SPECIAL EDITION: GLOBAL ECONOMIC CRISIS

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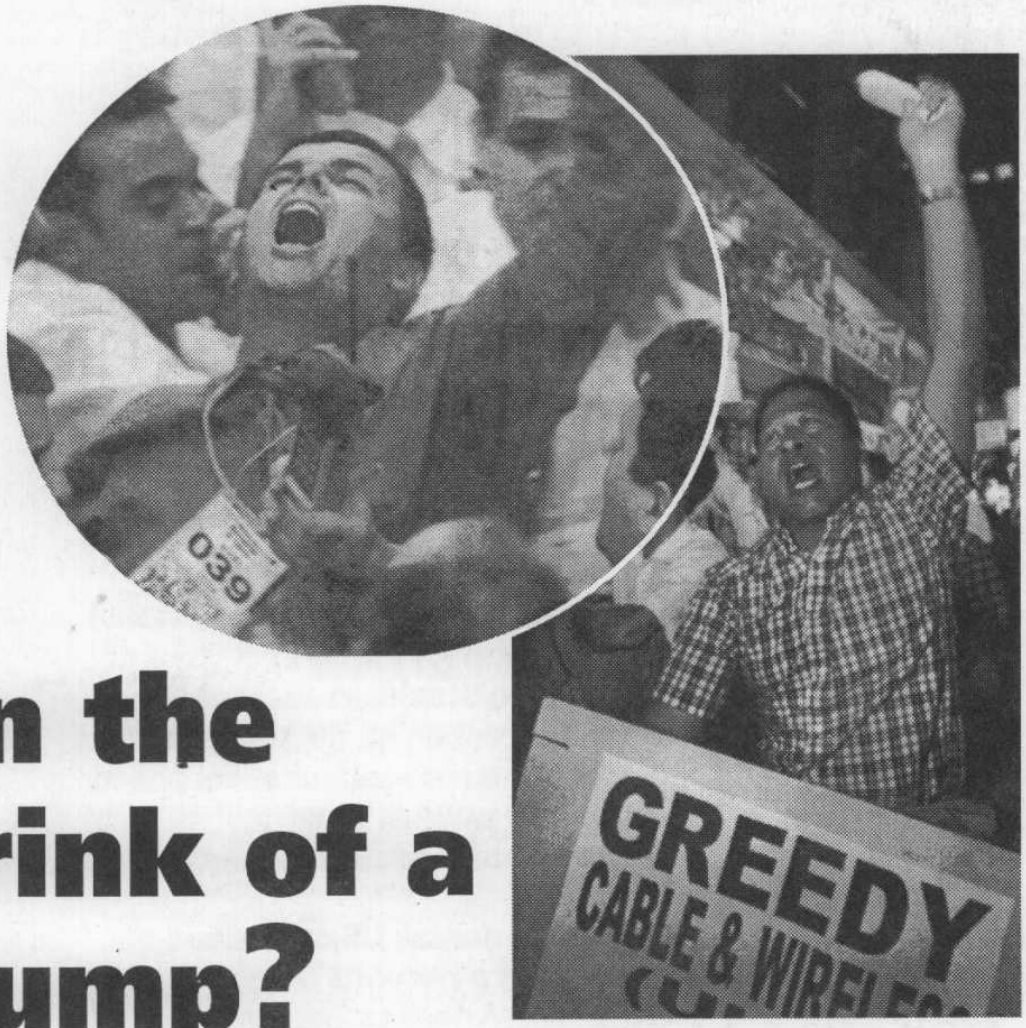
World capitalism



On the brink of a slump?

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PLUS: Renewing the Marxist theory of crisis

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INCORPORATING PERMANENT REVOLUTION

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The "American century" draws to a close

The 1900s end in economic crisis and deepening political instability. Helen Watson explains how the League for a Revolutionary Communist International sees the coming period and how the working class can score future victories

OVER THE past two years developments in the world economy have shocked the prophets and pundits. In the early 1990s there was much talk of the "Asian model" of high and sustained growth rates and of a globalisation that would force this model on the entire world. Europe was regarded as the sick man of world capitalism, an analysis apparently confirmed by the collapse of the European Exchange Rate Mechanism before the assault of the currency speculators in 1992-3.

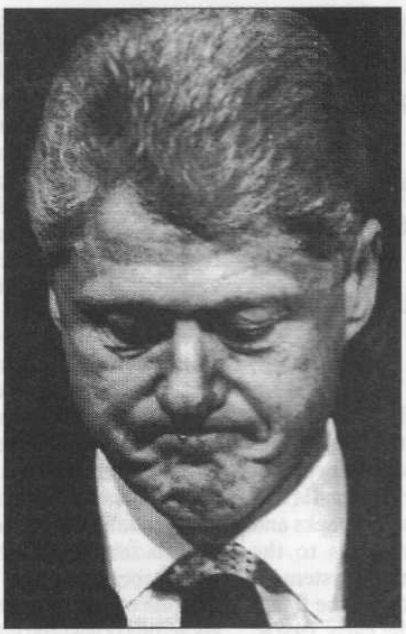
Yet in 1997 an unexpected financial crash struck the Asian Tigers. The ensuing slump brought misery and hunger to tens of millions throughout the region. Japan, after years of stagnation was tipped into slump by the crisis. Signs are growing that China is also being drawn inexorably into the crisis.

The Asian crash rapidly activated the fault lines of "globalised" capitalism, spreading to the other "emerging markets" in the semi-colonial and former Communist countries – most importantly Brazil and Russia. The total effect has been to discredit free market capitalism – now often given the hostile adjectives, "savage" or "uncontrolled".

In August 1998 the Russian rouble collapsed, after several years of stability. The government effectively defaulted on repayments of loans to foreign creditors and a number of European banks were heavily hit. Despite a huge IMF rescue plan the Brazilian currency, the *real*, was driven off its fixed exchange rate, devalued by 20 per cent and forced to float, ruining the newly re-elected Cardoso government's anti-inflationary strategy and leaving a discredited regime to try and impose a savage austerity programme.

In Europe signs of a slowdown in the German economy appeared.

In marked contrast to the recessions in Asia, Russia and Latin America, the US has witnessed the longest running stock market surge since the 1960s. Throughout 1998 predictions of either a soft or a hard landing failed to materialise. Instead the Dow Jones spiralled into the stratosphere.



These contradictory movements of the different sectors of the world economy have divided the experts – some predict a 1929-style stock exchange crash, first in the USA and then in Europe. Others insist that the new technology-fuelled expansion in the US and the launch of the euro will make North America and Europe insulated islands of stability whatever happens elsewhere.

In world politics most of the expectations of the early 1990s have proved a mirage. Anyone who refers to the New World Order today does so only as a satire on the vanity of human wishes! The "villains" once targeted by George Bush for heavy restraint or removal – Saddam Hussein, Slobodan Milosevic, Fidel Castro and Muammar Gaddafi – cling obstinately to power. Despite economic blockades or aerial bombardments, the "world policeman" has made remarkably few arrests or convictions . Instead it was US president Bill Clinton who was arraigned by a Republican dominated congress.

The bourgeoisie's hopes that fall of communism would lead to the gradual disappearance of the world workers' movement have also proved vain. The Social Democratic and Labour parties have not experienced the same fate as their Stalinist brethren: now they dominate the governments of all but two of the fifteen states of the European Union.

Their election is a rejection of the right-wing neo-liberal governments of the 1980s and early 1990s. Millions of organised and unorganised workers in the EU will are now intent on turning the social democratic rhetoric of a "social Europe" into a defence of welfare spending and job creation.

Even Stalinism has not disappeared completely.The CPRF, the lineal successor of the CPSU remains the largest party in the Russian Federation – indeed it has become stronger whereas the neoliberal parties are dead in the water. In Romania the Jiu valley miners, who bucked the trend at the beginning of the 1990s, at the end of the decade have marched, routed the paramilitary police and halted the privatisation and closure of their mines.

Impotent nationalism

The right-wing parties, those most closely tied to neo-liberalism, are impotently resorting to anti-EU nationalism, driven to stealing the dangerous anti-immigrant racist policies of the far right.

From France, Germany and Italy to Korea and Indonesia workers have shown that the predictions of the death of the class which creates the wealth of capitalism have been exaggerated, to put it mildly.

Africa, despite freedom from "outside interference" by the forces of world communism, is wracked by civil wars which have led to the collapse of states such as Somalia, Congo, Liberia and Angola. Rival groups of African countries (each with different imperialist backers) feud over the mineral resources, and mount military interventions against one another's puppets. Not only in South Africa but in Zimbabwe, Kenya and Nigeria trade unionists have used the strike weapon for political purposes and the potential exists for workers' parties to be formed.

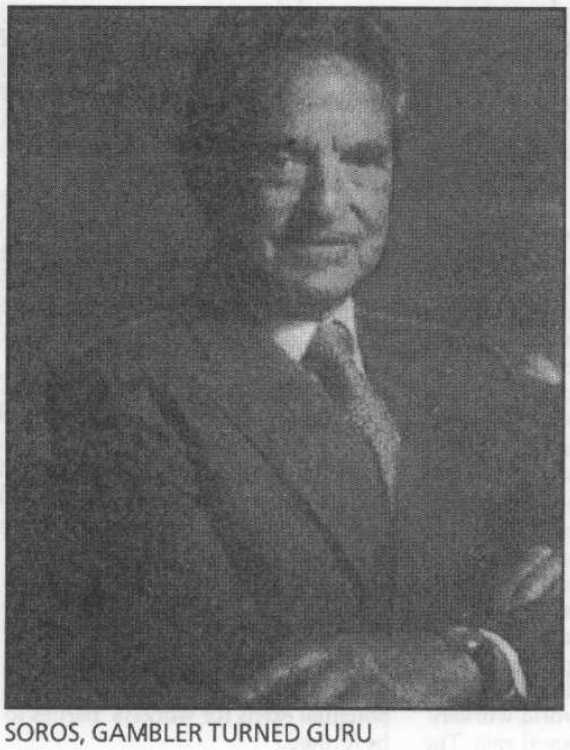
In Latin America neo-populist figures such as Chávez in Venezuela, sweep out the neo-liberals only to betray their electors in weeks rather than months. This not only ensures continued instability and future social explosions but also the possibility of rejecting populist demagogy and a rebirth of class politics.

In the realm of ideas, doctrinaire neoliberalism is in disorderly retreat before a bewildering array of alternatives; the Third Way, neo-Keynesian-

The next six months will prove decisive for the United States' medium term prospects. The cycle of accumulation is clearly coming to an end despite its recent consumer spending frenzy and the further inflation of the stock market bubble

ism, neo-populism political Islamism, etc. Vague proposals to regulate the "untamed"and destructive forces of globalisation fill the serious media and a host of hastily written hardbacks and paperbacks propose reforms to the world financial and banking system.

George Soros, foremost of the financial market raiders of the early 1990s, has had a make over and now markets himself as an outspoken critic of unbridled capitalism, denouncing its moral and social wrecking effects and solemnly warning it of total collapse if it does not mend its ways.



SOROS, GAMBLER TURNED GURU

Millenarian malaise

But the panicky chattering of the intelligentsia will change nothing in the immediate future. The next twelve months will determine the fate of the global capitalist economy for the five years or more. Over 40% of the world's population live in countries in recession. Their numbers are gr daily. Slump has a vice-like grip in much of East Asia and Japan. Russia is experiencing an economic catastrophe. Recession is gathering pace in Latin America. China's exports have been battered. Manufacturing is retrenching in the USA and UK. Europe's recovery is tailing off.

The main reserves of buoyancy are in the service sectors and financial markets. Here volatility is the watchword as crash gives way to renewed feverish speculation, further correction, more froth and another crash. The volatility expresses profound unease and uncertainty in the world financial markets; and well there may be as profits and equity prices move in sharply different directions.

The final year of the millennium is critical. East Asia's economies have stabilised their financial crisis for the moment but are mired in a slump in output, which will not improve at all in the next six months. Japan is gripped by a deflationary price spiral. In the first six months of 1999 the recession will deepen.

China's economy seems doomed to slide into crisis. Exports have slumped exposing huge company debts and idle stock; state banks teeter on the edge of bankruptcy.

Brazil is the axis around which the Latin American economy revolves, accounting for around 47 per cent of the region's GDP. Over $40 billion of IMF money was committed late in 1998 to defend the currency; a huge rise in interest rates failed to stem the exit of short term capital but did push industry into free fall. The inevitable devaluation of the real (Brazilian currency) will see the budget deficit balloon more and provoke more austerity measures. The economy will decline in 1999 by at least 5 per cent; unemployment will jump.

The next six months will prove decisive for the United States' medium term prospects. The cycle of accumulation is clearly coming to an end despite its recent consumer spending frenzy and the further inflation of the stock market bubble. A rude awakening is in store! A violent readjustment between the vastly inflated stock market and the shrinking rate of profit is inevitable in 1999. Overproduction, declining profits and faltering ing investment all point to in one direction – recession.

The US will experience little respite from the adverse effects of the East Asia crisis over the next six months or so. Its exports to the region will continue to fall and imports from it will rise, worsening the US trade deficit. The Latin American recession will cause a further decline in the profitability of many US MNCs, which in general are more exposed in Latin America than East Asia.

The only question is whether the end of the speculative bubble will lead to an uncontrolled flight to cash and bonds, panicky asset sales and a generalised credit crunch that overpowers any interest rate cuts and other Federal counter-cyclical measures that are designed to stem the recession. But a US recession, whatever its size, will hit East Asia and Latin America hard at this stage of the cycle, cutting off any attempts at export-led recovery.

The European Union now has a single currency – the euro. Its foundation is an event as important as the foundation of Bretton Woods financial system in 1944. Europe in 1997/98 benefited from lower global commodity prices and the effect of capital flight from Russia and East Asia. The latter has caused an increased demand for its bonds which led to lower interest rates, all smoothing the path to the euro's launch.

But the real economy is beginning to turn down and this will deepen in the first six months of the year. The UK recession is underway and in continental Europe profits and investment are set to fall. Although not critically exposed to the fluctuations in the US market, the mainland EU economies will be hit by declining markets there in 1999. A weaker dollar will also erode EU competitiveness and any US recession will exacerbate the Atlantic trade war. By the second half of 1999 or early 2000 the EU will probably be in recession.

By mid-1999 it should be clear whether we are in a normal post-1973 synchronised global recession in which global output falls by up to 3 per cent in 1999-2000, with widespread stock market corrections of around 20 per cent by the end of the year; or whether something qualitatively different is happening, something far worse than we have seen since the second world war.

The bosses' most optimistic scenario, requires that the global recession remains unsynchronised with very weak and/or much delayed US and European recessions keeping output, prices and profits low but stable during 1999. Meanwhile Japan and East Asia bottom out of their cycles and resume investment and growth. Unfortunately for them this is the least likely outcome.

In fact, what is uppermost in the minds of many commentators is a serious world recession: a stock market collapse of 30 per cent or more, producing a deep slump in output of 5 to

10 per cent; a global liquidity crisis; a deflationary spiral of prices and output; competitive devaluations; and the use of protectionist measures. They fear that this recession will prove resistant, in the short-term, to the interventions of the Federal Reserve and European Central Bank, or even the IMF and World Bank.

End of the "American century"

Internationally, there is stark contrast between the self-confident policy of the USA in 1989-1993 when it was able to create a coalition for the Gulf War, which included a wide range of Arab states, all the imperialist powers and most semi-colonies and former communist states.

Military and diplomatic threats of the post-1995 period culminated in the bombings of December 1998 and the desultory air skirmishes since then. These air strikes against Iraq have proved ineffective and even counter-productive. They have alienated the US's imperialist partners and most of their Arab allies.

In Palestine the Oslo "peace process" is shattered. The US's credibility in the Middle East has been undermined by the combination of the attacks on Iraq with the spectacle of Netanyahu ripping up all the promises Israel made to the PLO in the Oslo Peace accords.

The Kosovo cease-fire has not prevented Milosevic's atrocities, which brutally expose the impotence of the OSCE monitors. The pattern of the Bosnian genocide is being repeated in Kosovo, albeit on a smaller scale. The imperialist powers will not hear of independence for the 90% Albanian population and do everything in their power to stop the Kosovo Liberation Front from combating the Serbian occupation forces.

In short, the US cannot maintain order on any continent, despite its absolute military hegemony, despite the abject subservience of all but a few semi-colonial regimes, despite the EU's military and political impotence. It has not even been able to overcome the Vietnam syndrome, the refusal of the US population to countenance the large scale use of US ground forces in a shooting war.

The workers and peasants of a small underdeveloped country gave the world superpower a bitter lesson. A quarter of a century on the rulers of the US have not forgotten the beating they took and neither should progressive forces around the globe

Instead of ground wars the US, and its British ally, are forced to rely on unilateral air attacks on its main post-cold war "enemy of the state" – Iraq. The renewed bombing late in 1998 reflects both the continuing temporary strength of the US but also its increasing isolation. Moreover it can hardly be seen as a military-strategic, let alone a political success.



KOSOVO LIBERATION ARMY FIGHTING SERBIAN OPPRESSION

The UN has been humiliated, its Secretary General turned into an abject figure. The revelations of the spying role of Richard Butler and the other UNSCOM inspectors have unmasked the entire anti-Iraq campaign as little more than an attempt to achieve what the Desert Storm failed to do – to provoke the Iraqi high command into removing Saddam and bowing to Clinton. Blair and Clinton's public excuses for the December attacks were as threadbare – Saddam's violation of UN resolutions, the need to "degrade" Saddam's forces of repression, to destroy his capacity to make "weapons of mass destruction" or to "threaten his neighbours".

Again, the stark contrast with US support and protection of Israel was not lost on the masses of the region. The Zionist state is a serial violator of UN resolutions and solemn treaties, practitioner of torture and mass repression, possessor of both nuclear and chemical and biological "weapons of mass destruction", occupier to this day of the lands of neighbouring states.

The necessary corollary of Clinton's strategy – more economic sanctions and repeated air attacks will, if persisted with, provoke open splits amongst the imperialist powers and the long-term alienation of their semi-colonial puppets.

Also the disputes about the future role of NATO (the question of nuclear first-strike doctrine, and peace-making operations without UN approval) show existing potential for conflicts between current allies. The creation of the euro will lead to huge shifts in the financial sector and in time could seriously weaken US hegemony in the world institutions like the IMF and the World Bank.

The use of the Asian crisis by US banks and multinationals to cherry pick the major banks and leading edge manufacturing companies of the region is storing up bitter conflicts in the first decades of the new century. The crisis and the US response to it has reminded the ruling class of east Asia of their semi-colonial servitude – and, perhaps, even warned the Chinese bureaucracy of its likely fate.

US bankers and politicians have peremptorily dictated terms to Japan in a way not seen since the late 1940s.The plan of the Japanese government to create an Asian fund to bail out crisis ridden semi-colonial governments in SE-Asia represents a first feeble attempt to resist US hegemony.

While all of these developments pose challenges to US hegemony they will not end it in the short term. Neither the EU nor Japan are able to replace the US politically and military even in their own regions. It will take years, if not decades to create what history and geography have endowed the North American colossus with. Nevertheless, these developments will increase and point the way to the future relentless sharpening of inner-imperialist rivalry.

Renewed struggles ahead

The political crisis will continue in East Asia especially in Indonesia and South Korea. In the former, the next six months will be dominated by continued recession and renewed protests against the old parliament's minimal constitutional changes, climaxing with the May/June elections. The level of class struggle will decide if the military, with or without Habibie, try to stage a preventive coup to suppress the mass movement, or if sections of the ruling class will instigate a right wing Islamist mass mobilisation, which could be accompanied with protectionist, anti-neo-liberal measures.

The objective situation in Indonesia – military Bonapartism, landlordism and acute peasant land hunger, national liberation struggles, IMF imposed austerity and wholesale buy-outs of Indonesian banks and industries by foreign multinationals – places the revolutionary democratic struggle in the foreground.



ROMANIAN MINERS: MILITANT IN FIGHTING POLICE BUT THEIR REACTIONARY LEADERS CANNOT CHALLENGE EXPLOITATION

At the same time only the Indonesian proletariat can lead all the oppressed and exploited classes, strata and nationalities in a revolution that can sweep the whole corrupt establishment into the dustbin of history and free Indonesia from the shackles of imperialism.

In most countries of the European Union social democratic reformist parties are in government, either on their own or in coalition. For the capitalist class in Europe the bourgeois workers' parties and trade union bureaucracies have become their key agents for containing working class resistance as well as ensuring the implementation of economic and currency union.

As long as the economic crisis does not effect the EU these governments will have room for manoeuvre and will be able to integrate the trade union bureaucracies and even some left reformist parties. But as soon as the crisis becomes serious, fissures within and between these forces will grow.

The economic shock underway in Russia will deepen in the months ahead. The growing mass unrest which led to strike waves in the summer was only halted through a fake shift to the left in the form of the Primakov government. In return for Yeltsin's semi-retirement and the integration of a couple of CPRF ministers the latter and the trade unions ended the movement with a feeble a one day protest strike. However this government has made promises such as paying back all workers' outstanding wages that it cannot keep while holding to its simultaneous pledges to the IMF that it will resume debt repayments and avoid the inflationary printing of money. But the illusions in Primakov will only be dissolved by experience.

When this occurs a resurgence of mass strike action is probable. Renewed social pressure from below could either oblige Primakov to force Yeltsin's resignation or it could tempt the palace clique around the ailing Yeltsin into a presidential coup against Primakov.

The crisis of leadership

The onset of the fourth world recession since the end of the long mid-century boom, the rising resistance from youth, workers and popular masses in the semi-colonial world, raises once again a major problem. What sort of leadership will these struggles find? If the power and influence of the Stalinist bureaucracies has been enormously weakened and even disintegrated this has, as yet, often opened the way to all sorts of demagogues, adventurers and charlatans.

At best, in the countries with new trade unions and workers' movements in Asia and Africa, it has led to tentative moves to form labour or workers' parties on a very limited programmatic basis. In the countries where capitalism is being restored there is terrible political confusion. Some former Stalinists, transformed into extreme nationalists, find themselves at the head of militant workers' struggles, as in Romania. In other countries fragments of the old bureaucracy of the state parties or the trade unions lead the movement for want of any organised alternative. Such bureaucrats or demagogues will disrupt and dissipate the mass actions. Without revolutionary leadership much of the heroic efforts of the coming struggles could go to waste.

The central contradiction of the coming period remains: the disjuncture between the ripening revolutionary situations and the immaturity of the revolutionary political forces of the proletariat

The central contradiction of the coming period remains: the disjuncture between the ripening revolutionary situations and the immaturity of the revolutionary political forces of the proletariat. This problem, as well as the basis for a solution to it, was first formulated by Leon Trotsky in 1938 in the *Transitional Programme*. The programmatic method to resolve it remains as relevant today as it was when it was first written: a system of immediate and transitional demands which pose the questions of workers' control over production and the seizure of power by the working class organised in workers' councils.

This method must be the fundamental axis of a new international programme and cadres must be assembled and organised to carry that programme into each and every concrete struggle of the working class around the world. This means not only new parties in these countries but a new world party of socialist revolution.

Despite the renewed discredit into which capitalism has been plunged, despite the great weakening of the Stalinist bureaucracy, despite the ultra-bourgeoisification of the social democracy, the forces of a revolutionary communist alternative are still very small. Even among the tens of thousands who regard themselves as both revolutionary and communist the numbers with such a strategy (programme) adequate to the new crisis is even smaller. Most who are willing to call themselves communists today, such as in Turkey and the Indian sub-continent, remain Stalinists in programme and organisational methods.

In contrast to the 1970s and the early 1980s, within the unions and the reformist parties, the forces of rank and file opposition to the bureaucracy are cowed or apparently non-existent. Nevertheless, conflicts in the unions and workplace organisations continue beneath the surface. It is the task of revolutionaries to make contact with those workers in opposition to the bureaucracy, raise their confidence and cohesion, and win them to a bolder programme and tactics.

When the recession hits Europe, the conflicts within the reformist mass organisations and unions will increase and parties will grow.

This ferment will affect the whole reformist labour movement – pitting those who will defend workers' interests against those who have sold themselves body and sold to the bourgeois order.

However, in next year or so, the experience of right-wing socialist and labour governments will once again present opportunities to existing centrist parties to win vanguard workers and youth to mounting a challenge to these governments. In France organisations like Lutte Ouvrière and the Ligue Communiste Revolutionnaire or in Britain the Socialist Workers Party and the Scottish Socialist Party are standing in elections with varying chances of success.

In Italy the left reformist Rifondazione Comunista is in a position to challenge the craven pro-capitalist policies of the PDS-led government. Unfortunately, though inevitably given the centrist nature of many of these groups, the vanguard workers and young will not have a fighting revolutionary action programme put before

them – despite the fact that thousands of cadres of these organisations agree with the main planks of such a programme .

Unfortunately the number of these who today "disdain to conceal their views and aims" and who dare openly "declare that their ends can be attained only by the overthrow of all existing social conditions" is far smaller due to the political cowardice and decomposition of their centrist leaderships. The latter think it is a clever trick to pick up the programmes of Stalinism and Social Democracy from the 1970s and 1980s, dropped in the mud by the big parties over the last decade and a half, and to win votes and seats on a political nostalgia basis rather than campaigning for a strategy of active resistance and new fighting organisations.

In Europe revolutionaries have to come forward openly as champions of a new programme and of new revolutionary parties. They have to work to transform from top to bottom all workplace organisations and the trade unions. In the new century we must eradicate the root cause of all its defeats in the old century: bureaucratism, whether in its Stalinist, social democratic or trade unions forms.

In the United States, rank and file trade union militants, sections of the reformist left-wing and centrist propaganda groups are setting about building a Labor Party. If this is not to end up as a caucus for "friends of labor" amongst the Democrats or a reformist dead end then a revolutionary action programme needs to be adopted. A Labor Party can only be built through active involvement in the struggle to organise millions of non-unionised workers and those who suffer racial oppression and discrimination not solely or primarily through electioneering.

In the mass revolutionary struggles in East Asia, in countries as different as Indonesia and South Korea, there are further problems. The task is certainly that of bringing together all the threads of the factory-based and community-based opposition to military dictatorship, presidential democracy and IMF austerity, into a revolutionary workers' party.

But a real danger exists of economism (restriction to local or sectional strikes) or petty-bourgeois democratism (limiting the struggle to one for democratic demands). The democratic and social questions must be consciously linked.

Mass self-organisations of workers and peasants – councils of their delegates – must be set up. Only such bodies can ensure that democratic demands, a constituent assembly, the right to secede for oppressed nationalities, land redistribution, are pursued with revolutionary mettle.

Only such organisations can ensure that companies are not only nationalised but that the owners are expropriated and production put under workers' control.

In South Korea sharper attacks on the workers in the *chaebols* will emerge in the first half of the year, creating a crisis of leadership within the trade unions and posing the best ever opportunities for the creation of a workers' party.

There are also huge dangers facing Russia's workers given the acute crisis of leadership. Right wing, chauvinist forces and local governors such as Alexander Lebed will seek to use mass anger to build populist support which could even lead to a further fragmentation of the Russian Federation. Worse some "red-brown" Stalinist forces inside the CPRF, like former general Albert Makashov, could attack the government not from a class point of view but with anti-Semitism.

A clear class struggle perspective – a general strike to oust Yeltsin and smash the bonapartist presidential regime, the summoning of a sovereign constituent assembly, the building of workers' councils – must be combined with fight for an internationalist revolutionary workers' party.

When *Trotskyist International* first predicted that the new historic period being ushered in by the collapse of Stalinism was not one of unchallenged capitalist stability many on the left mocked this prediction as catastrophism.

The events of the last year have greatly reduced the capitalist optimists and the hand wringing pessimists on the left.

It is increasingly clear to all that the new millennium will be born under skies heavy with the clouds of economic crisis, regional wars and wave after wave of class struggle. Contrary to the bourgeois propaganda and left pessimism of the early and mid-1990s capitalism did not enter a new era of growth and stability thanks to the collapse of Stalinism.

Economically, we remain locked in the near 30-year long period of low growth. We are witnessing an accelerated tendency to the formation of economic blocs. This will lead inexorably to increasing rivalry over sources of vital raw materials, over access to new markets. This will create trade wars and later open political and military clashes.

The way out of depression for Japan, the way forward for a new stage in European imperialism's global plans all lead to renewed attacks on their own working classes and to contesting US dominance.

European and Japanese workers will not calmly see their job security or their social gains torn up in the name of shareholder value or globalisation. The new workers' movements in East Asia will not return to the old ways once the present cyclical crisis abates.

These changes will lead to a new, higher level of class struggle than we have seen in the 1990s – a return to the scale of the struggles of the 1910s, 1920s 1930s and of the 1970s and '80s. The scale and regularity of these struggles in the twentieth century show the historic exceptionality of the mid-century boom and the phase of defeats in late 1980s and 1990s. This in turn will present decisive opportunities for the building of a new, revolutionary communist International. ■

"We have entered a world-historic revolutionary period in which all the relations inherited from the settlement at the end of the Second World War are being disrupted or destroyed . . . We recognise that the first few years of this new period have a negating, destructive, even a counter-revolutionary character. But the present events are sweeping away everything that is decayed, rotten and emptied of vital force within the movements of the oppressed and exploited . . . For this destruction is clearing the ground for a new and profound period of struggles and for the crystallisation of a renewed revolutionary leadership. Capitalism cannot recover its youthful vigour. Neither its crises nor its class struggle will abate. On the contrary, a world arena for titanic struggles in the new millennium is being created by these very events."

Trotskyist International, April 1992

East Asia CRISIS SPURS

East Asia was hailed as the most dynamic region of the capitalist world in the early 1990s showing the rest of the "emerging markets" the shape of their own future. Now, as **Michael Pröbsting** reports, that future is likely to be rather different as slump provokes misery and revolutionary crises

East Asia is in the throes of a mighty crisis. The sudden reversal of fortunes in East Asian "tiger" economies from mid-1997 has catipulted the young and combative working class into a series of economic and democratic struggles. This includes the world's most industrially developed semi-colony, South Korea, and the world's fourth largest country – Indonesia. Japan, the regional superpower, has gone from recession to depression in the same period. Its ruling class is poised to attack the postwar compact with the more privileged sectors of the working class in the big multinationals. Meanwhile, the most populous nation in the world, China, has come to the end of two decades of convulsive growth which has created a huge working class that is now finding its trade union and political voice again, ten years on from the bloodbath of Tiananmen Square.

While East Asia has been one of the most politically stable areas of world capitalism and class struggle over the past 20 years it has now turned into the epicentre of the world revolutionary process. Economic and political developments in East Asia are the sharpest and clearest expression of the revolutionary potential of the new global political phase which opened after the mid-1990s.

