

# World Capitalism in Recession

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World capitalism has entered its worst recession since the 30s. A prolonged period of uncertainty lies before us .

From the 2nd World War through to the late 1960s and early 1970s, the international capitalist economy enjoyed a period of unprecedented expansion. Despite occasional interruptions to this long boom, it appears in retrospect as a period remarkably free from crisis. Since the early 1970s, this has changed abruptly. Because of forces originating, as we shall see, in the long boom, the international economy has been crisis-ridden. A measure of this may be observed in all the major economic indicators: economic growth has remained at relatively low levels: unemployment has remained around the 5% per cent level which it reached in 1975 in the major industrial countries, and shows no sign of falling; inflation is running, on average, at double digit levels; while profitability continues to be under pressure. In certain economies, notably the UK, the crisis has assumed much greater proportions, for reasons we touch on briefly later, but this should not obscure the generality of the problems facing the international capitalist economy.

The continuation of these adverse trends has led to much discussion as to whether this is merely temporary, or whether a new contractionary phase of capitalist development has emerged. As the passage of time brings no sign of a return to the conditions of the long boom, the former position has proved hard to sustain, and the latter view has become more prevalent. Yet very little analysis has been provided of why, in concrete terms, such a shift from the rhythm of expansion to that of relative contraction has taken place. The purpose of this article is to examine the roots of this change in the nature and pattern of accumulation in the long boom. To do this, we seek to provide an account of the forces underlying the long boom and its collapse. The concluding sections consider prospective developments in the international capitalist economy, and examine certain implications for socialist strategy.

## 1. THE LONG BOOM

The forces underlying the strength of the long boom may be thought of in two categories: first, a set of preconditions without which a phase of rapid accumulation would have been difficult or impossible; and second, a capacity to organise the system in such a way as to take advantage of those favourable preconditions. The two are not independent, as we see in the following.

### a. Preconditions

Much of Europe was a low wage/high profit economy in the decade after the Second World War. To a degree, this was the result of the ravages of the slump of the 1930s and wartime destruction, which created a large pool of unemployed. (This was added to, in the case of West Germany, by the flow of refugees from East Germany). In addition, the continuing dominance of peasant holdings in agriculture meant a large pool of disguised unemployment. Thus by minor

rationalisation and consolidation of land holdings, workers could be transferred to the industrial sector from agriculture (or, more realistically, not replaced) without impairing agricultural productivity. Moreover, US dominance in West Germany and Japan in the period of postwar occupation, together with the earlier effects of fascism, ensured the weakening and dismantling of working class organisation. Together with the effects of the pressure of unemployed (or disguised) labour reserves, this meant that the terms on which workers were forced to seek employment were favourable to capital. Not only were wages cheap, but capitalists had enormous freedom to adopt new techniques of production and alter work practices to increase profits.

The period of innovation prior to, and during the Second World War, particularly in the electrical and associated sectors, as well as in the aircraft, vehicles and chemicals sectors, provided a considerable backlog of technical knowledge. This was important in two respects; first, new methods of production, based on this advance in knowledge, could be brought into use with considerable gains in productivity; and secondly new important markets, particularly those for consumer goods, were waiting to be exploited.

The 1930s had seen a growing volume of investment in third world countries by multinational corporations, overwhelmingly concentrated in the extractive industries. This trend continued after the war, creating a relatively abundant supply of raw materials. Although the 1950s and 1960s saw a rising assertion of independence in the third world, this was first effective in securing political, rather than economic, independence from former colonial ties. Continuing economic dependence left control of raw material supplies with multinational corporations, mainly US-owned. In consequence, the relative price of raw materials to manufactured goods fell steadily throughout the postwar period up to 1970. Thus, for example, crude oil was supplied at very cheap prices throughout the 1950s and 1960s. This acted to boost profitability in the industrial countries, thereby creating conditions favourable to accumulation.

### b. Restructured international economic system

Certain, though not all, of these preconditions were present prior to the Second World War. The period of rapid accumulation in the postwar period depended critically on the capacity of the USA to structure and organise the capitalist system.<sup>1</sup>

The basis for this role was the dominant international position of the US economy, accounting for over 60% of total OECD output in the early 1950s. This strength placed the other advanced capitalist countries in a position of significant dependence on the USA (though this was realised only slowly by the strongest such country, Britain). The USA was able to use this power (together with the political influence deriving from its wartime role), to secure a general commitment to the principle of openness and freedom in trading

relations among advanced capitalist countries. This commitment was enshrined in various international agencies, such as the OEEC (later OECD), IMF and GATT; and acted to maintain the cohesiveness of the Western bloc not only in its internal relations but also in its external dealings with the socialist bloc and the third world.

The advantages to the USA were not simply strategic. The openness of Western Europe to trade and capital flows gave US companies freedom to penetrate these markets (from which protection had excluded them in the 1930s), and to buy up significant parts of European industry. In this, they were helped by the central role that the dollar played as a reserve currency in the international monetary system (embodied in the IMF). Despite the contradictions (which we note below) in this arrangement, US capital gained substantially from it in the postwar period. On the other side, the strength of the long boom itself maintained the cohesiveness of the system long after the other industrial countries had emerged from their position of dependence on the USA. The strength of the alliance of advanced capitalist countries, with its commitment to freedom of trade and capital movements, was cemented by the success of the strategy itself. And when that success came into question, the cracks in this commitment started increasingly to appear.

