutcliffe, *British Capitalism, Workers and the Profit Squeeze*, London, 1972.

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a) The level of prices, the price structure and the sum total of prices are principally dependent on the corresponding magnitudes of value. Assuming that we are dealing with competitive capitals largely devoid of market power and assuming that the organic composition of the capital units in various branches is equal, prices are merely manifestations of the values contained in the commodities in the form of abstract socially necessary labor and are identical to them.

Marx demonstrates that through competition a balancing out of the rates of profit is achieved despite the differences in the organic composition of capital among different sectors of the economy and/or enterprises, a balancing out of the rates of profit is achieved. The result is that in those sectors with a higher organic composition prices settle above values and in those sectors with a lower organic composition of capital prices settle beneath values. This, however, is not an inflationary process. The total level of prices remains unchanged, because those prices set above value are balanced out by the same quantity of prices set below value.

Monopolies pose a different problem. Due to their market power, monopolies can achieve prices which lie above values. Marx discusses the question of what happens when the prices of goods consumed by workers rise as a result of monopoly pricing power (1). If workers in all sectors of the economy are compensated for the price increases by wage increases, then their situation, their relative status, remains unchanged. Under these conditions the competitive capitalists themselves provide the monopoly profits. However, if wages do not rise or do not rise at the same rate as do prices of consumer goods, then the standard of living of the workers falls. In this case, the workers must also provide a part of the monopoly profits by accepting a lower standard of living. This is possible only if their previous wages provided them with a standard of living above the minimal level of physical subsistence. It is appropriate to point out here that the question of which of these situations obtains touches upon an important aspect of a Marxist explanation of inflation. If the workers are not fully compensated for the price rise in the monopoly sector, inflation can be seen as an attempt by monopoly capitalists to achieve greater profits at a direct cost to workers. Alternatively, if as a result of the class struggle wages do rise in all sectors proportionate to the rise in prices in the monopoly sector, cumulative inflation results.

b) According to Marx, the law of value dictates the *movement* of prices. "Whatever the manner in which the prices of various commodities are first mutually fixed or regulated, their movements are always governed by the law of value. If the labour-time required for their production happens to shrink, prices fall; if it increases, prices rise, provided other conditions remain the same" (2).

Werner Hofmann must be given credit for having posed again the question of the relationship between values and prices (3). In his discus-

sion of this topic, Marx shifts back and forth between the sphere of values and the sphere of prices. This method was acceptable then, because in Marx's times owing to the relative absence of monopoly power, the relationship between value and price was more direct. Innovations which increased productivity and thus decreased the value of a commodity per unit of production actually led to decreases in prices. Thus, Marx had, in theory of value, an instrument which permitted him both to analyze and to interpret the current political and economic situation. Hofmann, on the other hand, can justifiably point to the fact that changes in values and changes in prices no longer develop at the same pace. Under late capitalism we can observe that, despite continuing increases in productivity which lead to decreases in value and which, according to Marx, ought to result in decreases in price, prices are not falling. This contradiction, namely the continuous and simultaneous rise in the level of prices and the increase in productivity, touches at the very heart of Marx's theory of value. Has the relationship between values and prices completely dissolved, or does it continue to exist in new form under changed circumstances? Hofmann, who subscribes to the first thesis, justifies his position by pointing to a monopolistic competition which no longer permits an equalization of rates of profit and thus precludes a trend towards an average rate of profit.

This, of course, implies a reduction in the explanatory power of Marx's theory of value; it remains valid only as a "theory of value creation." It states that social wealth is exclusively created through human labor, that a part of living labor is privately appropriated and that exploitation takes place. This means that only the "qualitative" side of the theory of value retains its validity, but the "quantitative" one does not. The theory of value can provide the framework for the analysis, structuring and interpretation of socio-economic processes, but it is unsuitable as a tool for carrying out concrete quantitative analyses, precisely because value and price have no direct relationship to one another under a system of monopoly capitalism.

Mattick takes a fundamentally different position. He begins by rejecting the necessity of concretizing the relationship between prices and values. He asserts, however, that the law of value does indeed determine prices and, due to shifts in labor productivity also determines general price movements. But the multitude of simultaneously existing rates of exploitation makes it impossible to identify the value base of a given commodity from its price. According to Mattick, Marx intended to demonstrate, "that the absence of value considerations in the market does not invalidate an analysis of capital in value terms. Beyond the statement that price relations presuppose value relations and that in this sense the latter determine and limit the former, no need exists for a Marxian theory of prices" (4).

II. Functions of Money and Price Movements

As no adequate explanation of inflation can be deduced exclusively from an analysis of the sphere of production, attention must also be directed to Marx's theory of money.

a] Measure of Value

According to Marx, the primary function of money is to provide a measure of value (5). Money has the task of representing commodity values as magnitudes of the same denomination, as qualitatively equal and quantitatively comparable. But Marx stresses that commodities are comparable not because they each have a money price, but rather because they share the common quality of embodying human labor. It is the amount of socially necessary labor-time embodied in any one commodity that determines its value. This makes it possible to measure the values of commodities in one and the same specific commodity, the money commodity, i.e. gold. "Money as a measure of value, is the phenomenal form that must of necessity be assumed by that measure of value which is immanent in commodities, i.e. labour-time" (6). Thus the real measure between commodities and gold is labor itself. Money can only perform its function as the measure of value because the money commodity, gold, itself contains that which produces value, i.e. labor-time.

Thus Marx integrates the labor theory of value with this theory of money. Implicit in this integration is the notion that a change in either the value of the money commodity or the value of other commodities leads to movements of prices. Changes of value result from changes in productivity. The following table illustrates the inevitable effects on prices caused by changes in the value of commodities and/or gold as the money commodity (7).

		Value		
		decreases	remains constant	increases
Value	Commodities decreases	prices unchanged, equal decreases in relative values	prices decrease	prices decrease
	Commodities remains constant	prices increase	prices unchanged	prices decrease
	Commodities increases	prices increase	prices increase	prices unchanged, equal increases in relative values

Even though Marx works with the quantity equation, he does not interpret it in the same manner as supporters of the quantity theory of money (namely that the amount of money in circulation determines prices). Rather he argues that a change in the total quantity of money in circulation is a reflection of value-determined price movements ("the amount of the means of circulation required, is determined before-hand by the sum of the prices of all these commodities") (8). Thus he concludes that the amount of money in circulation changes directly with the prices of commodities (assuming the constancy of the mass of commodities and thus a reduction in the total sum of prices). If, for example, we assume a constant value of gold and falling commodity values due to an increase in productivity, it then follows that prices must fall. This drop in prices, however, will only take place if there is a reduction in the amount of money in circulation. Money's capacity to react independently and autonomously is ensured by the money commodity which reacts as an intrinsic bearer of value. Only in its function as a measure of value is the commodity money capable of contraction or expansion; the quantity of gold in circulation depends on its own value.

In this context, Marx suggests that hoarding functions as the conduit for the supply or withdrawal of money to or from circulation thus allowing the supply of money to be sufficiently flexible to accommodate price changes (9).

The money commodity which functions on the basis of its intrinsic quality of bearing value is capable of adjusting relatively free of friction to the kind of price changes shown in the table above. Rises in prices cannot be conceived of as inflationary because they are preceded by changes in value. In the Marxist model there can be no process of inflation as long as the money commodity automatically reacts to changes in the total sum of prices.

However, if a means devoid of intrinsic value is used as money the adaptive mechanism of the total quantity of money to movements in prices is interrupted. Marx always insisted on the value determination of money, i.e. he attributed money functions only to a commodity bearing intrinsic value. He rejected the idea that money functions could be performed by mere symbols. Yet, given the demonetization of gold which has taken place since Marx's time these conclusions become questionable. Marx's own reference to money's function of representing value relationships between commodities points to the mediatory role of money and permits us to introduce a concept of money based on its functional definition (10). In the Marxist model, there is no compelling theoretical reason for the introduction of a value-bearing money commodity for the purpose of comparing the amounts of socially necessary labor contained in commodities. It appears that Marx formulated his theory of money based upon the realities which confronted him and that he overlooked the nature of gold currency as *transitory*.

Abandoning the value determination of money would mean that the relationship between values and prices has to be reformulated. As long as the total supply of money in a society is dependent upon gold, it remains relatively inelastic. From this fact, Marx concluded that an increase in productivity would have to be passed on in the form of falling prices. But with an elastic supply of money, a passing on of the gains of productivity is in principle possible on the basis of constant or even rising prices.

b] *Money as a Medium of Circulation*

“As the mediator of commodity circulation, money assumes the function of a medium of circulation” (11). In its function as a means of circulation, money permits the circulation of commodities. It effects the transfer of ownership of commodities from those who possess them as exchange values to those who use them as use values. Yet it is only an appearance which presents the circulation of commodities as the result of the movement of money (12).

From an understanding of the function of money as a medium of exchange Marx deduced the phenomenon of paper money. Whereas initially the money commodity itself circulates, in the process of historical development subvalue money arises. By the time paper money is introduced, the symbolic nature of money becomes obvious.

Replacing gold by symbols of value is possible, because the independent representation of the exchange value of commodities is only a brief moment in the process of circulation. Thus, the merely symbolic existence of money, its functional presence in the circulation process, suffices (13).

The use of paper money as a functional substitute for the money commodity is nevertheless dependent on its relationship to gold. The specific law of the circulation of paper money states: “the issue of paper money must not exceed *in amount* the gold (or silver as the case may be) which would actually circulate if not replaced by symbols” (14). Any amount of paper money which deviates from this specific quantity leads to price movements. Marx mentions that commodity prices do rise nominally due to the issuance of excessive paper money. Still, they are subject to changes in value as can be seen when the quantities of paper money are considered in terms of the amount of gold represented by them.

Numerous Marxist theoreticians subscribe to this position when dealing with the contradiction inherent in permanent reduction in value and simultaneous inflation. Mandel, for example, maintains that a recalculation of paper money prices into gold prices would demonstrate that most of today’s money prices lie substantially beneath the gold prices of the 19th century (15).

Mandel’s retreat into imaginary calculations is a dead end theoretically. Interpreting creeping inflation as nothing more than a fictitious rise in

prices precludes any examination of its causes and effects and negates the possibility of the existence of a new phase of capitalism which functions in a different manner and requires new analysis.

In connection with average profit, Marx examines the effects of increased money prices upon the workers (16). A nominal rise of commodity prices puts the workers at a disadvantage if wages remain constant. Marx does contend, however, that a nominal increase in the rate of profit is impossible without causing an increase in wages. This leads us back to the basic question of whether inflation can be seen as a direct expression of the class struggle between workers and capitalists.

The other question resulting from the above is whether the ultimate demonetization of gold—nationally and internationally—has to be dealt with in theoretical terms by a reformulation of the Marxist value-price relationship.

In the following, we shall discuss the inflation theories of various Marxist economists. It becomes apparent after surveying the material available that three basic explanations of inflation predominate:

- a) Explanations of inflation connected to the increasing monopolization of capital;
- b) Explanations of inflation connected to the high degree of elasticity in the creation of money and credit by which the state, central banks, and the banking system can provide the economy with an almost unlimited volume of money; and
- c) Explanations of inflation connected to the struggle over distribution based on the contradiction of interests between capital and wage-labor.

It is interesting to note that nearly all of the explanations of inflation which we shall deal with are derived exclusively from one of the three above-mentioned factors, i.e. they are monocausal in nature. The other two factors are not denied in any of the explanations, but are deemed to be of secondary relevance for the question of inflation.

We, on the other hand, believe that all three factors are necessary aspects of the process of creeping inflation.

Part Two: Marxist Theories of Inflation

I. Monopolistic Price Setting [Boccaro, Hess] [17]

In the theory of state monopolistic capitalism (stamocap), inflation is seen as an instrument of the state acting in the interests of monopoly capital. By means of inflation, the real wages of the wage dependent are depressed in favor of monopoly profits.

One of the most important versions of stamocap theories—at least for our purposes—is presented by Boccaro and Hess. They focus on the law of

the tendency of the rate of profit to fall which is considered to be the dominant law of capitalism (18). Overproduction of capital is seen as a result of the workings of this law.

They conceive of monopolization and the induction of the state into the service of monopolies as defense strategies against the falling rate of profit (19). According to Marx, the law of value which governs capitalism enforces average profit. This self-regulating mechanism, however, requires free competition (20). Only under conditions prevalent in pre-monopolistic capitalism did the rate of profit provide an automatic regulatory mechanism for the optimal distribution of socially necessary labor (21). The transition to monopoly capitalism is closely linked to attempts by capital to circumvent the effects of the law of value. To overcome these effects, i.e. a fall in the rate of profit, capital has to accelerate accumulation, which leads to increased concentration and centralization. The undermining of the effectiveness of the law of value by the process of monopolization has created new problems.

The law of value as a regulatory mechanism has to be replaced by a more-or-less conscious and goal-oriented general social regulator. "The essence of state economic policies lies in the attempt to implement through state power that which, under present conditions, can no longer be regulated by the market mechanism" (22). Because state monopoly intervention results directly from the necessity of counteracting the tendency of the falling rate of profit, these authors do not assume an end to the efficacy of the law, but rather a learning process on the part of capital. Today, capital is capable of compensating the law that is threatening its own existence. Thus, even though the effectiveness of the law cannot be totally avoided, at least it can be regulated.

The central thesis of the theory of stamocap posits that the private creation of surplus value is maintained by public devaluation of capital (23). To an increasing degree, the state mobilizes capital and applies this capital without actually producing capital, i.e. without extracting any profit. The monopolies benefit from the spending of public funds for the society as a whole (infrastructure) as well as from direct support for individual sectors of the economy (subsidization, tax preferences, and state-funding for the science and research programs of the huge corporations). "For monopoly capital, this means that it does not have to finance a significant and growing portion of the capital advanced, while at the same time enjoying the profits emanating from these investments. The state financing of these areas successfully offsets the falling rate of profit for the individual capital units" (24). For monopoly capital, the problem is solved: "The devaluation of capital is avoided and yet the rate of profit has been prevented from falling" (25). In this connection, Boccara speaks of the fact that the economic activities of the monopolies and the state have developed into a "uniform organic totality" (26). Looking at the source of public funds leads us to the problem of inflation. According to the authors, state

monopoly capitalism is a system which renders the non-monopolists tributaries to it.

The state develops into a gigantic distribution machine which stimulates or increases monopoly profits to the detriment of non-monopolistic capitalists. This process also causes a reduction of the income of wage earners (27). The state functions as a capital reservoir which puts funds at the disposal of monopoly capital. Thus, the theory of stamocap appears to be a theory of secondary exploitation. The instruments employed in the process of secondary exploitation are a comprehensive tax system and permanent and systematic inflation (28). Yet the question arises whether the state is capable of appropriating capital by means of inflation. It seems much more plausible that the monopolies would directly appropriate the buying power of the masses through inflationary monopolistic pricing rather than having the state encourage inflation in order to indirectly effect such an appropriation.

This theory implies that in extended reproduction the relative status of the wage earner must deteriorate. Proof of this would require empirical evidence of falling wage shares.

A further question must be asked. Why don't the non-monopolists subjected to collective exploitation in the interests of the monopolists attempt to counterbalance this burden of secondary exploitation?

It is also unclear why the process of secondary exploitation has to be set in motion within the power structure of state monopoly capitalism. Since secondary exploitation is only possible if the workers emerge from the process of primary exploitation with wages high enough to permit additional exploitation, its existence may reflect some success by workers in resisting exploitation at the point of production.

Hess and Boccara draw a remarkable conclusion from their analysis. Due to the fact that private and profitable capital utilization on the part of the monopolies is secured through public capital devaluation, the traditional manifestation of crisis, namely, the crisis of over-production, is "no longer the only form and not the most significant form" (29) in which contradictions come to the surface. More likely are permanent structural crises, currency crises, crises in the educational system, etc. With respect to the problem of inflation, we must disagree with their argument. If we accept their premise that crises of overproduction and high unemployment rates are basically things of the past, then it is unrealistic to assume that the workers are going to allow the collective exploitation of the state to deprive them of those gains they have made in the primary distribution process. Generally speaking, it is worth noting that the stamocap theoreticians do not discuss the contradictory relationship between the securing of monopoly profits and the successful counterbalancing of the tendency of the rate of profit to fall, on the one hand, and the demands of the workers for employment, which the state is able to pacify due to its interventionist policies, on the other hand.