Japan: from stagnation to slump

Japanese capitalism[1] is in its worst crisis since the second world war. Seven years of sluggish growth and stagnation have now turned to three consecutive quarters of decline. Output fell by over 2 per cent in 1998 after a decline of 0.7 per cent in 1997. Industrial output fell even more sharply – in October 1998 by 8.0 per cent. This year could see a further reduction of 1 per cent.

The recession threatens to turn into an outright deflationary slump. The recovery cycle of the 1980s was in part driven by a huge expansion of debt and a speculative boom in both equities and property. As a result the stock market has collapsed by one-third since the early 1990s and property prices – which tripled between 1985 and 1990 – have plummeted by 60 per cent. Financial sector debt is now estimated at $1000 billion, roughly equivalent to 30 per cent of GDP.

While the corporate sector doubled its sales after 1980, its debts tripled. The number of bankruptcies per month has exploded from 500 in 1990 to 1,500 in 1998. The government has used monetary policy to alleviate the situation, for example, by lowering the 2-month Interbank interest rate to below 0.5 per cent. Investment credit has never been cheaper. But it is the supply of credit that is in decline not the demand. This is due to the fact that the banks are very reluctant to lend money given their books are heavily weighed down with bad debts. As a result business investment has decelerated and fallen from 20 per cent of GDP to 14.4 per cent and machinery orders have been in continuous decline, since summer 1997. Despite the big injections of public money into the economy, personal consumption is still declining given the fall in real wages for most of 1998.

The East Asia crisis has certainly deepened and broadened Japan's recession because this region was its most important export market taking around 40 per cent of the total. Furthermore, Japanese banks were the single most important provider of loan credits and they have been severely knocked back by the string of company collapses in the region; in 1997 Japanese bank assets totalled $191bn in East Asia, compared with $257bn held by all European Union banks and a mere $38bn for US banks.

In the 1990s successive Japanese governments have tried to revive growth thorough a series of measures

REVOLUTION

which included tax cuts, public investment projects, soft loans etc. Between 1992 and early autumn 1998 packages worth Yen75,000bn were announced, equivalent to 15 per cent of annual GDP. In November last year the new LDP government of Keizo Obuchi even announced one stimulus package of $193bn – equivalent to 4.8 per cent of GDP.

While these packages have failed to reflate the economy they have made the budget deficit balloon; it climbed to an astronomical 9.3 per cent last year. The gross debt ratio is expected to reach 113 per cent of GDP this year up from 64.8 per cent five years ago.

All the packages have proven unable to solve the prolonged stagnation. So the real roots of the crisis are not to be found in a lack of demand. The causes lay elsewhere, namely, in the decline of profitability as a result of overinvestment.

After it set new records in the late 1960s the net profit rate of Japanese private business declined sharply to around a third of these peaks between 1975-90 and has fallen by a further third since.[2] For 1998 the mass of profits in manufacturing declined by 5 per cent and are projected to fall by 16 per cent in 1999.[3]

For the first two post-war decades the tendency for the rate of profit to fall was counteracted by an increasing rate of exploitation; productivity grew on an annual basis by 8.9 per cent during 1960-69. The mass of new investment during those decades cheapened constant capital and labour power sufficiently to boost profit rates dramatically. But by the 1990s the marginal effect of new investment on productivity had declined dramatically. Productivity stagnated at 1.1 per cent (1990-1996).

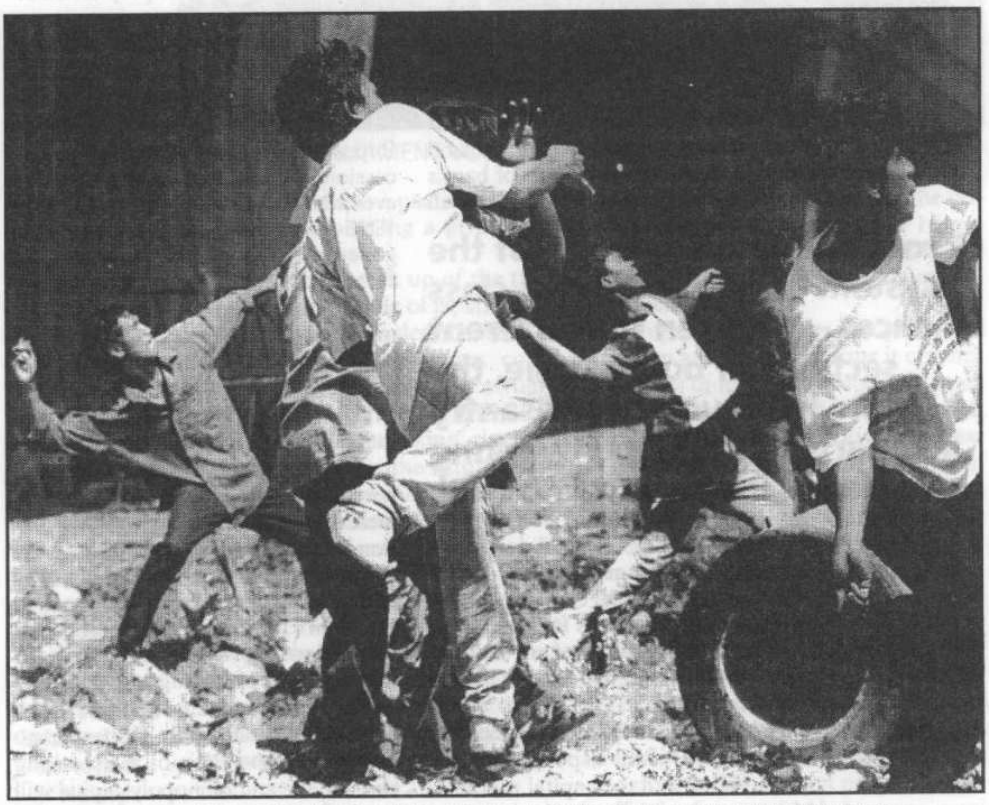
There is no doubt that Japanese business is desperately looking for a way out of the crisis. The core of the solution for them lies in increasing the rate of exploitation of the working class which means fundamentally an increase in the share of unpaid labour time compared to paid labour time. This is an urgent problem given the fact that labour costs have risen since the beginning of this decade by 40 per cent. As a result *The Economist* reports that:

"pay as a share of GDP is now higher than it was in 1991. In America and Europe it has fallen by three percentage points over the same period."[4]

To regain profitability capital has to reverse this trend dramatically.

To understand the likely way the bosses will set about this it is necessary to look at the structure of the Japanese labour market. Ever since the major and lasting defeats inflected on the Japanese unions in the early post-war years, the working class has been sharply polarised between a mass of workers who are low paid, enjoy few social benefits and no job security and a significant, relatively privileged, upper layer of workers who are employed in the big *keiretsu* companies (i.e big monopolies) like Nissan, Toyota or Honda. They account for roughly one-third of the work force in these companies and enjoy job security and higher wages (which are raised regularly according to length of employment). They are therefore highly motivated and loyal to the company. This layer has provided the main point of social support within the working class for the so-called "Japanese model" of social peace and low class struggle.

Any long-term solution to the crisis of capital accumulation in Japan lies in part in deliberately breaking with this social contract and the imposing a huge restructuring process in both industry and the financial sector. This



INDONESIAN YOUTH JOIN THE PROTESTS TO OVERTHROW PRESIDENT SUHARTO

would involve mass lay-offs, an end to the principle of job security, a reduction in pay and flexibilisation of the wages system. While unemployment has grown from 3.3 per cent in January 1997 to 4.3 per cent in September 1998 most of the redundancies occurred in the small and medium-sized companies but not the big ones.

Here the process of raising the rate of exploitation has still to start, although one Japanese academic forecasts an increase in unemployment to 10 per cent within the next three to five years.[5] So over the next few years we can expect massive attacks on the working class, and above all on its core and upper layers in the big *keiretsu*.

Equally vital for big business if investment is to pick up again even to 1980s levels, is the destruction of the mass of bankrupt and non-competitive capital – both in the industrial and the financial sector. A series of banks and other financial institutions as well as corporations – particularly in the construction and real estate sectors – whose rate of return is far below the average rate of profit and are saddled with a mountain of bad debts will also go bust.

A root and branch reform of the system of post-war cross-class alliances – between the different sections of bourgeoisie, the state bureaucracy, peasantry and parts of the upper working class – is objectively posed.

This will go alongside a process of deregulation of all aspects of commerce, retail and the capital markets. More competition, both between domestic enterprises and between them and foreign capital, is necessary to lower the cost of doing business for the monopoly bourgeoisie. This again means the weakest sections of business being allowed to go to the wall.

If ruthlessly pursued by the government and the big *keiretsu* the consequences will not only affect the working class but also the peasantry, which traditionally has an influential position in Japanese policy-making, and on the weaker sections of business. All in all, a root and branch reform of the system of post-war cross-class alliances is on the cards.

This has enormous implications for the present shape of Japanese bourgeois parties. The Liberal Democratic Party (LDP), which is the traditional party of Japanese bourgeoisie and has ruled since the 1950s (with the exception of a few years in the 1990s), is under immense strain. It is a classical bourgeois "peoples" party comparable to the German CDU in which the large monopolies participate alongside the small business sector, the middle class, the civil service and the peasantry. (Due to Japan's reactionary electoral district system the peasantry is given a disproportionate number of votes). The LDP's largest financial backers are the bosses of the construction industry and of the agricultural co-operatives. The influence of these layers has so far determined the policies of the government faced with the creeping depression. The public spending packages have been designed to boost construction projects in LDP MP districts when many "advisers" in the US and Europe have counselled tax cuts and rigorous enforcement of bankruptcy on insolvent financial institutions.

It is the indecision and vacillation of Japan's bourgeois parties and big business which is at the root of the political crisis which began in 1992/93. Repeated government scandals, a succession of ministerial resignations and even the first non-LDP government in 1993-96, all failed to produce a strong government with a mandate to restructure capital and push through the de-regulation process which the monopoly bourgeoisie needs to regain its competitive status on the world market.

It should not be forgotten, however, that Japan is an imperialist power with immense financial reserves, until a few years ago the banker to the world, including the USA. Some deregulation has occurred, some liberalisation of the financial markets and changes in the tax structure have been pushed through. Furthermore three financial institutions have been nationalised with the aim of bailing out their bad debts, re-capitalising them and then privatising them again. If there is no resolute intervention of the working class, in the end monopoly capital will implement its will over the weaker sections of capital and the state bureaucracy after a further period of crisis and ruptures.

The path back to pre-eminence for Japan's multinationals will be, as in the past, an export offensive to enable them to regain world market shares at the expense of the USA and EU.

The necessary massive restructuring in the industrial and financial sector will result in rapidly growing unemployment and stagnating or declining real income in the domestic market. Moreover, Japanese capitalism cannot continue to add to the mass of public debt at the present rate. Already the Japanese budget deficit is much higher than in all other imperialist countries. This is not only a drain on public finance but also deters inward investors. As a result every bourgeois government will be forced to slash public and social spending – another form of attacking the working class and depressing domestic demand.

Given the weak and increasingly recessionary state of the world economy a new export offensive means standing up to the trade-war rhetoric and threats of the US, Western Europe and South Korea.

This will probably increase the drive of Japanese monopolies to secure South East Asia as its backyard – placing it directly in conflict with the USA. Capital exports to the region will rise again and an attempt to build a yen-bloc as a counter-weight to the dollar and euro will probably occur. Until now Japanese banking capital was by far the biggest lender to South East Asia but given the weak political and military status of Japan this has not been translated into political hegemony – something US imperialism won in the war and is reluctant to surrender.

But this could change soon. Japan's proposal for setting up an Asian Monetary Fund (in opposition to the US-dominated IMF) indicates that Tokyo is starting to flex its muscles. In response Washington waves the big stick. But this idea is still on the table and there are also ideas discussed in Japanese leading circles to recreate an "East Asian Stable Currency Group" where the currencies of the South East Asian semi-colonies are pegged not only to the US-Dollar but also to the Yen. Also the latest issue of Malaysian government bonds in December 1998 worth $560 million was nominated in Yen and guaranteed by the Japanese government indicated the continuing strategy of Japanese capital.

Another example is the latest Miyazawa Initiative which will spend $30 billion on short-term capital projects and export help (which of course helps in the first instance the Japanese MNCs' exports and investments in the region). As one bourgeois economist noted correctly:

"It's a very important step because it does demonstrate that the Japanese government is stepping up to support Asian governments."[6]

If this trend continues Japanese capital could regain influence in the region. The terrible crisis of South East Asian capitalism means that these semi-colonial bourgeoisies will be forced to accept stronger subordination under a leading imperialist power in exchange for economic support. And if US imperialism continues with its restrictive policy Japan could benefit. On the other hand, it is unlikely that the ruling class of the only remaining superpower will accept such a development without a hard fight. In short, South Asia (and China) will become a battle ground between Japanese and US imperialism for hegemony.

These developments will be reflected in important political changes inside Japan. A split in the main conservative party – the LDP – seems more or less

inevitable. The main multinationals need to free themselves from the influence of the more backward sections. The present Obuchi government is merely transitional. Two bourgeois currents look likely to dominate Japanese politics in the future: the left-liberal alliance around the Democratic Party of Naoto Kan (which is supported by the reformist Japanese Communist Party) and the right-wing conservative forces within the rightist opposition inside the LDP around Seiroku Kajiyama and Shizuka Kamei, the Liberal Party of Ichiro Ozawa and the Buddhist Komei. Ozawa's recent decision to join the government (he originally split from the LDP) might strengthen Obuchi for a while but in the long term it will exacerbate the divisions inside the LDP.

The Democratic Party led bloc can be compared with the Italian Prodi government, standing for a consistent policy of deregulation and driving out the weaker sections of business, while not fearing to take on the bureaucracy and the peasantry. It hopes to get the support for this strategy not only from the big, export-orientated firms but also from the working class. It has already built significant links with the Rengo trade union bureaucracy. On international questions it would probably continue the present policy of co-operation with US imperialism and appeasement with China and South East Asia.

The right wing conservative bloc favours deregulation too. But it would probably try soften the pain for the stricken (petty)bourgeois layers by sharper attacks on the working class (cuts in social spending). Furthermore, it would ratchet up its chauvinist rhetoric and follow a more aggressive foreign policy both against the US and China. At the same time stronger efforts would be made to build a anti-western Yen-bloc encompassing the South East-Asian semi-colonies under Japanese leadership. This does not necessarily mean a break with the formal military alliance with the US in the short term but certainly a more fragile, tense relation would ensue. Taken as a whole it would mean a reactionary, openly aggressive variant of bourgeois crisis policy while the alliance around Naoto Kan represents the variant which tries to hold onto inter-imperialist collaboration.

But both camps are handicapped by the fact that the Japanese bourgeois political terrain is strongly landmined and littered with the corpses of many faction fights. This is a result of decades of more or less one-party-rule (LDP) in which sectional interests were articulated inside the parties through forming factions and buying loyalty. In addition such a system has meant that the distinction between the state bureaucracy and the governing party is hard to see, which also impedes alternative parties and programmes establishing a grip on the machinery of state.



JAPANESE PARLIAMENT VOTES TO BAIL OUT BAD BANK DEBTS

However the break up of the traditional political regime of Japanese capitalism will result in decisive changes which will have enormous consequences both for the class struggle and for Japan's role on the world stage. While the working class will face heavy attacks, the future evolution of capitalism will also rip apart the stable class bloc of the bosses and with it the whole reactionary stability which characterised the last five decades. This will create better conditions in which the working class can regain its political and trade union independence. In short, Japan will cease to be the bedrock of economic and political stability that it has been over past decades.

The most dramatic event since the downfall of Stalinism in 1989-91 has been the crisis of the so-called "Newly Industrialised Economies"

Crisis of semi-colonial capitalism in East Asia

The most dramatic event since the downfall of Stalinism in 1989-91 has been the crisis of the so-called "New Industrialised Economies" (NICs). It was these few countries which were praised as a model for other "emerging economies" and as disproving the Marxist theory of imperialism. As one bourgeois propagandist claimed, "the Asian NICs are delivering a second shock to Marxism."[7] Now these semi-colonial countries are going through a massive slump similar to that experienced by the USA, Europe and Australia during the Great Depression of 1929-32.

GDP in South Korea shrank 7 per cent in 1998 after growth of 6.9 per cent and 7.8 per cent in the years before. Thailand slumped by 8 per cent, Malaysia by 5.8 per cent and Indonesia – worst affected by the crisis – experienced a decline of 15 per cent, after 4.6 and 8 per cent growth in 1996 and 1997. Industrial production fell even more.[8]

While the crisis hits the profits of foreign and domestic firms it crushes the lives of millions of workers, peasants and urban poor. Unemployment, which was generally low in these countries because of the growth of labour-intensive industries over the past 20 to 30 years, soared in a few months. In Indonesia it tripled in just one year to 14.8 per cent, in South Korea to 7 per cent and will soon reach 10 per cent, in Thailand 8.5 per cent of the workforce have lost their jobs.

In Indonesia, where the regime claimed success just two years ago in reducing poverty, official sources now admit that 100 million people cannot afford adequate food. In some rural areas in Thailand hunger is rife. In South Korea – the most industrialised Asian country after Japan – the parliament had to pass a law allowing parents to leave their children at state-run orphanages because many families can no longer feed them. Millions of children in Asia are dropping out of school because their parents cannot pay the fees and have to send them to work. Prostitution, domestic violence and crime is increasing. Suicide is seen as one way out; in South Korea an average of 25 people a day take their own lives.

How could this happen in countries for which individual forecasters and official institutions such as the IMF and World Bank projected long-term rapid growth well past the year 2000? Michel Camdessus, the managing director of the IMF, said in May 1997: "The economic fundamentals of



HYUNDAI WORKERS PROTEST AGAINST SACKINGS AT THE ULSAN PLANT

Korea's economy themselves are sound", and even on 14 August 1997 the IMF estimated the South Korean economy would grow by 9 per cent in 1998. Defending itself in January 1999 against criticism that its forecasts were rubbish the IMF Board of Directors said that "realistically pessimistic forecasts would have exacerbated the difficulties facing these countries"[9], admitting the purely propagandistic character of its so-called scientific forecasts. Even after the crisis hit, people such as the chief economist of the Asian Development Bank predicted that, "these economies should be growing again at a fair clip in the second half of 1998 and thereafter."[10]

There have been several attempts to explain the sudden and deep crisis. Neoliberal economists blame "crony capitalism" in the East Asian countries for the failure: the level of corruption, state influence both in the financial and industrial sector, protection of domestic market. The huge outflows of speculative financial capital and the banks who lent billions of US dollars of course take no responsibility.

This attempt at exculpation is ridiculous. Neither corruption nor the role of the capitalist state were new but inherent, decade-long characteristics of "The East Asian Miracle" - as the World Bank called it in 1993. Everyone remembers how the same neoliberals praised the East Asian countries for their monetary and fiscal discipline, their openness to foreign capital (with the partial exception of South Korea), their disciplined labour force etc. Connected with this the neoliberals now demand more liberalisation both for financial flows and productive capital (i.e. more openness for imperialist capital), less corruption (because it depresses profits in a period of world wide decline in profits). All this demonstrates that the neoliberals directly express the interests of financial and multinational monopoly capital. And it was this outlook that informed the IMF's teams when they visited Jakarta, Seoul and Bangkok last year to negotiate the billion dollar structural aid packages.

While the neoliberal orthodoxy still represents the majority view of international monopoly capital and its think tanks, the failure of IMF policy in East Asia, Russia and Brazil and the growing recognition of the dangers of the inflated financial sector in the imperialist centres for the whole capitalist system, has led to alternative explanations and answers to the crisis. A growing layer of bourgeois economists – like World Bank chief economist Joseph Stiglitz, US professor at MIT Paul Krugman or even repentant neoliberals like Jeffery Sachs or the speculator George Soros – also understand that an increasing dependency on financial capital flows has played an important role in the crash. As a result some have made proposals to restrict short-term financial capital movements, tax speculative capital investments or or even to reform the whole international financial system.

Finally there are the petty-bourgeois "new growth" theoreticians who in the past have praised South Korea especially for its state-interventionist policy as an example of how third world countries can escape backwardness. They now criticise the Korean government for having liberalised its financial sector too fast and having pegged the won to the dollar.

All these explanations refuse to come to terms with the fundamental cause of the crisis. Certainly the peg of the domestic currencies to the US-dollar was a disadvantage for exports in a period of a rising dollar and a devaluation of the yen; and the extreme volatility of the financial markets contributed to the crisis too. But they were more the trigger than the cause. The crisis was a result of failing profit-rates as a function of a huge overinvestment. Over-production, lack of demand, the need to take on new debt to expand capacity and markets again and to try to lower unit costs – all this was the result of the specific process of capital accumulation.

The whole course of the recovery cycle in the world economy between 1990-95 led to huge over-capacity in key industries like semi-conductors, cars, shipbuilding and petro-chemicals. Combined with this was the huge decline in raw material prices such as oil (which was important for Indonesia's exports). Given these circumstances it was no surprise that the crisis started at the weakest link in the chain – in East Asia. Here capital is less competitive than the imperialist multinational concerns because it is less productive, has accumulated huge levels of debts and was therefore forced to hand over a significant proportion of its profits to the banks.

Over-accumulation in South-Korea resulted in a situation where industrial capacity utilisation was just 70 per cent in mid-1997. Profit on sales in manufacturing industry in 1996 was just 1 per cent compared to 3.6 per cent the year before. A long term fall in the rate of net profit in manufacturing – 39.7 per cent (1963-71), 27.7 per cent (1972-80) to 16.9 per cent (1981-90) meant that by the mid-1990s the mass of profits were no longer sufficient to guarantee an adequate rate of return on the fixed investments coming on stream.

To counter these declining rates of profit South Korean capital and particularly the monopoly sector – the *chaebols* – increased their already high level of borrowing which was possible because of the active support by the state. In 1997 debt-to-equity ratio of the *chaebols* reached 400 per cent - hardly sustainable. Once this became internalised in the consciousness of those abroad who held short-term corporate and government debt

then they began to withdraw their funds, causing a massive and sudden credit crisis throughout the region.[11]

Previous articles on the South Korean "economic miracle" in this journal had already identified the problem stemming from the growing debt of the *chaebols*. The probability of a stock and currency market crisis in the near future was underlined.[12] While South Korean monopoly capital had partially succeeded in catching-up with imperialism it faced enormous problems given not only the corporate debt problem but also increasing imperialist competition, a world market with limited growth and finally a battle-hardened working class. And it was the working class which effectively stopped the bourgeoisie's attempt at the beginning of 1997 to change the labour law to allow a wave of mass sackings to restore profitability.

At the end of the boom in 1996-97 firms invested more and more of their newly borrowed capital in unproductive, speculative sectors such as real estate, stock and currency markets. It is therefore a one-sided approach to root the cause of the financial crisis only in the movement of loan and equity capital in and out of the region. For example, in South Korea the majority of speculators in the financial markets were nationals not foreign dealers.

In Thailand, Indonesia and Malaysia the crisis has already laid waste their economies. Here again the cycle of capital accumulation has reached its limits. Their production has been concentrated in low and medium-tech sectors with low profit margins and their opportunity to expand was limited by strong competition in the high-tech sectors coming from Japan and South Korea, and in the labour intensive sectors by firms in China or Vietnam. Again a strengthened and young working class made it more and more difficult for capital to cut costs as much as they would have liked. Like Korea, in the short term firms in Thailand, Indonesia and Malaysia increased their borrowing dramatically to stave off the crisis but in the end only guaranteed that when it finally broke it would be all the more savage.

Other South East Asian economies were less badly infected by the "Asian contagion". Taiwan is industrially much more developed than the rest although it does not possess such a concentrated and sizeable monopoly capital as South Korea. The fact that it is not in crisis stems from its stronger links to China. However, the slowdown in its industrial production already indicates that not even Taiwan can escape the crisis entirely.

The future of semi-colonial East Asia

Understanding the cause of the crisis enables Marxists to see the main contradictions and the possible future lines of development. A package of measures to stimulate demand will not fit the bill, nor can closer state regulation or more national protection against "globalisation" change anything fundamentally for either the working class or the bourgeoisie. The key to a bourgeois solution – even though such a solution would be temporary given the protracted period of crisis ahead of us – is a restoration of the profit rate which means increasing the rate of exploitation of the work force, particularly in the core industries and a devaluation and even physical destruction of plant and equipment in the industrial and the financial sector. Only then could a new cycle of capital accumulation begin and measures to increase demand (e.g. tax cuts, public works etc.) deepen and broaden the recovery.

It does not take a lot of imagination to see that such a process implies major attacks on the working class and the peasants. Increasing the rate of exploitation means cutting wages, mass lay-offs, compulsory overtime, "flexible" working (i.e. unsocial shift patterns). Furthermore, it means closing many financial institutions and nationalising their debts; this way many workers and middle class people lose out twice, first by being defrauded of their savings and then by subsidising the big creditors through higher taxes. Finally, through these measures mega-conglomerates will emerge as the multinationals swallow up the smaller firms and become even bigger

Defending itself in January 1999 against criticism that its forecasts were rubbish the IMF Board of Directors said that "realistically pessimistic forecasts would have exacerbated the difficulties facing these countries"

In South Korea relatively strong domestic monopolies have emerged over the past 20 years to compete strongly on the world market in some industries (e.g. cars, semi-conductors, shipbuilding).[13] The *chaebols* dominate the whole economy. Their turnover is equal to four-fifths of GNP and they own more than 40 per cent of all the country's economic assets. The ten biggest *chaebols* account for half of all exports. The relative strength of South Korean capital can be seen by the fact that between 1990-94 its FDI averaged 2 per cent of GNP (in imperialist Austria this was 0.77 per cent in 1993) and on a list of the 25 most industrialised so-called "developing countries" South Korea was by far the most active in cross-border purchases in 1997.[14] However, the present crisis has not left the *chaebols* untouched and it is certain that several will go bankrupt. But it is not clear if this will lead to a further concentration process between the Korean *chaebols* or whether foreign MNCs will take them over.

To date most of the sackings and bankruptcies in South Korea have occurred in the small and medium-sized enterprises not in the bigger monopolies. The *chaebols* tried in the summer of 1998 to push through mass layoffs in the car industry. Hyundai, as the biggest and traditionally most aggressive conglomerate, provoked a fight with the unions and threatened to sack 1,600 workers. After a mass strike and occupation, backed up by threats of a general strike, the bosses backed down and reduced the number of workers they wanted to sack to 277. But the big corporations have had more success on the wages front and the unions have agreed to significant cuts.

But the depth of the crisis and international competition mean that wage cuts alone are not enough and firms like Hyundai are acutely aware that they must try to reduce their workforce massively if they are to regain profitability. But since the last confrontation they have shied away from further frontal attacks. It is clear that the decisive battles lie ahead.

The situation is similar in other South East Asian countries. While real wages in Indonesia fell last year by 40-60 per cent, the bigger state-owned PT enterprises have not laid off workers on a mass scale. Again this is primarily the result of determined opposition from the workers in these sectors. In Hong Kong, HK Telecom wanted to cut the wages of its workers by 10 per cent but had to withdraw its plan after massive labour protests. Also in Thailand, and even more so in Malaysia, an attempt to push through significant lay-offs in the bigger private and state owned companies lies ahead of us.

In the same way, the process of closures and takeovers has been slow and uneven. While many smaller enterprises were forced to close most of the bigger enterprises have survived up to now. The reason for this is that the latter have access to extended credit lines and are able to restructure their debts to the banks. In addition the larger companies are well connected to government officials and have been able to extract promises of financial support. In extreme cases, such as the South Korean conglomerate KIA or several financial institutions in Thailand and Indonesia, the government has stepped in and nationalised them. The government in Thailand nationalised 56 financial institutions in 1997, restructured them and is selling them off in public auctions. South Korea has witnessed a similar process.

But the process of capital restructuring remains in its infancy throughout the region. Enterprise and bank debts remain huge.(See Table 1).

The repayment burden is enormous. According to same source they are estimated at 31 per cent of annual GDP in the case of Indonesia and Thailand, 17 per cent in Malaysia and 19 per cent in South Korea. A number of big South East Asian enterprises have already been forced to stop servicing their foreign debts – examples

in Thailand include Thai Oil, Thai Petrochemical Industry PCL and TelecomAsia Corp.[16]

For the moment, the various regimes have succeeded in stabilising the stock market and the exchange rates and have been able to rebuild their official foreign exchange reserves.[17] But this is mainly due to the fact that export revenues remained high during the crisis, thanks to massive increases in export volumes due to currency devaluations, while imports have collapsed as a result of IMF-inspired austerity policies. Much of domestic industrial output has collapsed. In Thailand 47 per cent of industrial capacity is idle and throughout South East Asia the car industry is using just 25 per cent of its plant capacity.[18]

The path out of this crisis is certainly a long and arduous one and is strewn with obstacles in the form of working class resistance to the attempt to restore profitability at the expense of their jobs, and via higher taxes (to finance the state hand-outs to cover the bad debts of the capitalists.

How will the course of the crisis effect relations between the G7 states and these semi-colonial countries? In general the western banks and MNCs will tighten their grip over domestic companies and capital markets. The reason is clear; most of these economies were already highly dependent on imperialist capital. US and Japanese direct investment played an important role both in the industrial and the financial sector. In addition foreign debt is high and is set to increase as a result of the recent IMF brokered agreements.

This means that while the process of industrialisation in South East Asia was real and not the imagination of some neoliberal propagandists[19] the present crisis underlines the Marxist view that in general semi-colonial countries cannot escape their subordination to and exploitation by imperialism. Only a socialist revolution and a planned economy on a world wide level can close the development gap between the rich and the poor countries and the gulf that divides the living standards of the poorest from the wealthiest inside these countries. The alternative outcome – one guaranteed to increase social inequality within these states and between them and the G7 countries – is the further takeover of national assets by foreign MNCs. International investors have already spent over $1 billion buying private shares in the region's companies in the first 10 months of 1998.

While this kind of money has allowed the western MNCs to takeover several companies, by and large foreign MNCs have not bought a lot of South East Asian enterprises.[20] This is due mainly to the lack of restructuring. The monopolies first want to see the South East Asian capitalists defeating their working class and writing off the debts. If and when they make progress in this direction we can expect a wave of buying and a consequent strengthening of imperialism's grip over productive and financial assets in most countries of South-East Asia.

In the meantime the G7 club will use South East Asia's financial dependency to increase their hegemony. The US – despite the fact that their banks were much less involved in East Asia than those of the Japanese or Europeans – was able to dictate the terms of the restructuring which were part of the IMF deals because of their hegemony inside this "world financial gendarme". They were able to force the countries to adopt policies which in the first instance protect the interests of US financial speculators.