## 2 UNEVEN DEVELOPMENT

The favourable factors discussed above which lay behind the long boom did not operate uniformly across countries. Because of this, the historically very rapid rate of expansion of the advanced capitalist countries was associated with marked differences in rates of growth across countries. Thus, of the major economies, West Germany and Japan experienced exceptionally rapid growth; France and Italy grew fast; while the USA and UK experienced relatively slow growth (though still high in comparison with earlier historical periods).

The factors underlying the success of the fast growing economies are complex, but certain points follow from our previous discussion. Abundant labour reserves held down wages, thereby raising profitability. Effective state regulation (particularly in Japan and West Germany, indirectly through the banking system, and in France through newly evolved planning mechanisms) worked to foster accumulation; while the relatively low level of development (particularly in the case of Japan) permitted growth by the adoption of techniques of production evolved elsewhere. Japan (and to a lesser extent continental Europe) also benefited from substantial US assistance, aimed at securing Western Europe and Japan as integral parts of the Western alliance. These factors provided the basis for rapid accumulation domestically, and expansion internationally took place through exports, rather than overseas investment, thereby adding to the strength of domestically based capital.

By contrast, postwar conditions in the USA were rather less favourable to domestic accumulation. Reserves of unemployed (including disguised unemployment) were, relatively, not large, so that high wages prevailed. Moreover, as the world leader in industrial technology, the USA did not have the possibility, open to other countries, of enjoying fast gains in productivity simply by adopting advanced techniques of production in use elsewhere.<sup>2</sup> Both factors led to rather slow domestic expansion. With rising competition from the more dynamic economies, it is not surprising that the more dynamic sections of US capital seized the opportunity, provided by the removal of international barriers to trade and investment, to locate an increasing proportion of their production activities in Western Europe, where the most rapidly expanding markets lay. At the same time, the US developed major international commitments, including the reserve role of the dollar and a high level of military spending, which further constrained domestic growth.

## The UK's international orientation

The position of the UK in the immediate postwar period, intermediate in terms of industrial development between the USA and the economies of continental Europe, gave the UK potential for growth by adopting US technology, but much less that that open to other European countries. In other respects, the factors favourable to growth were marked mainly by their absence. With a virtual absence of labour reserves, and with the labour movement emerging strengthened, rather than weakened, from the Second World War, wages were relatively high and the freedom of capital to restructure production on terms dictated by itself was circumscribed.

It would, however, be wrong to infer from these factors an absence of any potential for rapid expansion: such possibilities were there,

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particularly in the critical decade after the Second World War. The failure to seize those opportunities must be traced to two further factors. Historically, British capital, particularly its more dynamic sections, was oriented internationally. In the postwar period, this orientation continued, initially towards the countries of the former Empire, and later towards the dynamic economies of Western Europe. Thus, in contrast to the national capital of other European countries, a very high proportion of the production activities of British capital was located overseas.<sup>3</sup> In consequence, the interest of key sections of British capital in the restructuring and dynamism of the domestic economy was weakened. This was reflected in, but also conditioned by, the international role of the British state: the imperial legacy and the attempt to maintain a major international strategic role involved heavy costs in terms of military and other expenditures, and diverted attention from developing problems of the domestic economy. The result was a failure to adapt quickly enough to the new circumstances of the postwar international economy.

Once established, these differences in economic growth proved deep-seated, leading to marked uneven development between national economies. Fast growing economies were able to exploit economies of scale and modern technology, thereby increasing international competitiveness, raising their share of world markets, and thus recreating the conditions for further expansion. By contrast, slow growing economies found themselves in a vicious circle of slow growth, low and inefficient investment, and a shrinking share of world markets.<sup>4</sup>

## 3 STRAINS IN THE LONG BOOM

By the late 1960s, increasing signs of strain were apparent in the

<sup>1</sup> For a brief but lucid statement of this role, see Ron Smith, 'The Decline of the US Economy', Focus, *Marxism Today*, Dec 1979.

<sup>2</sup> This is over-simple, in that West European technology was more advanced in certain sectors. But such cases were the exception, and on average the argument is valid.

<sup>3</sup> In 1971, UK overseas production as a % of GDP is estimated at 5%, figures for other countries are: USA 22%, France 16%, Italy 9%, West Germany 8% and Japan 4% (UN, *Multinational Corporations in World Development*).

<sup>4</sup> The shares of world manufacturing exports were:

	1950	1977
UK	25.5	9.3
US	27.3	15.9
West Germany	7.3	20.8
Japan	3.4	15.4

international economy. An important indication of this was the generally rising rate of inflation. These are most easily understood as resulting from the gradual erosion of the favourable factors (discussed above in section 1) underlying the long boom; from growing imbalances in the international capitalist economy (one form of which was discussed in section 2); and the reduced ability of the USA to manage the system, this in turn being attributable to the relative decline of its domestic economy and the shift in the international balance of forces. We consider each in turn.