The stamocap theoreticians operate with a model of inflationary capitalist growth. On the one hand, they conceive of systematic inflation as necessary for continued expanded reproduction. Yet, at the same time, they overlook the fact that the chances of employment for the workers, as well as their standard of living improve within that framework. Thus it appears questionable whether inflation can be interpreted simply as an instrument of exploitation.

The relationship between values and prices as well as the monetary and credit theory problems connected with permanent inflation remain undiscussed.

II. Credit Inflation [Mandel, Mattick]

Mandel (30) considers the problem of inflation and its effects upon class struggle to be one of the major problems posed by monopoly capitalism. According to him, capitalism is faced with the dilemma of choosing between two equally poor alternatives, namely, between crisis and inflation. In this connection, Mandel asserts that the permanent inflation of present-day capitalism stems from its own inherent tendency toward over-production. He conceives of the capitalist crisis as a crisis of over-production of exchange values characterized by ineffective monetary demand (31). In highly industrialized monopoly capitalism, crisis is expressed in two ways (32). In the one instance, it is a real crisis of the commodity economy in the form of non-marketable commodities. In the other instance, it is a monetary phenomenon in the form of a surplus of capital which can find no profitable utilization. If the "surplus product" represents the problems of realization, then "surplus capital" symbolizes the problems of utilization.

The problem of absorption thus exists at both levels. It is in the context of the absorption of the surplus product that Mandel develops his theory of permanent inflation. According to him, the capitalist answer to over-production is "above all credit, i.e. enormous private and public debt and continuous inflation" (33). Massive private and public debt and permanent inflation permit a temporary solution of the problem of over-production. Continuous inflation is a necessary stopgap against recurrent and serious crises of over-production. What is specific to Mandel's explanation of inflation is that over-production, state military demand and state debt form a unity and generate inflation (34). This is because the main instrument for the utilization of present and potential capacities is arms production which is initiated by state demand. The state does not finance its spending through a tax policy that leaves prices unaltered. Rather it does so through the expansion of its debt. Public debt thus becomes the driving force behind credit inflation. Creeping inflation is called forth by the increase in unproductive state spending which in turn is caused by the tendency towards overproduction.

Mandel fails to explain why state spending policies cannot simply offset insufficient effective monetary demand, which, he claims, accompanies the crisis of over-production, but rather must exceed it—so that continuous price effects result. Mandel himself points out that the surplus product must first be sold in order to realize its surplus value. This puts him in a position of having to demonstrate why state demand made possible by the creation of monetary credit must be arranged in such a manner as to create *per saldo* over-demand. Mandel's argument that arms production generates increased buying power without producing an additional supply of commodities contradicts his basic thesis of general over-production.

While it is true that Mandel always conceives of contemporary capitalism as monopoly capitalism, he does not use the power of the monopolies to fix prices as a structural argument in his explanation of inflation. Mandel also doesn't discuss the relationship between credit inflation and the Marxian theory of money.

Permanent inflation causes a redistribution of national income or of surplus value: "Either a redistribution of surplus value favoring certain elements of the capitalist class to the detriment of others, or an increase in surplus value at the cost of wages" (35). Thus, it follows that Mandel also conceptualizes implicitly a process of secondary exploitation. Thus he touches upon the question of the effects of inflation on class struggle, which he considers to be one of the major problems of capitalism. Yet he does little to clarify the problem himself. The victims of inflation include all those individuals with fixed incomes as well as those wage-earners with no recourse to the power of a union to protect their real incomes. This redistribution need not necessarily lead to a deterioration of the standard of living of the workers, but certainly to the deterioration of their relative status, because it means "that the share of the increasing social product which goes to wage-earners is less than it would have been with a stable currency" (36).

In this connection we must point out that Mandel, like the stamocap theoreticians, has not drawn his model of capitalist growth to its final theoretical conclusion. He ignores the fact that the more successful the extraction of the surplus product via credit inflation is, the better the chances of the workers for employment. According to Mandel's assumption, a stable price level would have led to open crisis, thus not only reducing total social wealth, but also the living standard of the workers. If Mandel does interpret inflation as a necessary buttress of capitalism then he cannot conceive of it exclusively as an additional instrument of exploitation and simply disregard the effect it has on employment policies.

Mandel's evaluation of the role of the unions and their power in the political arena is unresolved. He states that, on the one hand, the unions have enough power to prevent wages from seriously falling during a crisis, while on the other hand, they are not in a position to force through major wage increases during a boom. At another point he speaks of the growing

strength of the unions and the upward trend of real wages (37). He makes a special point of mentioning that a reduction of unemployment causes a decrease in the rate of surplus value. And yet he fails to discuss the manner in which the struggle for higher wages in a period of credit inflation effects the mechanism of inflation as well as the problem of surplus as a whole.

Mandel does indeed claim that the rate of inflation is cumulative without providing rigorous reasoning for his contention. It is, however, important to point out that automation which was implemented by the corporations in the hope of reducing the costs of wages does indeed increase the latent danger of over-production so that money inflation must be increasingly employed in order to siphon off the surplus product. In this manner, both automation and inflation, as constant attempts to secure the rate of profit lead, on the production side and on the realization side, to growing instability (38). Mandel, however, is not capable of demonstrating why the inflation must be cumulative. To do this, he would have to demonstrate how automation necessarily leads to increasing over-production and how absorption by means of credit inflation leads to constantly rising rates of inflation.

In Mattick's explanation of inflation, the falling rate of profit, based on the rising organic composition of capital, and the planned and regulated expansion of the volume of credit and money play a central role.

As in the stamocap theory developed by Boccara and Hess, Mattick conceives of inflation as a mechanism of distribution aimed at offsetting the falling rate of profit in order to promote further capital expansion. State expansion of the supply of money permits big business to raise its prices more rapidly than the less monopolized sectors, and more importantly, than the workers can raise their wages. "The supply of money is a matter of policy and not the unwilling result of uncontrolled economic events...Inflation results from monetary policies designed to improve the profitability of capital internally and so enhances its competitive capacity externally" (39). Thus, it is not the monopolies' fixing of prices which leads to inflation, but the monetary policy of the state.

For Mattick, the most important function of inflation is to increase the profitability of capital through skimming-off consumers' income, particularly those of wage-earners, in favor of monopoly capital. This interpretation presupposes either falling real wages, or at best, a rise in real wages which is not proportionate to the development in productivity. At the same time, Mattick points out that inflation does indeed maintain a relatively high level of employment so that the workers prefer it to deflation with widespread unemployment. This confronts him with the difficulty, shared by Mandel, of having to explain why, despite a favorable situation in the labor market and the rise in bargaining power, real wages are relatively retarded.

Inflation also assumes another function as a mechanism for financing in state induced production. Mattick's thesis is predicated on the existence of unused industrial capacities and capitalist money hoarding as a result of the falling rate of profit. By effecting "capitalistically useless production of goods" instead of "capitalistically useless money hoarding" through taxation and loans (deficit financing), the state avoids the socially untenable results of a sinking rate of accumulation without, however, being able to increase the profitability of capital.

Indeed, rather than increasing the profitability of capital, the tendency toward growing state induced production leads increasingly to the expropriation of profit shares through taxes and to the expansion of public debt. "Controlled inflation" is thus intended to compensate taxation, because price increases become possible as a result of increased money supply and these price increases secure normal profits. On the other hand, inflation gradually leads to repudiation of public debt. "It spreads the expense of non-profitable government-induced production over a long period of time and over the whole of society" (40).

Why the public debt must be repaid at all, if a loanable volume of money continues to exist that allows the conversion of debt, remains unclear. Mattick categorically excludes the possibility of reducing the public debt with additional tax income from increased economic activity as a result of state induced production, because he—contrary to all empirical information—denounces the multiplier effect as a simplistic illusion and claims that state-induced production is unprofitable by definition.

His theory of money means an obvious retreat from an application of the Marxist labor theory of value. He traces the historical process of the demonetization of gold without examining the question of whether a shift away from a money commodity having intrinsic value leads to serious contradictions. Gold and paper money "function equally well in settling exchange relations between business firms. But this is so only because real money as well as quasi-money are both covered by real capital assets" (41). Money as a measure of values is of no significance. Money as a means of payment represents commodity values, because it has buying power. The demonetization of gold, the replacement of the gold standard as an instrument for controlling the expansion and contraction of money and credit makes the supply of credit and money subject to political decisions. "Inflation and deflation result from governmental decisions to expand or contract the money and credit supply" (42).

III. *Wages and Inflation* [Gillman]

Gillman (43) proceeds from the contention that capitalist societies, in particular during their monopolistic phase, are marked by the contradiction between the amount of investable capital and the relatively inadequate investment opportunities. The development of the productive forces cause a

surplus to arise for the society as a whole, while the constraints placed on those forces by capitalist relations of production result in a limitation of investment possibilities. Thus this excess social surplus cannot be absorbed. Gillman, in explaining the phenomenon of non-investable surplus, draws explicitly upon the Marxist argumentation: (44) "In the unplanned and private profit economy which is capitalism the drive to maximize profits tends to minimize consumption, both personal and social, relative to the total output on the one hand, capital accumulation would be impossible without this gap. On the other hand, it creates a tendency for capital accumulation to outrun consumption potentials" (45).

Gillman views the process of monopolization as an intensification of the problem of absorption, because the monopolies increase non-investable surplus value. He proceeds from the assumption that the monopolistic phase of capitalism is characterized by increased competitive struggle (46). This competition focusses on greater rivalry in the field of innovations. The monopolies are forced to be constantly open to new technologies.

"The command which monopoly and big business hold over financial, material and technological resources enables them to create ever-increasing productive capacities, ever-mounting masses of goods, at an ever-increasing mass of profits which the capitalistically-restricted consumers' markets and the new capital outlets cannot absorb on a continuing basis" (47).

Gillman deduces the dilemma of capitalism from the fact that the system cannot function smoothly given the limitations of investment outlets posited above. Unless the total social surplus remains in the economic process, a high employment rate cannot be maintained, or, put differently, Keynes' underemployment equilibrium cannot be avoided. This demand forces the state to maintain a high level of employment, because otherwise the capitalist system would be threatened by its own unsatisfied workers and the real competition of socialism. Gillman's thinking on the problem of inflation is framed in the context of the private capitalists' interest in accumulation and the workers' demand for full employment. Permanent full employment "tends to raise the value of labor power and to cut the capitalists' surplus-value at the source of its creation. The historical tendency of the rate of profit to fall is accentuated. The potential for the private accumulation of capital is permanently diminished. Further, the rate of profit becomes a mere residual in the full employment formula. Full employment becomes the negation of the essence of the capitalist mode of production; it negates its essence as a system of the private accumulation of capital" (48).

Due to rising wage costs the falling rate of profit will generate resistance among the industrialists. They will try to limit the power of the unions by applying political pressure and to improve the rate of profit by employing work-saving innovations. "Where this resistance proves ineffective, they will, where they can, raise prices to offset and often, more than offset the

wage increases. Inflation becomes an escape valve, even if only a temporary one, for staving off a fall in the rate of profit and in the rate of capital accumulation potentials" (49).

Gillman correctly rejects any interpretation of his explanation of inflation as a wage-price spiral. He subscribes in principle to the opposite chain of events: contrary interests and exploitation characterizes capitalism and lead to a constant struggle for profits and wages. In this conflict, inflation becomes a means of stabilizing a rate of profit threatened by a high level of employment.

In a second, supplementary step, Gillman describes the genesis of cumulative inflation in the business cycle. He posits that an upward trend of any kind in the business cycle will be accompanied by a general rise in prices. However, prices rise more rapidly than wages, because the large numbers of unemployed weaken the upward trend of wages until their re-incorporation is completed. If the upswing continues, the workers will be able to gain wage increases to compensate for the rising cost of living. This will cause the industrialists to implement price increases which surpass wage increases. This process of reciprocal attempts to overtrump the adversary during an upswing is one of the causes of the rising rate of inflation.

According to Gillman, inflation is the result of the struggle over distribution of the surplus which can be traced back to the attempt to pass off rising costs (on the one hand, the rising cost of living, on the other hand, the rising costs of production) onto the class adversary. It is thus characteristic of inflation during high employment that it acts as a means of securing the rate of profit, and thus capital accumulation. Inflation functions as a means of capital accumulation to the advantage of the capitalists as long as the rate of price increases surpasses the relative cost burdens. This will be the case, according to Gillman, until full employment is achieved. During periods of full employment, the rate of profit declines and businessmen demand that the inflationary spiral be stopped.

From this, Gillman concludes that "capitalists as a class oppose inflation because it leads to and tends to prolong full employment, and seek to stabilize the economy at less than full employment" (50). They desire a recession in order to be able to stop the increasing demands of the workers (51).

This type of monocausal inflationary development can, above all, explain the role of wage policies during full employment and explain a trend toward cumulative inflation. But in this context, Gillman overlooks the power of the monopolies to fix prices which is the structural basis for the process of inflation. All political and theoretical questions connected with money and credit are secondary to him.

IV. Monopolistic Price Fixing and The Struggle Over Distribution

In the following we shall attempt to show the manner in which certain aspects of the various monocausal explanations can be put into a systematic context. We shall approach the problem by drawing heavily upon the price-fixing power of the monopolies as outlined in Werner Hofmann's *Die Saekulare Inflation* (52).

We also make the basic assumption that the rate of profit is the central dynamic factor of capitalism. The movement of capital is regulated by variations in the rate of profit. This is the point of orientation for the capitalists. The variations in the rate of profit are, according to Marx, basically determined by the development of wages and by changes in the organic composition of capital. In the following, we shall only refer to the relationship between wages and profit. Due to lack of empirical data and inadequate theoretical discussion it is not possible to make any conjectures about the empirical development of the organic composition of capital and resulting change in the rate of profit. Furthermore, we subscribe to the Marxist thesis that capitalist growth reveals a tendency towards over-accumulation, thus generating new potential for crisis.

Amidst the conditions of monopolistic competition and the historical development of the expectation of full employment on the part of workers, the functional totality of capitalism has developed new forms for managing crises in which secular inflation plays a major role.

The classic capitalist crisis has been dominated by two crisis phenomena, unemployment and unused capacities accompanied by sinking wages and prices. Recuperation was implemented by elastically shifting prices downwards to the point where an improvement of the real value of monetary resources intensified the incentive to buy and an upswing in the business cycle was set in motion (real-balance-effect). The world economic crisis of 1929 made it clear that this mechanism could no longer be relied upon. Since then, it has become increasingly clear that, in the course of monopolization, the capitalist corporations have gained sufficient market power to fix prices. Under monopoly capitalism, prices are not given data, but rather an action parameter of the monopolies to enforce price-fixing based on their market power.

Monopolistic price policies lead to higher price levels for the supply of commodities which can be realized and sold on the market only if there is a corresponding growth in total monetary demand. If this is not the case and if, instead of the classic process of price adaptation, a policy of strictly downward regulated prices sets in, then the amount of unmarketable products will rise and/or an anticipatory reduction of production will result.

This general adaptation via quantities instead of prices, which has been prevalent since the rise of monopolies, endangers full employment and may lead to increases in the existing level of unemployment. This state

intervention in the area of employment policies is required to close this demand gap (53). It is not only the demand for full employment on the part of the working class, more vocal since the world economic crisis, which requires a solution to the problem. The capitalist economy itself, geared by its very nature to expansion, cannot accommodate a strategy of production limitation (54). It follows from this that the state must accept the inflationist price policies of the monopolies. Further, it must support these with fiscal policies as well as with monetary and credit policy measures (which have become manipulable since the liberation of the banking system from the gold standard) in order to avoid unemployment.

In this explanation of inflation provided by Hofmann, secular inflation is not the result of the absorption of the over-production of exchange values, but rather the result of general price-fixing via market power. State economic policies, especially budgetary, monetary and credit policies, are not the cause of inflation, but rather a "co-active necessary condition without which the determination to fix prices on the market would be broken by the existing volume of buying power" (55). Inflation "under the present circumstances provides the necessary conditions for the economic process to continue at all, without the catastrophe of the early Thirties having repeated itself" (56).

It would appear to us that the classic capitalist crisis of a recuperative depression has given way to a new type which corresponds more closely to the expansive nature of capitalism and at the same time reveals greater potential for appeasement. This type of crisis is characterized by permanent inflation whose structural pre-condition is the monopolistic power to fix prices.

The employment policies of the state can lead to periods of full and over-employment rendering the contradiction of interests between wage labor and capital in the struggle over distribution highly acute. This is because the workers and their unions find relatively good chances for the realization of the commodity labor-power on the market, so that during extended periods of full employment, union successes in the wage sector are to be expected. These successes not only include a percentage of the increase in productivity and an inflation allowance, but also increases such that the general capitalist rate of profit is reduced. Marx expected this reduction in the rate of profit to take place only during an upward swing in the business cycle, whereas it would subside during extended high employment.