Table 1: East Asian company debts[15]

Country	Total loans	Bad loans
Indonesia	$58 bn	$36 bn
Thailand	$167 bn	$80 bn
Malaysia	$106 bn	$35 bn
South Korea	$369 bn	$122 bn

China: the impending conflict

Growth in China in the past 20 years has been the most rapid experienced by any country in modern history. Since the introduction of Deng Xiaoping's reforms GDP grew by 9 per cent annually and GDP per capita rose from a quarter of the world average to half. As a result the Chinese share of world GDP doubled to 10 per cent.

This has led a series of bourgeois and reformist commentators to glorify the economic policy of the Chinese government. Bourgeois experts like the US bank analyst William Overholt praised China as the "Giant of the future" and the notorious bourgeois charlatan John Naisbitt claimed that "the Cold war is over and the Chinese have won." [21] While these bourgeois commentators wrongly believed that China is in an uninterrupted process of becoming a capitalist power, other reformist theoreticians – die-hard Stalinists, German Brandlerites such as Theodor Bergmann or German PDS leading member Joachim Bischoff – claim that China's market-reforms will lead to a successful transformation into a socialist state.

As we wrote more than four years ago in reality the opposite is true.[22] China is heading towards a tremendous crisis. This is not to deny that there has been impressive growth over the past two decades. China in the decades before 1978 had not experienced similar growth to the other degenerate workers' in Eastern Europe nor even the USSR in the 1950s and 1960s. Political faction fights and failed bureaucratic projects – like the "Great Leap Forward" or the Cultural Revolution – took their toll on the economy. So a degree of pent up demand existed. In addition there was a favourable environment in East Asia – such as Hong Kong, Taiwan and others – which offered both markets for Chinese goods and a source of foreign direct investment.[23]

Of particular importance was the process of initial capital accumulation in the agrarian sector undertaken by the regime, followed later by a similar process in the light industrial and service sectors.[24] These reforms were bolstered by the provision of cheap raw material from the subsidised state industry.

In addition, the regime increased the oppression of the working class in the enterprises by implementing a new contract system which ended the commitment to life long employment and other advantages of the old system (known as the "iron rice bowl").[25] Furthermore, workers in private industry and particularly in foreign companies were deprived of all labour rights. The workforce for these new sectors was mainly made up of tens of millions of workers who migrated from the countryside to the coastal cities. This led to a massive increase of surplus labour and profits. Meanwhile, continued expansion of state industry was increasingly financed by growing debts.[26]

But these developments contain enormous contradictions. First state industry and the state banking sector cannot continue much longer in this way. Between 1988 and 1995 the relation of debt to equity rose from 82 per cent to 570 per cent and has accelerated since then. The banking sector is close to bankruptcy; three of the four big state banks are technically insolvent. Bad loans are said to have risen to between $270-360bn which is between 30-40 per cent of GDP. One of the best selling books in China by He Qinglian argues that 60 per cent of

all loans are bad and half of all personal savings have been lost by banks in unrecoverable loans to state industry. Moody's, the credit rating agency, said in a recent report: "China has long had, by most measures, by far the weakest banking system among the major Asian countries."[27] Additionally there are uncovered pension claims which are, according to the World Bank, as high as 50 per cent of GDP.

Another expression of the structural problems of bureaucratic planning is that the state industry is working part-time; capacity utilisation is now below 50 per cent. Additionally much of the output cannot be sold. Reports suggest that about $500bn worth of goods, totalling 55 per cent of GDP, are piled up in warehouses.

But the crisis of the bureaucratically planned sector of the economy is just one aspect of the explosive situation facing the country. The capitalist sector too is entering a period of slump and capital destruction. Shanghai – one of the centres of the boom – faces the collapse of its real estate market. Huge investments – both domestic and foreign – have materialised in the form of a thousand skyscrapers since 1992. But now 70 per cent of the office space is empty and property prices have halved since 1995.

The recent collapse of the famous finance corporations GITIC and CITIC – the latter once labelled as the "jewel of the crown of China incorporated" by the western press – demonstrated the fragile status of the Chinese capitalist sector. Estimates suggest that half of all credit extended to the approximately 200-240 "Itics" must be considered as "bad loans".

Competition between enterprises – including state owned ones– is becoming more and more ruinous. As a result prices have fallen for thirteen straight months resulting in deflationary pressures. Corporate earnings are falling too. An article in *Business Week* reported that Chinese carmakers are so cash-strapped that they partly pay their suppliers not with cash but with cars – making barter trade 20 per cent to 30 per cent of the total business.[28]

Even Western commentators who were always optimistic about China recognise the coming troubles: "For China's freewheeling red capitalists, the end of an era is at hand."[29] And Gerald Segal, director of the London based International Institute for Strategic Studies, described China's problems pointedly: "China's current economic woes are a lethal mix of a Japan-like bubble and a Russia-like rusting state sector."[30]

It is not only domestic contradictions which slow Chinese turbo growth but also the regional Asian crisis. As a result of massive devaluations in the region Chinese exports are stagnant. Exports rose by just 3.9 per cent in the first nine months of 1998 compared to 20.9 per cent for the whole of 1997. And the "flight to quality" by western fund managers after 1997 has led to a dramatic fall in inward foreign investment. Whereas it grew annually in the 1990s at double-digit rates, it rose by just 0.9 per cent in the first ten months of 1998 compared to the previous year. Meanwhile, future pledges of FDI even shrank by 1.5 per cent. FDI in Shanghai has fallen from $10bn to $6bn.



SHANGHAI STOCK EXCHANGE

As a result of all these developments growth is slowing, although the bureaucracy has tried to compensate for falling export throughout 1998 by boosting domestic demand. Even so the official announcement in January 1999 of a figure of 8 per cent GDP growth in 1998 was treated with widespread scepticism in Europe and the US and many commentators suspect a massive manipulation of the statistics. Many experts think that real growth is just 3-4 per cent and the Montreal based Chinese Analyst estimates that output could even have slumped by –2 per cent in Q4 1998 if stock building is excluded.

The social consequences of these statistics are important. Every one per cent less growth means another 5 million unemployed. Faltering growth accelerates mass sackings in state owned industry and the millions of migrants entering the big cities like Beijing or Shanghai are doomed to poverty. Despite the official claim that just 3 per cent are jobless, according to one Chinese expert close to the government unemployment has already reached 8 per cent and will reach 18 million or 9 per cent in 1999. Of the 200 million urban population 12-22 million are living in "absolute poverty" despite the fact that 90 per cent of them are working or have done so until recently. According to the Chinese author He Qinglian the disparity between rich and poor has been greater in China than in the USA since 1994.

"China's current economic woes are a lethal mix of a Japan-like bubble and a Russia-like rusting state sector."

In rural areas where most of the population lives social hardship is increasing. Farm incomes are growing by only 1 per cent a year and many can only survive with the support of relatives working either in state industry or the urban private sector. This poses serious problems for the bureaucratic caste both because of the sheer weight of numbers involved and because they provide the traditional base of the Chinese Communist Party (CCP). Recently the government announced several reforms which should lead to rising grain prices and a boost to farmers' income. But at the same time this means more expensive food for the urban population which had been subsidised.

In addition to the regime's fear of social unrest the central government is alarmed by the growth of provincial power centres. The number, and influence, of regional and local bureaucrats has increased at the cost of the centre. As a result national tax revenues declined from 34.4 per cent in 1978 to 11.8 per cent in 1995. The coming crisis will certainly deepen this problem. To counter this the Beijing bureaucracy has issued new government bonds to the value of 600bn renminbi (RM) which is a substantial increase on the already record level of RM100bn worth of bonds issued in 1997. With the markets being offered in the region of RM350-450bn of bonds annually in the future the government could face a major repayment burden especially when growth slows dramatically.

So where is China headed? What does it mean for the fate of capitalist restoration? Given the interconnection of large parts of the Stalinist caste with the capitalist sector and the huge financial interests that many bureaucrats have already acquired during the process of market reforms, it is highly unlikely that the majority of the bureaucracy will re-orientated to a new phase of Stalinist planning and

giving up the project of the restoration of capitalism. We only have to remember the determination of the ruling castes in the USSR and Eastern Europe to carry out capitalist restoration which at the time (1989-91) were much less integrated into an already existing capitalist sector than is the case in China. This situation is even more marked now given the incorporation into Chinese rule of Hong Kong and its rich bourgeoisie in 1997.[31] Their goal remains the creation of a capitalist China with a significant state capitalist sector and a continued one-party dictatorship. This would allow them to increase their wealth without facing the risk of losing power.

But it is quite possible and even probable that the Stalinist leadership will delay several measures that would take capitalist restoration forward. In the past few months it has already reimposed several planning mechanisms and slowed down some market reforms. For example, after agreeing to privatise the state's housing stock by 1 July 1999 it has now put off the raising of rents until the end of the year – and in Guandong which is one of the centres of capitalist restoration even until the end of the century. Plans to liberalise grain sales have also been suspended.

If the bureaucracy succeeds with this programme then production for profit and the extension of credit for profit would finally reign over the whole accumulation and circulation process in China. Irrespective of the degree of public ownership of industrial and banking assets it would mean that capitalism is finally restored in China

In 21 industries such as electronic appliances, cars, three-wheel farm trucks, loading machines or computerised machine tools, the bureaucracy has reintroduced price controls and minimum prices. State authorities have also imposed new restrictions on foreign capital in the telecommunication sector and sharper controls on foreign exchange transactions so as to make it more difficult for domestic and foreign firms to move short-term capital out of China.

In spring 1998 the government adopted an ambitious public investment plan of $1 trillion over the next three years. Loans for state industry have increased since July. This prevented a further deceleration of growth in the Q3 1998. This policy is based on the motto of the bureaucracy that "China does not have a low-growth option".[32] But the problem is that while these investments accelerate the growth of plant and equipment much of the output is destined to be stored or mothballed.

The continued commitment of the Zhu government to restore capitalism can be observed in the swiftly implemented, if ambitious, plan adopted in March 1998 to reduce the number of ministries from 40 to 29 and to cut the number of staff by half.

The future of China is determined by several factors, of which the strong pro-capitalist character of major sections of the bureaucracy is but one. But there are important challenges to and obstacles in the path of the restoration of capitalism. The coming convulsions present both the biggest threat as well as a great opportunity to those in business and government who wish to push on with the transformation of the property relations.

Certainly, the coming crisis will narrow the scope for the kind of compromises within the bureaucracy which kept both state industry running and the private sector booming. Now neither is growing sufficiently. The pressure is mounting to make sharp cuts in subsidies, loans and wages in the public sector. The pro-capitalist section around premier Zhu Rongji will try to implement its programme of restructuring the state enterprises over the next three years with many million workers being laid-off as a consequence. According to the Chinese Labour minister up to the half of state sector workers must be sacked before these enterprises can make a profit. Over the same time scale Zhu also wants to clear the state banks of their debts and start lending purely on commercial terms. If the bureaucracy succeeds with this programme then production for profit and the extension of credit for profit would finally reign over the whole accumulation and circulation process in China. Irrespective of the degree of public ownership of industrial and banking assets it would mean that capitalism would be finally restored in China.

But this programme will intensify tensions between the bureaucrats of the eastern and southern coast provinces, where capitalism already has deep roots, and those of the interior who remain in charge of the rust belts of state industry. The path of capitalist restoration has led to increasing power and influence for several provincial bureaucracies. It has undermined the power of the central bureaucracy.[33] This process has also led to:

"the use of self-protective measures of 'import'-substitution industrialisation to stem the interregional transfer of value from the western regions with their low-priced raw materials to the eastern regions and their high-priced manufactured goods."[34]

Certainly the coming crisis will reduce both central and provincial tax revenues and also both domestic and foreign investment. Therefore the drive of the provincial governments to look first to their own local interests and only secondarily to those of the centre and the other provinces will increase.

This centrifugal process has certainly accelerated with the incorporation of Hong Kong in the summer of 1997 which created a powerful financial centre adding to the already existing ones in Beijing and Shanghai.

But there are also other intra-bureaucratic tensions. The purging of army generals from the inner circle of party leadership and the recent campaign of Jiang Zemin to drive the PLA out of its business links are evidence of this. The new leadership wants to consolidate its position against the influential military bureaucracy and to stop its huge illegal dealings which add to the deflationary pressure in the economy.

Obviously this development is contradictory. On one hand, the leadership wants to cut the PLA's business activities; on the other, it has declining tax revenues out of which to meet increasing costs. Certainly, cutting the 3 million strong army by 500,000, as Jiang announced, could help but this would at the same time add more to the "surplus population" and weaken the army and its morale in a period where social and political unrest is to be expected.

The sharp social consequences of the economic crisis have increased unrest both in the cities and in the countryside. This means an erosion of the political stability which is essential for the maintenance of the present dictatorship. It could try to keep the dictatorship in power while changing its ideological justification and loosening to some degree the clamp it maintains on any dissident expression; in extreme form a faction may emerge which resembled a kind of Gorbachevite tendency which would aim to absorb both the growing social and political unrest and the centrifugal tendencies. But in outcome it may well build a regime something akin to its authoritarian neighbours in Hong Kong, Singapore or Taiwan.

Or the centrifugal forces could lead to a more complete break up in the coming years. This does not necessarily mean the break up of China; this is rather unlikely. But a decomposition of the bureaucracy along regional lines, a weakened centre and a permanent tug-of-war between the centre and the provinces and between the provinces themselves is a realistic scenario.

Of course, it is also possible that the bureaucracy tries to hold absolute



CHINESE POLICE BAR PROTESTOR'S WAY IN BEIJING

power as long as possible – until an explosive revolt – but given the already weakening centre and army this is not the most likely variant. In the end, what form such a process of limited democratisation takes, whether it can be reversed and what this means for capitalist restoration – all this depends on the ability of the Chinese working class to rise and to fight for its interests.

It is no surprise then that even the usually optimistic editors of *The Economist* are increasingly worried:

"The real issues are whether China's growth is slowing or even grinding to a halt; whether the resulting unemployment will prompt political unrest, or a power struggle among the leadership; and then whether that will send China in a disturbingly nationalistic direction. The right bets, on current evidence? Yes, yes and probably."[35]

Class struggle and the workers' movement

Nowhere has capitalism had better conditions for success in recent times than in East Asia: pathetic wages and working conditions, massive imperialist support (financial aid, trade exemptions) and severe political repression of all potential opposition forces. But all the dictatorships and bayonets were not able to stop the working class rising and bringing down repressive regimes as they did in South Korea 1987 and Indonesia in 1998.

The Chinese "Marxist" bureaucracy should know that capitalism produces its own gravedigger – their's too! A huge and young working class has emerged throughout the region. In South Korea the share of the manufacturing workforce increased from 8.2 per cent of the total labour force in 1964 to 23.4 per cent in 1985.

Meanwhile, the agricultural workforce decreased from 62 per cent to 24.9 per cent of the total in the same period.[36] In Thailand today there is a powerful urban working class of 15 million. While they represented only around 12 per cent of the whole population in 1960 their share increased rapidly to around 40 per cent by the early 1990s.[37]

And in China the industrialisation and modernisation of the past period has turned an estimated 100 million peasants into waged workers.[38]

The rapid pace of industrialisation and the growth of monopolies, particularly in South Korea, led to a massive concentration of the industrial workforce – similar to what happened in Russia at the beginning of this century. In Korea huge conglomerates *(chaebols)* bring together tens of thousands of workers in one site. Cities like Ulsan are known as "Hyundai-City" because nearly all factories (car plants, shipyards) are owned by this *chaebol.*

So too in China, the Stalinist industrialisation drive and the waves of foreign investment have created a huge iron belt in Central China and many new factories in the coastal provinces.

Against this background the working class developed the necessary strength to stand up and fight. In South Korea a series of strikes and the formation of a militant workers' movement started in the mid-1980s, in Indonesia and Thailand in the early 1990s. In China the first signs of a new radical labour movement emerged around the uprising at the Tienanmen Square in 1989. This became a key target of Stalinist repression.[39] But in recent years the pro-capitalist ambitions of the bureaucracy have again provoked a series of local strikes and the formation of underground regional trade union networks.

South Korea has without doubt the most developed and militant organised workers' movement in the whole of Asia. The South Korean class struggle reached its first post-war high point in the second half of 1987 after the overthrow of the military dictatorship.

Since then the industrial working class has succeeded time and again in its fight for significant wage increases. The Kim-Young-sam government provoked a new upsurge of struggle at the end of 1996 and the beginning of 1997 when it threatened to introduce new anti-labour laws which sanctioned mass lay-offs in the big factories.

While a mass strike was able to force the government to retreat, the slump in 1998 moved the bourgeoisie to reintroduce this law and other anti-working class measures. This has led to a new series of strikes.

While the government succeeded in using the sense of "shock" that greeted the first major recession in South Korea to push through the law the *chaebols* have not really been able to implement them and sack the tens of thousands that they hoped. In the summer of last year more than 120.000 car workers went on strike and the Hyundai workers in Ulsan occupied the factories and again forced the owners to back pedal.

The strikes were mainly organised by the militant union federation, KCTU. While the KCTU organises 560,000 workers – mainly in the big factories and some public sector workplaces like telecommunications or banks - the more conservative and moderate FKTU claims a membership of one million, which are concentrated in the small and medium-sized enterprises.

Together they represent 14 per cent of the employed workforce. This may not seem very much by European Union standards but in the European Union the labour movement has had one or two centuries to build up its strength. Also South Korea has a higher degree of unionisation than exists for example in France or the USA. And, finally, what counts is not only the absolute number who are organised but the fact that the Korean proletariat is highly concentrated in huge factories and that the militant federation KCTU is very strong in the *chaebols.*

The KCTU's weaknesses

The struggles over the last year have highlighted the weaknesses of the KCTU. Certainly, it is not a very bureaucratised and right-wing reformist union as is normal for any imperialist country or even of the type we find in many developed semi-colonial countries (e.g. Argentina). It is not dominated by a developed labour bureaucracy and it has a considerable

degree of democracy. Nevertheless, its policy is heavily marked by reformism and economism.

At the highpoint of the last major national struggle in February 1997 the KCTU leadership of Kwon Yong-kil called off the mass strike instead of generalising it in face of the nationalist government and media campaign. When the students led a popular mass movement for the resignation of the presidency some months later the KCTU leadership did not join it. And when the government staged a hysterical campaign against the big Stalinist student federation (Hanchongryon) in autumn 1997 the union leaders refused to show solidarity.

In February 1998 the Kwon Yong-kil leadership even agreed to participate in a Tripartite Commission with representatives of government, the bosses and the unions in which the KCTU signed a package which gave the green light for mass sackings. The fact that the leadership was immediately ousted at an extraordinary delegate conference by a two-thirds majority underlined both the relatively democratic culture within the KCTU and the degree of rank and file organisation.

The reasons for the vacillations of the KCTU leaders lie in their complete lack of revolutionary perspective. They are characterised by a combination of nationalism, reformism, economism and labour aristocratic sectionalism

The newly elected Emergency Executive Committee under Lee Gap-Yong and Dan Byong-Ho (both coming from the militant metal workers' union) left the Tripartite Commission and tried to organise a general strike but climbed down in face of a hostile public mood.

But again this more militant leadership itself joined the Tripartite Commission in June, called off the strike wave in July 1998 and agreed to the compromise at Hyundai in August despite a rejection of the deal by a two-thirds majority of Hyndai union members.

The origins these vacillations lie not so much lie in any privileges enjoyed by the officials let alone their integration into the negotiation apparatus of the state. Rather they lie in a complete lack of revolutionary perspective. The KCTU leaders are characterised by a combination of nationalism, reformism, economism and labour aristocratic sectionalism. Nationalistic reformism insofar as the KCTU leadership gave in to the mood of national grievance in face of the first corruption scandals in spring 1997 and again when the economy nose-dived in 1998. While many of the rank and file members want to see an end to capitalism and are committed to the struggle for a classless, socialist society, the official programme of the KCTU is permeated with typically reformist conceptions such as, "We will enhance control against domestic and foreign monopolist capitals, and instead we will protect and build up small and medium enterprises and agriculture." [40]

This cross-class policy which envisages an alliance with sections of the bourgeoisie became very clear in the recent crisis. In its official "KCTU Proposal for an Agreement to Overcome the Economic Crisis", which was published at the beginning of the crisis, the leadership said:

"The government, employers and trade unions undertake to establish a "Tripartite Commission for Economic Crisis Management and Employment Security' composed of equal number of representatives from the three partners."

The statement also declared it readiness "to restrain from excessive wage increases and to improve productivity" and argued that:

"employers undertake a firm commitment to engage in consultation in good faith with employee representatives, even in cases where there is urgent need to lay off employees, in a genuine effort to exhaust all other means such as reducing working hours, to avoid dismissals."

This policy reflects the desire of sections of the KCTU leadership – certainly the right-wing around Kwon Yong-kil – to move in the direction of established left reformist European trade unions like the German IG Metall; indeed, they regularly send functionaries to Germany to study their policies and methods of organisation They use the tactic of threatening general strikes and mass demonstrations as an instrument to strengthen their negotiating stance rather than launching general strikes to force the bosses and government to surrender. When the government indicated a willingness to open negotiations the leadership of the KCTU therefore called off the strikes.

While other sections of the KCTU appear to reject this policy they share other weaknesses. There seems to be no desire to integrate the workers of the small and medium enterprises into the struggle. These workers are certainly more backward than the relatively class conscious industrial workers in the *chaebols*. It comes as no surprise that the conservative FKTU is much stronger in these sections. But for exactly this reason it is self-defeating for the KCTU to direct it calls mainly to the workers and ignore the strikes of the workers of the small and medium enterprises as happened in early 1997.

Their labour aristocratic prejudices can be seen in the argument of the union leadership that flexibilisation of labour law is not necessary because already 47.2 per cent of all waged workers are temporary workers.[41] This is particularly worrying given the relatively privileged position of the *chaebol* workers who have much higher wages than the average industrial worker.[42] For this reason the KCTU must do whatever possible to counter the demagogy of the government, the bosses and the FKTU bureaucrats that it only represents a privileged elite which does not care about the rest.

It can only do this by actively extending the struggle to embrace the weaker layers and advancing their specific demands; demands such as an immediate increase in the minimum wage, its extension to the workers in the small enterprises, a cut in the working week to at least 40 hours and for nationalisation under workers' control over all enterprises which declare lay-offs or announce closure plans.

Furthermore the dramatic economic crisis has demonstrated the limits of purely defensive struggles confined to the enterprises. The union movement must resolutely enter the political arena and build a workers' party. Already in the last presidential elections in December 1997 the candidature of the union's president Kwon Yong-kil on the KCTU-supported People's Victory 21 list was a first step – despite the low number of votes polled.

Finally the whole crisis demonstrates that if the union does not have a clear anti-capitalist perspective it is doomed to capitulate to the logic of the market. Therefore a workers' party must fight for a revolutionary programme, for a fundamental alternative to the capitalist system. Not for a "market economy minus the *chaebols"* but a system where the workers and peasants organisations exercise government and the economy is under their control.

Indonesia

The workers' movement in Indonesia had to operate in the past under very different circumstances. Until the overthrow of Suharto it was faced with semi-legal or illegal conditions and severe repression. However, workers started to resist their exploitation by launching strike waves in the early 1990s, mostly focused on economic demands such as for wage increases or for better working condi-

tions. In 1992 an independent Indonesian Prosperous Trade Union (PBI) was formed under the leadership of Muchtar Pakphahan.

In February 1994 the independent unions called a one hour nationwide strike and one month later it organised a general strike in Medan – the third largest city – in which ten thousand workers took part. In 1995 the left wing Indonesia Centre for Labour Struggle (PPBI), which is affiliated to the left wing Peoples Democratic Party (PRD), was founded. It organised a series of industrial strikes. Its leader Dita Sari was thrown into jail after she led a 20,000 strong workers' demonstration in the industrial city of Surabaya in July 1996.

With the onset of the economic crisis in 1997 the class struggle grew hot and in November 40,000 workers at the Gudang Garam clove cigarette factory struck for four days and won all their demands. In spring 1998 a wave of mass demonstrations and riots erupted when the regime tried to solve the crisis by increasing fuel prices. Many workers joined the student demonstrations which led to the fall of Suharto. Not suprisingly the workers decided to utilise the newly won democratic freedoms to launch strikes. A series of economic struggles broke out aimed at securing wage increases to offset rising inflation and to try and stop lay-offs.

While in the first half of 1998 protesting workers followed the lead of the students, in the autumn the workers themselves took the lead. A second phase of the revolution started which culminated in the mass demonstrations at the MRP meeting in November where students, workers and urban poor demanded the resignation of the Habibie government, a trial for Suharto and the end of the "dwi fungsi" – the combined political and military roles of the ruling bureaucracy.

Since May 1998 many factory committees have been formed which in some areas have created networks, called Workers' Committees for Reform Action (KOBAR). This has a strong base in the factories of the Tangerang industrial area outside Jakarta, in north Jakarta and in the city of Bogor. A Workers' Committee for Reform which was set up during a strike of 7,000 workers at the Tryfountex Indonesia factory in Solo called for the nationalisation of the enterprise and invited student leaders to address the workers.

Compared with South Korea the specific weight of the unions and workers' organisations is certainly smaller. This is no surprise given the smaller weight of the proletariat in the whole population and the lower level of industrial concentration. The urgent task is to broaden the network of workers' organisations – both unions and factory committees – and to link them together nationally. But while the social composition of Indonesian society might be not so favourable the general dynamic of the whole political process is very favourable. The general intense political debate, the burning democratic grievances and the courageous struggle of the students are turning the face of all active workers to political questions.

PBI leader Pakphahan has already called for the formation of a Labour Party. But despite his personal courage his political perspective is quite confused and dangerous for the workers' movement. He offered tactical support for the neoliberal IMF policy to weaken the "cronies" around Suharto and Habibie. And he has now asked the bourgeois oppositionist Megawati Sukarnoputri to become the leader of a Labour Party. Furthermore, he suggests that the workers' movement would be better if it focused more on negotiations with management than fighting against the government.

In reality workers must build on their class independence and should not trust any bourgeois politician. Amien Rais and Megawati Sukarnoputri, leaders of the muslim movement and the PRI main opposition party respectively, did not want a mass uprising or revolution during May 1998.

The workers need a party which unites the struggle for consistent democratic reforms with a programme for the peasants and the oppressed peoples and which links these struggles to the fight for a social revolution and a workers and peasants' government based on directly elected democratic councils the length and breadth of the country. In short, they need a revolutionary workers' party. Such a party must fight for the unification of the many enterprise level and local unions into one nationwide fighting and democratic union federation.

China

The working class in China certainly faces extremely difficult conditions in which to organise and fight against mass lay-offs and wage cuts and for democratic rights. However even here the number of strikes and protests has increased since the defeat of 1989. Mostly the protests are small and local, involving just some hundreds or even just dozens of workers. They normally focus on protests against sackings or demands for unpaid wages:

"There have already been numerous



SOUTH KOREAN WORKERS PROTEST AGAINST IMF AUSTERITY DRIVE, 1998

reports of isolated strikes, demonstrations and sit-ins by disgruntled workers. In the three years to the end of 1997, more than 6,000 such incidents occurred."[43]

In one case the protest took the form of an insurrection. After not receiving their wages 1,000 workers in the munitions factory No. 818 in Gansu province went on strike in April 1998 and occupied the local Party and government building. When the army sent 1,000 troops, armed police and helicopters workers found weapons and fought back. In the end the uprising was suppressed and an army regiment is now garrisoned there.[44]

There are repeated reports of underground unions being organised and recently some activists even tried to form a "China Labour Party". Of course, the organisers were immediately arrested and put on trial. Nevertheless, this and the fact that another bourgeois opposition group recently issued for the first time a declaration against social injustice and the exploitation of workers indicate the growing level of unrest and mass anger.[45]

Recently riots by thousands of farmers against corrupt local bureaucrats highlighted that China is a powderkeg. Bourgeois commentators are increasingly worried:

"But far more important is the American fear, not of China's power but of its weakness, even of its possible collapse. This fear is an amalgam that Beijing might devalue the renminbi thus dramatically deepening the East Asian crisis, and of concern that the country could be torn apart by widening peasants and workers' unrest and by splits between hard-liners, reformers and military factions about how China should be governed."[46]

Hong Kong was long quiescent, but no longer. A city which has hardly seen any class polarisation for decades is now engulfed by growing anger against the consequences of free market policies. When HK Telecom wanted to cut the wages of its workers by 10 per cent its workers protested and the management had to withdraw its plan. This public mood has also led the government to undertake more state intervention in the economy.[47]

Given this social environment and the lack of a workers' party in Hong Kong, divisions have now erupted inside the bourgeois oppositionist Democratic Party. This party is the biggest in Hong Kong; it received 43 per cent at the elections in May 1998 but got only 13 out of 60 seats thanks to the reactionary electoral laws handed down from Beijing. Dissidents inside the party demand that it must become the "representative of the workers and the middle classes" and focus on "mobilising the masses" for street demonstrations and protests. While the future development is unclear it demonstrates that social and class questions are gaining prominence again.

In Hong Kong it is of particular importance that the union forces inside the Democratic Party break with any kind of bourgeois faction – be it pro-western or pro-Beijing. They must build their own class party – a workers' party.

Such a party must do its best to build links to the workers and underground unions in mainland China. The fate of the whole Chinese working class rests on the unity of the workers in the state owned large scale enterprises in Central China with the workers of the domestic and foreign private companies in the coastal provinces and those in Hong Kong.

At the moment the enemy is clear – the pro-capitalist bureaucrats in Beijing. But it is certain that either a spontaneous explosion will fragment the bureaucracy or open splits in it will call forth mass uprisings. The danger is that conservative, bureaucratic or open pro-capitalists factions will drag "their" sections of the working class into conflict with one another.

They will also try to play the urban workers against the peasants. To meet all these challenges a revolutionary leadership with a clear programme for proletarian revolution must be built straightaway.

East Asia has entered a period of intense class struggle and revolution. The heroic students and workers who perished in Tienanmen Square – faced with the Stalinist tanks and special army forces – proclaimed in their "Joint Declaration", "With our blood we will reconstruct the walls of the Paris Commune."

While the bureaucrats succeeded in suppressing that revolt it is clear that millions of workers and peasants will rise up again in China, Indonesia, South Korea.

The example of their struggles, and especially of their successes, will immeasurably assist the rebuilding of a class conscious and combative Japanese workers' movement. Then the slogan of 1989 will be repeated by millions.

It is the task of the LRCI to help build a revolutionary workers' party armed with a programme that links the present struggles with the only goal that can once and for all end the need to fight exploitation and oppression – the socialist revolution. ■

Footnotes

1 Japanese output is still over three times bigger than that of China which in turn is as large as the combined GDP of Spain and the Netherlands.