The long boom saw rapid growth in industrial output, matched largely by corresponding gains in labour productivity. Broadly speaking, therefore, the industrial labour force remained relatively constant.<sup>5</sup> But output in the service sector rose more quickly than industrial output, while productivity growth was slower than in industry. In consequence, the service sector increased employment, so that the industrial and service sectors together absorbed labour. Since this increased employment exceeded the growth in the labour force, the result was a reduction in labour reserves, whether from the pool of actual unemployed or the pool of disguised unemployment in agriculture. By the mid to late 1960s, such reserves were largely depleted, despite attempts to maintain labour supply by importing guest-workers from the 'peripheral' countries of Western Europe.<sup>6</sup> This was only one of several forces raising the militancy of working class organisations in Western Europe in this period as it shifted the balance of strength between workers and capitalists; but it was probably a major reason why this rising tide of militancy resulted in an increasing pace of wage settlements.

The resulting rise in wage costs was largely passed forward in the form of higher prices. This may partly be attributable to the power of large monopolistic firms to set prices with relative impunity. But the opening up of domestic markets to foreign competition probably meant that such power was declining in the 1960s and early 1970s, despite the generally growing degree of concentration of production in national economies. A more important factor was the general commitment by nation states to sustain by a variety of means the expansionary impetus of the national economy. These expansionary reflexes meant that in general price increases mitigated the decline in profitability that would otherwise have occurred, but at the cost of an upward twist in the rate of inflation.

At the same time, growing imbalances were emerging. We have already noted the disparities in growth rates between countries. These additional imbalances were of a particular significance. First, the lagging productivity in services noted above had important implications for the balance between the public and the private sector. Since public sector employment is largely concentrated in the service sector this differential in productivity growth tended to produce a rise in the share of government expenditure in total output. This was financed by increased taxation, or by credit expansion in government budget deficits. In either case, the result was to add to inflationary pressures: a rising tax burden cut into take-home pay, tending to raise nominal wage claims as workers tried to maintain living standards and adding to the upward pressure on costs and prices; while credit expansion generated high levels of demand, creating upward demand pressures on prices. Through either route, this growing imbalance added to the inflationary pressures arising anyway from the tightening labour market.

Second, growing imbalances in trading relations between countries were generating persistent current account balance of payments surpluses and deficits. In part, these reflected the differences in growth performance of different economies: thus the fast growing economies, Japan and West Germany, moved into persistent surplus in the middle to late 1960s; while the UK and the USA balance of payments moved into deficit. This resulted from the tendency of fast

growing economies to expand internationally through exports, with favourable effects on the balance of payments, while US and UK capital expanded through the export of capital. A further factor was the different policy responses amongst states. Thus in West Germany and Japan, the governments did not respond to any fall in demand by stimulating domestic demand (by expansionary monetary or fiscal policy); instead they fostered a growth of exports to make up the demand shortfall.<sup>7</sup> By contrast, the response in slower growing economies, such as the USA and the UK, was to stimulate domestic demand, thus tending to suck in imports and generating persistent balance of payments problems. The size of such trade imbalances tended to rise in the late 1960s and early 1970s, generating increasing instability in the international financial sphere. The persistent US balance of payments deficit was of particular significance, because of the key role played by the dollar as an international reserve currency. The ability of the USA to finance this deficit by creating more dollars led to a sharp rise in international liquidity in the late 1960s and early 1970s, adding to the inflationary pressure.

#### Oil prices

Third, from 1970 onwards, there were growing indications of imbalance between raw material production and other sectors, reflected in the sharply rising price of commodities. In the 1950s and 1960s, the trade cycles in the major industrial countries were largely out of phase, so that a high demand for raw materials by one country was offset by a low demand elsewhere. But growing integration in trade tended to bring the cycles together, and this (together with contingent factors related to international financial disturbances) created a sharp, concerted boom in all the major countries from 1971 onwards. The sudden surge in demand (coupled with some supply failures) for raw materials drove their price up sharply. In the case of oil, additional factors were at work. The grip of the major oil companies on world oil production had been loosened by competition from independent companies, and the oil producing countries had been able increasingly to assert control over the price and production of oil. Rising nationalism in these countries seized the favourable opportunity of very buoyant demand to create the OPEC cartel, leading to a quadrupling of the price of oil in 1973. The downward trend of primary product prices relative to manufactured prices, which had prevailed up to 1970, was decisively reversed in the 1971-73 period.

Each of these trends acted as a growing barrier to accumulation. All in concert threatened the long boom itself. These barriers were increasingly reflected in profitability, which exhibited a downward trend in each of the major advanced capitalist countries from the late 1960s onwards.<sup>8</sup> To avoid recession would have required increasingly effective organisation and coordination of the system. But the declining position of the US internationally made it increasingly hard for the US to maintain, let alone extend, its coordinating role. The military failure in Vietnam generated an isolationist tendency in the USA, and impotence in the face of rising third world (particularly Middle East) nationalist forces. The pressures on the dollar forced the USA into a protectionist trade embargo in 1971. Although temporary, it signalled a retreat from the commitment to free trade, and demonstrated openly the divergencies of interest between the major capitalist countries that had emerged. US hegemony was challenged and weakened, but no alternative could replace it. The resulting vacuum meant that the growing barriers to accumulation resulted in 1974 in the worst slump of the postwar period, triggered by the oil crisis and marking the end of the long boom.