The counter-strategies of capital to defend its rates of profit that we can observe in action consist basically of attempting to play out their power to fix prices in order to regain with accelerated inflation on the price front what they were forced to relinquish on the wage front.

This strategy causes the workers, extremely sensitive to inflation, to increase their wage demands. These conflicts over "the relative working wage" results in the cumulation of the rate of inflation.

This policy of trying to force the costs onto the adversary (on the one hand, the costs of production; on the other hand, the costs of reproduction) is limited, in the framework of rival national capitalists, by the possible loss of domestic and foreign markets. Should this make the practice of passing on the costs to the other class impossible, capital will attempt to combat the workers' demands by threatening with investment strikes and a subsequent recession.

One reaction to the effects of inflationary capitalist growth is the income policy created in all capitalist countries. Its primary function is prophylactic: intensification of the distribution struggle is to be avoided through regulatory devices compatible with the system.

FOOTNOTES

- 1 Cf. Karl Marx, *Capital*, Vol. III, New York, 1967, pp. 861 ff. (German Edition: *Das Kapital*, Band III, Berlin 1959, pp. 917 ff.) (Editor's note: Wherever possible references are given first to the English edition of any book and then in parentheses to the German).
2. K. Marx, *Capital*, Vol. III, p. 177 (p. 202).
3. Cf. Werner Hofmann, Article in Walter Euchner und Alfred Schmidt (Hrsg.): *Kritik der Politischen Oekonomie heute—100 Jahre "Kapital"*, Frankfurt a. M. 1968, pp. 263-287.
4. Paul Mattick, *Marx and Keynes: The Limits of the Mixed Economy*, Boston, 1969, p. 49 (German ed.: *Marx und Keynes*, Frankfurt a. M. 1971, p. 58).
5. Cf. K. Marx, *Capital*, Vol. I, p. 94 (p. 99).
7. Cf. K. Marx, *Capital*, Vol. I, pp. 98-99 (p. 104) and pp. 117-118 (p. 122); cf. also K. Marx, *Critique of Political Economy*, Chicago, 1904, pp. 139-141 (p. 110) and pp. 241-243 (p. 187).
8. K. Marx, *Capital*, Vol. I, p. 117 (p. 122).
9. Cf. K. Marx, *Capital*, Vol. I, pp. 130-134 (pp. 135-140).
10. In the same vein: P. Mattick, *Marx and Keynes*, pp. 171 and 178 (pp. 132-146).
11. K. Marx, *Capital*, Vol. I, p. 114 (p. 114) (Translator's note: this particular sentence is not included in the English edition of *Capital* which I used in the preparation of this translation. It is the last sentence of Vol. I, Chapter 3, Section 1 located on p. 119 of the 10th printing of *Das Kapital* Berlin, 1961. Eden und Cedarf Paul, in their translation of the fourth German edition, have rendered the sentence as follows: "Money acquires its function as a medium of circulation through being the instrument whereby the circulation of commodities is effected" K. Marx, *Capital*, London, 1972, Everyman's Library, Book One, p. 93.)
12. Cf. K. Marx, *Capital* Vol. I, pp. 125-129 (pp. 130-135); cf. K. Marx, *Critique* ... pp. 126-161 (pp. 100-129).
13. Cf. K. Marx, *Capital*, Vol. I, p. 128 (p. 134).
14. Cf. K. Marx, *Capital*, Vol. I, pp. 125-128 (p. 133).
15. Cf. article by E. Mandel, in Euchner & Schmidt, *op. cit.*, pp. 268-271.
16. Cf. K. Marx, *Capital*, Vol. III, p. 180 (p. 205).
17. P. Boccara, "Zum staatsmonopolistischen Kapitalismus," in *Sozialistische Politik* 3. Jg. Nr. 11 (Juni 1971), Berlin (West) 1971, pp. 7-39. P. Boccara, "Ueberakkumulation—Monopole—staatsmonopolistischer Kapitalismus heute," in *Marxismus Digest*, H. 3 (1971), Frankfurt a. M. 1971, pp. 72-90.
- P. Hess, "Monopol, Rationalitaet und gleichgewichtiges Wachstum," in *Marxismus Digest*, H. 3 (1971), Frankfurt a. M. 1971, pp. 52-71.
- P. Hess, "Monopole, Staat und das Problem des gesellschaftlichen Fortschritts im gegenwaertigen Kapitalismus," in *Marxistische Blaetter, Sonderheft 1 [1967], Machtstrukturen des heutigen Kapitalismus*, Frankfurt a. M. 1967, pp. 17-30.
- O. Reinhold u. a., [Autorenkollektiv des Institutes fuer Gesellschaftswissenschaften beim ZK der SED], *Der Imperialismus der BRD*, Berlin (Ost) 1971.

18. P. Boccara, *Zum ...*, *Op. cit.*, p. 22.
19. P. Hess, *Monopol, Rationalitaet ...*, *op. cit.*, p. 61.
20. P. Hess, *Monopol, Rationalitaet ...*, *op. cit.*, p. 56.
21. P. Hess, *Monopole, Staat ...*, *op. cit.*, p. 27.
22. P. Hess, *Monopole, Staat ...*, *op. cit.*, p. 27.
23. P. Hess, *Monopol, Rationalitaet ...*, *op. cit.*, pp. 64-65.
24. P. Hess, *Monopol, Rationalitaet ...*, *op. cit.*, p. 65.
25. P. Hess, *Monopol, Rationalitaet ...*, *op. cit.*, p. 65.
26. P. Boccara, *Zum ...*, *op. cit.*, p. 17.
27. P. Boccara, *Zum ...*, *op. cit.*, p. 29.
- P. Hess, *Monopol, Rationalitaet ...*, *op. cit.*, p. 69.
28. P. Boccara, *Ueberakkumulation ...*, *op. cit.*, p. 86.
29. P. Hess, *Monopol, Rationalitaet ...*, *op. cit.*, p.
30. E. Mandel, *Marxist Economic Theory*, New York, 1970, 2 vol. (German ed.: *Marxistische Wirtschaftstheorie*, Frankfurt a. M., 1968).
- E. Mandel, "Surpluskapital und Realisierung des Mehrwerts," in F. Hermanin, K. Monte, C. Rolshausen (Hrsg.): *Monopolkapital*, Frankfurt a. M. 1969, pp. 60-70.
- E. Mandel, "Arbeitswertlehre und Monopolkapital," in F. Hermanin, *op. cit.*, pp. 76-92.
31. E. Mandel, *Marxist Economic Theory*, p. 330 (p. 360).
32. E. Mandel, *Surpluskapital ...*, pp. 64-65.
- E. Mandel, *Arbeitswertlehre ...*, pp. 91-92.
33. E. Mandel, *Surpluskapital ...*, p. 65.
34. E. Mandel, *Marxist Economic Theory*, Vol. 2, p. 527 (p. 555).
35. E. Mandel, *Arbeitswertlehre ...*, p. 92.
36. E. Mandel, *Marxist Economic Theory ...*, Vol. 2, p. 529, (p. 557).
37. E. Mandel, *Marxist Economic Theory*, Vol. 2, pp. 531, 535 (pp. 560, 566).
38. E. Mandel, *Surpluskapital ...*, p. 67.
39. P. Mattick, *Marx und Keynes*, p. 182 (p. 193).
40. P. Mattick, *Marx und Keynes*, p. 187 (p. 198).
41. P. Mattick, *Marx und Keynes*, p. 172 (p. 184).
42. P. Mattick, *Marx und Keynes*, p. 177 (p. 189).
43. J. M. Gillman, *Prosperity in Crisis*, New York, 1965 (German ed.: *Prosperitaet in der Krise*, Frankfurt a. M. 1968).
44. J. M. Gillman, *op. cit.*, pp. 70-71 (pp. 86-87).
45. J. M. Gillman, *op. cit.*, p. 107 (p. 126).
46. J. M. Gillman, *op. cit.*, p. 151-154 (pp. 179-182).
47. J. M. Gillman, *op. cit.*, p. 154 (pp. 182-183).
48. J. M. Gillman, *op. cit.*, pp. 205-206 (p. 245).
49. J. M. Gillman, *op. cit.*, p. 207 (pp. 246-247).
50. J. M. Gillman, *op. cit.*, p. 212 (p. 253).
51. J. M. Gillman, *op. cit.*, p. 212 (p. 253).
52. W. Hofmann, *Die Saekulare Inflation*, Berlin (Ost), 1962.
53. G. Bombach, "Ursachen der Nachkriegsinflation und Probleme der Inflation-sbekaempfung," in G. Bombach (Hrsg.), *Stabile Preise in wachsender Wirtschaft*, Tuebingen, 1960, pp. 187-205.
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54. W. Hofmann, *op. cit.*, p. 24.
55. W. Hofmann, *op. cit.*, p. 34.
56. W. Hofmann, *op. cit.*, p. 60.

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On the Relationship between the Education System and Capitalist Work Organization

Gero Lenhardt*

The economics of education deals with the problems of planning and direction of the educational process from an economic perspective. In the following, I shall attempt to analyse some of the assumptions that educational economists make about the societal pre-conditions and consequences of formal education. The goal of this discussion is to elaborate questions concerning the social context and consequences of the development of formal education. We are not concerned with the several variants of theories of educational economics or with their techniques of prognosis, but we will concentrate on a few central arguments, expressed predominately as extensions of bourgeois theories of growth and now current in public discussion of educational policy.

Educational economics is primarily concerned with the interrelationship between economic growth, technological progress, the occupational structure, and skill requirements of the economy as well as the skills of the labor force. Economics traditionally viewed the labor force as a homogeneous and unlimitedly mobile factor of production. It assumed that the institution of the free market would regulate the allocation of the labor force. In contrast to this approach, educational economics stresses the importance of the diversity of skills within the labor force and the differentiation of demand for labor according to specific occupational qualifications. A merely quantitative conception of the labor market is rejected; it is maintained, that both supply and demand must be differentiated with respect to individual qualifications and the skill requirements of jobs. Thus, the problem of achieving complementarity between the skills of the labor force and the occupational structure of the economy becomes a central focus of educational economics. Differences in skill are regarded, at least in part, as a function of different educational processes. Consequently, the traditional assumption that the supply and demand for workers will be adequately mediated by the labor market alone has been revised. Now the impact of the educational system has been recognized as a significant determinant of the labor market that must be included in any analysis.

The neo-classical school within the economics of education strives to

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conceptualize the role of the educational system in this process in market-economic terms. It does so from the theoretical perspective of the concept of "human capital". Basically investment theories are utilized which assume that educational investments can be planned along the same lines as corporate investments. Educational expenses, indexed according to the costs or time required, are compared to expected yields, measured according to the lifetime incomes of individuals with a specific education. Proceeding from the assumption that the differences in income are due to differing educational processes, rates of yield are calculated for certain educational paths. These are used for the construction of optimization formulas: either it is possible to strive for a maximum yield from a given educational investment or to maintain a given yield with minimal educational investments (1). At the macro-economic level, they attempt to demonstrate a relationship between economic growth and educational investments by means of statistical correlations of these two variables in an economy.

The studies which subscribe to the manpower-requirement approach are also based on the premise that there is a direct relationship between educational investments and economic growth. They seek to derive planning data for educational policy on the basis of estimated or politically-defined rates of economic growth; in other words, they attempt to specify the skills with which the education system must equip the labor force in order to meet these goals. To do this, they break economic growth down according to the various branches of the economy; changes in the development of productivity within the various branches are estimated. By extrapolating these values they arrive at a determination of the future need for workers in different occupations. They base their calculations on present official occupational classifications and treat these categories as constants. Structural change *within* occupational roles as they are categorized in statistical terms is neglected and consequently also the corresponding change of skill requirements. Moreover, they make no attempt to allow for or to anticipate possible changes in the school system; its present vertical and subject-matter organization is merely projected unchanged into the future(2).

Educational economists support their assumption that the educational system is becoming more important for economic development, and that its expansion can be explained in terms of the rising need for technically or scientifically qualified workers, with general assertions about the relationship between economic growth, technological progress and the skill requirements of the economy. Economic growth, under the assumption that technological progress is its most significant determinant, is regarded as changing the demand for workers in two ways: First, the structure of demand for skills is altered by quantitative shifts in the relative size of sectors of the economy. For example the Manpower Project at the Max-Planck-Institut fuer Bildungsforschung (Max-Planck-Institute for Education-

Yet Huisken still supposes that occupational continuing education is introduced because technological progress threatens the necessary complementarity between job structure and skill structure in the economy. He thus disregards his own category of the 'collective worker' and takes as the focus of his analysis the individual worker—who must be adjusted to sudden changes in complicated and specialized work tasks by means of brief and narrowly focused retraining. In this way he comes very close again to the position of the Economics of Education. The following passage expresses even more clearly the agreement of these marxist authors with the Economics of Education prevailing in the "Materials": "The adult and continuing education that Weizsaecker and Picht propose is the beginning of 'permanent education', i.e. the elimination of the separation between schooling and occupational career, which is tendentially compelled by the complementarity between technical progress and skill structure." (11c)

Thus, neo-marxist critics of bourgeois educational economics affirm that the latter's central arguments describe quite accurately the determinants of societal development in the educational and employment systems as well as the direction in which they are presently moving. So far, Hinrichsen's and Koehler's critique remains basically superficial and addresses itself more to the (assumed) reality of capitalist educational planning than to the Economics of Education itself.

In their analysis of advanced capitalist societies, the authors of "Imperialismus in der BRD" (Imperialism in the Federal Republic of Germany) and other exponents of the eastern European doctrine of "State Monopoly Capitalism" (Stamocap) have also examined the relationship between the educational system and the employment system (12). The Stamocap theses on the economics of education are largely identical to those propounded by the bourgeois educational economists and the neo-marxist authors of the "Materials" (13). "In the course of the scientific-technological revolution," they maintain, "the mental capacities of the workers become increasingly important; the requirements for education and qualification are on the rise." "In the long run the basic trend consists even under state-monopolistic conditions of a higher development of the average level of skill in the labor force. In the long run it is not sufficient just to expand the percentage of highly qualified manpower in order to accelerate technological progress for profit's sake. The labor objectified in the means of production is only substitutable to a limited extent. Objectified and living labor must create an inter-related, dialectical unity if the development of productivity and the resulting increase in the rate of profit are not to be impeded." (14) Thus, in Stamocap theory too, changes in occupational skill requirements and educational policy are derived from technological developments. The institutionalized imperative of the organization of labor in capitalist enterprises, the principle of profit maximization, is entirely disregarded. Rather technological progress is regarded as the immediate and decisive determinant of skill requirements. Though Stamocap tries to keep profit maximization in mind, it is in fact insignificant for its analysis.

al Research), using categories developed by Clark and Fourastie, has established that the service sector, which is expanding at the cost of the industrial and particularly the agricultural and the extractive sectors, is especially skill-intensive. Thus, they see a rising demand for better qualified workers as a result of this basic shift in the economy(3). Secondly, technological innovation and rationalization is assumed to have an impact on the development of the demand for skills within specific areas of work. The economy's use of scientific and technological know-how and means leads to a rise in skill requirements. Edding, for instance, explains the assumed increases in skill level in terms of intra-plant division of labor:

'It is inherent in the logic of technology that machines gradually replace people wherever uniform, repetitive functions are required. At the same time, higher performance standards are demanded of scientists, leadership personnel and operators charged with the research, development and maintenance as well as the rational utilization of these increasingly complicated technical systems.' (4)

In this view machines are taking over routine functions and the increase in the number of skilled jobs has expanded the demand for highly qualified workers. Thus, those who do not have the requisite, increasingly longer formal schooling are no longer able to meet the rising skill requirements. However, the increasing employment of technical experts is said to create a situation that threatens to paralyze the labor market and to interrupt the steady flow of technical innovations. This is because knowledge and capabilities are less and less transferable to other job categories or to new jobs which arise in the course of technological rationalization. It is not only the jobs which the individuals have to perform that have become more specialized; it is maintained, that the requisite qualifications for these jobs have likewise become more specialized; consequently skills are only applicable to a shrinking number of jobs whose life-span is becoming shorter. Thus, workers run the risk that their occupational skills may no longer be wanted; the result is said to be unemployment due to the unsuitability of workers' occupational skills to the changing skill requirements of the economy.