2 See R Brenner, *The Economics of Global Turbulence* London 1998, p8

3 "Japanese Industry Survey" *Financial Times*, 8 December 1998. According to the same source profit decline in the whole economy – excluding the financial sector – will be -2.8 per cent (1998) and –12.4 per cent (1999). Also the return on equities quoted on the Tokyo Stock Exchange declined continuously from nearly 14 per cent in 1980 to 3.5 per cent in 1997.

4 "Corporate Japan goes to waste", *The Economist* 29 August.1998

5 *Financial Times*, 3 June 1998

6 *International Herald Tribune*, 11 December 1998

7 Staffan B. Linder: The Pacific Century, quoted in Peter Nolan: "Assessing Economic growth in the Asian NICs"; in *Journal of Contemporary Asia* 1/1990, p.45

8 Industrial Production slumped in USA 1929-30 by 18 per cent, in Germany by 14 per cen. Paul Kennedy: *Aufstieg und Fall der Grossen Möchte*, Frankfurt a.M. 1991, p.451

9 IMF, *IMF and the Asian Crisis*, January 1999.

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European capitalist superpowe

SOCIALIST UNITED

After the launch of the European single currency **Dave Stockton** examines the ambitions of Europe's bosses and politicians as they head into the new millennium

JUBILATION GREETED the launch of the euro at the beginning of January. Since then the politicians, bankers and bureaucrats have been busy congratulating each other. Eleven of the 15 European Union (EU) countries – Euroland – have locked their national currencies together, transferred their reserves into euros and ceded power to the European Central Bank (ECB) to set interest rates for all member states.

The euro can now be used as a unit of account and will replace the 11 currencies as a direct means of exchange in 2002. Six months after this the franc, the deutschmark and the lira will pass into history. There is little doubt that during the coming years the euro will emerge as the world's second reserve currency.

The months before the launch of the euro witnessed a rapid increase in the tempo of economic change in Europe that will have undoubted political ramifications. The struggle in January between the Commission and the European Parliament over allegations of corruption and fraud shows a new sense of assertion on the part of the parliament. Its politicians sense that when the policies of the ECB begin to be felt directly by the citizens of the EU, it will be MEPs, not merely national governments, that will be expected to counter the decrees of the unelected bankers and bureaucrats.

The advent of the euro is having a serious effect on the actions and plans of the big banks and industrial corporations right across the continent. It has unleashed a wave of mergers and restructuring in finance, industry and commerce.

The working class movement, both in its trade union and political organisations, must wake up to the dangers and opportunities that this new period of struggle creates. It must develop new tactics and forms of organisation around two clear goals – active internationalism and a determination that a united Europe must be socialist and open to the workers and oppressed peoples of the world. Not an imperialist Fortress Europe spreading exploitation and preparing for a third world war.

By creating a second world reserve currency, challenging the dollar's half century hegemony, the launch of the euro is a precursor to the polycentric world of the twenty-first century.

Euroland is highly unlikely to remain a purely economic arrangement. Like the 19th century Zollverein (the customs' union that preceded the unification of Germany) this powerful economic bloc will be obliged to develop a stronger political and military framework, to protect itself against rivals from without and class struggle from within. If it does not, it will eventually succumb to internal centrifugal tendencies and external pressures.

A federal European state has always been the more or less open project of the French and German bourgeoisies. In the early 1990s the Germans were dubious about giving up the deutschmark but it was finally accepted as the price for the political joint venture with France to progress. The success of rapid German reunification in 1989-90 convinced Helmut Kohl that a bold, Bismarkian policy could and would work for Europe as a whole. Only such a policy could finally release the German imperialists from the consequences of the Second World War. If this means the transcendence of the German nation state itself, instead becoming part of a wider European imperialist bourgeoisie, then this would be a price worth paying. It rids the German bourgeoisie of the stigma of the Holocaust and at the same time leaves them with the lion's share of the superprofits within Europe.

The French bourgeoisie knows that it will never become a truly global power as an isolated nation state. France, long ago, decided that it could not hope to equal or surpass Germany economically or the Anglo-Saxons either economically or politically. In a unified Europe France could play the role of leader because of its military and diplomatic strength, and the Germans' need to remain discreetly in the background when it comes to overtly imperialist action and aggression.

Only a united Europe has the potential economic strength to match the USA in the new global markets. That

or STATES OF EUROPE!

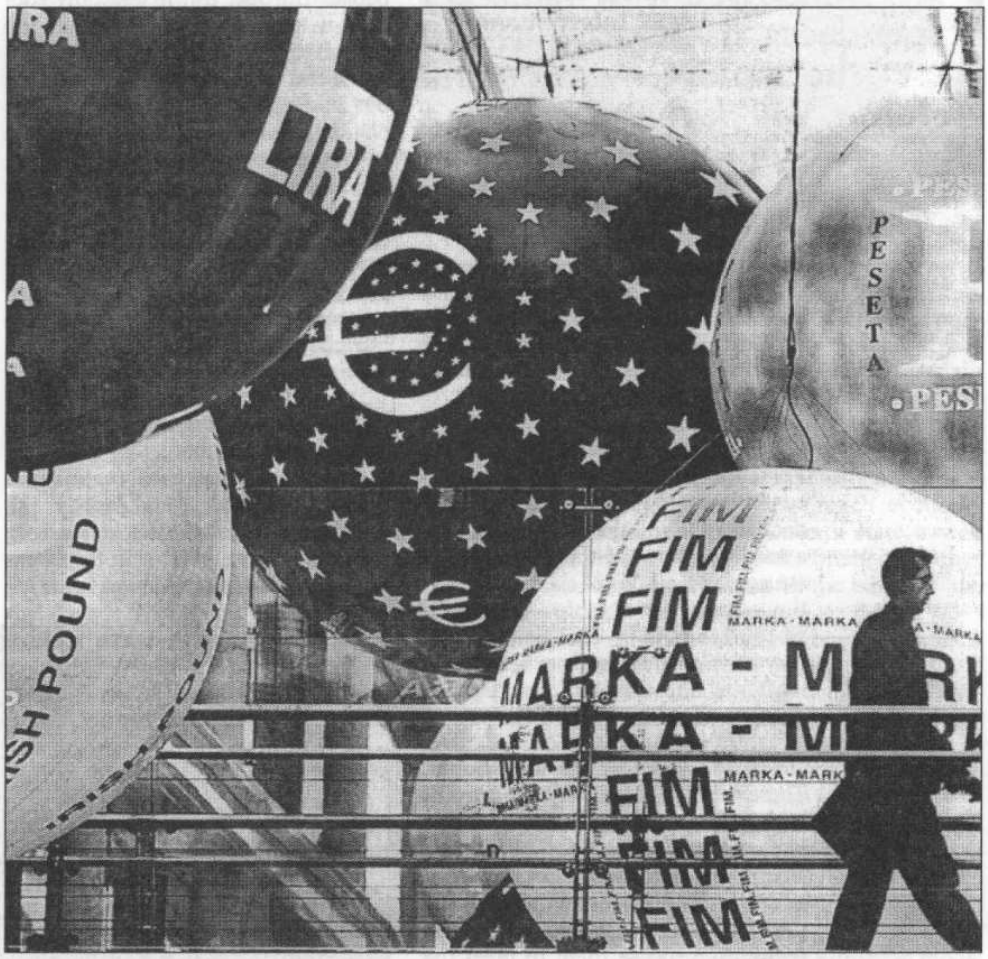
economic strength must acquire a commensurate political and military unity. Events in the 1990s – especially in former Yugoslavia – have demonstrated time and again the humiliating impotence of the EU when it comes to concerted political and military action. The challenge is to harmonise the interests of five major imperialist powers, one of which has a "special relationship" with the USA (subservience).

Under Thatcher and Major, the British set out to obstruct the "concert of Europe" whenever it diverged from the policy of Britain and the USA. Tony Blair may have stated his desire to be "at the heart of Europe" and his willingness in principle to join the euro, but he still rejects federalism and most importantly is as slavishly pro-American as the Iron Lady. True, Blair has promised to consider a "European defence policy". But Britain's foreign policy remains stubbornly at odds with that of France in the Balkans, the Middle East and Africa.

But the new impetus given by monetary union means the Franco-German bourgeoisie is unlikely to wait for Blair indefinitely. The unilateral Anglo-US attack on Iraq has probably made them even more determined to press ahead, even if this means – as with the euro – leaving Britain on the sidelines.

The development of globalisation – at least in the sphere of markets, currency, bonds and equities – has demonstrated the inability of even medium-sized imperialist powers to control their own destinies. On the other hand, the USA, with its iron grip on the world economic institutions (IMF, World Bank, WTO) shows what a continental power can do to remain master of its fate and put others on rations when the going gets tough.

Can the Franco-German led states succeed in doing this on a continent with no unifying national-ideology and culture (indeed with a superabundance of highly divisive ones), with only the barest rudiments of a transnational bourgeoisie, with a pronounced "democratic deficit" in its central institutions (Parliament, Council of Ministers, Commission, Central Bank)?



BANKERS CHEER THE EURO'S LAUNCH, BUT WILL IT STAND THE TEST OF RECESSION?

Can they succeed in doing this on a continent whose working class has much higher levels of trade union and workplace organisation, a more developed series of social welfare gains, a stronger tradition of political independence (workers' parties, political labour movements) with a record of militant struggles over the last thirty years, and an historic (even if recently eroded) tradition of creating and recreating anti-capitalist programmes and aspirations?

The bosses of mainland Europe have for a long while looked admiringly at the advantages which their US counterparts possess. US top executives far outscore their European rivals in salaries, bonuses and share options. For all the Europeans' snobbish criticism of cowboy capitalism, which they compare unfavourably with the supposedly more civilised mixed economies of Europe, they cannot but admire the way US bosses have slashed workers' real wages, cut unions down to size and consequently boosted profits as a proportion of national income.

The British Tories set out to copy their US allies as early as the 1980s and British bosses have many of the advantages of the Thatcher Revolution. Consequently Tony Blair, with his determination to keep the unions in Thatcher's chains, continue wholesale deregulation and decouple the Labour Party from its foundations in the working class movement, is a fig-

ure that fascinates the European bourgeoisie.

Blair has adopted Clinton's "Third Way" – a supply-side remedy for the socially destructive consequences of neoliberalism – while steadfastly preserving the latter's basic uncontrolled free market practice. But the more far-sighted European leaders recognise

"The completion of a single market of 290 million people, endowed with monetary soundness, fiscal rectitude and the appropriate structural reforms, will pave the way for a prosperous Europe"
Jean Claude Trichet

that Blairism was only possible on the foundations of Thatcher's victories over the British unions in the 1980s and the step-by-step purge of the defeated left in the Labour Party from 1983-90 by Neil Kinnock.

Will the European ruling class set out to copy the Reagan-Clinton or the Thatcher and Blair recipe, concentrated into a few years rather than decades? Or will they attempt to aply a modified form of their own highly structured methods of class collaboration – social partnership – developed since 1945 both by Christian Democracy and Social Democracy alike?

After all, these institutions produced decades of relative stability, even of apparent cessation of the class struggle in the years of the long boom. These were, paradoxically, the years of high growth rates for Europe. The two succeeding decades of concessions to monetarism – if not its wholehearted adoption – has witnessed only declining average growth rates. The temptation to use them to meet the task of scaling down the European workers' gains to levels which will allow them to compete on the global market will be great.

THE EUROPEAN Bankers claim that the euro will lead to prosperity and security in Europe and beyond and will help overcome the chronic global monetary instability and exchange fluctuations which have punctuated the nineties. By reducing exchange and transaction costs it should give a boost to EU economies, prolonging their boom phase within the present business cycle. Already it has spurred a process of far-reaching changes in banking and financial services across the continent, as banks, insurers and business consultants merge and offer their products in each others' countries.

The euro is part of a package of economic changes aimed at making Europe's bosses effective competitors with the US mega-corporations and prepare for what was, until 1997, heralded as the coming Asian century. Jean Claude Trichet, currently governor of the Bank of France and appointed successor to ECB president Wim Duisenberg, recently summed this up:

"The completion of a single market of 290 million people, endowed with monetary soundness, fiscal rectitude and the appropriate structural reforms, will pave the way for a prosperous Europe. But it will only succeed if the euro is embodied in the behaviour of business leaders, entrepreneurs, consumers and above all, our fellow citizens themselves. This is not just a European experiment. In the current period of international crisis, the success of the euro is a necessity not only for Europe, but also for the rest of the world which must be able to count on European growth and prosperity if the global economy is to prosper."

Trichet then set out the following requirements for this success:

(i) the independence of the ECB from political interference leading to low inflation/stability

(ii) budgetary and fiscal rectitude in the member states as laid down in the Stability and Growth Pact

(iii) structural reforms in the member states, that is a bonfire of "burdensome rules and regulations"

(iv) increased competitiveness to weed out the inefficient.

The objective is to use the common currency to spur a phase of economic expansion to reduce the high levels of structural unemployment which threaten stability, while allowing the levelling down of wages and welfare within the EU, thus aiding global competitiveness.

The process is also intended to unleash a wave of concentration and centralisation of capital. This is already underway. A whole series of European mega-firms have engaged in restructuring over the past three years, selling or closing down old low profit making components and acquiring others in Europe and North America. Among the European giants pioneering these moves are telecommunications firms like Nokia (Finland), German chemicals giant Hoechst, carmakers like Daimler-Benz (now Daimler-Chrysler) and the electronics corporation Siemens. Elf Aquitaine and Danone in France and Royal Dutch Shell and Phillips in Holland are doing the same.

Such restructuring brings with it serious attacks on the jobs and conditions of European workers. Siemens plans to axe operations employing 60,000 workers. Philips wants to cut its manufacturing sites by one third. Shell has announced 3,700 job losses in refining. Hoechst has sold $8bn of operations and bought $12bn to turn it from an unwieldy chemicals and

EUROPE 1998; NATIONAL INSTITUTE ECONOMIC REVIEW (%)

	Unemployment	Deficit	Inflation	GDP
Austria	4.3	-2.2	1.7	2.9
Belgium	8.5	-1.0	1.2	2.5
Denmark	4.8	1.6	1.9	2.5
France	12.0	-2.9	1.2	3.0
Germany	9.7	-2.6	1.5	2.2
Greece	10.1	-3.6	5.0	3.2
Ireland	9.2	1.3	1.3	7.7
Italy	12.0	-2.9	2.1	1.8
Netherlands	4.6	-1.5	2.3	3.6
Portugal	6.4	-2.1	2.2	4.1
Spain	18.3	-2.2	2.3	3.6
Sweden	8.3	0.9	1.7	2.6
U K	6.3	0.1	2.1	2.3
EU	10.1	n.a.	1.9	2.6
EU11	11.1	n.a.	1.7	2.6

drugs conglomerate into a high tech biological and chemical sciences concern at the cutting edge of the biotech and new pharmaceuticals industries.

In Germany the traditional integral links between the banks and industry – noted by Rudolf Hilferding in *Finance Capital* and Lenin in *Imperialism* – are in the process of what may prove to be a historic change. European companies have until now been far less dependent than US companies on the capital markets for new investment. Of their debt 75-90% is in the form of bank loans (comparable figures for the US and Britain are 30% and 56%).

German industry traditionally secures most of its financing from German banks, which have up to now owned large, often controlling, blocks of shares in their client companies. The original Common Market was intended as a bloc between France and Germany in which French agriculture and German industry were mutually assured of markets. But under De Gaulle and his successors, from the late 1950s to the early 1980s, France modernised its industry under a strong statist system. The EU consolidated around this Franco-German model of social partnership, protection in the workplace, industry dominated by the banks and the centrality of the inflation-proof deutschmark. Britain remained aloof from all this in the 1960s, 70s and 80s with a declining industrial base, a rising financial services sector and stock market and – up to 1987 – stormy industrial relations.

But in the 1980s and 1990s financial deregulation, led by the US and Britain, created global capital markets. In such a system capital flows to areas where returns are high. Highly liquid capital separated itself from permanent linkage to specific corporations. Rapid technological change has placed demands on European firms which outstrip the resources of the relatively small French and German banks. If European banks such as Deutsche Bank want to grow into world competitors then they have to break their too-exclusive ties to specific corporations. This has rendered out of date the German tripartite system, French state supervision and the Italian unwieldy conglomerates –which all involve varying degrees of interlinkage between government, banks, and industrial concerns.

The core EU economies have much less developed equity markets than the US and Britain. This is now being challenged by both the larger companies and banks. The banks are rushing to combine into Europe-wide financial institutions and to acquire subsidiaries in North America and the Far East. They know that they have a long way to catch up with US giants like Chase Manhattan or the newly merged Citigroup.

GERMAN CORPORATIONS face serious problems with their wage levels and social costs. The average hourly manufacturing wage is $30 in Germany compared with $20 in the USA, $15 in Britain, and $3 in the Czech Republic. The thirst of German capital to exploit the skilled but historically cheap labour just across its eastern borders is overmastering. The German unions realise this too. "Our Asia is right next door" remarked one union official.

The process of national and regional wage negotiations is coming under heavy strain. The hard-line faction of the German employers, led by Daimler-Benz and BMW, has introduced flexibilisation by threatening to close plants. Hoechst has cut 12,000 of its 65,000 workforce over the last seven years. Between 1994 and 1997 Siemens sacked 36,000. In BMW, 70,000 jobs have gone – now only 40% of its employees are in Germany.

Investment into Germany is virtually nil while $80bn of German investment has gone abroad in the 1990s, $6bn to Eastern Europe and also to the USA (setting up Daimler and Mercedes-Benz plants). The latter plans to make 30% of its cars abroad within ten years. Daimler has, in reality, taken over Chrysler in the recent merger. These corporations are using the threat of moving operations over the eastern borders to force wage moderation and flexibilisation in western plants.

Another problem is the cost of the social wage. In Germany there is general agreement among the capitalist class that direct taxation cannot be raised. The cost and scope of welfare provision continues to rise, due to the ageing population and high structural unemployment. But attempts to force a direct cut in social expenditure have proved a failure over the last few years. The government introduced a reduction of the six weeks of sick pay per annum from 100% to 80% for new contracts. Siemens and Daimler – again in the forefront of the bosses offensive – tried to impose it at once on all existing contracts. But they were defeated by massive trade union protests. In France too, when the Juppé government tried to raise the retirement age of train drivers (50) it was similarly defeated.

However, the leaders of the trade unions are not so much concerned with defending their members' economic and social gains as preserving their role in the process of negotiation – even if they are negotiating give backs. The leaders of the German trade union federation DGB, led by the hitherto left-wing IG Metall, offered the employers an *Action Programme for Jobs and Investment*, a package which, though mild by British or US standards, offered wage restraint and deregulation in return for which the bosses would, it was hoped, employ new workers.



ECB PRESIDENT WIM DUISENBERG

French étatism in economic matters goes back to Louis XIV's finance minister Colbert and to Napoleon. It was reinforced by De Gaulle's industrialisation in the 1960s. Distrusting the Anglo-Saxon model, the French bosses and parties still have to bite the bullet of wholesale privatisation and deregulation. The French economy retains a strong core of state owned industries and state financing rather than domination by the banks or the stock exchange.

The old system has borne its fruits: a modern railway system; airports and roads; education system; and telecommunications. Yet already downsizing is underway at Renault and France Telecom. The French bourgeoisie has hesitated more than once, and with good reason. Any large scale assault on the public sector will face revolt from the organised workers and the core electoral base of the Socialist Party.

To change from the European model of the relations of industry, banks and the state to the Anglo-Saxon model has enormous repercussions for the whole social contract between capital and labour established after the last war. In fact the German model is the most elaborate. Even attempting to modify it substantially is likely to cause great upheaval. The so-called social market economy (Soziale Marktwirtschaft) is actually embodied in the constitution. It consists of a strong welfare state, national health system, high unemployment benefits and generous sick pay.

It also extends into what the Anglo-Saxons regard as the private sphere of employment, guaranteeing a high level of job security for the employees of the big corporations and a high degree of cohesion between management, government and unionised

labour. This is sometimes underpinned by part ownership by government or the Länder (federal states) as at Volkswagen. It is thus no surprise that VW heads the faction of the German bosses that wish to use the social partnership system to negotiate concessions rather than to provoke direct confrontations aimed at weakening or breaking the unions on the Thatcher-Reagan model.

The boards of these companies are the locus of joint decision making or "Mitbestimmung". Many of management's prerogatives are overseen by works' councils (Betriebsräte). In companies with more than 2,000 members, worker representatives have half the seats on the board. This has led to a remarkably low level of strikes for long periods of time.

In addition the German apprentice system is still in force lasting for two to three years, assuring high levels of craftsmanship, skilled labour and high quality products. The government and the unions share the costs with the employers. In essence this is the "stakeholder principle" avidly promoted by Will Hutton, though given only the briefest of nods by Tony Blair.

The US "shareholder value" principle is totally inimical to this system. It could hardly exist where the first requirement for financing corporations was high dividends on shares to attract investment. But US and British commentators (*The Economist, Business Week*) predict that the merger mania underway in Germany, France and Italy will inevitably bring with it the "shareholder value" criteria and the consequent disappearance of concern for "social stakeholders".

THE PERIOD immediately before the launch of the euro has seen a remarkable bounce back from the problems which wracked monetary union in the early nineties. In 1992-3 turmoil and ferocious speculative runs on national currencies (in particular the pound, the franc and the lira) broke up the European Exchange Rate Mechanism. Speculators like Georges Soros helped themselves to millions from European central banks' reserves before they caved in. Yet over the past three years exchange rates have moved back to pre-crisis levels and stabilised.

The reason is that the EU has enjoyed a sufficiently powerful upswing of the economic cycle to allow governments to apply the Maastricht Treaty and Stability Pact measures without provoking a full-scale social and political revolt. In France, Germany and Italy there were serious strike waves but they never became a conscious assault on the Maastricht plans.

The worst of the pain has been borne by the EU's 30 million unemployed and the socially excluded (youth, immigrants, single parents). The reformist parties and trade unions have, as usual, shamefully ignored these layers except in empty rhetoric while their main social base (the employed and unionised workforce, disproportionately representing the skilled, higher-paid workers) were not driven into open revolt.

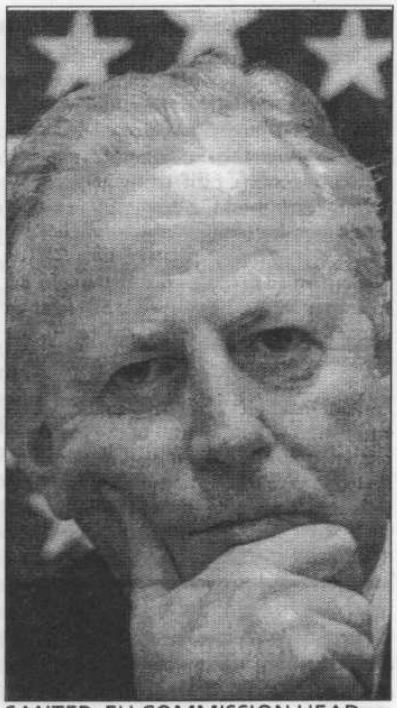
Nevertheless in France, Germany and Italy in the years 1995-7 things looked dangerous for the Maastricht austerity measures. The credibility of right-wing governments fell sharply. The likes of Juppé, Berlusconi, and Kohl who were most closely associated with these measures were weakened as a result of action on the streets and could not hold on to power at the ballot box. For the bourgeoisie it became obvious that the task of social control in the final year of the Maastricht process would be best assured by the entry into government of the socialist, labour, social democratic and ex-Stalinist parties in most European states. Only Spain and Ireland have non-social democratic governments of purely bourgeois parties.

But it has also been achieved by postponing some of the hard choices, that is the systematic levelling down of the social welfare, job security and wage levels of the European workers. These manoeuvres and sheer economic good luck are waning assets on the verge of a world recession. The question is: how serious will this recession be?

Europe is out of synchronisation with the crisis spreading from Asia to Latin America. Growth in the major continental economies, France, Germany and the Benelux states, was accelerating strongly in 1997 and in the first six months of 1998. Most commentators were extremely optimistic about a boom, which they predicted would not reach its peak till 2001-2. Faced with crisis in Asia and its spread to Latin America, and most importantly the Russian loans debacle and collapse of the rouble in August 1998, EU officials still boasted that Europe would be "an island of stability" or an "an oasis of growth". They forecast growth in employment of 1% in 1999 and the same in 2000.

Yet GDP growth within Euroland has shown signs of slowing under the impact of world events; from 3.5% in the first quarter of 1998 to 2.1% in the second quarter. The European Commission has prudently lowered its 1999 growth estimate from 3.2% to 2.6%. Private sources are more cautious than that: Deutsche Bank forecasts 2.3% growth and JP Morgan 1.8%.

But there is no doubt that the European business cycle is out of synchronisation with both the USA and Japan. The latter is already deep in recession



SANTER, EU COMMISSION HEAD

while the USA is in the final speculative upward spiral of its boom. Europe on the other hand is only three or four years into its cycle. Europe saw a double-dip recession, in 1991-2 and 1993-4, caused in part by the distorting effects of the German reunification boom and the collapse of ERM. If the present cycle proves of average duration then a further recession would not be expected until two or three years into the first decade of the new millennium.

In addition the predicted stimulus to the economy of the one-off effects of monetary union of 1-5% of GDP in this period should also help the "island of stability" scenario according to EU propagandists. But, as well as the professional Euro-optimists, we should look at the views of the equally bourgeois Eurosceptics. These have their stronghold in Britain and Scandinavia, though there are prominent examples even in France such as Charles Pasqua and Jean-Claude Chevennement.

THE EURO is a fact, despite all the prophesies of doom from the British Eurosceptics, whether of the Tory Right or their waning shadows on the Labour and ex-Stalinist left. Already there is talk of bringing forward the date for the issue and the use of the euro notes and coins. The objections of the Eurosceptics are basically that Europe is not the USA. What works there will, they argue, not work in Europe because:

(a) one set of interest rates must fit a wide variety of economies;

(b) national economies will find themselves at different stages of the business cycle;

(c) there is no real European labour market – or it is exceedingly rigid.

All of these observations are true enough, but it does not follow that they are likely to destabilise the euro itself over the next period.

European interest rates do not attempt to cater for all but are set for the major economies, i.e. France, Germany and to a lesser extent Italy. These represent 74% of the Eurozone's economic activity.

Countries likely to suffer inflationary pressures, such as Ireland, represent 1% of EU GDP and if its inflation rate were to hit double figures this would contribute only 0.1% to the total. Meanwhile France's inflation rate is close to zero (consumer prices -0.4 over the three months to November 1998, compared to +.7 over the previous year) and Germany's are also low (-1.3 and +.07 respectively). With the next three years bringing recession rather than boom and with world commodity prices tumbling (-18.7% for all commodities, -43% for oil!) deflation rather than inflation is the likely trend in the Eurozone. Inequities between the currencies are likely to be containable by fiscal measures.

The results of deflation – closures and unemployment - will be the main issues facing the ECB and the Council of Ministers. Already, at what is in all probability the peak of the European recovery, unemployment – though it has fallen by a few percentage points - still stands in double figures in the big Eurozone economies: France 11.6%, Germany 10.6%, Italy 12.3%, Spain 18.2%. Pressure to tackle structural unemployment will redouble when the feeble job creation schemes of the French and German governments are reversed by mass layoffs.

Thus the social responsibilities of the ECB will become an area of intense dispute – indeed it had already broken out in the months before the launch. Ironically the German bankers and politicians stand on opposite sides of the debate.

In the early and mid-nineties, the French won the Germans to the idea of a new European currency as the next step in an ever closer union by the promise that it would be as single-mindedly committed to the price stability of the euro as the Bundesbank had been to the deutschmark.

Unlike the US Federal Reserve Board or even the Bundesbank, the European Central Bank has no responsibility for promoting economic growth, it is rigidly committed to the single goal of monetary stability. The pressures came from the Bundesbank (headed by Hans Tietmayer – a profound sceptic about the Euro) and the German Finance ministry in the CDCSU coalition (headed by Theo Waigel). The result is that the ECB is, according to the London *Financial Times*: "One of the most independent central banks in history. It is accountable to no one. Its executive is appointed by politicians but they are unsackable."

The ECB was meant to work on a pre-ordained series of anti-inflationary criteria. The Maastricht Treaty (1992) and the Stability Pact (1995) forced member states to achieve close to balanced budgets, which "left virtually no room for macroeconomic policies to deviate from the course set by the autopilot."

Wim Duisenberg, the Dutch chairman of the board of the ECB, though a former Social Democrat (and 1970s Keynesian) was an early convert to monetarism. He has publicly pledged the ECB to actively resist a widening of the bank's objectives to include promoting growth let alone lowering unemployment. He has bluntly refused to publish details of the ECB's inflation forecast (in case it encourages trade unions to put in higher wage demands) or to publish minutes of its meetings (in case the six members of the council "come under political pressure" from their own countries). Duisenberg has even suggested that there should be a seventeen-year restriction on the publication of these minutes!

With the next three years bringing recession rather than boom and with world commodity prices tumbling... deflation rather than inflation is the likely trend in the Eurozone

The ECB already sees the trade unions and popular pressure via the democratic processes of the member states as the main enemy and rushes to take refuge in business secrecy. The politicians, especially the social democrats, are worried that such secrecy will rapidly make the ECB loathed by millions of EU citizens, increasing the already huge democratic deficit of its unelected central structures.

However it is from the labour movements, muffled by the trade union bureaucracies and the parliamentary machinery of the reformist parties and governments, that objections to this disregard for jobs and welfare has arisen. Mass anger against high levels of structural unemployment in the EU has been channelled, in a much reduced form, into the policies of the continental social democratic and Socialist parties. Many of the "left" governments in the EU which came into power over the last two years are pledged to reduce unemployments as their major priority.

These governments, in particular the French and German finance ministers Dominique Strauss-Kahn and Oscar Lafontaine, have already indicated their dissatisfaction with the ECB's priorities and suggested changes. In reply the British press launched a pre-emptive propaganda campaign against Lafontaine. Tony Blair has made overtures to Chancellor Schröder – whom the British press proclaim, on no good grounds, to be Blair's disciple – to join the "third way" and reject "old style socialism".

Blair's finance minister Gordon Brown is likely to be more sympathetic to Duisenberg than to his "fellow socialists". His first response to proposals from Lafontaine to deal with the inequality of taxation systems between the member states was waspish: "We want to cut business taxes not raise them and therefore we will veto any tax harmonisation proposals".

The only problem is that New Labour has ruled out joining the euro "in this parliament", i.e. before 2002. Although Britain is a member of the European System of Central Banks (ESCB) which pursues a common monetary policy for the whole EU, it is not a member of the Governing Council of the euro (though it has impertinently demanded to be so).