#### 4 THE END OF THE LONG BOOM

The onset of recession was marked by the very big rise in the price

of oil. This sharply raised costs and prices in the industrial countries, increasing the rate of inflation to double digit levels, and also tended to bite into profits. But it created further problems. The price increase transferred revenue to the OPEC countries on a scale which, at least immediately, they could not spend. Although large development plans were initiated, with associated increases in imports, these planned expenditures typically took one or two years to effect. In consequence, the OPEC countries ran massive balance of payments surpluses on current account, and the counterpart of this was that the non-OPEC countries had to run large current account deficits.

With sufficient coordination of the international system, these current account imbalances need not have created major difficulties. For as the counterpart of their collective balance of payments surplus, the OPEC countries had no choice but to redeposit the revenues in the non-OPEC financial markets. Provided that the non-OPEC countries agreed to targets sharing out their collective deficit between individual countries, and provided that suitable swap arrangements to recycle funds to finance these deficits were agreed upon by central banks, the OPEC surplus need not have created problems.<sup>9</sup> Had such coordination occurred, the oil price increase would still have raised the rate of inflation and cut into profitability in the industrial countries; but it seems plausible to argue that the impact of the oil price increase would have been much less than it in fact turned out to be.

### from the perspective of capital, all is not gloomy.

In the event, of course, such a degree of coordination was impossible to achieve.<sup>10</sup> It would have been difficult enough to accomplish with a strong hegemonic power, such as the USA was in the 1950s and early 1960s; but with US hegemony weakened and increasing signs of division amongst the major industrial countries, it was impossible to secure agreement. Certain countries (eg, the UK and USA) attempted to follow the strategy alone by running large current account deficits; but the consequent rise in indebtedness eventually resulted in pressure on their currencies from international financial markets, forcing domestic contraction. Other countries, notably Germany, immediately acted to eliminate their current account deficit by domestic contraction and fostering exports. In consequence, the current account deficits were passed around like hot potatoes, forcing a contractionary response on the holder, and driving the international capitalist economy deeper into recession. The end result was a sharp rise in unemployment, and a fall in output and investment, with the non-OPEC deficit left largely with the third world countries, creating growing problems of indebtedness in developing countries.

#### Summary

Many commentators have suggested that the recession since 1973 is attributable to these factors — the effect of higher oil prices on inflation and profitability; and the lack of international coordination of the policy responses of the non-OPEC (especially the major industrial) countries. However, it should be clear from the earlier argument that we do not share this view. Rather than seeing the recession as having a single cause, we see it as the result of a growing number of related structural imbalances and problems that had developed as a result of the nature and pattern of accumulation in the long boom. In summary form, these problems may be stated as:

- (a) depletion of labour resources.
- (b) sectoral imbalances between the industrial sector and service sector (with implications for the balance between the private sector and the public sector).
- (c) uneven development between advanced capitalist countries,

- both in terms of growth rates and external trade (with the US payments deficit assuming particular importance).
- (d) declining US hegemony and consequent leadership vacuum.
- (e) growing imbalance between extractive and industrial sectors, together with a transformation in the power of the oil-producing countries.

These problems (which, of course, include the issue of oil supply) were sufficiently acute by the early 1970s to act as an increasing barrier to continued profitable accumulation; they found their expression in a generally declining rate of profit in this period.<sup>11</sup> It is, of course, the case that the oil price increases initiated the 1974 recession and added to its intensity. But the presence of major structural problems made the system particularly vulnerable to such disturbances, and made a major recession inevitable.

#### 5 SINCE 1973

The oil price rise of 1973 triggered a fall in output in 1974 and 1975, a marked rise in unemployment and inflation on average in double figures. The rapid rise in manufacturing prices ate into the real price of oil, thereby easing pressures on profitability in individual countries. In addition, this acted to erode the OPEC trade surpluses, already cut into by the implementation of ambitious development plans in OPEC countries. The easing of these problems permitted a tentative revival to start, with output rising though at a rate significantly below the average of the 1950s and 1960s. Unemployment scarcely fell, since a process of rationalisation and restructuring had been initiated by the recession and the intensified international competition that it brought.

By 1979, this halting boom was petering out, and stagnation of output was in prospect in the main industrial countries. The doubling of the price of oil in the course of 1979, amounting to some 2% of OECD output and thus equivalent in these terms to the 1973 price increase, threatens to turn this probable recession into a major slump. With inflation rising quickly, a repeat of the 1974-75 recession seems on the cards. But if this is so, since unemployment has scarcely fallen on average from its 1974-75 level (in the UK having risen),

<sup>5</sup>There were, of course, different national trends. Thus the UK and US shed labour in the industrial sector, while Japan, West Germany and France expanded employment.

<sup>6</sup>The extent to which guest-workers could relieve labour shortages was limited by constraints (political and social) on the amount of such workers and also by their general lack of the required industrial skills. The UK position was rather different: imports of Commonwealth workers took place on a large scale in the 1950s and early 1960s; by the time labour constraints started to bite in other European countries, the failure of the UK to compete internationally was leading to a falling demand for labour and a movement towards increasing restrictions on immigration.