This pattern of generally rising and increasingly specialized skill-requirements is said to restrict the full use of the technological potential if the labor force is not constantly adapted to the changing structure of jobs. This is because new and more advanced means of production can only be introduced if a labor force is available which can meet the requirements of highly specialized technical jobs(5). It is assumed that the rate of obsolescence of human skills and knowledge depends on the speed of technological progress. Because the speed of technological progress is accelerating, educational economists conclude, that it is an increasingly urgent task of the educational system to counteract the constant obsolescence of occupational skills.

In response to the question of how the skills of the labor force can be best adjusted to technological progress, von Weizsaecker discusses how to spread the education process over a person's whole lifetime(6). His basic

concept is that formal education and training can no longer be restricted to the phase of a person's life prior to entering the labor market. Because the educational system can react more flexibly and reach more people if it is expanded to include adults, education and training programs must be spread over an individual's entire occupational career.

The European Council, in a summary of several studies on this issue that it has sponsored, reached a similar conclusion: "The solution to this significant educational problem of coping with the tremendous growth in the demand for education thus does not lie in the extension of pre-job training, but rather in the systematic development of continuing training and education within a comprehensive and coordinated system of continuing education." This is deemed necessary because: "The speed of technological and social change has become so great that we cannot expect the professional, social and personal knowledge and expertise that an individual may possess as the result of his completed education to suffice for more than a few years." (7)

The above sketched assumptions and claims of educational economics have been widely used, both to justify political demands for educational reforms and to explain emerging trends in educational policy. Even theoretical positions which think of themselves as Marxian, and criticize educational economics as a bourgeois discipline, concur in the essential elements of this analysis. Although they arrive at their conclusions in a different way and for different reasons, authors of "Materials on the political economy of the education sector" present a quite similar model to explain the interrelationship between technological progress, job structure, the structure of skills in the labor force and the educational system (8). For Hinrichsen and Koehler the fundamental problem of capitalist educational policy is the "complementarity between technological progress and skill structure." (9) In express agreement with the assumptions of educational economics, they maintain that technological progress determines skill requirements in industry and has recently caused them to increase. "The development of machinery as a result of technological progress—above all the increasing automation of production that is characteristic of the latest development—requires to an increasing degree specifically qualified manpower." (10) In another article of the same reader Huisken also assumes an increase in skill requirements (11a). However, he maintains, this change does not affect the bulk of the single workers, but rather the skill structure of society as a whole. This category includes not just technical but also social determinants of the job structure. He argues that scientific progress has expanded the amount of knowledge and ability over which society disposes and thus raises its skill level. He warns, it cannot be deduced from this general societal trend that individual workers necessarily participate in this scientific progress by means of extended education. "Not infrequently just the opposite happens." (11b)

Technological and Social Determinants of the Relationship Between the Educational and the Employment Systems.

As we have seen, technological progress occupies a very prominent position in the approaches to educational economics sketched above. All three regard it as directly determining the job structure and thus indirectly determining educational policies. To begin with, this assumption can be criticized by pointing out that, while it is true that the level of technological development is indeed significant in defining occupational roles, there are also other determinants which must be taken into consideration.

Janossy has pointed out that the skill requirements for individual workers need not necessarily rise due to the expansion of the technological capacities of a society: "It is thus possible, in principle, that with progress the unified knowledge, above all that objectified in the means of production, grows in each individual work process, although—as a result of the fragmentation of the total body of knowledge—the personal knowledge of each individual worker (also in the production of the means of production) decreases." (15) If the relationship between technological development and skill structure is only a loose one, then it is necessary to look for additional, non-technological, social factors in order to explain skill levels of the workers actually required. In fact, however, Janossy develops a technocratic argument, for example, when he points to the parallel development of educational policies in societies with and without private ownership of the means of production. "In the economically highly developed countries," the amount of education necessary fell at first as a result of the "introduction of machinery into production" and then began to rise again, after a particular stage of technological development had been achieved (16).

Janossy could only avoid the charge of propounding a basically technocratic theory of convergence by specifying the common, non-technological determinants of eastern and western European societies, which result in a similar pattern of work organization and educational policies. Aside from the fact that he concedes more advantageous possibilities for state planning to the societies without private ownership of the means of production, he provides no criteria for a discussion of the socio-structural determinants of the development of the division of labor within enterprises and of educational policies. In this respect, his attempt to cite Marx is unjustified. In contrast to Janossy, Marx constructs no relationship between skill requirements and technological progress, but rather between skill requirements and the development of capital. "Intelligence in production expands in one direction, because it vanishes in many others. What is lost by the detail laborers, is concentrated in the capital that employs them" (17). The difference between capital and machinery, which Janossy and the other authors we have mentioned neglect, is, however, decisive in this context. This is because the concept of capital does not characterize just a "thing", but rather a specific structure of social relations which the work-

ers are forced to enter into, both within the factory and outside of it. These social relations also shape the technology and design of machines and technical procedures, as well as their organizational context. The impact of technological progress on skill requirements can only be understood by taking into consideration this social dimension of machines *qua* capital. This structure of social relations is expressed in the form of occupational roles and the skill requirements which they institutionalize.

In an empirical study of the requirements of industrial production, Bathge et al. have distinguished two mechanisms by which the occupational roles of workers are structured according to the economic conditions of private enterprises (18).

On the one hand, enterprises are in a position to determine the form of occupational roles by organizational means, for example Taylorism. On the other hand, the instruments of production, the machines themselves, can be partially adapted to the organizational conditions set by the productive relations prevalent in a society. This is because the construction principles of machines dictated by the sciences do not completely determine their industrial-technological form and application, rather they only provide a general, loosely-knit framework (19).

Technological rationalization as a cost-saving co-ordination of means to ends, has not only a technological dimension, but essentially a social one. This means that it is basically a question of which costs are taken into consideration in defining efficiency or rationality as criteria for the construction of machinery and the organization of work. This, however, is determined by the structure of interests and power in a society not just by natural necessity of scientific principles. Gorz, in an analysis of the class situation of technicians, also points to this fact: "Science and technology are not independent of the ruling ideology, nor are they immune to it. As the forces of production, they also carry the seal of the capitalist relations of production, because they are subordinated to this production process, integrated into it and subject to its influence." (20) The particular relations of production under which technological possibilities are developed influence not only the purpose for which the means of production are used, but they also determine their inner structure (21).

One could still cling to the view that observable changes in the structure of skills in the labor force can be attributed to technological progress; it could be argued that the capitalist character of work organization—though possibly an important intervening variable—has in fact not significantly changed. However, this argument overlooks the fact that changes in the organizational form of work have indeed taken place. The increasing state-interventionism and the monopolization of markets are two such major changes in the societal form of the organization of work which—though they have not changed its capitalist character—are indeed important for the structure of jobs and for the development of educational policy. In addition, as we have seen, societal and technological determinants of work

roles can only be distinguished analytically; to separate out technological and social factors is to confuse an analytical distinction with reality.

Because of their technocratic approach, the theories of educational economics sketched above are unable to perceive the impact of the *social* determinants of the organization and technology of work on skill requirements. As a result, their assessments and predictions concerning the development of skill requirements are deficient. In addition they overlook the fact that the educational system performs other functions besides that of merely providing technically qualified workers. For example, the educational system plays an increasingly important role in the process of status allocation which involves much more than matching the skill requirements of jobs with technically competent workers.

The functioning of a specifically capitalist enterprise necessitates, for numerous reasons, the organization of work in a way that leads to the downgrading of skill requirements. Marx explained why this is so in the first volume of *Capital*, in the chapter on industry. Under conditions of production in which the product of their labor is taken from them and the most important decisions are made against their basic interests, it cannot be expected that workers will identify with their job and be motivated to perform it with any real interest. Rather they must be *compelled* to do their job and increasingly sophisticated strategies are required to extort greater quantities of work. To the degree that positive sanctions or identification with the work is lacking, work tasks must be more and more completely and unambiguously defined in order to secure their diligent and docile performance. Only in this way can job performance be subjected to external controls and the intensity of work be compelled by the threat of firing or other sanctions. The principle means within an enterprise for limiting the freedom of action of the employees are the orders of immediate supervisors, institutionalized norms and work rules, and finally so-called technical requirement regulations of behavior which are institutionalized as operating procedures for technical equipment. Technical progress makes it possible to adjust the technology of production more flexibly to the requirements of surplus value creation (*Kapitalverwertung*) and to subject workers to more complete compulsion, i.e. all possibility of individual discretion can be eliminated more radically. Work, however, which leaves little room for intellectual activity or initiative can be termed unskilled.

Reducing the skill level of jobs offers several further advantages for profit maximization: less skilled workers are in a weaker bargaining position vis-a-vis the employer, because they are easily replaceable and dispensable; thus they are hardly able to defend themselves against unfavorable working conditions. The interchangeability of unskilled workers is moreover a necessity for capital, because it makes possible more flexible adjustment to market movements. When business is bad and profits and orders are down, a firm can frequently only avoid financial catastrophe by shifting the entrepreneurial risk onto a large number of the employees. Those firms

which at such times can quickly reduce their number of employees save a great deal in wage costs. They can only afford to do that if they can be sure of finding suitable workers again at the end of the crisis. This is easier when the firm's management has organized the work process in such a way as to basically reduce skill requirements and accommodated them to the average cultural level of competence. Where a higher level of skill is not required for the performance of work tasks, women (in the 19th century children), immigrant workers or other groups with relatively limited training can be hired. This is especially advantageous because employees in these groups must accept unusually low wages. A firm that is dependent on a highly qualified and specialized labor force loses all these advantages.

A shift in the skill requirements of the economy does not necessarily, as the approaches sketched above suppose, lead to changes in the educational system. Skills are not only acquired through *formal* education but also *informally* on the job, i.e. learning by doing. This means in turn that an expansion of the educational system is not necessarily to be attributed to a rise in skill requirements, but might just as well have come about as a consequence of declining *informal* chances for learning (22). In handicraft production, in preindustrial manufacture and still in the management of capitalist industrial enterprises, learning by doing is the typical form of occupational socialization. The industrialization of production has since the 19th century reduced the opportunities for the acquisition of occupational skills through practical experience, as well as the need for highly qualified workers. With a certain time lag, the capitalist rationalization of white collar work follows a similar pattern. Centralization of decision-making authority and restrictive work rules to control and intensify work are increasingly characteristic of white collar jobs. White collar workers too are thus losing that minimum of individual decision-making and autonomy necessary for the acquisition and expansion of skills through practical experience on the job.

Where managerial and administrative work is not fully de-skilled, work procedures are introduced, which very often do not correspond to the practical experience of the employees; they are developed by special staff sections or consulting firms. Thus even when someone is able to learn on the job, his practical experience becomes worthless.

Everywhere where the capitalist rationalization of work has not completely eliminated skilled labor and where technical work processes must be learned, formal education must replace the vanishing chances for qualification through practical experience, learning by doing.

Because of the technocratic implications the above sketched theories of educational economics treat the process of status allocation, in which the educational system plays an increasingly important role, as merely mediating between the supply of and demand for *technically* qualified workers. However, just as the social division of labor and resulting skill require-

ments must be derived from both *technical* (the level of development of the forces of production) and *social* (the relations of production) determinants, the functions of the educational system must also be analyzed from the perspective of how it contributes to the reproduction of specifically capitalist relations of domination. From this point of view, status allocation does not just mean matching technically qualified workers with appropriate jobs, but also the distribution of differential life chances, which are institutionalized in the hierarchy of social positions. Social inequality and repression that capitalism produces requires legitimation. The educational system contributes to the legitimation of the capitalist society in many ways.

Deference to authority is a behavior pattern inculcated also by educational arrangements that ostensibly only serve the purpose of technical training. This is clear, when one considers the ideological character of the distinction between general education and occupational training which is particularly important in the German pedagogical tradition. The article by Gorz cited above on technical and engineering schools makes some helpful points. In contrast to the other theories sketched, Gorz largely dispenses with the distinction between technical and non-technical skills. The curriculum for technical knowledge as well as the formal organization of the school are regarded as the foundation for a process of socialization in that the technical capacities learned also entail a training for subordination in the hierarchy of the firm. Recognition of the existing structure of authority and limited, system-conforming status expectations are to a certain extent already built into the structure of the technical curriculum itself: "They learn directly applicable specialized knowledge and are trained to determine the appropriate means for realizing a set of objectives without questioning the objective itself." (23) Gorz also regards the work tasks for which technical personnel are prepared as an expression of a specific pattern of authority relations. The *technical* operating rules and procedures correspond to work tasks and means to be used which—as we have seen—essentially are a consequence of the *social* relations within which work is organized. Hence the science of work organization and industrial engineering is only seemingly of a purely technical nature; in fact it bears the characteristic imprint of the authority relations of the capitalist society. Technocratic ways of thinking exclude consideration of this social dimension of production techniques and technical regulations. They are presented as something objective whose rationality is not affected by the specific social relations in which they function. When technology is in this sense technocratically defined, instruction will not help the individual to become aware of his own interests and to discover how specific techniques of production affect him. It is a characteristic of technical training to hide the social content of technical procedures to be learned behind a veil of technocratic ideology.

Educational programs which aim to transmit exclusively technical skills serve to disseminate ideology also in another way. This is the conclusion of

several theoretical and empirical studies that deal with experiences of students beyond those set forth in the explicit curriculum of the school. They indicate that the formal organization of the school itself inculcates the students with forms of communication which induce definite patterns of behavior, without having introduced them intentionally into the curriculum. For example, Snyder has investigated the formal structure of American colleges, the group structure within classes and finally, the psychological predispositions of students subjected to this social structure. The organizational arrangement of the instruction is shown to have a very great impact on the behavior of the students. Several factors are pointed out: the status insecurities of the teachers and their anxieties; the institutional possibility of basing their authority on grades instead of on arguments; a group structure among the students fostering severe competition for grade status, aided by strict informal sanctions capable of ensuring group conformity; and finally the awareness, that the degree of success achieved at such an institution will have a profound effect on later occupational success, hence on general life chances. All these serve to relativize the significance of the overt curriculum whose formal content does not usually bear serious and critical examination anyway. This experience outside the formal curriculum plan is so profound in its implications that it can be called a "hidden curriculum." (24)

In a detailed analysis, Gintis shows that the structure of social relations in schools, the system of formal and informal authority and control, of assessment and grading reproduces the capitalist work environment. Thus, formal education is conducive to the development of traits in students, which are a requisite for adequate job functioning in production characterized by bureaucratic order and hierarchical control. Formal discipline, extrinsic (exchange value) work orientation, competition and individualist career orientation, and cognitive nonaffective modes of response are highly rewarded in school, whereas creativity, solidarity, intrinsic interest in the goal of education and the development of individual sensitivity find hardly any support (25). The ideological content of so-called general education subjects such as German, Social Studies, or History has also been established in numerous studies and need not be discussed in detail here.

Besides the socialization process the educational system performs functions which have nothing to do with education at all. According to several empirical studies, occupational status has become much more closely linked with the attainment of specified academic degrees since the turn of the century; this however does not mean that specific formal educational programs by their content prepare students for the mastery of particular occupational tasks. Rather it is to be assumed that in a great many cases diplomas do not certify any special technical competence necessary for the performance of a particular occupation. The question then is, why is it advantageous for a firm to use educational degrees as a selection criterion? They are useful for several reasons.

For one thing, the formal degree makes it unnecessary for the hiring officials to individually examine each candidate; it is thus a very convenient criterion for a centralized bureaucracy to use. It is even more important since with a discontinuous skill structure and loose personal supervision there is hardly any other chance for those responsible to judge competently the ability of the subordinate. Hence they must make promotion decisions on the basis of indicators which do not always say much about the individual's actual competence. Moreover, given the variety of degrees in the hierarchically ordered educational system, status distinctions within the firm can be easily justified; the idea that a degree is a reliable indicator of individual competence is widespread and still largely unshaken. It helps those who are successful to legitimize their privileges and leads those at the base of the status pyramid to blame themselves for their disadvantages. "The production of failures is just as important for the reproduction of hierarchical social relations as the production of graduates: a given percentage of youth must, by means of the seemingly objective selection process of the school, be convinced that they are only fit to be unskilled workers. They must be convinced that their lack of success in school is not a *failure of the school* but a consequence of their own personal and social inferiority." (26)

A further example of the integrative function of the educational system is provided by the development of higher education in the USA. A prominent reason for the expansion of the college system in various states was to absorb the large number of high school graduates who could find no employment because of the chronic economic crises; their unemployment might easily have led to severe social discontent. Through institutional means they can be expected to define their status as that of students—a status which implies modest material claims and suggests, moreover, that expectations of occupational success be optimistically postponed until the future (27).