The difference between British and continental social-democracy is hardly surprising. The entire New Labour project was launched on the back of a cumulative defeat of the British unions between 1982 and 1987, the subsequent crushing of internal opposition within the Labour Party and the triumph of the Blair-Brown axis over Old Labour – symbolised by the removal of the radically redistributive Clause IV from the Labour Party constitution. New Labour has since wooed the bosses and the millionaire media, offering to act as a ratchet mechanism, preventing any roll back of the bosses' gains such as the anti-union laws and the shift from direct taxation of wealth to indirect taxation on the mass of wage-earners.

Indeed it has promised to carry out a "reform" of "overspending" on the welfare state and education – replacing universal entitlement with "targeting". This is all part of a package to woo financial support from big business away from the Tories. One major factor in this project is to take Britain into the euro as soon as a decisive popular mandate can be engineered. Thus, barring a sudden upsurge of class struggle in Britain which would put enormous pressure on the unions and then on the Labour Party, Blair and Brown are likely to remain on the monetarist right-wing of the arguments in the EU. But as long as they falter on the banks of the euro, fearing to jump in, their supply-side sermons to "free" European labour markets by deregulation will carry little weight.

If the European Union is dragged into a serious recession, if not in 1999 then early in the new millennium, then the ECB, still flying on its deflationary autopilot, will in all probability crash into the European Council of Ministers - dominated by social democratic governments responding to pressure from their respective labour movements. These governments have all pledged themselves to lower unemployment. They can hardly be seen to submit tamely to ultra-neoliberal bankers, originally appointed by the Juppés and the Kohls, especially if the US Federal Reserve were by then to be pursuing counter-cyclical measures of

a neo-Keynesian stripe.

Whilst the monetary system is highly centralised, fiscal policies and systems are still quite varied. Moreover they remain in the hands of the 11 national governments, albeit constrained by the solidarity pact. In fact – contrary to the claims of the British Tories – the EU has a very small central income (under 2% of EU/GDP) and most of this is redistributed to farmers via the CAP. The EU has pitifully small regional funds for underdeveloped areas and virtually no funds for large scale anti-crisis measures. It is for this reason that all the summits on unemployment have led to virtually no measurable job creation.

When he suggested tax harmonisation, Oscar Lafontaine was not engaging in "dinosaur socialist schemes" as the British press claimed. Tax harmonisation is an essential measure in the creation of real single market conditions. Though the Irish have been used as the stalking horse for all those who give low or no tax breaks to US, Japanese, and Korean firms seeking to penetrate EU markets, it is plainly

As they try to cut their wage and social costs in pursuit of global competitiveness and shareholder value, the big corporations in Europe will put pressure on the continental social democratic governments to abandon their "third way" regulatory policies

Britain's Thatcherite legacy of massive handouts to corporations, its highly regressive tax system, that is the real target. Related to this is the attempt to equalise social benefits in order to create a "level playing field" in the labour market. Whilst the Eurocrats would like to move towards lower taxes on business they realise that convergence will mean an end to the Thatcherite tax regime in Britain – hence the vituperative opposition of the Murdoch press.

As to the "rigidities of the labour market", what the Eurosceptics mean is not only the lack of mobility of labour but also its lack of flexibility. The supply-side answer is to slash social security provision down to a "safety net" level, which will stop people starving – or rioting – but at the same time will be so "basic" (painful, humiliating) as to drive them to take the lowest paid jobs on offer.

At its extreme this is the US neoliberal model to which Clinton and Blair add a network of public and private



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charity for the unemployable and information/training so that people take low paid jobs in the service sector. This is not far from the "lesser eligibility" principle of the British New Poor Law of 1834. Life in receipt of social welfare must become worse than living on the lowest wages available. Its "ethical" foundation – fixed firmly in 19th century ideology – is that the unemployed simply do not want to work. They must therefore be compelled to do so. Clearly this "principle" runs contrary to all logic and historical experience: why should the unemployed be any lazier during the downswing of the economic cycle than its upswing? But – more importantly – it runs contrary to key demands of the European trade unions and commitments of the reformist governments, such as a minimum wage of one half to two-thirds of the average male median and a maximum working week of 35 hours.

As they try to cut their wage and social costs in pursuit of global competitiveness and shareholder value, the big corporations in Europe will put pressure on the continental social democratic governments to abandon their regulatory policies for the third way. One need not have any illusions in the Jospins or Lafontaines – whose 35 hour weeks and Keynesian public spending programmes are either so full of exceptions or so underfunded that they will never substantially reduce unemployment – to recognise that the Blairite recipe means Thatcherism with a "social" spin.

The third way's most universally accepted argument is that globalisation and sharpening competition makes the European social-welfare and partnership model untenable. It declares the social democratic dream (a market economy with democratic socialist society) to be a utopia, because capitalism can no longer provide it.

There is of course a large measure of truth to this, with one important qualification. There is an alternative. It is a socialist society based on a socialised (i.e. socially owned and democratically planned) economy. Because the European Communist, Socialist and Labour parties have abandoned the objective of a completely alternative economic and social system they have no answer to the capitalists' own abandonment of the post-1945 social contract with the labour bureaucracy, apart from weak palliative measures to ease the pain or delay it as long as possible.

Marxists should not hope or assume that the monetarist, shareholder-value industrialists and their "third way" servants will do the job for us of breaking illusions in social democratic reformism. Thatcher's Britain in the 1980s and its legacy should be a lesson to everyone. Defeat upon defeat, loss upon loss, does not in the end radicalise. Of course the struggle to defend reforms opens the opportunity for a political sea-change in the workers' movement. But this change will come on condition that tactics and methods of struggle are adopted which can bring victory in struggles against the employers and their governments, and that a different goal to reforming capitalism is consciously taken up by the most militant layers – the vanguard – of the working class. That is why it is necessary to build political organisations in every country which openly declare war on reformism and bureaucratism in the labour movement. The crisis of capitalism and reformism makes this not only necessary but possible. Revolutionary political organisation can be built and capitalism can be overthrown.

Unfortunately some tendencies – which commit themselves publicly or privately to social revolution - believe that as the social democratic governments abandon reformism in practice, an opportunity arises to take up the

discarded programmes of yester-year and try to recreate left reformist electoralist projects and parties.

These include: the British Socialist Workers Party, which advances a programme of radical policies disconnected from the fight for working class control and revolution, and its co-thinkers in the German social-democracy who organise around a programme of left-wing reforms; the USFI and the French group Lutte Ouvriere, who are standing on a similarly reformist platform in France for the 1999 European elections; and the CWI, connected to the Socialist Party in Britain, which deliberately eschews all public mention of revolution in order to construct new mass workers' parties with, it hopes, layers of reformist workers appalled at the rightward shift of the real social-democratic parties.

These groups cannot see the road forward in the EU to a Socialist United Sates of Europe but instead try to find popularity in the declining fragments of the "anti-European" movements. In the unlikely event that these projects result in anything other than failure, they can only coalesce into further disastrous misleaderships of the working class in the crises and struggles to come.

WHATEVER THE economic fate of the euro and further measures to create a European imperialist federation, Europe faces either an intensification of class struggle or an intensification of class exploitation and oppression. Defeat will follow for the workers of Europe if they adopt the old Stalinist and "left" Social Democratic strategy of counterposing "their own" national states to a united Europe.

Leaving the EU is no solution. "Independent" capitalist states would have to adopt even more savage austerity policies, and their employers even more ruthless downsizing and rationalisation, to compete on the world market. Labour movements which had pledged themselves to unity with their own "patriotic bosses" and severed their links with their European brothers and sisters would be politically and organisationally weakened, indeed disarmed, in the face of these new attacks.

Whether the Euro-bourgeoisie's project succeeds or fails, Europe's workers must precede them in building a new Europe-wide movement as an indissoluble link in an even wider, truly global chain. Only by concerted cross-European actions can the new mega-corporations be prevented from slashing wages and working conditions, weakening or abolishing trade union rights and undermining workplace organisation.

Only by Europe-wide action can the EU leaders' plans to erode social welfare provisions be defeated. Only by helping the workers of South Korea, Indonesia, Thailand, and Eastern Europe to establish powerful unions, workplace organisations and their own parties can European workers thwart the plans of the multinationals.

Summed up this means that the exploited and the oppressed of Europe need international organisation at every level: trade union, industrial, women's organisations, youth etc. Above all else, the case for an International party - the European section of a new world party of socialist revolution - has never been stronger. Today it is only modern Marxism - Trotskyism - which expresses this historic goal of the working class movement without ambiguity or reservation.

The revolutionary international will grow in respect and authority to the extent that it leads the rebuilding and transformation of the national and international movements of resistence to exploitation and oppression. Such movements can only flourish if, from the outset, they are militantly anti-capitalist and anti-imperialist, defending all oppressed nations and social groups.

And only when they are firmly rooted in the advanced workers of the semi-colonial, former "socialist" and imperialist countries will they be able to co-ordinate a truly international struggle against global capitalism.

Is this an enormous task? Yes, but one that is vitally necessary for the very survival of workers' gains and organisations, let alone to secure a future free from insecurity, poverty and exploitation. It is a task which begins not with Platonic commitments but concrete actions.

International organisations of the working class must escape the stranglehold of the trade union, social democratic and the remnants of the Stalinist bureaucracies. These bureaucracies are disqualified from playing a leading role by their chronic small state nationalism which they can shed, if at all, only for a Euro-imperialist chauvinism.

Europe's workers cannot restrict themselves to a defensive struggle nor to preserving the existing trade union and political organisations. These have fatal weaknesses that millions of workers know only too well from first hand experience.

What are they? In two words: reformism and bureaucracy. In the coming years, which will be ones of deepening capitalist crisis and mounting resistance, the central task is to rally the fighting forces to a revolutionary action programme.

That is why the League for a Revolutionary Communiust International has published a European Action Programme. We call on all working class organisations to discuss it, adopt it, promote it and join the fight to put into practice. ■

FOR A SOCIALIST UNITED STATES OF EUROPE

● Stop the Euro-bosses austerity.

● Defend welfare, pay and working conditions.

● Extend democratic rights.

● Free the Third World from debt slavery.

● A legal limit of the working week to 35 hours with no loss of pay.

● Against employers who say there is no work and attempt to lay off workers we demand the equal sharing of the available hours amongst the workforce with no loss of pay.

● For workers' control over hiring and firing. For legally enforceable protection against dismissal. For permanent contracts and full-time employment wherever this is wanted.

● No to job flexibility agreements in return for pay rises.

● Nationalise all firms declaring redundancies or closures. Occupy all plants under workers' control.

● For a sliding scale of wages and legally enforceable EU-wide minimum wage set at 10 euros an hour.

● For a system of universal unemployment and welfare benefits, health care free at the point of treatment, and pensions — all starting at the level of the best examples in the EU at present.

● No to all anti-trade union laws; for the right to strike; to be a member of a trade union: to elect factory committees with recallable delegates; no to compulsory ballots.

● For the free movement of workers across the EU. Open the borders. For the unrestricted right to asylum. Down with all immigration controls. Down with the racist, repressive Trevi and Schengen treaties! Down with the Nato treaty and NATO interventions in the Balkans and the Middle East. Recognition and support for those fighting national oppression, genocide and imperialism. Support for the victims of torture; arrest and punishment of their torturers, confiscation of the millions looted by dictators in the service of imperialism.

● An end to business secrecy and bureaucratic secrecy — open the accounts and the computers of the banks, the businesses, the state and EU bureaucrats to workers' inspection. The workers must make no sacrifices, take no reductions whilst the real profits, dividends salaries and business plans of the bosses remain in the dark.

● Down with the unelected European Commission and ECB. For the election of a sovereign European Constituent Assembly from all those countries in the EU and seeking to join it — convened and defended by the fighting organisations of the working class.

We must fight for a European revolution which sets as its goal:

● The expropriation of the large banks, industries, communications systems and the media, large farms and retail outlets. For their operation according to a system of integrated plans at a European, national, regional and local level. All to be democratically decided on by workers and consumers and with workers' management of production and distribution.

● A Socialist United States of Europe fighting for the world revolution.

Markets in

American capitalism on the edge of a nervous breakdown

The last ten years have seen US stock markets boom as the country experienced its longest post-war economic upturn. **Keith Harvey** asks, will the coming stock market crash push the world's superpower into steep decline?

On 19 January, in his State of the Union address to the US Congress, Bill Clinton boasted:

"Tonight I stand before you to report that America has created the longest peacetime economic expansion in our history – with nearly 18 million new jobs, wages rising at more than twice the rate of inflation...and the lowest peacetime unemployment since 1957. For the first time in three decades, the budget is balanced. From a deficit of $290 billion in 1992, we had a surplus of $70 billion last year and now we are on course for budget surpluses for the next 25 years."

He was as bullish as the US stock markets which two weeks earlier, on 8 January, hit an all-time high. After a summer which saw share prices drop 20 per cent the market rebounded quickly and ended the year 12 per cent higher than it began. Shrugging off US profit warnings, a creeping Latin American recession and the collapse in Asia and Russia, only two of 54 top economists in the United States predicted a recession in the US in 1999; the country's longest post-war recovery cycle is set to continue.

All is for the best in the best of all possible worlds – or so it appears.

Before the Russian government's default shook Wall Street in July 1998, the first half of the year had been a golden six months for US capitalism. After a sluggish exit from the recession of 1990-91 the economy picked up steam in 1994-95 after which output, manufacturing productivity, profits, jobs and stock market prices all soared.

Towards the end of 1997 the performance of the United States economy was so robust that many commentators believed that they were witnessing a "new era" of US capitalism.



denial

After 25 years of depressed accumulation that followed the end of the post-war boom (late 1940s to late-1960s) we were once again witnessing figures for profits, inflation and unemployment that were last experienced in the second half of the 1960s. A "new paradigm" of indefinitely sustainable growth was upon us that was "neither too hot nor too cold" – the so-called "Goldilocks economy".

Output in the first three months of 1998 was running at an annualised rate of 3.8 per cent. It jumped 1.4 per cent in the first quarter (Q1) alone. Demand for private sector goods and services was running nearly 6 per cent ahead of a year earlier. Inflation during the same three months dived to 2.2 per cent, a 30-year low. In May unemployment stood at 4.4 per cent, lower than at anytime since 1970. [1]

The boardrooms of corporate USA had much to be happy about. Between the crash of 1989 and 1997 the mass of profits jumped 82 per cent; the profit rate increased during the same period by 28 per cent, restoring it to its mid-1960s levels, and within 15 per cent of its post-war highs. And for a business culture driven by the need to improve "shareholder value" above all else the stock market boom ("bull market") was unparalleled: Wall Street companies tripled in value between October 1987 and October 1997. Between April 1996 and April 1998 alone the Dow Jones index leapt 60 per cent.

In this context it is hardly surprising that US business and the Clinton administration reacted so casually to the crisis and crash that befell the East Asian "tiger economies" in the summer of 1997. It was purely a regional crisis with "marginal effects" on the USA, in the words of Alan Greenspan, the chairman of the Federal Reserve.

Indeed, the US economy for the rest of 1997 and into 1998 seemed to benefit from the collapse in Asia. Capital exited the stricken region in a "flight to quality" and landed in Wall Street, boosting demand and prices for stocks and bonds. The expected flood into the USA of cheap Asian imports on the back of heavily devalued currencies did not materialise for most of 1997 due to the collapse of domestic liquidity and credit for export-oriented Asian firms. Meanwhile, US corporations looked forward to a bargain basement sale of banking and industrial assets in East Asia, firms that were viable but technically bankrupt.

Then in mid-1998 the Russian currency collapsed. Loans to the Russian government held by US and European banks were devalued by up to 90 per cent. At the same time Brazil (a huge market for US exports and accounting for 40 per cent of Latin America GDP) looked likely to follow Russia. Meanwhile a creeping decline in industrial output and earnings was visible in US company reports as the effects of the East Asian crash started to work its way through.

It seemed as though the stock markets may crash, and indeed they did tumble 20 per cent over the six weeks from mid-August. Pessimism in the financial markets was universal in early October. But then with three interest rate cuts in October and November the stock markets rebounded, "market sentiment" improved and the financial markets rebounded to new highs.

So what does 1999 really hold for US capitalism? Is the revival of US capitalism in the 1990s strong enough to endure the financial instability and collapse of global demand that was such a feature of 1998? Will Wall Street's bull market hold so that US households continue to act as "consumers of last resort"? Will the US ruling class remain united enough to provide leadership and resources for the IMF? The perspective for the global class struggle revolves around the answers to these questions.

The closing year of the second millennium will certainly see global output at its lowest since 1991.[2] The US recession is underway. The key question is whether it will engulf all sectors of industry, spread to the service sector and fatally undermine the stock market boom. Or will pre-emptive attacks on jobs and wages keep profits and investment buoyant while the destructive part of the Asian economic cycle does its work to restore growth and opportunities in 2000?

Finally, if the stock market crashes rather than "corrects" what are the prospects for a return to 1930s-style deflation, depression and mass unemployment? This article examines the nature and course of the American recovery in the 1990s and lays out the alternative scenarios for the world's largest economy and only political superpower.

Factors behind the US recovery

The US cyclical upswing, far more vigorous than 1975-79 or 1983-89, has confounded many on the right and left. In early 1994 we wrote in *Trotskyist International* that on the evidence so far, "the US is unlikely to be able to sustain a robust recovery..." Indeed it was set to be the "weakest of any since 1975".[3]

The evidence for that judgement lay in several factors that were likely to constrain demand during the upswing. Two were most important. First, real interest rates remained high due to the need to draw in foreign money to help pay for the huge US federal government budget deficit - a legacy of the Reagan-Bush years of "military Keynesianism" which boosted growth in the 1980s through defence spending. Such high rates were certain to cripple the spending plans of debt-ridden households and firms.

In fact the Clinton administration, after its mildly reflationary spending package was rejected by Congress in 1993, did a 180 degree turn and embarked on a historic assault to eliminate the budget deficit. Cuts in defence spending, and above all in welfare entitlement programmes, resulted in a balanced budget by 1997 and a $76 billion surplus in 1998. This has led to lower than anticipated interest rates, thus cheapening the cost of capital and lowering the value of household and corporate debt.[4]

Secondly, we noted that the rise in the US dollar from the summer of 1993 would hit US exports and thus constrain the fastest expanding element of growth in the US economy since 1985. However, the US dollar returned in 1994 to the path of steady devaluation against the yen and European currencies. Between 1990-95 the dollar lost, on average, 9 per cent of its value a year against the Japanese yen and 2.5 per cent a year against the German mark, making US exports increasingly competitive.

Will pre-emptive attacks on jobs and wages keep profits buoyant while the destructive part of the Asian economic cycle does its work to eventually restore profitablity and growth?

But even so the key factor behind the vigorous growth after 1994 lay elsewhere; namely, the accumulated defeats inflicted upon the US working class over jobs and wages in the 1980s and early 1990s. These were decisive in improving company profitability and investment by mid-decade.

When Ronald Reagan took office in 1981 US unions were standing their ground. They never organised anything like a majority of workers but in industry in 1973 they could still claim to organise just under 40 per cent of those employed and 28.5 per cent of all those in the private sector. In the second half of the 1970s the unions organised, on average, 7,100 recognition elections every year.

Then came PATCO. In a dispute with the USA's airline pilots in 1981 Reagan smashed the union sending

shockwaves through the labour movement and emboldened employers everywhere to take the offensive. In 1982 union recognition elections halved and remained there; even then a third of firms refused to sign contracts with the unions where recognition was won. One in seven workers were fired from firms during union recognition election campaigns.

Under the employers onslaught around half a million members were lost every year from the unions in the 1980s.

By the time Bush gave way to Clinton in 1992 the numbers of industrial workers in unions had almost halved from 20 years earlier. Only 11 per cent of private sector employees were now organised.

This bosses' offensive was intimately connected to the drive to keep wages down. Uniquely for a major G7 economy real wages have been cut in the USA for 20 years. Excluding non-wage benefits, they fell by 1 per cent every year between 1979-90. Between 1990 and 1997 they were stagnant.[5]

Table 1: US Investment Rates

Years	Annual growth
1973-79	3.4%
1982-90	2.9%
1990-96	2.0%

This achievement by US business was essential given the poor productivity performance of US capitalism after 1973. During the first half of the 1990s productivity was poor as net investment rates were lower than the 1980s (see Table 1).

Since the rate of investment is the main determinant of productivity it comes as no surprise to discover that output per hours worked averaged 0.9 per cent between 1973-96, half the figure for the 100 years before 1973. For the first half of the 1990s it was only 0.7 per cent per annum. Given this, any kind of profit revival was dependent on keeping wages pinned to the floor so that all the productivity improvement could accrue to profits not workers' incomes.

Given that the productivity decline continued into the 1990s how then do we explain the strong profit revival and the spurt in investment over the last few years? The answer lies in the fact that while overall productivity has fallen there has been an improvement in manufacturing productivity which has boosted investment and profits.

The 1989/90 financial crisis, and 1990-91 recession which followed, worked to improve profitability. "Downsizing" was added to the economic lexicon to express the new vicious scale of sackings that took place then and, indeed, into the first years of the economic upturn; in fact it has never ceased in manufacturing as a whole.

The "repair to company balance sheets" (i.e. profits) in the early 1990s eventually led to a significant turnaround in manufacturing investment after 1992 compared to the 1980s. So for example, between 1985-92 annual net investment averaged zero. But between 1993-97 it climbed to 10 per cent a year. This fed through to a sharp recovery in manufacturing productivity to 5.5 per cent between 1993-96. In Q1 1998, business investment was up 12 per cent on the year and at 12.3 per cent of GDP investment was well above the last cyclical peak of 9.9 per cent in 1989.

This took place in the context of a further general decline in overall productivity. That was possible because manufacturing continues to decline as a proportion of total economic activity (18 per cent) in the USA compared to the steady rise in the low productivity service sector. Low wages and poor conditions and contracts have made it easier to employ people here, so much so that the current low rate of US unemployment has been achieved despite the fact that US manufacturing has continued to lose jobs hand over fist – two million between 1985-96.

Between 1990-96 more than 8.6 million jobs have been created in the service sector. While this sector offers some of the highest salaries available, over a third of the jobs created in the 1990s have been in the low-waged hotel, retail, wholesale and restaurant sectors. The bottom 60 per cent of the workforce were working for 10 per cent less in real terms in 1995 than in 1979.

Productivity in this sector has remained low, dragging down the performance of the business sector as a whole and hiding the robust shift in manufacturing productivity.[6]

But the improvements in industry have been substantial and in the context of a continued decline in real wages up to 1997 this boosted profits. In 1997 manufacturing profitability was 100 per cent above the levels of the early 1980s. Overall, business profits had surpassed their 1973 levels and were around 15 per cent below post-war boom peaks.

This profit revival was further underpinned by strong export growth in the 1990s. The steady post-1985 lowering of the dollar's value led to a boom in sales of US manufactured goods abroad, growing at 11 per cent a year between 1993-97. In the twelve months up to the huge devaluations in East Asian currencies in the summer of 1997, US manufacturing exports grew 24 per cent.

This strong profit revival under Clinton's administration proved just how little the Democrats can be considered a "friend of labor". Not only did union recognition and membership continue to fall after 1992. Clinton savaged the welfare entitlements of the most vulnerable ensuring that some 13 per cent of Americans about 35.6 million people – are now officially poor.[7] The share of national income going to the top 5 per cent of earners grew faster than during the Reagan years.[8]

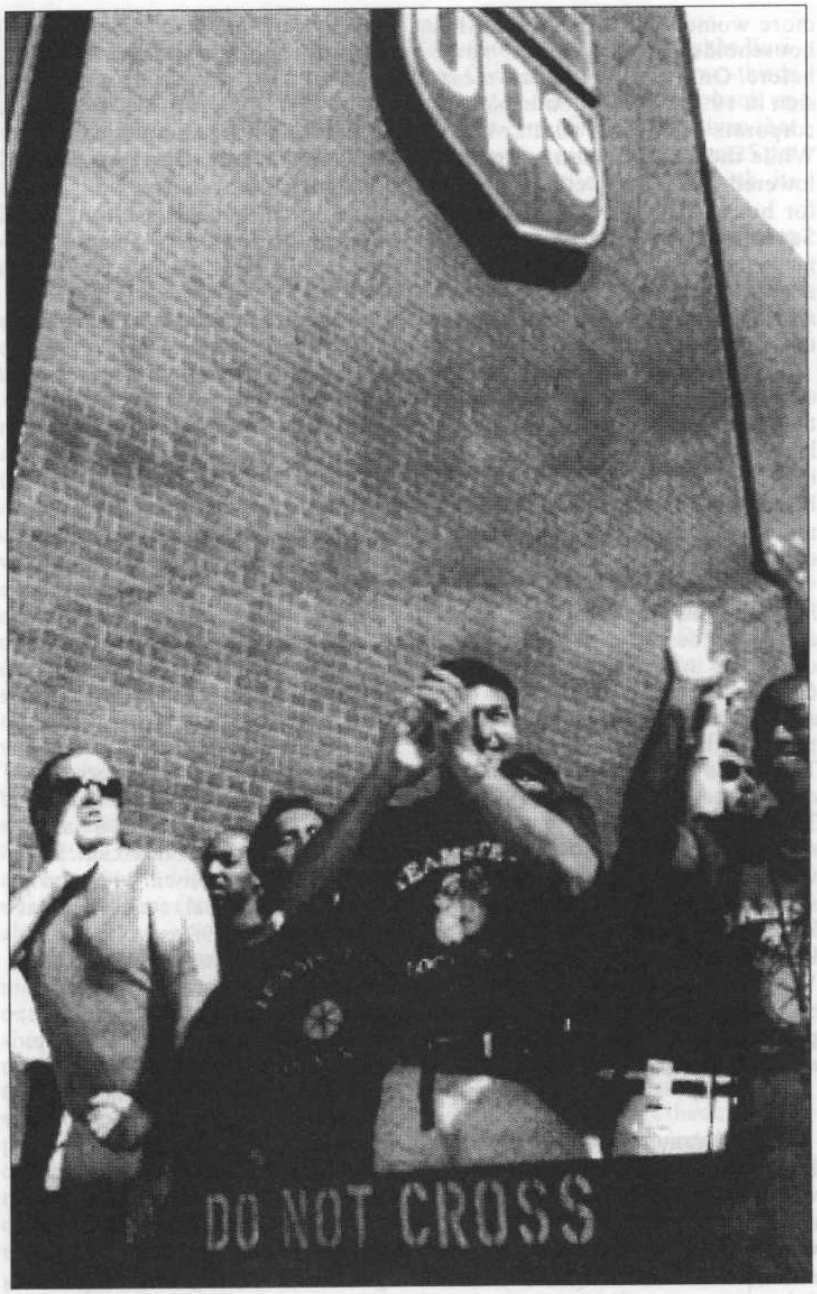
Credit and the recovery

There is no doubt then that US industry has enjoyed a vigorous mid-decade revival in profits, investment and productivity. But its shrinking importance as a whole to US capitalism is also evident. Apart from the 1995-98 period manufacturing output has not been an improvement on the 1970s or 1980s. Clinton's bourgeois critics have underlined this:

"In a longer view the current expansion is not in fact particularly vigorous. In the real economy Americans celebrate growth rates that once would be seen as unexceptional; the Clinton boom has been in the financial sector."[9]

Since the end of the long post-war boom world capitalism has been afflicted with consequences of its own success; namely, generalised overaccumulation of capital.[10] Put simply there is too much capital in operation to be able to guarantee for everyone the kind of profit rates enjoyed in the 1950s and 1960s and with them the levels of employment and wages that the working class was able to extract from their bosses. Systematic overcapacity in all the major branches of industry has been the norm since the early 1970s, leading to periodic but generalised global recessions marked by over-investment and overproduction.

When profit rates started to fall away in the second half of the 1960s, rates of investment fell away too and as a consequence there was a drop in productivity. This naturally worked its way through the system in the form of lower rates of growth, decade on decade. Three major post-war world recessions (1973-75, 1980-82, 1990-92), varying in duration, depth and synchronisation, served to eliminate the least productive branches of industry and firms (and millions of jobs) and created the basis for a revival in profits and investment. Yet, through each cycle of boom and bust unemployment scaled new heights, debt grew and interest rates remained stubbornly high. And although profits



UPS STRIKERS

and productivity revived they have never, on a world scale, returned to pre-recession peaks.

The uneven development of capitalism has ensured that there have been feverish pockets of investment and growth, such as took place in East Asia in the late 1980s and early 1990s, prompted by imperialist banks and MNCs looking for newer low-cost opportunities for investment and loans. While this has produced spectacular growth rates it has only succeeded in adding to the structural crisis of overcapacity in the main lines of industry on a world scale.

In the 1970s all capitalists looked for additional or alternative ways to make money without going through the uncertain business of investing in industry. Under Reagan the US financial sector was deregulated. The brick wall that separated the functions and products of banks and industry was pulled down (i.e. "disintermediation"). In the 1980s new financial products were invented – derivatives – which greatly loosened the connection between money and the realm of material production. Products such as futures, options, junk bonds proliferated which allowed money to be made on a vast scale by betting on the anticipated movement of commodity and currency prices.

This was followed by a qualitative leap in "securitisation", that is, the process of loan selling. Company held debt, once merely earning interest was, in addition, now repackaged by companies and used to back the issue of bonds and loans on the basis of a prospective earning capacity rather than an actual one.

The growth of the global financial sector in the last 15 years has been phenomenal, a revolution. As one commentator puts it:

"Today more than at any time in capitalism's history, profits of finance capital are based on fictitious capital formation, namely on debt and exponential debt creation."[11]

Financial transactions increase at a far faster rate than production, trade or fixed investments. And the USA has been at the centre of this process. Successive administrations have implemented measures that promoted the financial sector. The top rate of tax on rent and interest was cut from 70 per cent to 28 per cent. The budget deficit of the federal government doubled during the 1980s, which gave the finance houses and banks huge opportunities for making money by financing it. The richest 10 per cent of US capitalists held 80 per cent of US federal debts.

With the growing weight of the financial sector within US capitalism the macroeconomic monetary polices of the central bank and government shifted. Inflation became the number one enemy because finance needs to see the value of its loans protected from erosion. Conquering inflation also leads to low and stable interest rates, which in turn bring stability in stock market investments.

A raging bull market

Between 1980-90 global cross-border transactions in stocks and shares mushroomed at the rate of 28 per cent a year as a result of the explosion in money. Less than one-fifth of the money poured into the stock markets results in fixed investments. The bulk is used to feed the mergers and acquisitions frenzy that drives the stock markets higher and higher.[12]

Many economic analysts among the bosses are acutely concerned by the overinflated value of the stock market in the USA. The Standard and Poor index of 1000 top businesses climbed 34 per cent in 1995, a further 23 per cent the following year and 26 per cent in 1997. In mid-July 1998 the Dow Jones index of leading companies hit an all-time peak of 9,337.