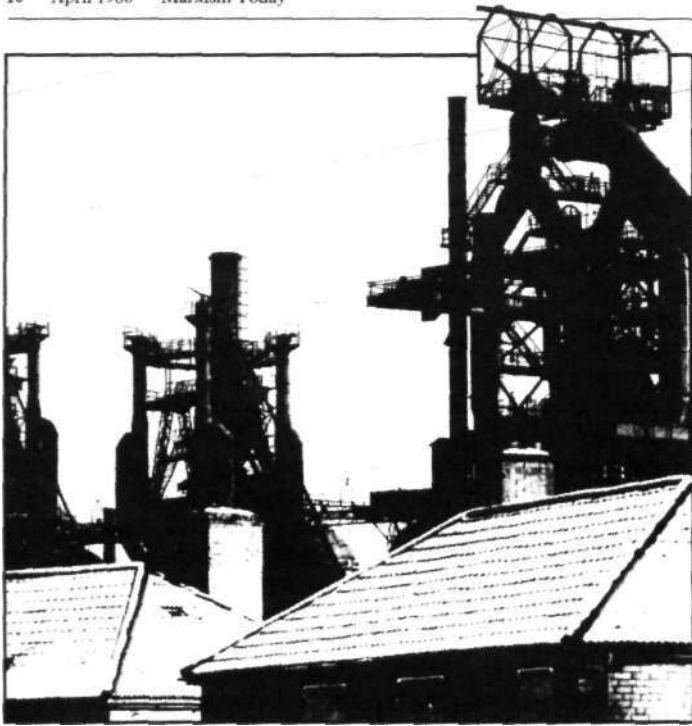
<sup>7</sup>The resulting structural current account surplus led to considerable market pressure to revalue the exchange rate. The powerful pressures from export-oriented industries blocked this for some considerable time, because of the harmful effects it would have had on export sales. An additional factor in the case of Japan may have been worries about *future* deficits: high growth required a rapid increase in imports of raw materials, and the danger was that other industrial countries would not permit the rate of increase of exports required to finance this.

<sup>8</sup>See T P Hill, *Profits and Rates of Return*, OECD, 1979.

<sup>9</sup>Some further complications would have arisen from any wish by OPEC countries to buy real assets, such as property or gold, but at least in this period such problems were minor.

<sup>10</sup>Had it been so, other possibilities, such as coordinated action by the oil consuming countries against the OPEC cartel, might have been attempted. Although the idea was floated, rivalries amongst the oil consumers precluded action.

<sup>11</sup>See T P Hill, *op. at.*



unemployment seems set on a firm, upward ratchet-like movement, with all the associated suffering that it brings.

Before being in a position to analyse this possibility, we must look more carefully at developments in the 1974-79 period. Since the period was one of marked instability, it is not surprising that the picture is a somewhat confused one, with noticeable disparities between countries. But the following critical features stand out.

First, as we have noted in the previous section, attempts at coordination of responses to the recession, inflation and other problems proved nugatory largely because of rivalries and conflicts among the major capitalist powers. Indeed, policy responses showed marked differences and contradictions. To a large degree, these are explicable in terms of the marked disparities in economic performance conditioning policy responses. Greater international competition in this period of recession intensified the differences in performance, already noticeable in the long boom, which were therefore more pronounced than hitherto (whether measured in terms of output, unemployment or inflation). And the lack of any coordinating force to replace US influence (by now considerably weakened by political and economic events) undoubtedly added to the instability of the international capitalist economy.

#### Growth of protectionism

Second, one form of this lack of policy coordination was manifest in the gradual spread of protectionism in international trade. This was primarily introduced in an overt form by the advanced capitalist countries against manufacturing imports from the third world (particularly the so-called Newly Industrialising Countries or NICs, eg, Hong Kong, South Korea, Taiwan: see footnote 13), though some rise in trade barriers between third world countries themselves is also discernible.<sup>12</sup> But it seems probable that some rise in covert protection (in the form of non-tariff barriers to trade) has also occurred between the advanced industrial countries. The clearest example of this is growing US and EEC pressure against Japanese exports.

Third, one form of the more marked instability since 1973 has been the much greater fluctuations in international financial markets, and most importantly in exchange rates. While the gyrations of the pound,

<sup>12</sup> See S AB Page, 'The Management of International Trade' in R Major, *Britain's Trade and Exchange Rate Policy*, Heinemann/NIESR, 1979.

down to a rate of \$1.56 and then up \$2.32 in the space of a few years, has been larger than most, other exchange rates have exhibited short run movements nearly as large. Despite this, the longer run movements in exchange rates *have* been such as to eliminate the major trade imbalances. The devaluation of the dollar in the 1971-73 period helped to reverse the steady decline in US based industry's share of world trade; and the subsequent fall in the dollar in 1977-78 increased still further US competitiveness. On the other side, successive revaluations of the yen and deutsche mark have eroded the profitability of Japanese and West German exports. In consequence, by 1979, the current accounts of these major countries were in broad balance. An important result of these changes was the considerable volume of direct investment overseas by Japan and Germany, a significant proportion going to the USA.