It becomes clear that continuing education increasingly propagated by OECD can have a very similar pacifying function. If in fact continuing education is possible for everyone at any time, or at least *appears* to be a possibility, then the status deprivation that individuals experience would no longer appear to be final. The conviction that they could improve their social position any time through continuing education lets their deprivation seem temporary and raises new hope of individual advancement. Moreover, it fosters in those who are unsuccessful the notion that they themselves, their own personal incapacity, is to blame for their misery. Individual career orientation and its correlate, a personalizing interpretation of social constraints and sources of injustice, serves the existing capitalist system of rule by strengthening its ideology.

In addition the institutionalization of continuing education broadens the possibilities for state intervention in the labor market. During the present recession in West Germany, the state has devoted increasing attention to

continuing education programs as a way to combat unemployment. The fact that employees with relatively inferior education are more frequently unemployed than their better qualified colleagues seems to support the idea that better education increases, and in the long run, stabilizes the utilization of manpower. Investigations of the causes of unemployment have, however, shown that lack of skill and other personal characteristics are not the usual causes of unemployment. Consequently it cannot be assumed that coping with unemployment by means of continuing education will fight the causes of unemployment. The main function of continuing education is to remove not *improperly qualified* but *excess* manpower from the labor market. This way to organize unemployment is useful because the integrative value of continuing education and of work are to a certain extent functionally equivalent. As we have seen in formal education an institutional discipline can be easily established that corresponds to that in the work place. An additional advantage is that in this way the state can give material support to the unemployed without further loosening the connection between individual achievement and material well-being—and thus undermining the ideology of personal achievement. This is because continuing education can be understood as a substitute for work, educational achievement as achievement of a different sort. Thus, in order to avoid the danger of political radicalization the state can support the unemployed without violating the ideological foundations of worker's discipline.

We shall not speculate here further on the non-educational functions of formal education. What should be clear is that education may be institutionalized for reasons other than the skills transmitted by the overt curriculum or in response to the skilled manpower requirements of industry. We must recognize "that trends and motives in educational policy are to a considerable extent a reaction to structural legitimacy-problems of a society." (28) Because the educational system is capable of performing numerous tasks, and multifunctional educational reforms can be variously interpreted, the cooperation and support of social and political groups with heterogeneous interests can often be secured. Thus reforms or expansion of the education system can unite differing interests in a common educational policy, thereby successfully integrating these various groups (29). Therefore one has to examine in detail whether transmitting technical skills, inculcating cultural value-orientations, or even functions totally unrelated to education are the crux of the relationship between the educational system and the employment system. Otherwise, by identifying the functions of the school with its own pretensions, the analysis runs the risk of merely repeating popular conceptions of the purpose of schools (30). Consequently one has to keep in mind that *each* of these possible functions of the educational system can be the object of the interests of a particular group or class. The function that is the focus of such a group interest need not be the same function that the analysis determines to be essential—ac-

ording to explicit criteria of relevancy. The identification of skill requirements with politically articulated educational interests and observable developments in educational policies, all of which are undertaken or deemed possible by the studies under discussion, implies providing an explanation of educational policy based on a model of rational action which largely ignores societal contradictions and constraints. This type of explanation is more closely related to the ideal-types of rational activity of Max Weber than to the political economy of Karl Marx.

Altvater, for example, asserts that: "The educational economics based on the manpower approach leads to a strictly economic definition of the educational system with respect to educational planning." (31) Even if the assumed demand for skilled labor had led the lobbyists of capital to commit themselves to certain changes in the educational system, it would be necessary to demonstrate the conditions under which the type of corporate strategy could be successful. That the intent and the consequences of social action may differ and that their incongruity is most often deserving of examination, is a common theoretical insight not peculiar to bourgeois social theory. The idea that capitalists formulate their interests with the aid of science and subject—successfully—the development of social reality to these plans borders dangerously on conspiracy theory (32).

The Expansion of Formal Education and the chances for Political Education

In the last two sections we have looked briefly at various theses on the relationship between the educational system and capitalist division of labor, particularly with respect to the sources of the expansion of education. It became apparent that for most of the authors there is a correspondence in at least one respect between those social interests urging a change in the educational system and the results of its development: the labor market is dependent on the growing number of qualified personnel provided by the educational system. Discrepancies exist only to the extent that the output of the educational system has not been able to keep pace with the demand for better qualified graduates.

A further important function is attributed to the scientific-technological revolution by the theories sketched above; they all imply that longer formal education contributes to the spread of a democratic consciousness. The expansion of formal education according to Stamocap theory, leads "with almost fatalistic certainty for monopoly capital" to a situation in which the "intellectual and cultural needs of working people" will be awakened in a manner not at all intended. "This means not only a tremendous rise in demand for education and scientific knowledge, but that the basic democratic demand for the destruction of all educational privileges receives new impetus." (33) This concept of a coincidence between technologically based skill requirements and a humanistic interest in the development of the individual personality through increased formal education is also expressed by Edding: "The educated person gains full maturity and inde-

pendence above all as a result of occupational ability. A thoroughly acquired occupational competence is the core of being educated." (34)

It is indeed questionable whether this hope, that the economic interests of the corporations will support educational expansion, is justified, within the framework of the existing social order. There is, even under circumstances of changing production technology, hardly any need to increase the technical knowledge of most workers. In addition, it would still have to be demonstrated that scientific-technological know-how can lead so simply to those humane and rational qualities for which Edding makes a plea and which are also to be found in the programs of political groups whose ideological platform is provided by the theory of State Monopoly Capitalism.

Even Altwater proceeds from the assumption that, with the rise in skill requirements based on technology, or rather with their more rapid qualitative change, the possibilities for individual autonomy on the job as well as in politics increase. "The progressive component of the 'moral devaluation' of skills consists in the fact that the individual in possession of occupational skills is provided access to a wide spectrum of various occupations and activities in his field of work. This development can provide an escape from the boredom and dullness of life-long stupid work and broadens the possibilities for independent creativity and social cooperation." (35) However, Altwater does point out that the critical consciousness emanating from a broad education presents a threat to the capitalist relations of production and thus repressive measures must be undertaken in order to ensure ideological conformity. "One narrowly specialized skill will be replaced by another if this appears to be necessary. Dullness thus becomes a constituent aspect of economic development in capitalism." (36) In addition to curricular manipulations which replace possible broader education by short-term and limited adaption of individuals to rapidly changing skill requirements, direct political repression by the state serves to discipline the labor force.

Gintis is even more pessimistic in his appraisal of the impact of formal education on the development of a critical, democratic consciousness. In his analysis, he distinguishes between cognitive and affective capacities, which corresponds roughly to the distinction between technological and non-technical social qualifications. These non-technical social capacities describe predominantly those qualities which make the individual ready and able to subordinate himself to the command structure of the factory. Gintis views this process of subjection as one of the major services of the educational system. He stresses the structural affinity between the student role and occupational roles in bureaucratic industrial enterprises and points out that the function of formal schooling consists precisely in indoctrinating its students with the type of conformity and adaptability that is expected from them in the workplace (37).

As we have seen earlier, Gorz arrives at a similar evaluation of schooling. Only with work experience do technical experts learn that their modest expectations of a certain degree of autonomy and further development of

their skills will be frustrated. How they react to this deprivation depends largely on their contacts with the working class. A commitment to reformist or facistoid tendencies is as equally possible as resignation or an opposition to impending proletarianization. Gorz considers linking up with the proletariat to be the most probable course of action. This is due not only to experience gained during the formal education process, but also to the objective trend toward proletarianization on the job. "Yet with the general trend toward continuing education and technicalization (or 'intellectualization') of work, this distinction between the 'old' and the 'new' working class—at least among younger workers—becomes untenable." (36) Even the technicians, according to his thesis, will learn that they will become the proletarians of the "technotronic society" (Gorz). This is substantiated by their experiences in school which make it clear that identifying with specific professional aspects of their later work role is senseless: "Their revolt against the stupid and repressive school system already points to their future revolt against the repressive organization and hierarchical division of labor." (37)

With the exception of Gorz, who for the most part equates technological and non-technical social capacities, and Gintis, who does not consider school to be very important for the communication of cognitive capacities, the idea that technological capabilities can be transferred to political subjects and can lead to critical insights is common to all these theories. For Marxist theoreticians this results in revolutionary opposition against capitalist society; for those authors, who seem to approach their problem from the perspective of a social integration, rather than a conflict model, it leads to social change of a reformist nature.

Most of the theories touched upon here agree that the school system is primarily effective via its educational achievements. Only because schools turn out individuals with certain cognitive skills and value orientations, do they contribute to the integration or disruption of social relations. This idea implies that the individuals have internalized the teachings of their schools so firmly that they will cling to these even in the face of deviant subsequent experiences, for example, in the restrictive organization of work. It is indeed questionable whether the school can exercise such a deep and lasting influence on the individual. Neither schools as an institution, nor the cultural value systems and traditions which they have incorporated into their curricula seem to be in a position to invoke such authority. The affective distance between schools and the students is clearly reflected in the complaints of teachers of all persuasions concerning the apathy and lack of interest of pupils (38).

This might be the reason why Offe does not support his speculations on a legitimation crisis caused by formal education on arguments referring to the stable internalization of an overt or hidden curriculum. He has focused not on the socialization process in schools, whose functional or dysfunctional effects appear only *after* the students have moved on to other social

spheres, but on the *current* integration of individuals in the school system. Offe contends that the basic social role of more and more people, the role which is the basis of their personal identity, is located outside of the employment system. The expanding school system represents a social sphere in which increasing numbers of individuals are integrated. He argues further that the "logic" of the social integration of individuals within the school, and the behavioral constraints and possibilities that *currently* exist there, conflict fundamentally with the modes of social integration that characterize the labor market. Thus, contradictions between the educational and employment system do not arise as a result of a *completed* process of socialization in the school (because it has led to the internalization of certain cultural value orientations); nor is it a question of frustrated expectations among individual school graduates which leads to conflict. Rather social integration is threatened by conflicts rooted in the divergent and contradictory organizational principles of the educational and employment systems. Thus, it is not the *school graduates*, but rather the *members* of the school and college/university system who attack the principles of the social system as a constantly expanding fringe group (39). However, if the analysis and evaluation of formal education by Gintis and Gorz is correct, then there is hardly any reason to expect that people organized and integrated by institutions of formal education will tend to political behavior more critical than that of people working in factories and offices.

This question like others sketched in this essay will receive further, and more detailed, consideration in a later issue of Kapitalistate. Anyone who is doing research on the political economy of education who wants to join the discussion organized by Kapitalistate concerning capitalist division of labor and skill requirements in German industry, the monopolization of markets and the expansion of formal schooling, causes and functions of the development of Fach- und Fachhochschulen (educational institutions on the sub-university level) in Germany, changes in class consciousness in the course of adult education, capitalist technology, skill requirements and its impact upon Third World countries, are being prepared and are under discussion.

1. An extensive discussion of neo-classicist approaches to this problem can be found in: Enno Schmitz *Das Problem der Ausbildungsfinanzierung in der neoklassischen Bildungsoekonomie* (The Problem of Education Finance in Neo-Classical Education-Economics). Berlin: Max-Planck-Institut fuer Bildungsforschung, 1973 (Studies and Reports, Vol. 27)

2 cf. in this respect the survey by Burkhard Lutz, Inge Krings, Jan Fleischer: Ueberlegungen zum Problem des "Bedarfs" an hochqualifizierten Arbeitskraeften und seiner Prognose (Thoughts on the Problem of the "Demand" for Highly Qualified Personnel and its Prognosis). Hochschulinformations GmbH. HIS Newsletter 10, December 1970. A more extensive study is Armbruster's work on the numerous variants of the manpower-demand approach: W. Armbruster, *Arbeitskraeftebedarfsprognosen als Grundlage der Bildungsplanung. Eine kritische Analyse* (The Prognosis of Manpower Demand as a Basis for Educational Planning. A Critical Analysis.) Berlin, Max-Planck-Institut fuer Bildungsforschung 1971 (Studies and Reports, Vol. 23)

3. W. Armbruster, H.J. Bodenfoefer, D. Hartung, R. Nuthmann, W.D. Winterhager, *Expansion und Innovation* (Expansion and Innovation). Max-Planck-Institut fuer Bildungsforschung Berlin 1971 n 28

4. Edding, F., *Oekonomie des Bildungswesens. Lehre und Lernen als Haushalt und Investition* (The Economics of the Education System. Teaching and Learning as Budget and Investment), Freiburg 1973, p. 128

5. After technological progress had been incorporated into analysis, not only as a trend factor, but also as the product of more highly qualified manpower, it became possible to construct a second connection between economic growth, technological progress, and the education system. The rate of economic growth was deemed to be dependent on the qualification of those individuals who develop and propagate new technological processes. Here, educational planning plays both a reactive and an active role. Indeed, it can exert an influence on the speed of technological progress, mediated, of course, by the achievements of the educational system. Cf. in this respect also: Armbruster, W., *op. cit.*, p. 12

6. Weizsaecker, C.C. von, *Zur oekonomischen Theorie des technischen Fortschritts* (On the Economic Theory of Technological Progress). Goettingen 1966, p. 98.

7. Europarat—Rat fuer Kulturelle Zusammenarbeit (European Council for Cultural Cooperation): "Weiterbildung—Eine Synopse aus 15 Studien" (Education. A Synopsis of 15 Studies). In *Mitteilungen aus der Arbeitsmarkt-und Berufsforschung*, Vol. 5 (1972), No. 4, p. 363.

A similar evaluation can be found in Friedrich Edding's study: "Ansaetze zum bildungspolitischen Umdenken" (Approaches to a Re-evaluation of Educational Policies). In Hamm-Bruecher, Hildegard and Friedrich Edding, *Reform der Reform, Ansaetze zum bildungspolitischen Umdenken* (Reforming Reform. Approaches to a Re-Evaluation of Educational Policies). Cologne 1973.

8. Altvater, Elmar and Huisken (eds.), *Materialien zur politischen Oekonomie des Ausbildungssektors*. (Materials on the Political Economy of the Education Sector). Erlangen 1971.

This collection of essays by numerous authors is tentative in nature. The authors differ in their evaluation of several questions. The essay from which I shall quote in the following is by D. Hinrichsen and K. Koehler, "Buergerliche Theorien—Darstellungen und Kritik" (Bourgeois Theories Report and Critique). In Altvater, Elmar and Huisken, Freerk: *op. cit.*, p. 11. The essay is one of the most important ones contained in the volume. The views expressed in the following are shared by numerous other essays published in that reader.

9. Hinrichsen, D. and K. Koehler, *op. cit.*, p. 38.

10. *Ibid.*, p. 41.

11a. Huisken, F., Kurzdarstellung marxistischer Kategorien, die zur Kritik der buergerlichen Bildungsoekonomie dienen koennen. In Altvater E. und Huisken F., *op. cit.*, p. 188.

11b. Huisken, F., *op. cit.*, p. 183.

11c. Hinrichsen D. and K. Koehler, *op. cit.*, p. 47.

12. Author's Collective: "Imperialismus in der BRD" (Imperialism in the FRG). Berlin, GDR 1971, and *Sozialistische Politik* (SOPO) k, No. 7, Berlin, GDR 1971.

13. Cf. Baethge M., "Abschied von Reformillusionen" (Goodby to Illusions about Reform). In *Betrifft Erziehung*, No. 11 (1972), p. 22.

14. SOPO, *op. cit.*, p. 58.

15. F. Janossy, *Das Ende der Wirtschaftswunder* (The End of the Wirtschaftswunders). Frankfurt a. M. 1966, p. 208. Emphasis in the original.

16. F. Janossy, *op. cit.*, p. 221.

17. K. Marx, *Capital*, Vol. I, New York 1973 (New World Paperbacks), p. 361.

18. Cf. in this respect also: Wienemann, E., Baethge, M., Gerstenberger, F., and H. Kern *Produktion und Qualifikation. Eine Vorstudie zur Untersuchung von Planungsprozessen im System der beruflichen Bildung*. (Production and Qualification. A Preparatory Study on the Examination of Planning Processes in Professional Training Systems) Forschungsberichte des Soziologischen Forschungsinstituts Goettingen (SOFI), Goettingen 1973, p. 100.

19. Cf. also: M. Popitz, H.P. Bahrtdt, F.A. Jueres and M. Kesting *Technik und Industriearbeit* (Technology and Industrial Work), Tuebingen 1964, p. 190.

20. A. Gorz: "Technologie, Techniker und Klassenkampf" In A. Gorz, *Schule und Fabrik* (Technology, Technicians and Class Struggle) In A. Gorz *School and Factory*, Berlin 1972, p. 22.