This left asset prices higher than at any time since 1920, according to one index (Tobin Q) which compares the stock market worth of companies to the replacement cost of their fixed assets. It is running at double its long run average. Share prices are 23 times the value of corporate earnings, a ratio never seen before. In short, even the profit rebound of recent years does not justify the rate of expansion of

1 Unemployment started to rise again over the summer before falling again to 4.4 per cent in November.

2 Even the average forecast for 1999 indicates growth in the US will be below 2 per cent.

3 *Trotskyist International* 12/13 April 1994, p24.

4 . Even so, interest rates were raised three times between February 1994 and February 1995 as the Federal Reserve (US central bank) determined to pre-emptively hit at the merest threat that inflation may take off during the recovery cycle.

5 Whereas between 1890-1973 they rose on average 2 per cent a year, and even in the depression of the 1930s they rose 1.2 per cent a year.

equity prices. It is speculation, a bull market of unprecedented strength and irrationality.

By the end of 1997 even the Chairman of the Federal Reserve went public to state that a stock market correction was overdue and that a 10-20 per cent fall in equities would be welcome.

In the summer of 1998 it finally came. On 17 August the Russian government defaulted on its domestic debt and imposed a 90-day moratorium on foreign debt. Several major banks in Europe and the USA had to write-off huge loans. One of the largest hedge funds in the USA (LTCM) had to be bailed out by a consortium of banks who lent it money, under pressure from the Federal Reserve, for fear that its collapse would cause a total panic in the financial markets. This blow to the big banks' earnings started a "credit crunch" (i.e. a reluctance to lend to firms or buy up new share issues) which in turn threatened to tip the whole economy into recession.

The stock markets reacted badly. During August and September it looked for a while as though the long overdue "correction" was taking place. On 31 August the Dow Jones fell 512 points to 7,500 as a bad round of company news was announced. During September the markets gyrated wildly. By mid-October the Dow Jones index was still below 8,000 – 15 per cent below its July peak. The central bank acted. In order to cheapen loans and stimulate demand the Federal Reserve nudged interest rates down twice in two weeks and by 6 November Dow Jones had gained 12 per cent again. High technology stocks rose 20 per cent. By the end of November they nearly regained their summer peaks. In the first week of January 1999 they did scale new heights before falling back.

But this has merely exacerbated the problem of an overvalued stock market. As *The Economist* reminded its readers on 14 November: "in the equity markets irrational exuberance prevails" as profits and stock prices continued to move in opposite directions in Q3.

The concern with the overvalued stocks is a function of the unprecedented role they now play in US economic life, in particular in sustaining domestic demand, which accounts for three-quarters of US GDP.

Exports may be the most rapidly rising segment of output but domestic consumption remains the bedrock of US growth. Yet here we face a paradox. Real hourly wages have fallen while spending has remained very strong. In the 1980s the rise in household income compensated for the decline in hourly earnings as more women got jobs. In addition households borrowed like never before. On the eve of the last recession in 1990-91 total household and corporate debt was at all-time highs. While the last recession marginally lowered this it soon climbed again for households if not for firms. In September 1998 the personal savings rate turned negative for the first time since the 1930s (i.e. people spent more than they earned after tax that month).

Given average wages having fallen up to 20 per cent in 25 years, given that consumers are saddled with high levels of debt and have minimal savings to draw upon, how is it that US business been able to sell more and more of its goods and services to its own consumers?

The key factor in the last ten years has been the growth in asset prices and the widespread nature of share ownership in the United States. Over 60 per cent of US households own shares. During the Clinton boom the price of these shares has rocketed. The value of household financial assets rose 42% between 1994-97. This has led to millions of people borrowing on the basis of the increased value of their holdings. And they have spent this money on consumer goods keeping demand and profits up at least in the consumer goods sector. As 1998 drew to a close it was this sector that compensated for the demand and profit collapse in the raw materials and producer goods sectors.

Pathways to recession

By the end of 1998 the US economy was schizophrenic. While consumer demand was propped up by strong wage growth in late 1997/early 1998 and stock market strength, US manufacturing output and employment was recording its sixth straight month of decline, lower than at any time since March 1996. Industry's capacity utilisation rate dipped to 79.8 per cent in November from 82.2 per cent in Q1, the lowest since 1992. This was forcing companies to scale down investment plans drastically as they entered the new year. Most forecasters predict a cut of a third to half in capital spending.

The rate of profit of US companies peaked in Q3 1997 at 14 per cent, having climbed from 8 per cent in the recession of 1990-91. Since then overcapacity has stiffened competition. The rate of profit was around 13 per cent as 1998 closed. The mass of profits too are falling for the first time since 1991 having also peaked in Q3 1997 (see Table 2). Operating profits (i.e. figures stripped of one off items such as inventory adjustment and capital depreciation) were down 4 per cent in the third quarter of 1998, squeezed by competition from cheap imports and a loss of orders as a result of the collapse of markets in East Asia. But this figure disguises huge unevenness between sectors. Industrial profits as a whole were down 7 per cent. But prices for those firms producing raw materials and basic metals hit their lowest level for two years in July-September and were down 11 per cent in 1998 alone. As a result basic materials companies saw the mass of profits collapse by 50 per cent in the third quarter. The situation facing US steel firms was described a "absolutely severe" as the absorbed a 12 per cent fall in profits in Q3.[13]

While overcapacity has hit prices in one direction the ability of workers to finally improve real wages at the peak of the cycle in 1997 and 1998 has hit profits from the other direction. Real wages rose 1.5 per cent in 1997 and at a 4.4 per cent annual rate for the first nine months of 1998 as workers took advantage of a tight labour market to demand higher returns.

For 1999 it is possible to construct two alternative scenarios for US capitalism.

- "The worst is over" scenario. This is the position of the professional paid pundits whose jobs and bonuses depend on it coming true. Above all it depends on US bosses making an early and pre-emptive attack on wages and jobs to hold up profits. There are signs of this already. Normally mass sackings occur late on in the cycle when the recession is well underway. But the 1990-91 recession in the US witnessed a readiness to "downsize" much earlier in order to defend share value. The same is happening now. Factory employment declined for the seventh month in a row in October and at 52,000 was the largest monthly fall so far in the cycle. In August 359,000 people were sacked, just 11 per cent below the highest monthly jobs' cull set in 1993. In September 1998 sackings were running 37 per cent higher than a year earlier.

At the year's end the *Wall Street*

Table 2: Mass of US corporate profits ($bn)[14]

	1995	1996	Q3 1997	Q4 1997	Q1 1998
Before tax	635.6	680.2	840.9	820.8	719.1
After tax	424.6	454.1	504.7	487.1	479.2

Journal noted:

"The slump in Asia has dried up demand for U.S. exports. This week, Boeing Co., the world's largest aerospace company, said it planned 20,000 more layoffs, on top of 28,000 already announced. And Johnson & Johnson Inc. said it's eliminating 4,100 jobs, or 4% of its work force." (4 December 1998)

The rate of increase in service sector employment (which employs 80 per cent of all workers) has also slowed right down.

At the macroeconomic level this scenario sees lower interest rates now and in the future which will cheapen the cost of debt servicing for industry. Also the growing trade deficit will put downward pressure on the US dollar which will help lower the prices of exports and boost profit margins. If necessary the optimists point out that demand could be bolstered by government tax cuts, calling on the federal surplus to fund it (even though Clinton ruled out tax cuts funded in this way in his State of the Union address). This would then cheapen costs and boost demand. Finally, the optimists see the Asian recession bottoming out in 1999 as restructuring takes effect, restoring profitable opportunities for new investment for US multinationals.

This benign scenario is not likely to materialise. An aggressive jobs clear-out and renewed wage cuts will, in the short and medium term, deepen the recession as consumer demand is hit. Only a new cycle of investment can sustain a vigorous recovery. But the problem is that there is too much capacity at present which needs eliminating. In the medium term an export offensive by the US will exacerbate the world recession adding to the global overcapacity which caused the Asian collapse in the first place.

• The second scenario is for a deepening recession: the question is, how deep and how long. In 1980s recovery the course of the financial and industrial cycles diverged. Stocks crashed in 1987 before industrial profits peaked and investment fell (1989) and recession became generalised. This then forcibly brought both cycles together.

It is clear that the relationship is inverted this time. The financial bubble is still expanding while the industrial cycle has turned down. Even in Q2 1998, US industry as a whole was adding capacity at an annualised rate of 4-5 per cent. It is clear that much of this new capacity is being left idle. Residential investment fell by 1 per cent in Q3 and producer goods only increased 1 per cent compared to an 11 per cent increase in Q2. There is no doubt that in 1999 further profit falls will lead to renewed cuts in investment.

An autumn 1998 survey by the Business Council revealed that two-thirds of its members plan to cut back on fixed investment in 1999. Given that this spending contributed up to 25 per cent of the mid-1990s growth its impact will not be negligible.

It is not only profits that are hitting investment, however. Ever since the Asian crisis, and reinforced by the collapse of the Russian debt market, the cost of capital has gone up despite the lowering of interest rates. This is due to the fact that 70 to 80 per cent of all loans for capital investment come not from banks but from the stock and corporate bond market. The general flight to quality has substantially raised the risk premium that most businesses which want to borrow must pay; this is causing a "credit crunch". The number of firms going to the stock market to raise funds in Q3 was the lowest since the recovery began in 1992.

The fall in profits and aversion to risk will thus hit investment; this will in turn cut out an engine of growth, lead to unemployment and act as a drag on consumer demand, further hitting profits and investment in the consumer goods sector. In turn unemployment will rise in the service sector.

It would refute the law of gravity for the financial markets to continue their "irresponsible exuberance" as Alan Greenspan called it way back in December 1996. For Dow Jones to reach a new all time high at the moment when profits are falling and investment is being cutback is perverse. Nasdaq the share index of high technology companies entered 1999 growing strongly particularly Internet companies, the vast majority of which have yet to make a profit. Having withdrawn their money from emerging markets, with interest rate cuts making bond prices look unattractive, money is pouring into US equities in a way that is creating a huge speculative bubble waiting to be pricked. The markets are in denial. One major piece of bad news is likely to induce panic.

The markets must be brought back into line with profit and growth and Wall Street valuations forcibly realigned with real earnings potential and replacement costs of the listed companies. It is difficult to escape the conclusion that a substantial reduction in industrial overcapacity and financial overvaluation is objectively posed in the USA, if the rate of profit and interest is to be restored sufficient to prompt a new round of investment on the levels seen in the 1995-98 period.

The impact on the US and world economy of a stock market crash depends on how far it falls, over what timescale and what the government response is. Between April 1930 and July 1932 Wall Street fell by 86 per cent. But in addition every government action after October 1929 up to the end of 1932 served to exacerbate the crisis of liquidity, credit and demand. The Hoover administration imposed tariffs on imports thus reducing international trade. The gold standard was abandoned, further cutting international trade. Hoover raised taxes to try to close the budget deficit, which cut domestic demand. There was no federal intervention to control and direct the process of banking collapse. No international agencies existed to co-ordinate global counter-cyclical action. British imperialism was too weak and US imperialism was unwilling to take on the burden as it was too wracked by differences within its ruling class over what role the US should play in the world.

It is hardly conceivable – especially given the record of the Federal Reserve and the IMF in the last fifteen years – that they would fail to act to enact counter-crisis measures crisis if and when a major crash took place. Rather, the problem would be whether the scale of it would simply overwhelm the available resources - singly or combined - of the US and IMF. Already the costs of US/IMF bail outs – from Mexico in 1994 through to Brazil in 1998 – runs to hundreds of billions of US dollars.

If a severe US recession takes hold in 1999 then it will serve to deepen the global recession and deflation. The revival of East Asian capitalism, now solely dependent on export markets, will be cut short. China would likely be unable to postpone devaluation any longer to reverse the mauling its exports have taken in 1998.

A domestic recession in US will hit Latin American exports and re-raise the question of the sustainability of Brazil, Colombia and Venezuela's budget deficits. A recession in Brazil would hit US firms very hard and further reduce bank lending, reinforcing recession at home.

What is certain is that, whether 1999 ends with a bang or a whimper, a crash or a correction, will largely determine the shape of the world economy as it enters 2000. ■

6 See Robert Brenner "The Economics of Global Turbulence", *New Left Review* 229, May/June 1998 , p246-248 for his refutation of the arguments by some US economists that the Clinton boom is due to a significant, but unrecorded, improvement in service sector productivity. Brenner demonstrates that there is no real incentive to invest in productivity-enhancing technologies in this sector when wages are so low.

7 In 1997 the poverty line for a family of four was $16,400.

8 The top 20 per cent of the wealthy increased their share of national income from 46 to 49 per cent in the same two years.

9 Editorial *Wall St Journal* 30 October 1998.

10 See this issue, pages 34-48.

11 A Hoogvelt, *Globalisation and the post-colonial world* London 1998 p81.

12 In the 1980s there were over 31,000 mergers and acquisitions in the USA to the value of £1.34 trillion.

13 *Wall Street Journal*, 3 November 1998. Profits were up in Q3 in the consumer goods sector.

14 The mass of profits fell further in Q2 1998; the preliminary figures for Q3 showed a rise but many commentators expressed doubts about the figures, suggesting that extraordinary one-off items of capital depreciation plus a rebound from the exceptional loss of profits in Q2 (e.g. the General Motors strike) helped explain the rise in Q3.

Crisis theory & modern capi

As the profit system peers over the edge of the abyss **Colin Lloyd** and **Keith Harvey** explain why mainstream economics is powerless to assist



"THE BUSINESS cycle is one of the major unsolved mysteries of economics. One explanation of business cycles is that they result from the desire of political parties to achieve re-election."[1]

This passage, from a standard reference book for managers, shows a key fact about the capitalists' knowledge of their own system: it is inadequate. It also provides an example of the main assumption behind pro-capitalist economics: that the profit system is god-given, natural and tends towards equilibrium. Where the balance is upset it is the result of bad policy, indicating the interference of "unnatural" structures or practices, whether these are pre-election booms, import controls, trade unions or insider dealing.

The economists like to present their views as objective science. But, whereas physical science can predict at least the large, easily observed movements of nature, ruling class economics cannot predict them in society. No graph of future trends ever appears without the words "barring exogenous shocks" in the small print beneath. The superb algebra that won the Nobel Prize in Economics for the managers of the Long Term Capital Management hedge fund could not prevent them losing their shirts in the wake of the Russian bond crisis of August 1998: bond crises were not in the algebra. So, as the world slides into recession, according to Paul Omerod, former director of the Henley Centre for Forecasting, "the orthodoxy of economics, trapped in an idealised, mechanistic view of the world, is powerless to assist".[2]

In this context, it is no surprise to see the bearded visage of Karl Marx on the front of mainstream magazines, with the ironic headline: "Was he right?" The "Marx had things to say" article has become a standard feature to accompany crashing share prices in the past twelve months.

This question – was Marx right? – arises for today's financial gurus precisely because all scepticism has been driven out of ruling-class economics itself. The theories associated with J M Keynes, which dominated capitalist theory and policy from the mid-1930s to the early 1970s, were based on the belief that capitalism had a natural flaw: a tendency to stagnation due to inadequate demand. While the Keynesians believed this tendency could be permanently offset by government management of demand, the theory at least introduced an element of self-doubt into capitalist thinking. Neo-liberalism replaced Keynesianism as economic orthodoxy in the 1970s, when demand management ceased to work. Its solution was to let market forces rip; deregulation, privatisation and the gradual removal of barriers to international trade all intensified competition.

With neo-liberalism, the capitalists set themselves up for a much bigger ideological fall. Proponents of the theory represented it as "pure" capitalism, natural and unadulterated, like bottled spring water. If even this stuff makes you sick, some economists are now reflecting, there must be poison at the source.

In this article, we attempt three

and talism

things: an outline of the Marxist theory of economic crisis; a brief history of the Marxist debate on crisis; and an explanation of the long period of low growth and recurrent crises since 1973 using these ideas.

Our central theme is that there is no "crisis theory" separate from Marxist political economy as a whole. The insights provided by "crisis theory" and "theories of imperialism" – artificially separated by academic Marxism since the 1950s – must be synthesised into a new total theory of 21st century finance capitalism. Even bourgeois economists admit that Marx made a major contribution to understanding the cyclical, i.e. lawful, nature of economic downturn. But here lies the main challenge for Marxism: to go beyond an understanding of the correctional role of crises and situate capitalism's cyclical downturns within its progression towards self-destruction.

Why crises can happen

The features of an economic crisis are well enough known: firms issue profit warnings, growth begins to slow and credit becomes harder to get. Unemployment rises and retail sales begin to fall. The weakest links begin to break: the least competitive firms go bust, dragging with them creditors whose firms were still profitable. Share prices fall and investors rush to put their money into "safer" havens, which then yield lower returns and thus contribute further to the slump in demand.

Of course, not all crises display all these features, and not all the elements appear in this order but the details of different crises are secondary issues. The main question is why crises happen at all. To answer that, we must start with why they can happen: we must understand what Marx called the "possibility of crisis" which is inherent in capitalism.

Bourgeois economics, which assumes that its categories have existed throughout history, only in more or less developed form, does not even recognise the question: crises have always happened. Wars, droughts and earthquakes have wreaked economic havoc for centuries – and still do, as the aftermath of Hurricane Mitch in Central America (October 1998) confirms. This view ignores the fact that capitalism is the first economic system where the primary cause of crisis lies within the social structure, not the elements.

It was no earthquake that shook two million English workers out of their factories in 1842; no famine that provoked the hunger marches of the 1930s; and, contrary to appearances, no hurricane that blew billions of dollars off share prices on Monday 19 October 1987. Society before the 18th century was agrarian and relatively stable: at the mercy of unpredictable nature certainly, but with predictable forces at work within and between the village, the abbey, the castle and the market town. With industrial capitalism, the primary cause of economic crisis is the economy, not nature.[3]

The quest for a reason why leads us to the first major concept of Marxist political economy: the dual nature of the commodity. Commodities are things made, or services provided, for exchange. For the producer, what is important is how much a commodity will fetch when exchanged, its exchange value, whereas for the prospective purchaser the first concern is whether it fulfils some need or serves some purpose or, more technically, whether it has a use-value.

A commodity's use-value is not only a separate concept from its exchange value: the two properties are mutually exclusive. The more you drive a new car – i.e. use it – the more its exchange value declines. Nor are these mere "concepts" – projected onto traded goods by theory: all commodities have a tangible use and a measurable exchange value before any economist, Marxist or otherwise, puts pen to paper.

Here lies the main challenge for Marxism: to go beyond the correctional role of crises and situate capitalism's cyclical downturns within its progression towards self-destruction

Starting from this real unity of opposites within all commodities, Marx used the economic concepts of use-value and exchange value to analyse their implications for a society in which all products are commodities, i.e. capitalism. He showed first of all that in such generalised commodity production, one commodity did not exchange directly with another, as in barter, but rather was exchanged for money, representing a universally acceptable equivalent of exchange value. Secondly, unlike in pre-capitalist society where the population produced the necessities of life for their own direct consumption, in capitalism obtaining even the most fundamental use-values, food, clothing, shelter, became dependent on possession of this universal equivalent, money.

In summary, the dual nature of commodities and the existence of money as the means of expressing exchange value make possible a disjuncture between production and consumption on a scale impossible in pre-capitalist society. Because of this, the general form in which capitalist crises manifest themselves creates the illusion that there is simply "too much": too many cars that will not sell, too many car factories, too many investments chasing too few profits. Instead of underproduction, overproduction is the normal form of capitalist crisis. The Wall Street Journal recently described the current impact of this very graphically:

"From cashmere to blue jeans, silver jewellery to aluminium cans, the world is in oversupply. True, some big industries, such as steel, autos and semiconductors, have been grappling with excess for years. But a remarkable range of others have been losing their leanness only lately, as crisis-battered nations ramp manufacturing to try to earn more money, and as consumers in many lands, spooked by financial-markets gyrations, slow their spending and conserve savings."[4]

Labour and value

Marx presented his theories by starting from the most abstract concepts and progressing towards a more concrete combination of them. He insisted that modern capitalism could not be understood if we started our analysis from the most readily given categories of economics, such as "population" or "firms". Although apparently simple and "obvious" these were, in fact, very complex and were actually composed of other, more basic categories, such as "classes" and "commodities". So, Marx's method was to break down the more concrete cate-

gories into their basic elements and study their nature first. This he called his method of abstraction; only once this had been done could one build up a picture of modern capitalism in all its richness and diversity.

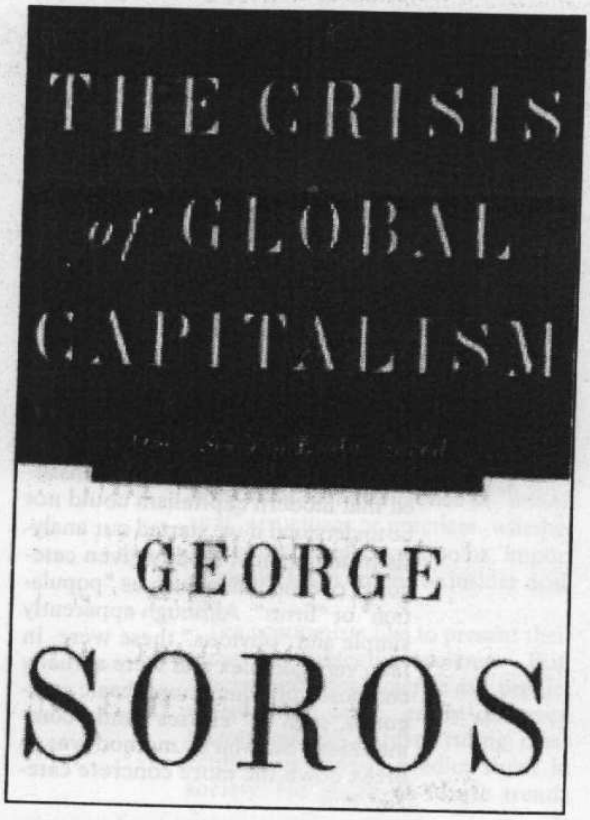
Some critics have objected that Marx's concepts are simply ideas imposed on reality, whose accuracy can never be proved through the facts and figures in the financial pages. Yet the same economics professors who oppose Marxist "abstraction" are quite happy with, for example, the IS-LM curves in bourgeois economics. These show how a given national income and interest rate, investment and savings, and the supply and demand for money interact to produce general equilibrium in the system. According to one textbook:

"IS-LM is a pure comparative statistics model: it suppresses consideration of how the price level is determined and whether the labour market is in equilibrium. IS-LM is a teaching device and not a realistic model of any actual economy."[5]

The real question, therefore, is whether the abstractions made by the science aid understanding or are so arbitrary and one-sided that they exclude important elements of reality from the start.

The real question is whether the abstractions made by the science aid knowledge or are so arbitrary and one-sided that they exclude important elements of reality from the start

Paul Mattick writes: "The pure market theory of bourgeois economic theory is naturally also an abstract affair, since it excludes the capitalist relations of production from consideration. In this way it shuts itself off from insight into the totality of the actual state of affairs and hence also from understanding of market phenomena themselves. Value analysis, in contrast, makes possible the explanatory passage from abstract to concrete, since it can demonstrate the subordination of market relations to the production relations of modern society."[6]



Marx's critique of political economy, therefore, although abstract, is ultimately more realistic; for example, he starts with production not exchange (since one has to make something before it can be exchanged). His analysis leads to a model of a society that naturally and tendentially moves away from equilibrium, rather than one in which disequilibrium is excluded from the model in the first place and can only, therefore, be understood as a consequence of external, non-economic factors.

As we have seen, Marx's presentation of his analytical model of capitalism began from a consideration of the dual nature of the commodity, its possession of use-value and exchange value. One of his most important innovations lay in his investigation of the nature of exchange value. He concluded that the exchange value of a commodity is ultimately related to the amount of human labour expended to produce it. Marx did not invent this "labour theory of value": a flawed version of it formed the basis of the "classical" political economy of Adam Smith and David Ricardo, the two great theorists and defenders of early capitalism.

All three men recognised the superficiality of any theory that tried to explain the price of a commodity merely by reference to the level of supply and demand for it: when demand outstrips supply, prices rise, and that's all there is to it. This ignores the fact that different commodities oscillate, so to speak, around different prices. The price of a car may vary within a certain range, but it's never the same range as for a bicycle. Almost a century before Marx, Smith had already recognised that the price of a commodity in a "balanced market" must express some "value" that was intrinsic to it. But what determined that value?

Marx's solution was predicated on the fact that all commodities possess one thing in common: producing them and bringing them to market requires human labour. We can measure this in terms of human labour power, or labour time – if we abstract from individual skill differences. Marx advanced the concept of "quantities of socially necessary human labour power" to measure this.

Commodities exchange in proportion to the amount of average, socially necessary labour time they embody: it may take 100 different barbers 100 different times on the stop-watch to do a simple crop. But we can average their times and come up with the socially necessary labour time for the haircut. The barber who takes twice as long can't double his charge: thus the average price of a haircut will reflect the average amount of socially necessary labour taken to do it, in average conditions.

On the basis of this theory, Marx postulated the following:

- Labour power alone is the source of value.
- When the firm pays the worker's wages it is buying the right to use the worker's labour power for a given time.
- The value of the worker's labour power, like all commodities, is itself determined by the amount of socially necessary labour time expended on producing and reproducing it. Concretely, the price of everything that helps to deliver the fed, clothed, sheltered, trained, fit-for-work employee at the clocking-in gate determines the price of the worker's labour power.
- Exploitation takes place during the production process. Its simplest form is for the firm to get workers to expend more labour power than it took to produce their labour power. Only part of the day is needed for workers to reproduce this amount of value ("necessary labour"). The rest of the day is a free gift for the boss ("surplus labour"). In early capitalism, the bosses tried to maximise this surplus labour by extending the length of the working day: but this had limits, not least the resistance of the working class. So, capitalism turned instead to increasing the productivity of labour, so that workers produced the means of their subsistence in less time thereby making them cheaper. This shortened the amount of working time needed to reproduce labour power and, thus, lengthened the amount of surplus labour time. The principal way of achieving this was, and is, by the introduction of "labour saving" machinery or techniques of production.
- At the end of a given period of production, the workers have taken raw materials, machinery and energy (each of which the capitalist bought as a commodity, and whose price therefore reflected the labour power expended in their production) and produced a new commodity that also contains their labour power: some of which the firm paid for, some it got for free. If the firm then sells all the products, provided production took place at or above average efficiency, there will be a profit. These are big ifs, of course, and can only be answered

after production and during exchange.

Because of competition, capitalists always seek to outwit their rivals in the use of materials and labour power. This is the source of the drive to find ever more efficient methods of production which result in a new standard of average socially necessary labour time.

Producing more efficiently than the rest of the market gives individual firms two options: since they have reduced the amount of socially necessary labour time in each unit of output, the firm can cut prices to gain market share, thus boosting profits – or keep prices and market share stable, realising a higher than average profit on each item.

However, Marx pointed out that this whole process of competitive accumulation of capital also contained the seeds of its own downfall. Profit, the pursuit of which is the driving force of the entire capitalist economy, originates in surplus value, i.e. the difference between the total value created by the workers and the value returned to them as wages. As we shall see below, the effect of replacing workers by machinery, other things being equal, is a fall in the rate of profit.

Marx recognised, however, that other things do not remain equal. For example, if productivity increases in industries supplying the workers' consumption goods then necessary labour time can be reduced or a firm might "corner the market" and be able to maintain high profits as a result. Consequently, the fall in the rate of profit was neither immediate nor uniform. It could be delayed, offset, even negated for whole periods by other consequences of the natural operation of the capitalist system or, as he himself put it, " The same causes that bring about a fall in the general rate of profit provoke counter-effects that inhibit this fall, delay it, and in part even paralyse it. These do not annul the law, but they weaken its effect... The law operates, therefore, simply as a tendency whose effect is decisive only under certain peculiar circumstances and over long periods."[7]

It is a central contention of this article that this, tendency of the rate of profit to fall (TRPF) is a necessary feature of the capitalist system and that the evolution of capitalism since Marx's time has to be explained principally by the interaction of this tendency with the various "counter-effects", or countervailing tendencies (CVTs) as we shall call them, which capitalism has spontaneously generated to try to maintain profit rates. Although this interaction has changed the forms of capital and ultimately led to its present globalised and financially dominated form, the underlying tendency remains and leaves capitalism still vulnerable to crises.

Why crises have to happen

To explain how something is possible is not the same as demonstrating why it is necessary. For most of this century, most Marxists have rested content with the supposition that the fundamental cause of crisis in capitalism lies in its tendencies to disproportionality or underconsumption.[8] If one traces the references to these concepts in the work of Marx and Engels one can see that although they examined their effect and roots within capitalism, they never ascribed the root cause of crisis to either.[9]

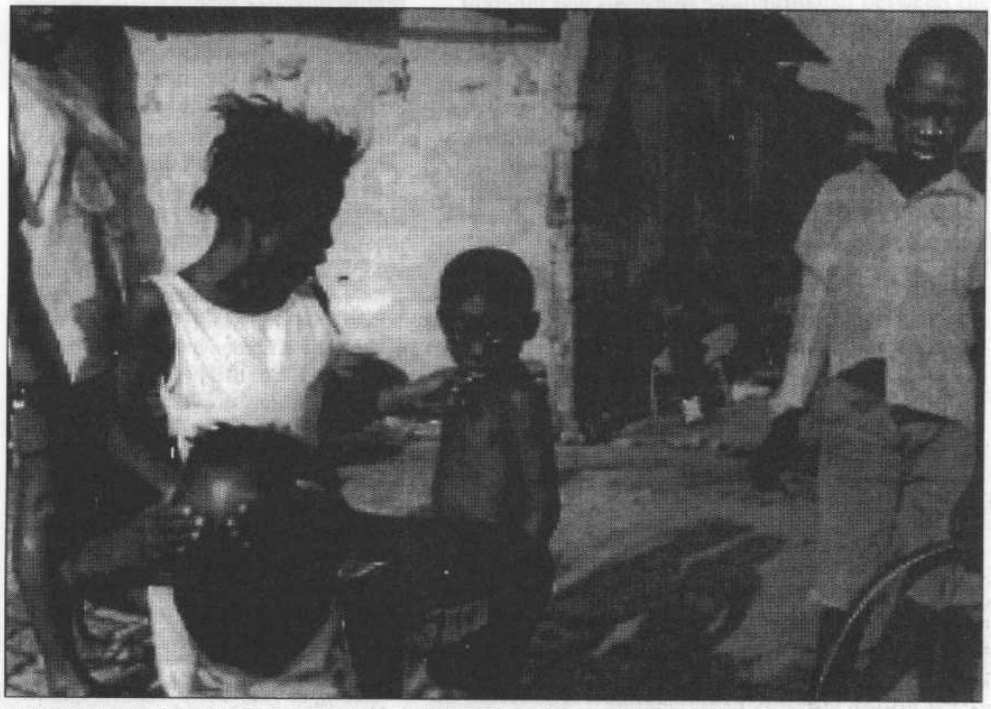
The reason for this is twofold: first, that underconsumption and disproportionality are permanent conditions under capitalism and as such cannot explain periodic and cyclical crises; secondly, on their own they can only add to our understanding of why general crises might, or can happen, rather than why they must and do.