Fourth, the balance of accumulation has exhibited an important shift since 1973. The emergence of the newly industrialising countries has demonstrated the strength of accumulation in the third world.<sup>13</sup> These countries have, on average, succeeded in avoiding the worst effects of the post 1973 recession by increasing their share of export markets. Together with the rapid development of certain oil-producing countries, this represents a shift in the dynamic of accumulation towards the third world. Much play has been made of the harmful effects of the NICs on expansion prospects in the advanced capitalist countries, but these are greatly exaggerated. While the NICs may represent an important *future* force in the international economy, for the present their total size is too small for their penetration of the markets to represent a major problem, in total accounting still, for example, for only 1% of OECD consumption of manufactures. (Indeed, since they are major importers of capital goods, they represent important new markets for the advanced industrial countries, and it is noticeable that Japan and West Germany have been quick to exploit these possibilities). But since their exports are concentrated in specific products and within narrow sectors, and since their export strategy is one of concentrated promotion of products, leading to a sudden upsurge of imports of certain items, acute problems have been created for particular firms or sectors in the advanced capitalist countries. In these circumstances, a combination of forces, including chauvinistic tendencies, have led to growing protection (noted above) by the advanced industrial countries against these imports (as for example against textile imports through the GATT multi-fibre agreement).

#### Relations between capital and labour

The final development in this period has important, and potentially pessimistic, implications for the balance of forces between capital and labour in the future. The generally low rate of growth since 1973 has meant a depressed level of investment. This has had the effect of reducing the growth in industrial capacity well below its earlier trend. Moreover, this effect has been magnified because much investment has gone into rationalisation and replacement of existing capacity, rather than extensions to capacity.<sup>14</sup> This slow growth in output since 1973 has been matched by a similar slow growth in industrial capacity so that capacity utilisation has remained fairly high. Because of this capacity utilisation in 1979 in the main OECD countries is estimated to have been at around its average level for 1964-73, a period of rapid expansion in which capacity utilisation was high. It is therefore wrong to infer from slow growth in output and the high level of unemployment that there are ample possibilities for expansion in the world economy since capacity (rather than labour) constraints may well curtail such expansion rather quickly.

The evidence for the UK on this point is very sparse, since no reliable measure of capacity utilisation exists. But business responses suggest a similar shift, and circumstantial evidence is provided by the

relatively buoyant level of investment in the 1974-79 period despite low growth and low profits, pointing to a high level of utilisation of effective capacity. Moreover, the Thatcher government's policies, which are acting to accelerate closures and bankruptcies, are causing capacity to shrink still more rapidly.

The implications of this shift are profound. If spare capacity remains low (or worse, continues to decline) relative to unemployment, unemployment will remain at high, or rising, levels. Sustained unemployment at these levels will greatly increase the power of capital to dictate its terms to the working class, and push through rationalisation of work practices. In effect, the last few years has seen trends recreating the labour reserves depleted in the long boom. It remains to be seen whether effective mobilisation by the labour movement can prevent this from shifting the balance of forces back in favour of capital.

## 6 PROSPECTS FOR WORLD CAPITALISM

The immediate prospect for international capitalism is for a further slump in output. This is likely both because of some slackening of the tentative boom of 1976-78, and because of the doubling of the price of oil in 1979. The stage is set for a repeat of the 1974-75 recession, but starting from a much higher level of unemployment.

There are, however, certain differences between the prospective recession and the previous one. The synchronisation in 1972-73 of the booms of the major capitalist countries was not observable in the 1976-78 boom (thereby contributing, in part, to its weakness). Thus whereas output in the USA seems to have been faltering, that in Japan and West Germany retained its buoyancy, at least until the recent sharp rise in oil prices. But this factor is unlikely to outweigh two further factors, both of which suggest a rather deeper recession than in 1974-75.

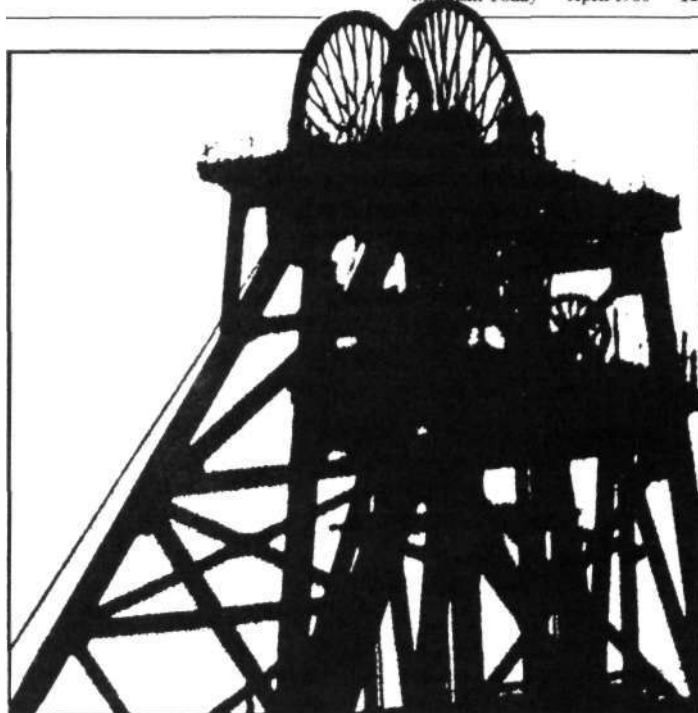
After the 1973 oil price increase, inflation in the advanced industrial countries led to a sharp fall in the real oil price, thereby eroding the contradictory effects of the OPEC oil price rises. But with generally contractionary policies by states, such an inflationary response is likely to be rather more muted. Moreover, the OPEC countries have become increasingly aware of this possibility, and are much more likely to make good any decline in the real price by a suitable adjustment of the dollar price of oil.