21. Cf. also: Harvard University Program on Technology and Society, *Technology and Work*, Research Review, No. 2, Cambridge, Mass., Winter 1969, p. 1.

22. See Susanne Keller and Richard Vahrenkamp "Zum Funktionswandel des Bildungssystems" (On the Changing Function of the Educational System), published manuscripts.

23. Gorz, A.; *op. cit.*, p. 43.

24. B. Snyder, *The Hidden Curriculum*. New York 1971; H. Gintis: "Towards a Political Economy of Education," In *Harvard Education Review* 42, No. 1, p. 70, "Education, Technology and the Characteristics of Worker Productivity" In *American Economic Review*, Vol. 61, 1971, p. 266; Illich, *Entschulung der Gesellschaft* (De-Schooling Society), Munich 1972.

25. Gintis, H., "Education, Technology and the Characteristics of Worker Productivity" In *The American Economic Review*, Vol. I, May 1971, pp. 266-279.

26. Gorz, A.; *op. cit.*, p. 43.

27. Cf. J.H. Rowntree, "Youth as a Class" In *International Socialist Journal*, Vol. 25, 1968.

28. Claus Offe, *Bildungssystem, Beschäftigungssystem und Bildungspolitik—Ansätze zu einer gesamtgesellschaftlichen Funktionsbestimmung des Bildungssystems* (Educational System, Employment System, and Educational Policy—Approaches to a Functional Definition of the Educational System for Society, unpublished manuscript, July 1973, p. 41.

29. Claus Offe., *op. cit.*, p. 42.

30. Cf. also Enno Schmitz, "Was kommt nach der Bildungsoekonomie? Zu Versuchen mit einer politischen Oekonomie des Bildungssystems" (What Follows after the Economics of Education? On Attempts at a Political Economy of Education) in *Zeitschrift fuer Paedagogik*, Vol. 19, 1973, No. 5.

31. Elmar Altvater, "Gesichtspunkte zur Strukturierung der Diskussion ueber H. Rieses: Die Entwicklung des Bedarfs an Hochschulabsolventen in der BRD." (Aspects of Structuring the Discussion of H. Riese's: "The Development of the Demand for University Graduates in the FRG") in Altvater, F. and Huiskens: *op. cit.*, p. 62.

32. "Even if the political strategies and practices of the major international corporations do indeed appear to coincide with the most pessimistic theorems of vulgar Marxism, we must still subscribe to the thesis presented in the introduction to the Erlangen compendium: 'Existing educational policies cannot be understood merely on the basis of the interests behind them. They must be studied in view of the necessities and struggles determined by the conditions of reproduction under specific historical circumstances.'" Altvater, E. and F. Huiskens: *op. cit.* Introduction, p.viii. In other texts, Altvater has extensively demonstrated that the theoretical model provided by stamocap theory is incapable of sufficiently explaining the manner in which the bourgeois state operates (consequently, this also holds true for development trends in educational policy.) Cf. on this point: Altvater, E., "Notes on Some Problems of State Interventionism" in *Working Papers on the KAPITALISTATE*, No. 1, 1973, pp. 96-108.

33. *Imperialismus in der BRD* (Imperialism in the FRG), *op. cit.*, p. 538, quoted after M. Baethge, *op. cit.*, p. 22.

34. Edding, Friedrich, "Ansätze zum bildungspolitischen Umdenken" (Approaches to the Re-Evaluation of Educational Policies). In Hamm-Bruecher, H. and F. Edding, *op. cit.*, p. 15.

35. Altvater, E., "Krise und Kritik—Zum Verhaeltnis von oekonomischer Entwicklung und Bildungs und Wissenschaftspolitik" (Crisis and Critique—On the Relationship between Economic Development and Policies of Science and Education). In Leibfried, S., *Wider die Untertanenfabrik* (Against the Factory of Subjects). Cologne 1967, p. 55.

36. Altvater, E., *ibid.*, p. 55.

37. Gintis, H., *op. cit.*, p. 261.

38. Gorz, A., *op. cit.*, p. 46.

39. Edelstein, W., *Struktur, Prozeb, Diskurs—Vorueberlegungen zu einer strukturellen Curriculumtheorie* (Structure, Process, Discourse—Prolegomena to a Structural Theory of Curriculum). Max-Planck-Institut fuer Bildungsforschung (unpublished manuscript), Berlin, March 1973, p. 22.

40. Offe, C., "The Abolition of Market Control and the Problem of Legitimacy (I)" In *Working Papers on the Kapitalistate*, No. 1, 1973, pp. 109-116.

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The Fiscal Crisis of the State : A Review

San Francisco Bay Area Kapitalistate Group

I. Introduction

James O'Connor's *The Fiscal Crisis of the State*, like Paul Baran and Paul Sweezy's and Paul Mattick's work, formulates a U.S. Marxist interpretation of capitalism's present fate. In *Monopoly Capital*, mainly written (though not published) in the late Fifties and early Sixties, Baran and Sweezy argue that advanced capitalist societies can only consume their huge surpluses through war and waste. Their thinking was deeply influenced by the United States' huge productive capacity and its unchallenged postwar hegemony. Later, in his less influential work, *Marx and Keynes*, Mattick pointed out some of the inherent limits to the state's capacity to shape and dispose of this surplus. The U.S., it seemed, was experiencing the beginning of the breakdown of its Keynesian solution. By the late sixties, domestic revolt, the failure of an imperialist war, and threatening international competition demonstrated that a more integrated political and economic analysis was necessary. It is to these conditions which O'Connor addresses himself.

O'Connor's book underscores several important modulations in Marxist theory. Dogmatic Marxism has in the past held the notion that the state is merely the capitalists' "executive committee," yet Marx also noted that

The State and the structure of society are not, from the standpoint of politics, two different things. The State is the structure of society (1).

With other contemporary Marxists, O'Connor argues that the state is itself a complex structure of authority relations bearing (perhaps requiring) a certain degree of autonomy, and is by no means a simple instrument for specific capitalists or even capitalists as a whole. This matter has been analyzed, for example, by Claus Offe (2).

O'Connor develops this insight into a theory of how and why the state's functions have grown and what kinds of stresses, particularly budgetary stresses, have resulted. Bourgeois economists (only some of whom express alarm at or even interest in the steadily growing volume of state activities) theorize that public expenditures reflect aggregate voter preferences, an

This review of Jim O'Connor's book is the outcome of lengthy discussions within the Bay Area Kapitalistate group, of which O'Connor is a member. As we tried to clarify the meaning and import of O'Connor's work, we also reformulated in part his categories and analysis. In this sense, the review is truly a collective working paper in which we attempt to show the contribution of this book, its shortcomings, and the directions in which further theoretical and empirical work is needed.

assumption many such economists admit is politically naive. Many therefore restrict themselves to judging whether state activities in specific cases are efficient. They thus fail to explain the rationale behind the burgeoning state budget and the process by which it grows. For their part, political scientists who analyze the budget process rely on a purely descriptive behavioralism, stressing proximate decision rules of political elites.

The Fiscal Crisis of the State, on the other hand, develops a more structural theory of public finance. O'Connor distinguishes three components of the U.S. economy: the monopoly sector, the competitive sector, and the state sector, each of which employs roughly a third of the workforce. It is his discussion of the relation of these sectors which makes O'Connor's work so powerful.

The monopoly sector, for example, generates technical innovation and growth under state stimulation and dominates the economy. But O'Connor argues that far from driving the competitive sector out of existence, the monopoly sector steadily regenerates it. Indeed, the competitive sector employs, or rather underemploys, a large population which would otherwise comprise a surplus of crisis proportions. Thus, though the monopoly sector dominates the competitive sector and makes occasional inroads on it, the society could by no means do without the latter.

These complex monopoly-competitive sector inter-relationships impose a number of contradictory requirements on the state sector. Fundamentally, the state must both sustain profits and hold the society together. It must perform both an accumulation function and a legitimation function. This general formulation, however, covers a multitude of specific problems for the state. While it must engage in foreign and domestic policies which advance the interests of the monopoly sector, the state must also attend to the sometimes inconsistent needs of the competitive sector, and above all to the political demands of surplus labor and capital. These varied demands for state activity, O'Connor argues, continually outrun the state's ability to raise revenues. Economic conflicts pile up politically, and inevitably bear a burgeoning price tag as the state socializes more production costs and attempts to find budgetary "solutions" for more political conflicts. But profits are not socialized. The fiscal crisis of the state, in other words, is an endemic condition for advanced capitalist societies (3).

II. An Elaboration of the Basic Themes

O'Connor's monopoly, competitive and state sectors are, at the abstract level, characterized by different modes of surplus value production, appropriation, and realization. The competitive sector is mainly based on absolute surplus value production. It can increase profits only by paying low wages, maintaining poor working conditions, keeping long hours of work, etc. This sector has less capacity for upgrading of productivity; new firms enter easily, and workers are weakly organized. Productivity gains

are passed to the whole economy through the price mechanism, and easy entry tends to limit any firm's ability to expand the scale of production. This sector has historically demanded of the state that it adjudicate and expand markets, restrict imports, fix prices, provide social investment like highways, severely discipline labor, and expand foreign trade.

In the monopoly sector, surplus value tends to be created relatively, although speed-ups and the like are not unknown. Rapid productivity increases go hand in hand with monopoly, the integration of applied science into the production process, large amounts of fixed capital, and a "deal" concluded between dominant capital and bureaucratic trade unions. This "deal," which transforms marginal productivity increases into higher wages as well as higher profits, is intended to insure capital's control over the production process.

Monopoly sector labor, historically well organized, has dominated the development of American trade unions since the late 30's and has helped to produce both economic and political integration. Indeed, just as the AFL represented the conservative tendencies of skilled workers before the New Deal, the CIO, contrary to its "progressive" image, can be said to have performed the same conservative function within the monopoly sector since then.

While James Weinstein, Martin Sklar and other historians have attempted to show how this unequal alliance actually developed, O'Connor seeks to show its structural characteristics. Labor essentially agrees to accept increased productivity as its key goal, disciplines the work force, and grants capital the right to organize work. Capital, for its part, promises high and steadily increasing wages in return. Through this unequal "bargain", the fruits of expansion and technical progress are retained within the monopoly sector. Without this political relationship, the monopoly sector would not exist as it does today.

The state sector does not directly produce surplus, but instead appropriates it to maintain and enhance the conditions necessary for capital accumulation; that is, the state, in the U.S. at least, contributes indirectly to the production of surplus. But to do so it requires legitimacy, which for O'Connor means in practice that it must provide some broad social benefits. Legitimacy, of course, is far more complex than simple bribery, and O'Connor does not use the term consistently nor give the issue the full treatment it deserves.

At some points, O'Connor claims that legitimacy is won by providing social benefits, or, better, by permitting out-groups to establish rights or claims on the state (though the exact amount of the claim will be left uncertain). At other places, notably in the section on fiscal policy and taxes, the legitimacy function involves deliberate concealment of the real purposes of state taxes and spending, namely accumulation. In this latter sense legitimation is a matter of ideological obfuscation (4).

State activities, in O'Connor's analysis, may be described with two main categories: *social capital* and *social expenses*. The first fulfills the state's accumulation function because state expenditures of this type socialize the costs of private constant and variable capital and, all other things being equal, raise the rate of profit. Following the Marxist distinction between constant and variable capital, O'Connor breaks social capital down into two forms: *social investment* (social constant capital) and *social consumption* (social variable capital).

Social investment consists of various projects which increase the productivity of a given labor force. Such things as roads, state-financed industrial parks, manpower development programs, and so forth, are good examples of social investment. *Social consumption*, on the other hand, involves activities which reduce labor costs (the costs of reproducing the labor force) for private capital. Public schooling, social security, medicare, workmen's compensation, underwriting suburban expansion, and other such programs exemplify social consumption.

Social expenses, unlike social capital, are not even indirectly productive; they indirectly stave off economic stagnation by maintaining aggregate demand and maintaining social harmony. Under this heading fall expenditures for repressive and materially coercive forms of internal and external social control. In practice, of course, all state actions contain a mixture of these components. A high school teacher, for example, may convey new skills which increase worker productivity, train a new generation of workers, or simply guard and discipline rebellious youths. Nevertheless, some state actions and agencies do express one or another of these dimensions in relatively pure terms.

One of O'Connor's most interesting and useful points is that the competitive and monopoly sectors create the preconditions for each other, and each requires (sometimes contradictory) activities from the state. In contradistinction to some Marxist predictions that nearly everything will be monopolized, O'Connor argues that the monopoly sector constantly reproduces the conditions for the competitive sector. The monopoly production of automobiles, for example, requires a vast number of competitive filling stations, repair shops, and used car lots.

Second, since monopoly sector growth is created by state-financed new technology rather than expanded employment, the monopoly sector creates a second hand standard of living with "second hand" surplus workers available for low-wage competitive jobs. On the other side, its productive power generates the used cars, second and third hand central city housing, and used clothing and appliances which makes possible low labor costs for the competitive sector.

One of O'Connor's central points, then, is that capitalists in the competitive sector take a back seat to those in the monopoly sector. The monopoly sector is the driving and directing force in the economy, while the competitive sector occupies a secondary and subordinate, if essential,

role in the monopoly sector production process. Though it plays this subordinate role, the competitive sector's openness to new firms represents an illusory frontier for the aspiring petty capitalist and thus preserves for the economic system as a whole the old "entrepreneurial" legitimation.

The analysis of the symbiotic relationships between the monopoly and the competitive sectors (or between the monopoly and the competitive modes of creating surplus value) is one of O'Connor's major conceptual contributions, although it remains suggestive rather than definitive. For one thing, it extends to advanced capitalist societies the analysis conducted in dependent and underdeveloped economies by Baran and more recent authors such as Dos Santos and Cardozo. Unfortunately, while this parallel is implicit in O'Connor's thinking, he does not develop it, nor does he link up his analysis with imperialism. No mention is made of the fact, for example, that labor intensive activities in the competitive sector (e.g., garment and shoe production) are moving to "cheap labor" havens in the underdeveloped countries. Unevenness of development appears, nevertheless, as the *sine qua non* condition of capitalist economic growth and reproduction both within the advanced capitalist countries and within the world capitalist system as a whole.

Though the relationship between the monopoly and competitive sectors is symbiotic, however, it is hardly symmetrical. The monopoly sector's growth, for example, produces both surplus workers and surplus capitalists as, for example, small firms are driven under by larger, more monopolistic ones. A good many such surplus laborers find employment in parts of the competitive sector which are expanded under state subsidization (the so-called "service revolution"), and thus become a "hidden" reserve army of fully employed, poverty-level wage earners. Many, of course make up the surplus population directly subsidized by the state.

The state in fact established the conditions under which the monopoly and competitive sectors emerged in their present forms, since it was crucial in consolidating the unequal alliance between big business and the AFL-CIO. It continues to sustain the two sectors programmatically and politically, as O'Connor attempts to illustrate with transportation, manpower, and other state policies. The interstate highway program is a good example of the complexity and contradiction such efforts face. On the one hand designed to magnify demand for the automobile and allied products and reduce production costs generally, the freeway system also stimulated suburban development and real estate speculation. It thus was also shaped by many local, parochial, often corrupt interests. At the same time, however, the freeway system multiplied social costs through congestion, dispersion, pollution, etc., and politically antagonized the neighborhoods demolished for road construction.

The monopoly sector requires that the state take on an ever-growing mediating role in economic relations and an ever-growing expenditure burden. The state ratifies and protects the capital-labor "deal" and at the

same time needs to pay for some of its costs. It invests in the large projects and new technology which are so important for productivity gains in the monopoly sector, pays for benefits to monopoly sector workers, guarantees social peace in this sector, and engages in the Keynesian imperialism necessary to keep it going (5).

The competitive sector requires an altogether different state role. The state on the one hand intervenes regressively to keep competitive sector labor (the "hidden" reserve army) in political line, shifts to it as much of the tax burden as possible, and tempers the influence competitive capitalists exert at the local level. On the other hand, to sustain this sector, the state provides subsidies to underwrite the low profits and absorbs the welfare costs of maintaining a large, docile and partly hidden surplus labor force in the competitive sector.

Two striking conclusions issue from this analysis. First, the state must, for the sake of capitalism, become progressively less an obvious capitalist instrument and more a battle-ground which structures the conflicts among classes and among capitalists and laborers from the two sectors. This evolution shifts class struggles into the political sphere, helps to forge a consensus on state growth, bolsters a logrolling approach among all parties, and creates divisions within the working class. Groups, not classes, forward claims on the state. When these claims are partially met through poverty programs or other attempts at controlled participation, popular movements find themselves endorsing capitalist institutions (6). Thus, the state preserves the class structure *precisely* because it becomes in some sense independent of it.