Disproportionality flows from the private, blind and hence anarchic, character of production for profit in which output is expanded without regard for the final demand or guarantee that the supplies of raw materials and intermediate goods can be bought and delivered in sufficient quantities at the desired price. Some sectors face a lack of goods in the right proportions while others have a surfeit; at another time it will be the reverse. Partial overproduction in one sector and then another is a given under capitalism. But this does not explain why there is a generalised overproduction of goods and capital in certain periods of the economic cycle.

Underconsumption, in the sense that the direct producers are prevented from consuming all that they produce, is not only an intrinsic feature of capitalism but of all class societies based as they are on exploitation and the appropriation of a surplus product by a ruling class. But, as Engels once noted "the underconsumption of the masses . . . tells us just as little why crises exist today as why they did not exist before".[10]

Underconsumptionism, however, as a possible explanation of capitalist crisis says more than this. It says that it is inherently impossible for the working class to consume that part of production destined for its consumption because of the necessary limitation on working class income, wages. For Rosa Luxemburg, this could only be offset so long as there were markets for goods outside the capitalist system; for Paul Sweezy, it was the supposed inherent tendency of the production of consumer goods to outstrip their consumption; for left Keynesians, it was the lack of effective demand (i.e. workers' buying power) that deterred investment and thus prompted crisis.

All these theories of capitalist crisis place the problem squarely within the realm of circulation, that is realisation of surplus value produced. Marx rejected this and insisted that the cause had to be found not in the diffi-



HAITIAN POOR LACK FOOD BECAUSE IT IS NOT PROFITABLE TO PROVIDE THEM WITH IT

Table 1: Falling rate of profit

Constant	Variable	Surplus	Rate of profit
50	100	100	66%
100	100	100	50%
200	100	100	33%

Table 2: Falling rate of profit

	Constant	Variable	Surplus	Rate of profit	Units
Firm 1	50	100	100	66%	250
Firm 2	100	100	100	50%	500
Firm 3	200	100	100	33%	1000

culties of realisation but rather in the inherent limitation of the method of production of surplus value. Indeed, when developing his theory of accumulation and how it leads to crisis, he went as far as to assume that a buyer could be found for every product and still showed that crisis was inherent.

A viable theory of crisis, then, should not ignore either underconsumption or disproportionality but should seek to show their inner connection to the tendency of the rate of profit to fall:

"Falling profits are the fundamental cause of the underconsumption by the working class, that is a level of working class consumption which excludes the realisation of the total surplus value embodied in those commodities designed for that class' consumption. This is an underconsumption of the masses which also appears as an underconsumption from the point of view of capital. Hence this underconsumption enters into the capitalist crisis as a real cause, if a subordinate one. Similarly Marxism does not deny the role of disproportions within capitalist crises but rather explains the fundamental movement of these disproportions on the basis of the tendency of the rate of profit to fall. Capitalist crises really do unfold through all kinds of gigantic disproportions: between capitalist production and consumption, between different branches of industry. . . Through the transition from partial overproduction in one branch to generalised overproduction a generalised slump of capitalist production takes place. This generalisation is a result of a generalised overproduction of capital. which is nonetheless relative: it is superabundance of capital at a given rate of profit; it is an expression of falling profit rates."[11]

The tendency of the rate of profit to fall

There are many categories of capital in existence: share capital, loan capital, property, cash etc. However, within the process of production and exchange, it flows from the labour theory of value that there is one big conceptual division: capital advanced as wages, and all the rest. Since only human labour power creates surplus value, Marxists label the capital spent on labour power – wages – as variable capital. The rest, whether it is spent on buildings, operating costs, raw materials, distribution etc. is labelled constant, in the sense that it adds only its already existing value to the final product.

Capitalist production, when pared down to its commercial intention – which is to produce profit – can be represented like this:

- In: constant+variable (c+v)
- Out: constant+variable+surplus (c+v+s)

The value embodied in the output is divided equally between the units of output. Its real world concomitant is the figure for "turnover" or "sales" in a company profit and loss account, in a situation where all products are sold, and at their true exchange value, where no wastage occurs, and where labour and machinery have been used at average efficiency.

We can quantify every cycle of expenditure and revenue in terms of c+v+s. But we need to remember that the model, at this stage, is highly abstract: no individual profit and loss account can tell us whether labour has been used efficiently, all products sold, all capacity utilised efficiently and to the full – only the aggregated experience of an entire sector, and ultimately the entire economy, can give us a clue.

Taking c+v+s, and a definite quantity of products, we can describe the effect of the rising proportion of constant capital – capital expended on machines and technique – over the diminishing proportion of variable capital (that is, capital paid out as wages) a process that Marx called the rising organic composition of capital.

Since exploitation is measured by the difference between the amount of surplus labour (s) embodied in output and the value of variable capital (v) invested, the rate of exploitation can be expressed as s/v. In Table 1, the rate of exploitation remains the same but the rate of profit which is the ratio of surplus to total capital invested, constant as well as variable (c + v), declines as the value of the constant capital element increases. This is not meant to represent year on year growth but is a simple mathematical relationship between the constant/variable portions of capital and the rate of profit.

At this stage, it is important to remember that Marx is not concerned with the effect on the rate of profit of competition between different capitalists. Instead, he proves that this tendency exists outside of, and before the effect of competition is considered.[12] Indeed, as we have noted above, this law operates even on the assumption that all products that are made are sold and that there is no disproportionality between different sectors of industry.

In fact, the tendency originates in the inherent powerful impulse of every capitalist to maximise their surplus value – the motor force of capitalism itself – which they can only do over the long run by increasing productivity through increasing relative surplus value and by massively expanding the amount of capital they set in motion. Both in the individual firm and in society as a whole, this can lead not only to a massive increase in total output but also to an absolute increase in the number of workers employed and in the mass of profits, none of which, in itself, contradicts the tendency.

However, there is a tension between capital's drive to expansion, which implies more and more workers being drawn into production, and its search for higher productivity by replacing workers by machinery.

The tendency of the rate of profit to fall arises out of the labour process itself. Not only are there are obvious physical limits to increasing profits simply by making workers work longer or harder but the resistance of workers to such attempts also forces the employer to invest in machinery and other elements of constant capital. The drive to increase profit by increasing constant capital, therefore, exists even before we take into account the compulsion of competition with other capitalists.

Given this tendency, for the rate of profit to fall in line with the rising value of capital expenditure, why should any capitalist invest? The answer lies in the comparative advantage a firm gains over its rivals as a result of productivity gains made with new technology. This too can be expressed at the same level of abstraction – the simple mathematical model – as the above.

Suppose every phase of innovation doubles output, and that we treat each line in Table 2 as a year of trading for one of three competing firms, each at a different stage of technological innovation, and the unit of value as £.

In line 1, the value embodied in each unit is £1 (250/250). For Firm 2 it is (300/500) 60p. For Firm 3 it is 40p

(400/1000). If the price mechanism is working without disturbance, the socially determined price will reflect the average across the three firms: 1,750 products embodying £950 of value. The price that reflects social value will be 950/1,750: each product should sell at just over 54p. The market will reward the innovator, who has the lowest rate of profit, by reallocating profit from the other two.

The revenue of Firm 1 will be £135 – a loss compared to its initial outlay of £150. Firm 2's sales will net £270 – a realised profit of £70. Firm 3, despite having the lowest rate of profit embodied in production, will have the largest mass, with takings of £540 compared to its outlay of £300.

If we imagine a trading year before competitive innovation started, when all firms' accounts resembled Line 1, the total investment would have been £450; the total profit on top of that, £300. Once the firms are "strung out" along the line of technological competition, as above, we have a total investment of £650, total profit still £300, but the most innovative firm's mass of profits has grown from £100 to £240.

As Marx summarised this: "The law that the fall in the rate of profit occasioned by the development of productivity is accompanied by an increase in the mass of profit is also expressed in this way: the fall in the price of commodities produced by capital is accompanied by a relative rise in the amount of profit contained in them and realised by their sale."[13]

The law under attack

Even at this level of analysis the tendency of the rate of profit to fall has come under repeated attack.

■ The first, oldest and most common objection stems from the work of Von Bortkiewicz at the start of this century.[14] He claimed that Marx's model and mathematical presentation of the dynamic of the accumulation process leading to the falling rate of profit was logically arbitrary. Marx assumed a constant rate of surplus value in his examples (see too the example given above). But, goes the criticism, the effect of increasing the amount of constant capital is to increase productivity and with it the rate of surplus value.

If this occurs then it can do so in principle at such a rate that the rate of profit does not have to fall. Moreover, it has been claimed that if the rate of surplus value were to be constant then the benefits of the rise in productivity occasioned by the increase in fixed investment would all go to the working class in the form of increased wages and none to the capitalists; a proposition that is totally unrealistic.[15]

■ A further criticism made of Marx here is that he neglects to consider that higher productivity also leads to the elements of constant capital (energy, raw materials, machinery) becoming cheaper – containing less value than before. If this is the case, there is no need for technical innovation to lead to a rising organic composition in value terms.

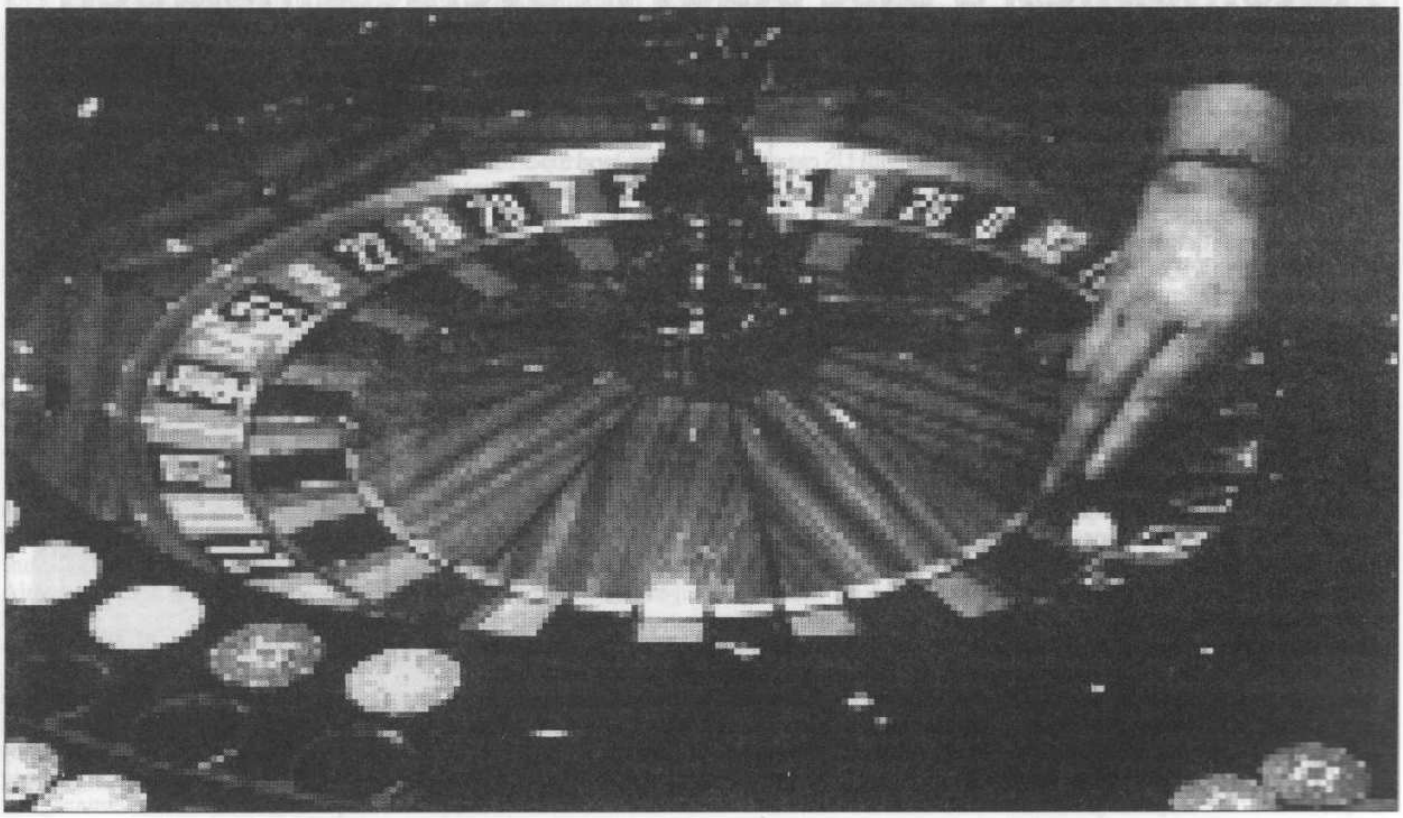
The effect of these objections leads Marx's critics to argue that the direction of the rate of profit is indeterminate and the rate of profit will only fall if the rate of surplus value rises slower than the rise in the organic composition of capital.

How should we answer these objections?

The first criticism is entirely misplaced. Marx himself was aware that, in general, the rate of exploitation (i.e rate of surplus value) would rise as accumulation proceeds. One of his major criticisms of Ricardo was that he failed to distinguish between the rate of profit and the rate of surplus value and their inverse tendencies:

"The tendency of the rate of profit to fall is bound up with a tendency of the rate of surplus value to rise . . .The rate of profit does not fall because labour becomes less productive but because it becomes more productive."[16]

Marx recognised that a rising rate of exploitation could offset the effect of a rising organic composition of capital. This was one of the CTVs to which we have already referred. However, there were limits to its efficacy in offsetting the tendency of the rate of profit to fall. The value of labour power cannot shrink to zero and the smaller it gets in relation to the surplus, the more it suffers from its own law of diminishing returns: large proportional decreases in the value of labour power are needed in order to produce minor changes in the rate of exploitation. For example, if necessary labour took up one-tenth of the working day and surplus labour nine-



tenths then a thousand-fold increase in productivity would only increase surplus-value by 1%.[17]

The second criticism – that the elements of constant capital themselves become cheaper as a result of rising productivity and so there is no tendency for it to rise relative to variable capital – has proven more serious. Marx himself acknowledged, "there can be no doubt that machinery becomes cheaper" over time as do raw materials. But Marx's own conclusion was that the process of mechanisation and innovation, at a society-wide level, would lead to a greater mass of instrumentation and technology being applied to the production process and a huge proportionate reduction in numbers employed per unit of output. This would ensure that the relative size of constant capital to variable capital would increase despite the cheapening of individual elements of fixed capital. Subsequent historical experience in industries which have gone through successive rounds of technological innovation suggests that his argument that once again there are limits to the efficacy of this CVT was well grounded.

In addition to the proportionate growth of constant capital, however, we should build into the analysis the cheapening of the cost of variable capital. That is to say, the increase in productivity in society as a whole applies equally to the production of the means of consumption. If they cheapen at the same rate as constant capital then the relationship between the two components of total capital remains the same. Of course, if they were to cheapen more quickly, then this would itself reduce the variable component and thus contribute to the rising organic composition of capital.

We conclude from this that the Law of the tendency of the rate of profit to fall, which Marx called the "most important law of modern political economy" remains central to any understanding of capitalist crisis. We understand the tendency as permanently present but that it can be offset by various countervailing tendencies. Indeed, these CTVs represent capitalism's spontaneous responses to the operation of the tendency. Nonetheless, the CTVs themselves ultimately compound the problem: they do not resolve it. Over time, their efficacy in offsetting the declining rate of profit itself declines.

Capital's whole purpose is to expand its value through investment. When profit margins fall across the board, a portion of total capital in society finds it cannot be invested at the existing average rate of profit. Thus it appears that there is an overproduction of capital, that is, the expansion of production has outrun profitability. At a certain point, capital begins to take flight from the production process. Investment dries up, credit is tightened and production grinds to a halt. As Marx says:

"The growing incompatibility between the productive development of society and its hitherto existing relations of production expresses itself in bitter contradictions, crises, spasms."[18]

The countervailing tendencies and the equalising tendencies

Generalised crises of capitalism erupt only periodically, at their most extreme they can embrace the whole global system at the same time. Sometimes, by contrast, they are confined to regions or countries and sometimes the cycles of growth and crisis are not synchronised.

The fact that crises "break out" only periodically suggests that the effect of the tendency of the rate of profit to fall is often latent; that they break out at all indicates that it operates for sure. But how, when, in what form and how the sequence of trade, investment, currency and stock market crises unfold, is contingent and needs concrete study. As David Yaffe has noted:

"The fall in the rate of profit is not linear but in some periods is only latent, coming to the fore more or less strongly in other periods and appearing in the form of a crisis cycle."[19]

But first we need to study why crises only erupt periodically and with what

Automobiles: a case study in overaccumulation

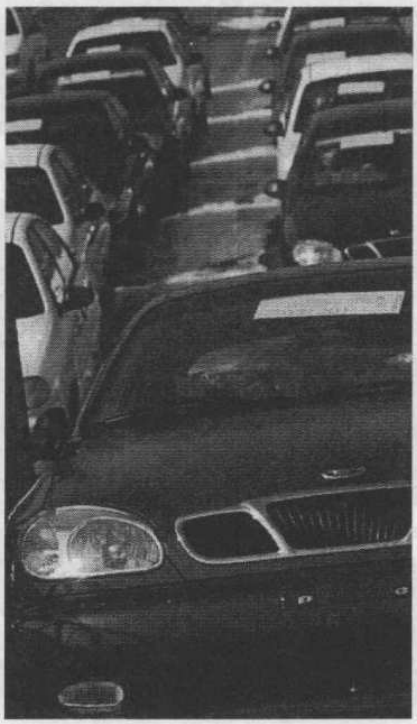
Today there are more than 40 car manufacturers in the world and only ten make a profit. This is due to the present chronic overcapacity in the auto industry.

At the end of 1998, overinvestent in plant and equipment has led to the capacity to make 20 million more cars than are wanted at current or anticipated levels of demand. This idle plant is worth around $140 billion at replacement cost. Over the last decade, as a result of just-in time techniques and flexible working patterns becoming generalised in the industry beyond their point of origin at Toyota in Japan, productivity in the industry has mushroomed, reducing the number of hours taken to make a car by 10 per cent.

Meanwhile, the available mass of profits have to be counted against not just the operating capital but also all the mothballed plant and equipment put in place over the last five years. That drags profitability down. Selling at prices which bring in an average profit, most car manufacturers are deep in debt while around ten are awash with cash as they garner in super-profits at these prices and volumes due to their higher productivity: General Motors, Ford, Daimler-Chrysler, Volkswagen, Toyota and Honda chief among them. Between them, the competition is fierce with US car prices falling around 5 per cent in the last few years while specifications improve.

It is widely predicted that in ten years time there will only be six big car makers operating in the world, two each in North America, Japan and Europe. The stabilisation or recovery in the rate of profit demands the elimination of much of the overcapacity. This can only be achieved by a new round of takeovers and closures. To make a profit on the scale of investments involved, demands that each manufacturer sells at least 2 million units a year globally; it could soon rise to 5 million.

The same process can be seen at work in the oil industry, semi-conductors, white goods and many more: expansion without limit, increased productivity alongside falling profits, overproduction, crisis, destruction and concentration of capital, and more and more workers added to the "relative surplus population".



effect. This requires a further consideration of the countervailing tendencies to the falling rate of profit which ensure that the law only operates tendentially and not ever presently and immediately.

In *Capital* Volume III, Marx attempted to construct a model of the capitalist system as it existed in the mid-19th century. Volume III contains only part of that model – further volumes were to deal with the state, international trade and crisis – and remains therefore "abstract" in the sense that its subject matter is a "national" economy, minus the economic impact of state spending and taxation. Nevertheless, it is at a more concrete level than the above discussion in that it attempts to test the theories outlined above in the real world of "many capitals" – not just actually competing firms but also types of capita. In addition to increases in the rate of surplus value and cheapening of the elements of constant capital, Marx outlined a number of other counteracting factors to the TRPF. These are:

- paying wages below their value; for a concrete example of this process one need look no further than the decline in real wages in the USA between 1973-96 which helped ensure that all productivity gains went to the capitalists in the form of increased surplus value.
- the use of the workers discarded by high-technology industries to form a low wage workforce within other sectors, thus retarding the latter sector's need for technical innovation (and thus dampening the TRPF within that sector); once again the recovery in the 1990s in the US economy is a case study in this. The historically low unemployment in the USA is due to mass job creation in the service sector over the last ten to 15 years at low wages, so low that there is no compulsion to introduce labour-saving technologies and which as a result ensures that these jobs have very low productivity.[20]
- the growth of share capital, where dividends are paid out of net profits and must generally therefore be lower than net profits, thus creating a section of the capitalist class that is content with a rate of return less than the average, allowing a proportion of social capital to be invested at less than the average rate of profit. Although Marx dealt with this only briefly we will see it has major implications for modern capitalism.
- a decrease in the turnover time of capital: "The more rapidly a particular capital can complete its cycle of reproduction the larger the scale of production that can be supported and the greater amount of surplus value that can be appropriated in a given time with a given capital."[21]

An understanding of these more concrete countervailing tendencies, fills out the discussion above of how the TRPF can be offset but not negated and thus, to repeat Marx, "is decisive only under certain peculiar circumstances and over long periods."

Indeed, the crisis itself can be seen as a countervailing tendency. The function of the crisis is to destroy all or part of the value of ailing or failing capital and thereby increase the rate of exploitation so that new expansion becomes possible. As David Yaffe noted:

"The tendency towards 'breakdown' and stagnation therefore takes the form of cycles due to the effects of the counter tendencies of which the actual crisis is the extreme case."[22]

But what determines the circumstances and the periods? Here we have to move away from "pure" crisis theory to attempt the fusion between our understanding of the dynamics of capitalism and our understanding of its modern structures. Imperialism, as an economic concept describing the whole system of 20th century capitalism, was derived by Lenin, Hilferding and Bukharin from the initial work of the liberal economist, Hobson. The imperialist epoch, as described by Lenin in 1916, represents the dialectical opposite of free-competition capitalism of the early 19th century: in place of national economies there is the global economy; in place of private businesses, joint stock companies predominate; in place of many competing capitals there are a few, which monopolise whole sectors of the market; in place of the export of commodities to the underdeveloped world there is the export of capital – both in the form of portfolio investment and foreign direct investment.

Our thesis is that "imperialism", understood as the totality of 20th century monopoly capitalism, is nothing less than the fusion of the countervailing tendencies outlined above : capitalism writhing to free itself from the law of the TRPF has created new structures, not by policy but by the spontaneous evolution of the market, which totally shape and reshape the world economy.

Controversies over crisis theory

There are several surveys of the development of the Marxist theory of crisis after Marx, which cover the following points in more detail, often in dispute with each other.[23] What is undisputed is that Marx's finished work contained no elaborated crisis theory,

Our thesis is that imperial-ism, understood as the totality of 20th century monopoly capitalism, is nothing less than the fusion of the countervailing tendencies to the falling rate of profit

only a method for producing one.

As a result, the Marxists of the early Second International held to a relatively vague estimation of the causes of crisis which generally relied on the anarchic nature of capitalist production, the magnifying power of money and credit and which saw the TRPF as a kind of tectonic movement of the system over decades on top of which real crises occurred. The years 1873-1894 became known as the Great Depression, during which the growth of world capitalism and the parallel carve-up of the pre-capitalist world into colonies and spheres of influence was accompanied by a 20-year tendency of prices to fall and for profits to experience convulsive falls.

The end of this period coincided with (a) a prolonged upswing in investment, (b) the so-called "second technological revolution" which led to mass production, the beginnings of the replacement of steam by internal combustion etc., (c) the growth of the labour movement and the achievement of improvements in the sphere of democracy, welfare and, for some, absolute wage levels, (d) the exhaustion of "virgin" colonies and the beginnings of the inter-imperialist rivalry over colonial domination that was to lead to war in 1914 and, (e) the massive centralisation of capital into large corporations, in some cases completely merged with/owned by the banks.

During this prolonged period, purely economic crises became rarer. However, this period also marked the theoretical maturity of the Social Democratic workers' movements and during it some of the main theorists of Marxism duelled over the causes of crisis. Whatever the theoretical merits of their arguments, it also has to be noted that the motor force of the argument was the debate between reform and revolution.

In essence, there are three types of crisis theory: (i) those rooted in the contradictions of the property form itself; (ii) those rooted in the vagaries of capitalist distribution and, (iii) those which identify the key breakdown within the profit-production process. Historically, the first controversy over crisis within the Second International represented progress from type (i) to (ii). It was a debate between the proponents of a "disproportionality" theory of crisis and an "underconsumptionist" theory.

The advocates of disproportionality held that crises were caused by the desynchronisation of the production cycles of industrial and consumer goods, under the "free competition" capitalism of the 19th century. However, as capitalism was moving spontaneously away from "free competi-

tion" to a new mode, within which large monopolies and state intervention controlled the market, allowing rudimentary capitalist "planning", it was possible to envisage crisis-free capitalism. It was no accident that one of the main proponents of this early disproportionality theory was Eduard Bernstein, the main advocate of reformist practice within the Second International.

Foremost among the Left of Social Democracy who argued against Bernstein was Rosa Luxemburg, who propounded an underconsumptionist theory of crisis. Put crudely, she argued that the main barrier to the eternal expansion of capitalism was the purchasing power of the masses: productive capacity was unlimited, but consumption was limited by the property form. She recognised that imperialist capitalism had begun to lift barriers to growth with the creation of new colonial markets but believed that, since these were finite, once all markets had been conquered, capitalism's underconsumption problem would be posed even more sharply.

Into this debate stepped Rudolf Hilferding with a more "revolutionary" version of disproportionality theory based not on free competition capitalism but its opposite. He argued, against Bernstein, that the monopolised, cartelised, state-controlled, finance-dominated capitalism of the early 20th century could not overcome disproportionality between the sectors because of the technical requirement of heavy industry (chemicals, metallurgy, engineering, arms) for high value fixed capital. This created limits to capital's ability to flow between high and low profit sectors, and thus prevented the equalisation of the rate of profit between sectors. In the process, it guaranteed crisis-forming disproportionalities between, for example, prices in the raw materials industries and the industrial production industries. As Simon Clarke points out, while Hilferding's revolutionary disproportionality theory suggested that only planning and public ownership could iron out the problems created by the heavy industry-banking fusion, like previous forms of disproportionality it ultimately targeted anomalies in the distribution process (of profit in this case) rather than the production process as the cause of crisis.

Strikingly, the TRPF played no part in the explanation of crisis for either school, other than as an invisible backdrop to the phenomena under dispute.

In 1913, a new downturn began. In 1914, the world exploded into war. In 1917, capitalism was overthrown in Russia and came perilously near to overthrow across Europe. By the time revolutionary socialists returned to the debate on crisis theory, the pernicious influence of Stalinism was at work. Stalinism at first distorted attempts to go beyond Hilferding theoretically and then put a stop to the debate by declaring a version of Rosa Luxemburg's underconsumption theory as the orthodoxy of the Comintern. Simultaneously the focus of Marxist theory of the 20th century economy shifted decisively from the "dynamics" of the system to its "structure": the theory of crisis was elbowed from pride of place by the debate on the nature of the imperialist economy because orthodoxy, in the form of Varga and Leontiev, now held that (a) crises were crises of underconsumption and (b) state monopoly capitalism possessed the means to overcome crisis.

"After the early 1970s, the failure of Keynesianism and the protracted difficulties of the world economy propelled overaccumulation theory to prominence"

Capitalism's second great depression – 1929-37 – formed the backdrop to this ossification of theory. After the 1939-45 war, Stalinist underconsumption theorists again stepped forward, this time to explain the boom. They argued that, using Keynsian demand management techniques, monopoly capitalism, now increasingly multinational in its reach, could overcome the barriers to consumption – specifically through state spending, including "waste" spending on armaments. Thus, as Clarke points out, there was a symmetry between "crisis theories" and the positions of Keynesianism and Stalinism after 1945.

The baseline implication was that capitalism could overcome underconsumption crises (but the narrow interests of the capitalist class prevent this) and that the new kind of state monopoly capitalism could plan and spend its way out of crisis, with arms spending thus providing a "leak" from the system, allowing capital that would otherwise appear as "overproduced" to escape from the cycle that caused the TRPF.

The third phase in the development of crisis theory after Marx began in the late 1960s as profit rates across the western world began – an unusual fact compared to previous crises – to fall in advance of a collapse in prices or a rise in unemployment. Although Marxist economic theory had by then become thoroughly academicised, the radicalised generation of the 1970s was able to draw on new scholarship about Marx's own work, which would have been unknown to the pre 1914 revolutionaries and which were partially suppressed under Stalinism. State capitalist theories, postulating the absence of profit crises, were being proved wrong before their eyes – and with them, underconsumptionism itself. And, since underconsumptionism was generally associated with Stalinism, the revolutionary generation after 1968 was spontaneously drawn to reformulate crisis theory directly in terms of the TRPF.

As Itoh writes: "The prestige of Marxist underconsumption theory grew during the long boom of the world economy after the second world war because of its affinity with Keynesianism. After the early 1970s, the failure of Keynesianism and the protracted difficulties of the world economy propelled overaccumulation theory to prominence."

However, proponents of overaccumulation divided into two "schools": fundamentalist and neo-Ricardian. The neo-Ricardian school, exemplified by the then followers of the Militant/CWI tradition, Glyn and Sutcliffe, argued that the TRPF in itself could be permanently outweighed by the countervailing tendencies, and that the tangible "profit squeeze" of the 1960s was primarily the result of the class struggle. Working class victories in wage struggles during the boom created the conditions where the capitalist could not increase the rate of exploitation as the profit rate fell, thus ensuring the onset of "stagflation" - inflation plus recession – in the early 1970s.[24] Indeed, its main proponents argued that, without wage pressure, there was no automatic tendency of the rate of profit to fall.

It was out of these debates that the so-called "fundamentalist" school emerged. Its main theorists, in the early 1970s, were Mario Cogoy, David Yaffe and Paul Mattick who came from the anti-Stalinist (and in Mattick's case anti-Bolshevik) revolutionary left. Working separately, they presented theories of crisis based on the TRPF. Their theoretical contributions essentially amounted to four ideas:

(i) Orthodox Stalinist underconsumption theories of crisis were firmly linked to Stalinism and left reformism's acceptance of a Keynsian programme for regulating capitalism.