Furthermore, in 1974-75 a number of OPEC countries launched ambitious development programmes, which ran into problems of finance subsequently. But the upsurge in expenditure helped to eliminate rather more quickly the problem of OPEC surpluses. This time round a much more cautious response seems likely (particularly given political changes in Iran), so that the OPEC surpluses are likely to be a larger, and longer-lasting, problem for the advanced capitalist countries.

On balance, therefore, the immediate prospects seem for a further recession, of a possibly prolonged and intense character, perhaps raising unemployment to around or above the 7% level on average in the advanced capitalist countries.

Such crystal-ball gazing is, of course, speculative. Moreover, from the perspective of capital, all is not gloomy. We have already noted the limited recreation of labour reserves, threatening to shift the balance of economic forces away from labour in favour of capital. The microprocessor revolution, as it becomes applied, may take this process further, particularly in the service sector, thereby acting to rectify the imbalance (discussed previously) between productivity performance in services and industry. The evidence of significant restructuring in all branches of industry indicate that the conditions for a renewed phase of accumulation are gradually being recreated.

However, such a restructuring process is likely to be a long and



prolonged one. Moreover, as we noted in discussing the origins of the long boom, the re-establishment of such preconditions is not sufficient to permit profitable accumulation to restart. The hegemonic, coordinating role needs also to be assumed. Thus the 1930s saw a major process of innovation and restructuring in the midst of depression, but it was only after a lengthy period of time, including a world war, that the political conditions, in the form of the dominance of the USA, for hegemonic direction of the system were created. History, we must hope, does not repeat itself, but it is now hard to see the emergence of any effective coordinating force (whether a single country or an effective coalition) even as a result of major international political upheaval.

The prospect, therefore, is of a long, depressed phase of capitalist development. This phase offers both opportunities and problems for the Left, to which we now turn in conclusion.

## 7 ISSUES FOR SOCIALIST STRATEGY

In this concluding section, we turn to consider the implications of the above analysis for the Left and for the economic strategies advanced by the Left. These strategies and the specific context within which they have been worked out vary from country to country, and so it is convenient to focus on the alternative economic strategy (AES) as a concrete economic strategy for tackling the current crisis in Britain within the context of an overall advance by the Left.

At the outset, it is important to stress the obvious point that the current slump reveals with brutal clarity the need for the democratic socialist alternative to capitalist regulation. Unacceptable unemployment, depressed living standards, cuts in social services and high inflation all point to the failures of contemporary capitalism, and would create conditions propitious to the propagation of an effective alternative. This is not to argue that conditions of slump are necessarily simply periods of advance for the Left, since historical

<sup>13</sup>For a useful discussion, see OECD, *The Impact of the Newly Industrialising Countries*, 1979. In this report, the NICs are taken to be Hong Kong, South Korea, Taiwan, Brazil, Greece, Mexico, Portugal, Singapore and Yugoslavia; the first three have exhibited the most spectacular growth.

<sup>14</sup>Thus a 20% growth in non-residential investment in Japan up to mid-1979 is estimated to have raised capacity by only 1%. See OECD *Economic Outlook*, Dec 1979.

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experience suggests that such periods generate contradictory cross-currents within society, and specifically within the working class. (Thus the 1930s, with the rise both of the popular front and of fascism, indicate the manner in which periods of crisis force a major questioning and reassessment, but simultaneously a polarisation and radicalisation of society). But if the Left cannot establish a mass base of support for such a programme in the coming period, when the system is in crisis and as we have seen in the previous section capitalist responses are divided and hesitant, then the possibility of acceptance at other times must be slim indeed.

In Britain, despite the major setback of the Thatcher government, signs of the growing awareness of the need for *elements* of the AES are apparent. The intellectual barrenness of the right wing of the Labour Party; the growing indications of divisions within the Conservative Party, with signs of revolt against the stringent cuts in government spending, against the willingness of the present government to abandon large sections of industry to international competition, and against the freeing of control over international finance with the abolition of exchange controls; the growing sections of British industry pressing for protection (in a significant number of cases in response to corresponding protection overseas); and the general signs of a broad movement against monetarism — all these indicate the signs of rejection of current strategy in favour of particular components of the AES. But as yet there are few signs that this opposition is forming into one of *positive* support for the AES.

Indeed, much of the pressures represent reactions to adverse trends without any commitment to any viable, well-thought out alternative strategy. Thus the lack of any effective opposition by the right of the Labour Party springs from its lack of any real alternative, as the 1976-79 monetarist policies of the Callaghan/Healey axis make all too clear. The left alternative strategy is the only coherent alternative to



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monetarist policies, and the vital political role of the Left is to tackle the difficult task of forging alliances between diverse groupings, to create in reality the broad democratic alliance envisaged in *The British Road to Socialism*. But if it is to do this effectively, and win the political and intellectual argument for the AES, it must ensure that it faces squarely the new trends thrown up by the current recession. Three issues, in particular, assume importance, of which we consider two in passing and the third in more detail.