To put it differently, *The Fiscal Crisis* holds that the state is a distinct set of political relationships which do not (if they ever did) flow directly from production relationships. Though the state cannot be reduced simply to economic class relationships, however, the state plays a clear class *function*. Late capitalist class relations are in fact predicated on the state's partial autonomy. The state both enforces the market, as of old, and supersedes it where the market produces destabilizing political repercussions. Although the state guarantees profits, it finds this task complex and contradictory.

Elaborating this theme, O'Connor tentatively explores the growing "social-industrial complex" as popularly represented by McGovern or Kennedy. This tendency unites monopoly capital, state sector workers, and surplus labor in state-financed programs of various kinds.

Using the state as a rug under which to sweep class contradictions has its problems, however, and O'Connor's second striking conclusion is that a "structural gap" between the demand for state activity and the state's capacity to pay for it is inherent in late capitalism. The state's fiscal crisis expresses the contradiction between the state's economic and political functions, between accumulation and legitimacy. Stated more generally, the

fiscal crisis can be seen as an expression of the contradiction between the basically social nature of production, with all its correlative state activities, and the *private* appropriation of political and economic values, including not only surplus value but often fragmentary state power.

Maintaining social peace in the monopoly, competitive and surplus labor sectors and subsidizing them through what Baran and Sweezy called the welfare-warfare state is extremely costly. Historically and logically, claims on the state form an *ad hoc* jumble of specific measures which add the costs of inefficiency to the state's already large burdens. In order to finance them, the state can resort to growing taxation, debt financing and inflation, or to state enterprise. The U.S., of course, has avoided the latter strategy. These claims and state responses induce severe budgetary stresses at all levels. Cities find it difficult to raise taxes, working-class opposition to taxation burgeons, and capitalists move to thwart any state attempts to reduce profits (7). It is only in this context, O'Connor argues, that a theory of budgets can be developed.

Corporate attempts to slice through this dilemma are very clear. The hardest-pressed competitive sector of capital demands that "wasteful" and "inefficient" welfare expenditures be ended, and even corporate liberal theoreticians would reform welfare to reduce work disincentives and bolster the family's authority. On another front, concern for government productivity and performance measures has reached a fevered pitch. Various proposals for reforming and centralizing the congressional budgeting process, for example, should be seen in this light.

III. The Need for Further Analysis

The Fiscal Crisis of the State guides us up to this point. In moving us to it, the book both brackets crucial points and leaves us uncertain about where to proceed politically.

First, O'Connor does not consider in depth the international aspects of the state's role. Contradictory tendencies toward cooperation and competition between the U.S., Europe, and Japan; the conflict between multinational corporations and national interests (as recently and acutely posed in the profits crisis in oil); and third-world opposition to world capitalist labor segmentation clearly influence the state's domestic as well as international actions. These dimensions of the state's plight need to be integrated more fully into state theory. It might be hypothesized, as a guide for further analysis, that the international capitalist system exerts at least three forces on the domestic strategies of advanced capitalist states. First, those countries where the state takes an active role in economic development, by socializing production costs, gain a competitive advantage. Japan's and Europe's larger welfare programs, for example, may have exerted pressure through the world market on the U.S. to further socialize production costs. Further, the monopoly and competitive sectors within

advanced capitalist countries tend to seek disparate foreign policies, with monopoly favoring free trade and the competitive sector preferring protection. Both favor imperialism, but perhaps in different forms. Finally, the internationalization of capital exacerbates the fiscal crisis by allowing multinational firms to escape taxes and manipulate inflationary trends and exchange rates.

Second, O'Connor assumes but does not thoroughly explain that an explicitly political dynamic, and not simply an economic one, operates within the state. He hints that the state must undertake programs in order to prevent de-legitimation but leaves it to others to explain how and when mass support for the state is likely to collapse and what specifically political techniques (repression, cooptation, socialization) the state typically undertakes to restore its legitimacy. It is clear that the late capitalist economy rules out a solely repressive state, which would demoralize production and exacerbate class conflict. More analysis has to be given, however, to repression, cooptation, and obfuscation and their dialectical relationship with social movements, which is the stuff of capitalist political practice.

A third area in which O'Connor's work needs considerable extension, is the realm of production. O'Connor creates multi-dimensional ideal types based on differences in capital and technology. These are useful, but seem to oversimplify the sectoral complexities of the organization of production. It is not clear, for example, if his monopoly/competitive distinction applies to broad economic sectors, particular industries, firms, or even jobs. Some industries, for example, have both monopolistic and small producers. Some firms employ both highly skilled, well unionized workers and unskilled, sometimes poorly organized workers. O'Connor does not deal adequately with these questions, and fails to analytically differentiate between sectoral concepts based on production and circulation relations. Further, the political determinants of sectoral differentiation are not developed. Some labor segmentation theorists, for example, have argued that, contrary to O'Connor, the proliferation and hierarchical arrangement of job categories derives not from technical or capital-related needs, but from a *political* strategy to deliberately divide workers (6). While these alternative explanations need not be exclusive, they certainly suggest the need for further analysis.

A fourth area which demands further investigation is also an ancient one. Given that the state is no longer a simple capitalist instrument, but a structure which both reproduces the class system and provides a battleground for class antagonisms, what political strategy should the left pursue?

O'Connor outlines many dimensions along which conflicts will occur and convincingly argues that these conflicts will in the long run pile up in fights over the state's budget. But which of the conflicts are politically most significant? Do any of them offer a way to overcome the political and economic stratification between monopoly, competitive and surplus labor?

If the state ideologically grants formally equal merit to claims from all parties, can this be used to de-legitimize the state's actual class functions? If so, what vehicle should be used—the Democratic Party, populist reform movements, a socialist electoral party, or alternatively a party of mass revolutionary action?

FOOTNOTES

1. Karl Marx, from an 1844 Vorwärts article, as translated in T.B. Bottomore and M. Rubel, *Karl Marx: Selected Writings in Sociology and Social Philosophy* (New York: McGraw-Hill, 1964), p. 216.

2. Claus Offe, "The Abolition of Market Control and the Problem of Legitimacy," *Kapitalistate* 1 (1973), pp. 109-116.

3. O'Connor summarizes his basic argument in "Summary of the Fiscal Crisis of the State," *Kapitalistate* 1 (1973), pp. 79-83.

4. These two formulations are not meant to exhaust the possible meanings legitimacy may have. Members of the New York work group are developing a critique of O'Connor based on a more fully political notion of legitimation.

5. Keynesian imperialism is a short hand term for liberal political economy as practiced, for example, in Washington. It entails a large defense budget not only for imperialist purposes, but to maintain aggregate demand, reinforce the political patronage system, and "ensure domestic tranquility." As Baran and Sweezy so pungently put it, this is a system of "war and waste."

6. Historical studies of 19th and 20th century class struggle and political violence have documented that insurgent groups appeared at first to want to smash the state and wound up almost inevitably wanting to *use* the state. Among others see Asa Briggs, ed., *Chartist Studies* (London: Macmillan, 1967), Carl Schorske, *German Social Democracy, 1905-1917* (Cambridge: Harvard University Press, 1955), Charles Tilly, "Collective Violence in European Perspective," in H.D. Graham and Ted Gurr, eds., *History of Violence in America* (New York: Bantam Books, 1969).

7. To finance expanded social expenses without too much inflation, more taxes must be raised. If they are raised from profits, accumulation suffers. If they are raised from competitive sector small businessmen, workers and the poor, then the state is taking away with one hand what it gives with the other. If they are raised from monopoly sector workers—which they feared, and hence half of them voted for Nixon—then the deal is threatened and accumulation potentially impaired. State workers, independent professionals, and salaried professionals remain, but it is hard to see how the state can single them out. Of course the state can cut state workers' pay, or try to.

8. O'Connor's sectoral analysis would have been sharper had he incorporated the findings of Robert Averitt, *The Dual Economy: Dynamics of American Industry Structure* (New York, 1968) and the work of Barry Bluestone, David Gordon, Rick Edwards, Herb Gintis and others on labor market segmentation.

David Gordon, in *Theories of Poverty and Underemployment*, attempts to explain many of the same features of the economy by focussing on differences in the *job* structure rather than O'Connor's different *capital* structures. Gordon argues that capitalists have not only habitually reinforced and exploited racial, ethnic, and sexual stratification within the working class, they have actually set up two sorts of jobs. The small job pool requires stability of tenure in order to promote productivity, and recruitment to such jobs is relatively restricted. The unions, of course, have abetted this practice. Since the preconditions for stability are expensive, however, their number is kept small while women, minorities, and migrant workers are recruited for the more numerous unstable jobs. Corporations vary widely in the mixture of the two kinds of jobs. From Gordon's perspective O'Connor has formulated two ideal types and has little to say about the empirically common mixed type.

There is no basic incompatibility to these views, and Gordon may be read as an elaboration and refinement of O'Connor's argument. While Gordon fails to recognize some basic patterns among capital units, his case suggests the need to develop O'Connor's argument with respect to the labor process much further.

mehrwert

beiträge zur kritik der politischen ökonomie

9

„Humanisierung der Arbeit“ als
gewerkschaftspolitisches Problem

Zum Theoriestatus der
Betriebswirtschaftslehre

Die Leitung des kapitalistischen
Produktionsprozesses

Corporate Capitalism and the Liberal State: The Koko—Weinstein Thesis

Ingrid Lehmann *

The Kolko-Weinstein-Thesis

American “New Left” historians writing in the Sixties faced a dilemma: Rejecting the prevailing liberal historiography, they also spurned the “Marxism” of the “Old Left.” The cold war experience had left them with two enemies and no intellectual bearings. In their search for a “usable past,” a part that is first of all a “source for forgotten alternatives” (Staughton Lynd), some radical historians were particularly attracted to the “Progressive Era.” For them this was the critical time in American history, posing clear alternative courses of development. It saw the high point of American socialism in the all-inclusive, parliamentary-focused Socialist Party of Eugene Debs, and also witnessed the evolution of “political capitalism” (Gabriel Kolko), the new relationship of capital and state in 20th century America.

Given the circumstances under which critical historians had to labor in the early Sixties, Kolko’s *The Triumph of Conservatism* (1963) and James Weinstein’s 1968 expansion of Kolko’s thesis in *The Corporate Ideal in the Liberal State* (1968) represent two highly laudable attempts at critical, imaginative historical scholarship. Kolko’s analysis of business-government relations between 1900 and 1916 opens up a whole range of suggestions concerning the origins and functions of government intervention. His approach to such much-clouded subjects as monopoly and “trust-busting” is striking, at times brilliant. Kolko looks at the process of capital concentration in six key industries (steel, automobile, telephone, copper, oil and meat packing) and concludes that the merger movements and other attempts at corporate self-regulation failed. He maintains that competition actually increased and that, not the growth of monopoly, but the lack of it, brought about state intervention. Business needed stability, i.e. the elimination of harmful competition, predictability of profits, as well as security from political attacks. Its highest aim was thus rationalization, in Kolko’s words: “the organization of the economy and the larger political and social spheres in a manner that will allow corporations to function in a predictable and secure environment permitting reasonable profits over the long run” (1).

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Kolko subsequently shows that many of the "progressive" reform measures, most notably the bank reform and the Clayton "anti-trust" Act, were initiated, formulated and eventually administered by key business leaders. They received willing cooperation from politicians, including Presidents Roosevelt, Taft and Wilson. Thus, "Progressivism" was not anti-business reform, as the liberal view would have it, but a movement "for the political rationalization of business and industrial conditions, a movement that operated on the assumption that the general welfare of the community could best be served by satisfying the concrete ends of business" (2). National Progressivism was able to short-circuit more radical local progressive movements and to check nascent socialism. The cooptation of more genuine progressive issues was facilitated by "the illusions of its leaders—leaders who could not tell the difference between federal regulation of business and federal regulation for business" (3). This meant the "triumph of conservatism," the victory of the status-quo-oriented corporate elite over genuine progressive reformers and radicals. This victory, however, was not the result "of any impersonal, mechanistic necessity but of the conscious needs and decisions of specific men and institutions" (4).

This thesis is also central to Weinstein's study of corporate liberal policy formulation. Weinstein departs from the economic analysis that Kolko employs so successfully in his first two chapters; corporate *ideology* becomes the exclusive concern. "Corporate liberalism" is the evolving ideology of the most advanced sectors of American business, reacting against the threat of socialism as "the only serious ideological alternative" (5). The National Civic Federation was the central organization of this capitalist vanguard, propagating the ideas of class harmony through tripartite (business, labor, public) arbitration boards and schemes for workmens' compensation. It also expressed itself in the city manager movement and, as Kolko already brought out, most effectively in the sphere of federal regulatory and reform commissions. World War I witnessed the "fulfillment" of corporate liberalism in the form of government-business planning agencies such as the War Industries Board under Bernard Baruch, corporate liberal incarnate. By alluding to later historical experiences such as the New Deal and the New Frontier-Great Society schemes, Weinstein hopes "to show that liberalism in the Progressive Era—and since—was the product, consciously created, of the leaders of the giant corporations and financial institutions..." His purpose is to help the American left combat the "false consciousness of the nature of American liberalism (which) has been one of the most powerful ideological weapons that American capitalism has had in maintaining its hegemony" (6).

Significance

Both Kolko and Weinstein touch upon a fundamental question of 20th century capitalism: the relationship of politics and economics, and specifically, the role of the state in capitalist society. Kolko and Weinstein perceive a new relationship between these two spheres, they describe them as coming together in an effective synthesis. This synthesis Kolko labels "political capitalism" and Weinstein, in discussing the rising ideology of the ruling elite, calls it "corporate liberalism." They both thus describe a new stage of American capitalism, in which the aims and functions of public and private power become inextricably linked. The linkage is achieved by the "corporate elite," or "key business leaders," who, through their personal relationships with politicians, or, more generally on the basis of a shared ideology with political leaders, were able to mold government policies in their own interest. In Kolko's words:

The ideological consensus among key business and political leaders fed into a stream of common action, action that was sometimes stimulated by different specific goals but which nevertheless achieved the same results ... The result was federal regulation in the context of a class society. Indeed, because the national political leadership of the Progressive Period shared this *noblesse oblige* and conservatism toward workers and farmers, it can really be said that there was federal regulation because there was a class society, and political leaders identified with the values and supremacy of business ... (7)

Critique

My purpose in this paper is to initiate discussion of some problems raised by these two books. They have by now been widely recognized as competent and eloquent statements of "revisionist" historical scholarship. Along with the more general works of William A. Williams these books are frequently used to provide a "radical" interpretation of American history. Just how "radical" a departure Kolko and Weinstein have achieved needs to be discussed. Kolko explicitly rejects Marxist methodology; he finds Marx's political theory "entirely inadequate", as it "is primarily nonpolitical in its dynamic elements" (8). Notwithstanding his elaborate, though largely garbled argument against Marx's "purely economic" analysis—a common ritual among American academics—Kolko's own analysis has ironically been criticized for its "crude economic determinism" (9). Weinstein, on the other hand, is not at all concerned with economic or political theory. He is essentially an intellectual historian who focuses on class organizations (the National Civic Federation, the Socialist Party) as ideology-makers, without much regard for either socio-economic structures or social struggles. It will be argued here that the authors' lack of a Marxist theoretical framework and analytical tools is detrimental to their own objective: the writing of a new, radically different history.

1. In Kolko's and Weinstein's analysis, corporate capitalism and its liberal ideology are specifically American, 20th century phenomena. They do not communicate a theoretical awareness of capitalism as a historically specific, internally developing, and transient social formation. Their particular historical analysis of the Progressive Era thus remains cut off from the larger context of capitalist productive relations in and outside the United States, before 1900 and after. Because of this failure to conceptualize their studies within an explicit theory of advanced capitalism, both are unable to break out of the traditional historians' parochialism: their generalizations seldom exceed the chronological boundaries of the Progressive Era, references to previous periods or subsequent experiences are vague. Thus, Weinstein leaves one with the impression that corporate capitalism diverged from a happier, more democratic age. The change he perceives is essentially one of power relationships, in which the "people" lost out to the corporate elite. This is evidenced in Weinstein's conclusion:

The changes in the concept of the proper role of government and in the techniques of maintaining political and social (not economic! I.L.) stability reflected the end of "free" competition and the rise of a new corporate oligarchy ... Workers, farmers, and small businessmen, in other words, had less and less *real power*, even though, in a formal sense, they had gained recognition as legitimate social forces ... Of course labor representation, even if on a basis of less than equality, was not a bad thing in itself. But the price that had to be paid (by whom? I.L.) was a process of the erosion of politics—the gradual imposition of administrative and judicial control in place of independent political action (10).