(ii) Classic bourgeois and Stalinist objections to the law of the TRPF, formulated at an abstract level, were based on the idea that capitalism could indefinitely and spontaneously offset the effect of the rising organic composition through raising the rate of exploitation. These could be proved wrong mathematically[25] and in any case were being disproved by the concrete re-emergence of falling profit rates.

(iii) All other theories claiming provenance from Marxism (disproportionality, underconsumption, state

Monopoly profit and profit equalisation

It is possible to work out the average rate of profit in a business sector, or national economy. Individual capitalist firms will compare their performance with their competitors partly by using a crude average rate of profit and use this as a guide to how much return they should expect over and above the price of production.

Paradoxically, the pursuit of better than average profits contributes to the actual evening-out of profit rates in practice. In the 19th century world of private, free competition capital, if a higher than average profit rate occurred within a sector, capital would flow into it in the form of the creation of new firms and new productive capacity until there was partial overaccumulation in that sector (too much capital chasing too little profit) and the rate of profit fell.

The onset of monopoly capitalism created potential barriers to this. Monopoly profits can be defined as those derived from the unassailable market position of the giant corporation. It can monopolise supply (British Telecom), it can use its massive reserves to buy or bankrupt rivals (Microsoft versus Sun Microsystems), it can maintain a competitive edge through huge economies of scale and a massive R&D budget (Wellcome, Zeneca), it can screw its non-rival suppliers to the floor because they must trade with the monopoly on its own terms (Nissan): usually it does a combination of these things. The scale of capital involved is so enormous that the competitive start-up becomes a less efficient way of equalising the rate of profit.

Likewise, the monopoly form, which grew out of the need for massive fixed investments in e.g. railways and heavy engineering, retards the ability of crises to "destroy" capital through gradual demobilisation and reallocation to emerging sectors:

"Once excessive productive capacity in the form of fixed capital investment has been formed, joint stock capital faces insuperable difficulties in significantly reducing it, short of inducing the sudden destruction of enterprises. The usual method is to wait for years while depreciation gradually turns an investment into more fluid money capital...In this respect joint stock capital makes equalisation of the profit rate slower and more difficult."(M Itoh and C Lapavitsas p119)

In the 20th century, credit, equities and government bonds have provided more complex, social vehicles for profit equalisation. Marx argued that interest payments and share dividends do not enter into the equalisation of the rate of profit; but this has to be understood at two levels.

Insofar as the profit equalising tendency between individual firms operates, they do not. However, they can form a second tier method of profit equalisation: as long as an individual owner of capital is prepared to invest



MICROSOFT OWNER BILL GATES

at below the average operating profit rates (i.e. accept dividends, interest payments or bonds) the financial markets provide a transparent and efficient way of equalising rates of return on investment, through "arbitrage". (The shifting of money from one form of investment to another in order to take advantage of a difference in rates of return.)

Under imperialism, the equalisation of the rate of profit takes place more slowly between corporations, and that monopoly profit still exists, but that the financial markets allow a highly efficient form of equalisation, albeit at a lower average rate of profit.

capitalism, neo-Ricardian profit squeeze theories) were being thrown into crisis.

(iv) A rigorous distinction had to be maintained between the abstract level, at which the TRPF operates, and the concrete reality of falling profit rates. Mattick, for example, in polemic with Ernest Mandel, wrote:

"Mandel attacks all those who think that the capitalist mode of production stands in the way of empirical verification of the Marxian theory, and who therefore restrict themselves to the abstract analysis of developmental "tendencies". In opposition to them he wants to describe not only the "tendencies" discovered by the abstract analysis but also the development of capitalism as a concrete historical process, since Marx 'categorically and resolutely rejected this quasi-total rift between theoretical analysis and empirical data'."[26]

Mattick, contra Mandel, remained a resolute defender of the idea that "one cannot speak of quantitative and empirical proof of the validity of Marx's developmental theory, since the data necessary for such a proof are in capitalism neither available nor to be expected.

This addiction to abstraction was the Achilles' heel of the fundamentalist school: since the TRPF could be proved capable of conquering its countervailing factors even at the most abstract level, all arguments pitched at lower levels of abstraction – and all countervailing tendencies at the concrete level – could be discounted. This left the theories of the fundamentalist school open to degeneration into one sided catastrophism. Paradoxically, having reclaimed the decisive theoretical tool, the TRPF fundamentalists proved incapable of using it to analyse the concrete factors contributing to the long period of depressed accumulation that opened in 1973 and which persists to this day. All those who attempted to trace the line from the TRPF, through mediating levels of abstraction to the concrete, were accused of eclecticism.

Prime among the culprits was Ernest Mandel. Mandel, the pope of post-1945 Trotskyism, was indeed guilty of profound eclecticism: his theoretical evolution passed through or less every trend within post-war Marxist political economy, including theories of unequal exchange and even crisis-free "Late Capitalism". However, the recession of the early 1970s brought Mandel, formally at least, closer to identifying the TRPF as the fundamental feature of capitalist development. He joined with the fundamentalists in their critique of pure disproportionality and underconsumption theories, and in their attack on the neo-Ricardians who located the cause of crisis in the distribution process (of surplus value) rather than in its production.

Against all of them, Mandel wanted to create a multicausal theory of crisis, a goal which fitted well with his simultaneous adoption of Althusser's

structuralist Marxism, with its insistence on "autonomous mediating factors" between the fundamental causal forces of society and their effects. However, Mandel's eclecticism and insistence on abstraction "aiming" towards the concrete, enabled him to write, if not the best, then the least worst appraisals of the crisis as it unfolded.

In *The Second Slump*, an account of the 1973 recession, Mandel attempted to incorporate political factors (inflation as a result of the USA's rising costs in Vietnam, which in turn undermined the system of exchange rates fixed to the dollar); exogenous shocks (the tripling in price of oil, the industrial world's most basic commodity); and the effects of class struggle (workers' militancy imposing a floor on capital's attempts to solve the crisis through wage cuts) – all within a general framework that recognised the validity of the TRPF as the force behind the nosedive in investment.

All this was sacrilege to fundamentalism and neo-Ricardianism. Makato Itoh, a key figure within the Japanese neo-Ricardian "Uno" school, recently offered the following implied critique of Mandel. In the face of flawed monocausal theories, he writes, there are two possible analytical approaches:

"The first is to treat the various strands of crisis theory... as a toolbox from which concepts can be selectively employed to analyse historically specific instances of capitalist economic crisis. This approach is certainly appealing, since it can deal flexibly with the historically specific features and immediate causes of capitalist economic crisis. It could also be useful for the historical study of economic crisis in the course of capitalist development... The weakness of this approach, however, is that it is essentially eclectic and cannot lead to a coherent theory of the capitalist business cycle that is fully articulated with an analysis of credit and finance... Without an underlying theory of the business cycle the study of the historical transformation of crises during the course of capitalist development is essentially arbitrary."[27]

However, in the best exposition of Mandel's "multicausal" theory (his Introduction to K Marx Capital Volume III Penguin 1981) Mandel provides the starting point for a more coherent theory, which situates the "multicauses" – whether they be at the level of generalisation of underconsumption and disproportionality, or at the level of the class struggle, like workers' wage militancy or oil price hikes, within a theory that identifies the TRPF as the basic retardant of untrammelled growth:

"The law of the tendency of the rate of profit to decline is less a direct explanation for crises of overproduction properly speaking, than a revelation of the basic mechanism of the industrial cycle as such: in other words an uncovering of the specifically capitalist, i.e. uneven, disharmonious mode of economic growth which unavoidably leads to successive phases of declining rates of profit, and recuperation of the rate of profit as a result, precisely, of the consequences of the previous decline. This is true at least of the way in which the law operates over the seven-ten-year time span – leaving aside for the moment the memento mori it implies for capitalism as a secular perspective."[28]

Itoh's preferred "second approach" is to "adopt one of the strands of Marxist crisis theory and use it to develop a fundamental theory of the business cycle". Paradoxically, Itoh's most recent attempt to do just that follows a very similar pattern to an attempt by Mandel to give a general description of the business cycle – essentially by categorising the stages of the "ideal" business cycle and explaining which "factor" is predominant at each individual stage. While Itoh and Lapavitsas' attempt to do this in Political Economy of Money and Finance is unobjectionable, even in the importance it ascribes to the rising value of wages during the late phase of the boom before the crash, neither this "business cycle step by step" nor Mandel's own attempt in the Penguin introduction, can really be called theoretical.

Apart from the later Mandel, it is the works of the Japanese Uno school which are seen within academic Marxism as the only significant additions to Marxist crisis theory since the schema-bound demise of fundamentalism. For example, Robert Brenner's recent blockbuster "The Economics of Global Turbulence"[29], contains a masterly empirical account of the end of the long boom and the resulting 30 years of depressed accumulation.

Brenner writes: "The radical decline in the profit rate has been the basic cause of the parallel, major decline in the rate of growth of investment, and with it the growth of output, especially in manufacturing over the same period." However, Brenner relies on the work of the Uno school to rubbish the TRPF, quoting the "Okishio theorem" (see below) to the effect that, mathematically, the rising organic composition cannot itself account for falling real profits.

Likewise, Simon Clarke, in his account of the evolution of Marx's own crisis theories, gives credence to the Okishio theorem: "The generalisation of innovation (leading to the rise in the organic composition of capital) is a matter of redistributing the additional profit among the capitalists and so it cannot reduce the rate of profit. This result was proved formally by Okishio (1961)."[30]

Credit is essential to capital's expansion since the tempo of investment in each industrial sector differs and insufficient capital can be found for expansion merely within the company

Okishio's theorem basically seeks to prove that, in our abstract model of the effects of the rising organic composition of capital, it is the cost reduction produced by innovations that are decisive. This higher spending on more productive technologies will raise profits across the board "if the newly introduced technique satisfies the cost criterion and the rate of real wage growth remains constant".[31]

However Clarke[32] and Carchedi have both pointed to the weaknesses of Okishio's theorem. Clarke accepts the theorem's validity but points out that, because of its extreme detachment from the actual dynamics of capitalism, it is weak:

"The theorem does not prove that the rate of profit cannot fall, but at most that the proximate cause of a fall in the rate of profit must be something other than the increase in the [organic] composition of capital."

This gives too much to Okishio. A more decisive refutation is contained in Carchedi's Frontiers of Political Economy.

"[Okishio] only sees the reduction in costs, not the reduction in value produced. Thus he does not see that, if less value is produced, the increase in the realised rate of profit of the innovative capitalists must apply to both appropriation of value from other capitals (branches) [as demonstrated in the Table 2 above – PM] and a decrease in the average rate of profit."[33]

Carchedi points to Okishio's basically neo-Ricardian view of distribution, which cannot see how the price mechanism redistributes profit to the high-cost innovator, as the source of confusion.[34]

This brings us finally to Itoh's reworking of neo-Ricardianism, which, based on a fundamental agreement with Clarke's statement about Okishio above, attempts to combine a "background" theory of the TRPF with a neo-Ricardian "wages squeeze" and rigidities in monopolised markets (insights based on Hilferding) as the actual factors which trip recovery into recession. Clarke himself has described the allure and the inadequacies of Itoh's work:

"Itoh's development of the theory is a complex synthesis of neo-Ricardian, falling rate of profit and disproportionality theories, each pertaining to a different phase of the cycle. The importance of Itoh's work is that, unlike almost all other falling rate of profit

theorists, he does try to show how the fall in the rate of profit leads to crisis. However, in doing so he effectively undermines his own theory, because in his account the cause of crisis is not the fall in the rate of profit, but the failure of fiscal and monetary authorities to check the inflationary over-expansion of the boom, which leads to an erosion of profit, a failure which arises because his theory abstracts entirely from the role of the state."

From this survey, it is clear that if there is a "zeitgeist" among Marxist economic theorists in the 1990s, it is the desire for a synthetic theory, going beyond the monocausal dead ends of pure disproportionality, underconsumption or overproduction, and desiring to link the abstract tendencies outlined in Capital to the actual trip wires of crisis. It is equally clear that there is no consensus and no synthetic theory. Mandel and Itoh's schematic accounts of the business cycle are not really "theory"; Brenner falls back on a vague disproportionality theory, ascribing falling profit rates primarily to uneven global competition; Clarke falls back on history, preferring to chronicle Marx's lack of a unified theory rather than pursue a modern synthesis. Carchedi, whose 1991 work contained a highly concrete defence of the TRPF, nevertheless fails to go beyond a "flexible fundamentalism" in which consideration of the mediating factors and the concrete crises is minimal.

Is Marxist economic theory, therefore, in a dead end? Have its lines of inquiry petered out into schools mutually admiring each others' insights, mutually desirous of a synthetic account of crisis from abstract to concrete, but equally incapable of producing one?

The answer must be no. What follows is an attempt to outline the main elements of such a theory, as a prelude to the further work needed to elaborate a more thoroughly evidenced and tested version.

Economic crisis in the imperialist epoch

The tendency of the rate of profit to fall is fundamental to capitalism. It is the ever-present concomitant of capitalism's dynamic transformation of the productive forces. Wherever growth takes place, the tendency is activated and so, too, are its countervailing factors. But the TRPF cannot be neutralised forever, the various countervailing tendencies lose their efficacy over time.

Traditionally, it could be said, the question has been posed "What mediates between the abstract tendency and the concrete crisis of overproduction?" But it would be better to ask: "What removes or limits the functioning of the countervailing tendencies?"

To answer this we need to look at how the CVTs functioned and developed in the 20th century. Crucially, we need to learn to see how financial instruments and monopoly structures can act not only as countervailing tendencies but also as crisis "trip-wires", and crisis amplifiers.

Writing before the onset of the imperialist epoch, Marx in Capital Volume III nevertheless anticipated its key features, the most important one of which is the domination of productive industry by finance.

The role of credit

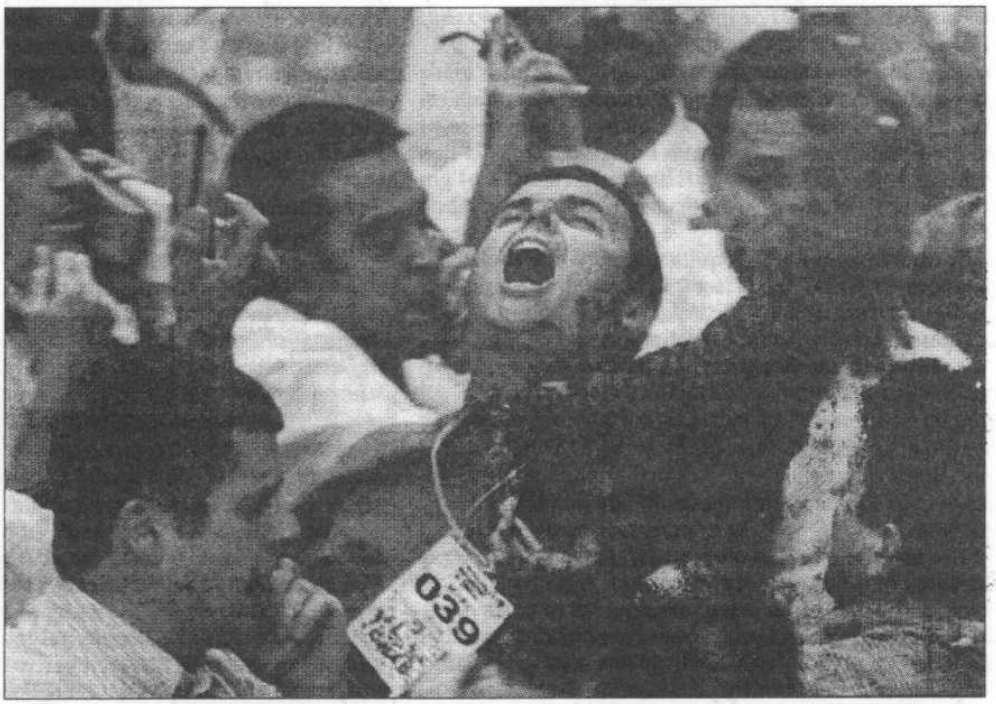
Today, managers learn about the "maximum internally financeable rate of growth" (MIFROG) as a concept that generally relates to small private businesses; it is assumed that growth will not be internally financed for mainstream companies, but instead will be fuelled by credit.

Credit is essential to capital's expansion. The rate of expansion of industry differs according to firm and sector. Their needs for an infusion of capital to finance their growth, therefore, varies in time and place. From very early in capitalism's development, capitalists set aside capital to cover depreciation of their plant and equipment and to finance further expansion. This earned interest when deposited in banks until they needed it. Therefore, a functional division of labour emerged between industrial and financial capital; the latter aggregated capital that was not immediately to be used as commodity capital and made it available to those sectors that did need it for expansion. Marx noted that credit was decisive for allowing the expansion of accumulation of those sectors needing huge capital outlays:

"Production in these branches is therefore dependent on the extent of money-capital which the individual capitalist has at his disposal. This limit is overcome by the credit system and the forms of association related to it, e.g. joint-stock companies."[35]

In its earliest stages, industrialists could extend each other credit in the form of "promissory notes" which involved no "intermediation". Then, step by step, banks began to play the role of providing investment capital on credit on a scale that went far beyond the need to help cover a firm's operating costs (e.g. wage bill, suppliers' bills).

In the 20th century, the process of credit expansion reaches such a level of development that it is possible to speak of a new stage of capitalism – imperialism. This is because the major form of credit is the development of share capital (the "joint stock company" of Marx's day). Marx called the raising of money for capital investment through the issuing of shares to the public or other capitalists a form of "fictitious capi-



TRADERS REACT CALMLY TO THE BRAZILIAN *REAL'S* DEVALUATION IN JANUARY 1999

tal". His argument has been summarised thus,

"Capital in this form is fictitious in that it is a mere representation of a generalised claim on surplus value, rather than a direct claim of ownership on any material object. In consequence, the market value of these paper assets may only be loosely related to the market value of the means of production they nominally stand for."[36]

By dint of the massive expansion of share capital in the 20th century, ownership becomes detached from the physical unit of production itself and is replaced by a claim on part of future profits. Marx called this "the abolition of capital as private property within the framework of capitalist production itself."[37]

Ownership becomes socialised, the money capitalist becomes dominant, thereby "transforming the actual functioning capitalist into a mere manager".[38]

This process arises out of the need to centralise and expand credit in order to assist the accumulation process beyond its "natural" internal limits. In the imperialist epoch, financial capital completes its ascendancy over industrial capital. While the institutional form it takes can vary (e.g. banks' dominance over industry in Germany, shareholders in the US) what is important is the relationship.

In fact, over time, the process of centralisation and concentration of monopoly capital requires such huge amounts of credit capital that share issues become the "normal" form because they allow for greater sums to be raised even beyond the resources of powerful banks. For industry, the advantage of attracting share capital over bank loans is also manifest; banks demand their interest and even capital in times of crisis whereas shareholders have to accept that when profits collapse they have to forego their claim on surplus value and dividends dry up.

The huge expansion in equities (and corporate bonds) in the last 25 years is both a function of the relatively depressed level of retained profits and the need for massive capital injections to finance takeovers and expansion, the latter imposed upon the modern multinationals as a way of increasing the mass of surplus value that they can get in compensation for the fall in the rate.

The massive expansion of the credit system was vital in enabling capitalism to stave off the commercial crises and short term glitches that plagued it in the 19th century. But credit is the expansion of commodity production alongside, and by means of the expansion of debt and naturally this ensures that any cessation or major disruption in output and sales can and does result in debts being called in with no profits with which to pay them off.



All crises appear as crises of money, credit and liquidity even though the cause lies within the production of too little profit to valorise the capital advanced. But the fact that credit expansion allows accumulation to proceed beyond its "normal" limits allows for the generalisation and amplification of crisis under certain conditions.

Credit expansion increases the chances of overproduction since, by its nature, it allows more factories to be built, more speculative property ventures to spring into life, before any of the last round of offices and plant have been sold or even offered to market.

At the end of the day, the real limit on this expansion is set by the market for final individual consumption. While industry producing for other industries can maintain the dynamic growth for so long, ultimately the semi-conductor factories, new car plants and mega-office complexes are built to produce goods for the high street or car show room. The available profit from this market at a certain point gets so low compared to the outlays that profit projections are radically revised.

The crisis of the East Asian "tigers" in mid-1997 was precipitated by an overaccumulation of loan capital in 1990-96; eventually growing overcapacity met the rate of profit moving in the other direction.

Once it became clear to the financial markets that the rate of interest on the foreign (dollar denominated) money-capital advanced was not covered by the rate of industrial profit at the given fixed exchange rates, then the crisis erupted as short-term capital flooded out of the countries concerned and new loans dried up. This "credit crunch" forced firm after firm into default and bankruptcy. The course of the crisis then functions to devalue much of the surplus capital and property, so eventually creating a restoration in the rate of profit.

The role of the state

State spending and borrowing play a major economic role in imperialist capitalism. While not all state spending is "unproductive" spending, as argued by fundamentalist underconsumption theorists[39], a certain part of state spending does bypass the valorisation process and thus contributes to offsetting overaccumulation for a time. State spending plays several vital roles for modern capitalism.

- To ensure the continued operation of the law of value in the greater part of the national economy by operating state owned industries, or extending a state subsidy, where vital services (e.g. railways, air transport) are unable to operate at a profit.
- To reduce the cost of reproduction of labour power through collective provision of health, welfare, education, emergency services etc.
- To fund a repressive state apparatus.
- To fund powerful armed forces and a national arms industry large enough to allow strategic independence of action.
- To maintain large enough reserves of gold (until 1971) or foreign currencies to defend the national economy's currency against speculation and devaluation.
- To guarantee healthy profits to important industrial sectors through government contracts to, for example, aerospace, defence or nuclear energy industries.

Because state revenue from taxation is insufficient, all of this requires long term borrowing. Since it is low risk (backed by sovereign government with the power of money creation) it is also at a low rate of interest.

Government stocks or bonds have been around as long as capitalism itself, but their importance grew massively in the late 19th century with the onset of the imperialist transformation of capitalism. Government bonds, issued over long periods at a fixed rate of return, became not only the investment of choice of the conservative middle classes (low risk, low returns); they grew to function as

a floor for the rate of profit. Today, ten year government bonds, current interest rates and the rate of inflation form a kind of triangulation point for the minimum rate of return on capital within a given national economy.

Bonds, like bank loans and shares, allow a proportion of total social capital to be invested at a lower rate of profit than average industrial profits. Considered together, the basic financial instruments (loans, bonds, equities) develop capitalism far beyond its collective "MIFROG" but, at the same time, contribute to deeper crises of overaccumulation. Marx wrote that "the valorisation of capital founded on the antithetical character of capitalist production permits actual free development only up to a certain point, which is constantly broken through by the credit system...At the same time, credit accelerates the violent outbreaks of this contradiction - crises – and with these the elements of dissolution of the old mode of production."[40]

Thus, the state plays a major role in creating and equalising profit rates and (through social provision which effects the value of labour power) raising the rate of exploitation.

However, since the state must operate within its national economy using its national currency, both the world value of that currency and the national rate of inflation must be factored into both analysis and policy, and have in the 20th century, a major impact on the direction of the whole economy.

For example, if the rate of interest in government bonds were 10% and the rate of inflation 8%, the real rate of interest would be 2%. Now, if the investor is foreign and wishes to change the profit into his own currency, exchange rates become vital. It only needs the national currency to be devalued by 2% against the investor's currency for the rate of return to become zero.

Hence, modern capitalist economics is rightly obsessed with the great levers of economic policy: interest rates, rates of inflation, tax rates, money supply and exchange rates. These appear to be major subjective factors under human control, but in fact are only partially under human control. It is often pointed out that the Great Depression of the 1930s was made worse by the pro-cyclical policy of tight money introduced by the US government. The great splurge of ready money encouraged by the US Federal Reserve after the 1987 stock market crash was testimony to the imperialists' determination to learn the lessons of the 1930s.

However, since the world economy entered its prolonged period of depressed accumulation and low profit rates in the early 1970s, capitalist policy in general has aspired to the neo-liberal nirvana of low inflation, low government spending and low taxes, relying on tight money supply, high interest rates and various forms of exchange rate competition to ensure that the social costs of depressed accumulation are borne mainly by the workers and peasants.[41]

Painting with a broad brush we can say that the 20 year policy of imperialist governments has itself been pro-cyclical. The strategic aims of most governments are to pare back state spending, privatise welfare provision, reduce taxes, depress real wages – and thus the spending power of the workers – and keep a tight lid on inflation.

The reason for this is the historically low profit rates achievable in the G7 countries, now also impacting on the Asian tigers. Inflation must be low in order that profit rates remain healthy. Hence a deflationary pressure must be maintained on the economy and the currency. To offset this during the last 10-15 years, the state has attempted to ease overaccumulation by opening up monopolised, formerly state-owned, industries to joint stock capital and the banks for high profit investment opportunities. Clearly, however, the analogy with "selling the family silver" is apposite. In disposing of revenue-generating industries the state makes itself more reliant on taxation and borrowing.

From all this it is clear that the state as economic agent has enormous power to exacerbate the crisis, very little power to stave it off (even the Greenspan boom of the late 1980s triggered recession) and has, over the last 25 years, brought itself to the precipice of a deflationary catastrophe not seen in the history of the system.

Conclusion

A correct theory orients the working class towards the necessary action it must take to end its exploitation. It must serve to explain the (hidden) root cause and day by day expression of capitalism in boom and slump. Theory necessarily lags behind practice but the major elements of a theory that explains the long period of depressed accumulation and the more dramatic instability of the last two years, can already be assembled.

A general, indeed global crisis of capitalist production and exchange such as has been underway since mid-1997 is a process with devastating consequences for the jobs and welfare of tens if not hundreds of millions of workers. The flight of short-term loan capital from the most dynamic region of capitalist accumulation in the 1990s precipitated a liquidity crisis in which thousands of firms went bust and their workers were sacked.

This credit crisis was in turn provoked by the massive overaccumulation of capital in all major lines of industry and property which could no longer generate anticipated levels of profit to cover the interest payments on loan capital to which they and their governments were committed.

The devastation in output occasioned by the withdrawal of credit caused a domestic slump. The crisis was generalised beyond the region immediately. First in the form of a collapse in demand for the products of overseas firms. Secondly, through currency devaluations, the export industries of the stricken countries found competitive advantage in western markets but, thereby, created a crisis of overproduction and profitability in their industries.

Thirdly, the collapse in production in East Asia provoked a collapse in the price of raw material and energy, precipitating a crisis of profitability for major commodity producers in Russia, the Middle East and Latin America. This in turn reproduced the credit crisis for these countries as short term capital sought a fast exit.

Fourthly, many banks and institutional shareholders saw their investments devalued or destroyed in East Asia, prompting a further inability or unwillingness to extend credit, or increasing the rate of interest demanded on new borrowing. This in turn contributed to a generalisation of the contraction in demand.

Finally, the withdrawal of loan and share capital from previously dynamic "emerging economies" led directly to a "flight to quality" in European and US stock and bond markets leading to a frenzy of speculative buying and the preparation of a new financial crash.

Millions are in hunger and out of work for no other reason than the fact that employers do not find it profitable to produce what they need. Based on their suffering, the capitalists aim to restore the conditions for profitable exploitation. But the crisis is simultaneously a warning and an opportunity:

"From the process of accumulation itself there is no reason to predict or expect a final crisis that because of its severity will for economic reasons alone result in the collapse of the capitalist system and the automatic emergence of socialist society. This conclusion was clearly recognised by Lenin and because of it he argued that the end of capitalism in any country

would come about as a violent political confrontation between the bourgeoisie and the proletariat."[42]

Footnotes

1 J Pallister and A Isaacs *A Dictionary of Business* Oxford 1996

2 P Omerod *The Death of Economics* London, 1994

3 See I Rubin, *History of Economic Thought*, London 1977

4 M Brauchli "Manufacturers in race to survive as excess hits the industrial world", *Wall Street Journal* November 30, 1998

5 J Black *A Dictionary of Economics* Oxford 1997

6 P Mattick *Economic Crisis and Crisis Theory*, Merlin 1981

7 K Marx, *Capital* Vol III, op cit

8. See Keith Hassell "Revolutionary Theory and Imperialism" in *Permanent Revolution* 7 1987

9 See S Clarke, *Marx's Theory of Crisis*, London 1994

10 F Engels, 1962 p393-94

11 Q Rudland, *Marxist Theory and Imperialism*, Workers Power, 1982

12 Many "Marxists" in fact believe that it is competition itself which leads to the falling rate of profit (and by implication can be mitigated by measures to offset competition).Marx made it abundantly clear by contrast that far from competition causing the rate of profit to fall it was the other way around: "A fall in the rate of profit connected with accumulation necessarily calls forth a competitive struggle. Compensation of a fall in the rate of profit by a rise in the mass of profit applies only to the total social capital and to the big, firmly placed capitalists. The new additional capital operating independently does not enjoy such compensating conditions. It must still win them and so it is that a fall in the rate of profit calls forth a competitive struggle amongst capitalists, not vice-versa."

13 K Marx *Capital* Vol III Penguin 1981

14 It was repeated by Joan Robinson in the 1930s and Paul Sweezy in the 1940s and 1950s.

15 See P Sweezy *Theory of Capitalist Development*, pp100-101

16 K Marx *Capital* Vol III p240

17 See R Rosdolsky, *The Making of Marx's Capital*,London, 1978, for some numerical examples of this fact drawn from Marx.

18 K Marx *Grundrisse* pp749-50

19 D Yaffe, "Marxist theory of crisis", *Economy and Society*, 1971, p203

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34 ibid pp140-141

35 K Marx *Capital* Vol II p433

36 J Weeks, *Capital and Exploitation* London 1981 p125-26

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38 ibid

39 See M Kidron, "Imperilaism: highest stage but one", in *International Socialism Journal* 61(first series)

40 K Marx, *Capital* Volume III op cit (p572)

41 For exceptions see articles on USA and Asia in this issue)

42 J Weeks op cit, p214

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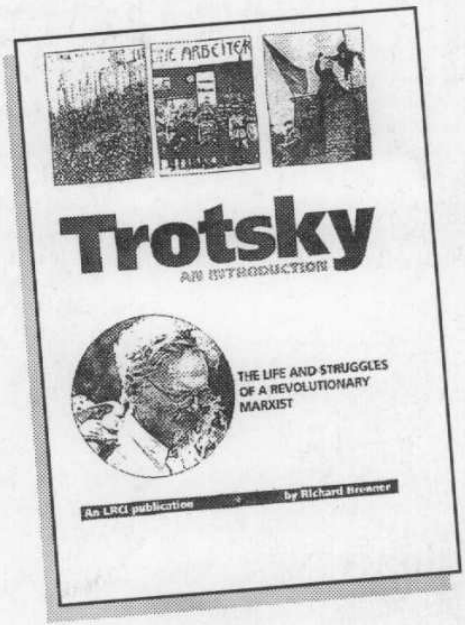

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