### Import controls and retaliation

First, there is the issue of the retaliation against import controls. The demand for general import controls is not, of course, a demand to *reduce* imports; rather, it is a demand to expand the economy while preventing the level of imports from *rising* as a consequence. It is therefore a demand not for *protection*, but rather for the *management* of trade. Since such controls will not reduce imports, the economic justification for retaliation is, on average, absent (though it must be admitted that some countries would gain and others lose).

However, the argument does not dispose of the risk of retaliation. We have already noted that the degree of covert protection has risen significantly in the recession since 1973, and several advanced capitalist countries have shown their willingness to resort to protectionist measures. The advent of a Left government, introducing general controls, may provide the convenient excuse for such action, particularly given the intensified competition of the present slump. Moreover, there will be numerous pressures, notably from international capital (whose underlying interests is in unfettered trade), to introduce retaliatory measures with the effect of destabilising the economy and bringing down the Left government. And given the dependence of the British economy on exports, it could not withstand a major retaliatory protectionist war.

This is not to argue against import controls, which must be regarded as a major and essential plank of the AES. Rather it is to argue that the Left must give serious attention to the strategic and tactical issues involved, and specifically to the considerable bargaining power that the UK would have in such a position and to how it can best be deployed to *minimise* the risk of large scale retaliatory action by other advanced capitalist powers.

The second issue is raised by the continuing rapid decline of the UK relative to other advanced capitalist countries and relates to longer run supply considerations in the UK economy. A major longer run objective of any Left strategy must be to reverse the decline, and maintain or improve the relative economic strength of the UK. But to do this it must be recognised that the UK record of industrial innovation has also deteriorated markedly, and that this is a significant factor in UK decline. A major part of the strategy for economic revival must be to raise the innovatory performance of British industry. But this in itself will not suffice. Given the small relative size of the UK, it must be expected that the vast bulk of innovations will take place in other countries. The UK will clearly have to import this technology, as indeed it is increasingly doing already (as reflected in the rising share of imported capital goods), by a variety of means, whether by foreign ownership or the direct impact of capital equipment. Such arrangements pose important issues for the Left of a kind familiar to third world countries: how to import essential technology on which future growth depends on terms which retain democratic control over the developments in the economy. Once again, such problems can be resolved, but only by serious analysis by the Left of the issues involved.

### Unemployment

Finally we consider one further question: the problem raised previously concerning short run capacity constraints in the British economy.

**if the disastrous policies of the Thatcher government continue, the resulting damage to British industry could be so severe that North Sea oil revenues are squandered on a flood of imported consumer goods.**

Central to the AES is the demand that unemployment is reduced decisively by expansionary policies. But there must now be serious questions concerning the degree of spare capacity in British industry, because much old plant has been rendered obsolete by the upheavals since 1973 and because of the low level of net investment since that date. In these conditions, an expansion of demand may not be able to stimulate home production to the extent required to cut unemployment sufficiently. This problem is being made steadily worse by the current policies of the Thatcher government, which are acting to accelerate closures and bankruptcies. Any estimate of the magnitude of the problem would be a mere guess, since information on such matters is so poor, but unemployment might only drop to one million before all effective existing plant is working near to capacity. Any further stimulus (with suitable control of imports) would merely generate acute inflationary pressures, which would sabotage any Left strategy for economic revival.

The AES envisages a solution to this problem. By reversing current cuts in the public sector, and indeed aiming for further expansion, the AES involves a significant expansion of public sector employment, so that unemployment can be cut to acceptable levels despite the capacity constraint on employment in the public sector. But this is not without its attendant dangers (relating back to the issue of the balance between the provision of public services and private goods). For it implies that the main thrust of short run expansion will be in the public sector, not in the greatly increased supply of industrial goods. And this means that any short term rise in take-home pay will have to be restricted, with the fruits of expansion being enjoyed in the form of a rise in the social provision of services (ie, the social wage). This need not be unappealing, particularly since the Left should be able to devise imaginative new forms of social provision (particularly at the community level) to replace the atomistic structure of many aspects of our lives under contemporary capitalism. But this requirement needs to be considered carefully and absorbed into our political campaigning if false expectations are not to be aroused. In particular, the presentation in certain quarters of the AES as 'more of everything' must be carefully avoided.

This problem of short term capacity pushes to the very forefront of the AES the demand for a planned investment drive in British industry on terms determined by democratic control. Without a major lift in the level of investment, with the object of re-equipping and modernising British industry, the other objectives of the AES will fail. The concrete means by which this will be accomplished in each sector (ie, the precise balance between planning agreements and nationalisation) needs much more serious consideration by the movement. The substantial future revenues from North Sea oil provides the means by which this investment boom could be financed without the need for any real short term sacrifice in terms of living standards, and the Left demand that North Sea oil should be earmarked for this purpose is clearly correct. But if the disastrous policies of the Thatcher government continue, the resulting damage to British industry could be so severe that North Sea oil revenues are squandered on a flood of imported consumer goods. The essential unity between opposition to the Thatcher government and the struggle for the AES is revealed sharply on this issue. •