Weinstein's exclusive reliance on political terms (the corporate elite itself is analyzed only insofar as it influences policy formulation) is paralleled by Kolko's separation of economic analysis (in the first two chapters of his book) from the more descriptive political chapters. Kolko vaguely links the two spheres through his implicit use of C. Wright Mills' notion of power elite. The theoretical shortcomings of power elite concepts have recently been pointed out by H.G. Haupt and S. Leibfried in a critique of Isaac Balbus' writings. Haupt and Leibfried maintain that the reliance on the category of power and power struggles as driving elements in social processes has led Balbus and others to separate their analysis of power relationships from that of the underlying productive relationships, thus obscuring the derivative nature of power relationships. They furthermore argue:

To view society in terms of domination-subjection, power relationships, not only neglects their derivative form, but also the changed function of the political, the public sphere itself. The public apparatus of the developed capitalist social formations do not (via power relationships) merely venture to guarantee the external preconditions of private reproduction. To an evergrowing extent, capital functions themselves (for example, the mobilization of capital) are directly incorporated into the public sphere. Capitalism is not only "stabilized" by power politics, but also reproduces itself ever more publicly (11).

This criticism is also applicable to the radical historians' concept of corporate liberalism, though they never aspired to Balbus' level of abstraction. Their notion of the "power elite" is unreflected, apparently generated straight from their historical data. They stop short of any theoretical formulations, seemingly unable (or unwilling) to relate their findings to a (however tentative) construct of class relations under advanced capitalism.

Kolko does not distinguish between capitalist class and elite; he presupposes their identity, an assumption that may appear plausible in historical hindsight, but again exemplifies his conceptual vagueness. Weinstein's very unconcern with theory and the absence of any politico-economic analysis in his book leads to his overreliance on corporate leaders and their organization, i.e. to a personalizing, top-down approach (12). Since the power elite is not seen in its structural (i.e. class) context, it is easily reduced to the evil machinations of individuals. Kolko's and Weinstein's individual reductionism thus springs from their reification of power politics voluntaristically planned and executed by the corporate elite.

2. The polemical, unreflected use of the terms "liberalism" and "conservatism", and the equation of the two, in describing the Progressive Era as the "Triumph of Conservatism" empties those terms of their traditional historical meaning, without giving them a new one (13). Kolko and Weinstein never make explicit that they use "conservatism" (as I assume they do) to describe the coordinated attempt of the ruling class to increasingly make use of the government machinery in the interest of the capitalist economy, thus always acting within the boundaries of existing productive relations. Not stating explicitly their meaning has two consequences:

a) By equating liberalism with conservatism they hope to refute liberal mythology on its own grounds. But it may just work the other way around. Who is to say if a certain reform measure was a "genuine reform", if it was progressive, conservative or radical? What are the criteria for "radical reform?" Is there such a thing as "radical reforms" within capitalism? Weinstein and Kolko never tell us, letting other radicals haggle over semantics time and again, never leaving the intellectual battleground of liberal society.

b) The conservatism thesis cannot account for the real developments taking place within the limits of capitalist productive relations. The process of incorporating the unions into political capitalism certainly served to stabilize the system in the long run, i.e. was "conservative", but that does not explain why the capitalist class perceived a need to incorporate the economic organizations of the working class at a certain point in time. The Clayton Act, for example, though genuinely conservative in nature, like all laws, had the important dimension of exempting the unions from the anti-trust laws, thus softening AFL-antistatism and paving the way for high-level cooperation.

Weinstein gets much closer to the causes of government interventionism when he points to the growing threat emanating from the working class. Besides focusing on the attraction of socialist ideology and the growing vote for the Socialist Party (Weinstein's main emphasis) one would have to

analyze the economic and political effects of the increasing frequency and intensity of class conflict during the Progressive Era (14). The pre-war, sporadic growth of the IWW, addressing itself to an immigrant proletariat, may be just as indicative of this "threat" as the growing socialist vote. Further economic analysis would show a rise in unemployment and idle productive capacities up to 1915, pointing to the kind of economic stagnation that Baran and Sweezy refer to as "lack of surplus absorption" (15).

3. Kolko explains only the original need for government intervention in terms of economic necessity; the degree of government involvement is treated as a function of power politics on the lobbying level. One is left guessing as to why certain reforms were enacted at a given time, for example, before the World War, but not after. Instead, there was a return to the much more indirect politics of business favoritism and anti-union crusades. Why was the war-time "fulfillment" of corporate liberalism not continued in the Twenties? Had Kolko extended his own analysis of the merger movement and the financial institutions by applying this fruitful approach to the areas of unemployment, rates of profit, productive capacities, credit, expansion abroad etc.; had he indeed looked at the movement of capital and its social and political consequences, much could have been gained for understanding the roots of progressive reform measures. One might also have gained a better understanding of the political and economic conditions underlying the process of cooptation that both Weinstein and Kolko stress. For them this means essentially the recurring victimization of "honest-to-God" liberals and radicals, but they do not tell us why the American Left continues to fall into the corporate liberal trap.

4. Since the authors make no attempt at a differentiating class analysis, they are not able to distinguish between the capitalist class as a whole with its collective interest and the specific interests of different industries, branches, financial institutions etc. They do not make clear how a certain industry or industrial combination, such as the Steel Trust, comes to communicate its interest in federal regulation to its competitors and to capitalists in other industries. When and why does the interest of a particular firm or industry turn into class political action through the use of government machinery?

Kolko and Weinstein's corporate liberal elite appears to be a self-sufficient entity, unconnected to its class basis, pursuing its political strategy, eventually convincing the more backward elements of the business community of the value of its idea of shaping the capitalist state in their own image. It is open to question, however, how representative a group such as the National Civic Federation really was of business as a whole or even of the great corporations. It is doubtful if it ever articulated more than the political sentiments of a select group of individuals who, though high-minded in their public talk of class harmony, industrial peace and social responsibility, also tended to act in accordance with their immediate class interest in rejecting and repressing both strikes and unions.

Again: the absence of a theoretical conceptualization of the role of the state in capitalist society prevents Kolko and Weinstein from seeing the (not only theoretical) possibility of a need for state intervention against specific capitalist interests, though in the interest of the capitalist class as a whole. Since they perceive an overall ideological affinity of political and economic elites, leading to an identity of political bureaucracy and economic power structure, conflicts *within* the ruling class tend to be ignored by the authors. Thus, any reform measure that was vaguely "in the corporate interest", can be imputed to a "conscious strategy" (16). Those business leaders clearly not part of the corporate liberal consensus, such as those organized in the powerful National Association of Manufacturers, are ignored by the authors (17), since their historical function, at best, was to impede progress, delaying the institutionalization of corporate liberalism until the "New Deal".

5. Most striking is their disregard of economic crises as turning points for state intervention. Kolko sees government reform measures as a response to the capitalist interests of stability, predictability and security. These general interests seem to be a function of the particular needs of individual industries or corporations analyzed by Kolko. Politico-economic reforms thus appear to be the result of advanced business interests lobbying for some form of pre-crisis, status-quo oriented intervention. The ruling elite uses reforms to transfer economic difficulties into the political sphere in the attempt to neutralize conflicts and to prevent potential crises.

Here it becomes clear that the authors' failure to conceptualize contradictions and class conflict on a theoretical level impedes the understanding of a vital feature of state interventionism: the reproduction of economic antagonisms in the political domain (18). If the state is an instrument of capitalist hegemony, as I assume Weinstein and Kolko see it, it is nevertheless a part of capitalist society and not free of its contradictions: the basic conflict between labor and capital, the competition between individual capitals, the rivalry between capitalist nations, the uneven development making for recurring world economic crises. All these conflicts may increasingly manifest themselves within the sphere of the interventionist state, its bureaucracy, agencies and commissions. A government attempting to regulate conflict and to nationalize crises and losses reflects, as Kolko and Weinstein have shown, the success of the corporate elite in shaping the state in its own interest. Beyond that, it signifies the recognition of the working class as a political force. The incorporation of this main antagonistic force into the capitalist state at once gives the state more power and makes it more vulnerable.

FOOTNOTES

1. Gabriel Kolko, *The Triumph of Conservatism, A Reinterpretation of American History, 1900-1916* (Glencoe, 1963), p. 3.
2. *Ibid.*, pp. 2-3.
3. *Ibid.*, p. 285.
4. *Ibid.*, p. 2.

5. James Weinstein, *The Corporate Ideal in the Liberal State* (Boston, 1968), ch.5.
6. *Ibid.*, pp. XI and XV.
7. Kolko, *op. cit.*, pp. 283 and 284.
8. *Ibid.*, pp. 289 and 291.
9. See Hans J. Morgenthau in *New York Review of Books*, June 29, 1969, and Robert H. Wiebe in *Journal of American History*, June 1964.
10. Weinstein, *op. cit.*, pp. 252-253, emphasis mine.
11. Heinz-Gerhard Haupt and Stephan Leibfried, "Marxian Analysis of Politics or Theory of Social Change?: Toward a Marxian Theory of the Political Domain," *Politics and Society*, vol. 3, no. 1 (Fall 1972), p. 40 n.
12. This tendency to personalize and typologize has been inherited from William A. Williams who defines corporate capitalism in his introduction to *A New History of Leviathan*, Ronald Radosh and Murray Rothbard (eds.), (New York 1972), p. 3: "American corporate capitalism is an extremely powerful instrument consciously designed and laboriously created to control human and natural resources within very clearly understood limits, and to use those materials for purposes very largely defined by a tiny majority of the population." He divides the corporate reformer into four types: the modern business director, the intellectual, the politician and reformer. (pp. 3-6).
13. For the analytic uselessness of an indiscriminate broad definition of "conservatism" see Klaus Epstein, "Three Types of Conservatism," in: Melvin Richter (ed.): *Essays in Theory and History, An Approach to the Social Sciences* (Cambridge, Mass., 1970), p. 106: "The definition of conservatism as any defense of the status quo, irrespective of the substantive nature of the status quo, is too broad to be useful; under it, all ruling groups which seek to preserve their power—and what ruling group does not?—would be conservative, including successful revolutionaries..." It should also be pointed out that such a conservative historian as Rowland Berthoff recognized the conservative nature of "Progressivism," so Berthoff in "The American Social Order: A Conservative Hypothesis," *American Historical Review*, LXV 3 (April 1960), p. 510: "Thus the Progressive movement, though undertaken to liberate opportunity for the individual, tended rather to encase it in new regulatory institutions over and alongside the objectionable institutions. This proliferation of interlocked institutions was a conservative counterrevolution."
14. James Weinstein, *The Decline of Socialism in America 1912-1925* (New York, 1969) does not relate the growth of the Socialist Party to the economic and social struggles of the American workers.
15. *Historical Statistics of the United States*, p. 73 and Paul A. Baran and Paul M. Sweezy, *Monopoly Capital, An Essay on the American Economic and Social Order* (New York, Monthly Review Press, 1968), pp. 227-234.
16. Weinstein's repeated use of terms such as "conscious design", "conscious creation", "strategy", indicates his basic voluntarism, which, in 1964, led him to speculate: "Secondly, they (the corporate liberals) gained control of the neo-populist movement and succeeded in making clear the difference between a program of 'social reform' and the socialism of Debs, thereby greatly reducing the appeal of socialism among a wide range of middleclass reformers." J. Weinstein, "The Unreluctant Dragon," Review of Kolko, *The Triumph*, in *The Nation*, April 20, 1964, p. 398.
17. Thus, Robert Wiebe's criticism of Kolko seems justified: "Leaving his elite undefined, Kolko handles the business community like an accordion, expanding it in areas of agreement and contracting it in areas of disagreement." R. Wiebe, *Journal of American History*, June 1964, p. 122.
18. See Elmar Altvater, "Notes on Some Problems of State Interventionism," *Kapitalstate* 1 and 2, his earlier articles in *Probleme des Klassenkampfes*, as well as Wolfgang Mueller and Christel Neusue, "Die Sozialstaatsillusion und der Widerspruch von Lohnarbeit und Kapital", in: *Sozialistische Politik*, 6/7 June 1970.

POLITICAL NOTICES

This is a new section in *KAPITALSTATE*. Selections are made from news items that come to our attention.

1] *Repression & Dictatorship in South Korea*: The following notes are excerpted from *Korea Link*, a new bimonthly newsletter by the Committee for the Support of Human Rights in South Korea. (P.O. Box 1001, Palo Alto, Ca. 94302). Park's Dictatorship: If South Koreans knew what a storm of protest has been stirred up in the U.S. over domestic intelligence gathering by the U.S. Central Intelligence Agency, they couldn't help but laugh. The South Korean CIA, patterned and trained after their American counterparts, operates as an all powerful secret police force—following, arresting, and torturing thousands of Koreans because they criticize the President, Chung Hee Park, now in his 14th year of office.

In the past six years, there has been considerable protest over political freedom and economic conditions. Protest has come from many types of people: students and teachers; Christian ministers, congregations and church youth; the chief opposition political party (New Democratic); the press, workers; and slum-dwellers. In response, Park has imposed martial law, changed the constitution and ordered mass arrests, torture and imprisonment—all the while consolidating his power. Park has created "provocations" from North Korea to divert attention to external "threats" and to rationalize further domestic repression.

The roots of dictatorship and protest stem from the shape of Korean economic development. A few financial oligarchs, in alliance with the military, completely monopolize the Korean economy. "For their benefit," Korean workers are sold to U.S. and Japanese multinational corporations; farms are emptied and urban slums filled to provide cheap, plentiful labor in the factories; and the Korean economy becomes mainly an "export platform" for consumer goods bound for the U.S. and Japan. Strict anti-labor laws, wages that are among the lowest in the world and sweatshop working conditions make up Korea's course of "industrial genocide."

South Korea's economic development is very unhealthy. In 1973, it imported almost \$1 billion more than it exported, despite a phenomenal manufacturing export growth rate. Japan is the largest investor in South Korea with \$468 million in direct investments, followed by the U.S. with

\$185 million (July, 1974 A.I.D. figures). U.S. investments are in oil refineries, chemicals, electronic components and automotive industries. More than ½ of all U.S. clothing imports now come from South Korea. U.S. multinational corporations have terminated hundreds of thousands of blue collar manufacturing jobs in the U.S. over the past 10 years and moved them to low wage and tax havens like South Korea.

In April 1974, Park declared a new Emergency Measure (No. 4) which made it a crime punishable by death or not less than 15 years imprisonment for any student "who engages in any political activity; defames the action of the Education Minister in either expelling a student, dissolving an organization or abolishing a school to which violators of the measure may belong; refuses to attend classes or exams without justification; or communicates with or is a member of the National Federation of Democratic Youth and Students or any related organization." Under this threatened death penalty for cutting classes an estimated 4000 people were arrested within two weeks. Trials held last summer resulted in death sentences for 14 persons (later commuted to life imprisonment for 5 persons), life imprisonment for 15 persons, and 15-20 years for 26 others, including 2 Japanese journalists.

2] *The Case of Olga Talamonte.* Olga Talamonte, a former student at the University of California, Santa Cruz is the third American since October 1974 to have been arrested and tortured in Latin America. In the other two cases—one each in Brazil and Chile—the State Department was instrumental in securing their immediate release. However, Olga has been held since November, 1974.

The Argentine government, like the governments of Chile and Brazil, has denied charges of torture and political repression, as it tries to maintain an international image of stability. In the case of Chile, however, public pressure brought about a full investigation of torture by the Organization of American States which recently published a 175 page report which documents that, in fact, all the allegations of torture were true. It is crucial that, given the extreme political repression currently being carried out by the Argentine Government, that all of those concerned with the safety of Olga and other prisoners, continue to demand that the U.S. State Department work for her immediate release and initiate a full investigation of the charges of torture.

Letters demanding Olga's release can be sent to: 1) Hon. Hector, Argentine Embassy, 1600 New Hampshire Ave., NW, Washington, D.C.. 2) President Gerald Ford, Attention: Mr. Fernando de Vaca, Office of the President, Washington, D.C.. 3) Ambassador Robert Hill, U.S. Ambassador to Argentina, U.S. Embassy, Buenos Aires, Argentina. 4) Representative Norman Minetta, Capitol Hill, Washington, D.C.

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Number 3 — Spring 1975

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