Super Profits and Crises:

MODERN U.S. CAPITALISM

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by VICTOR PERLO

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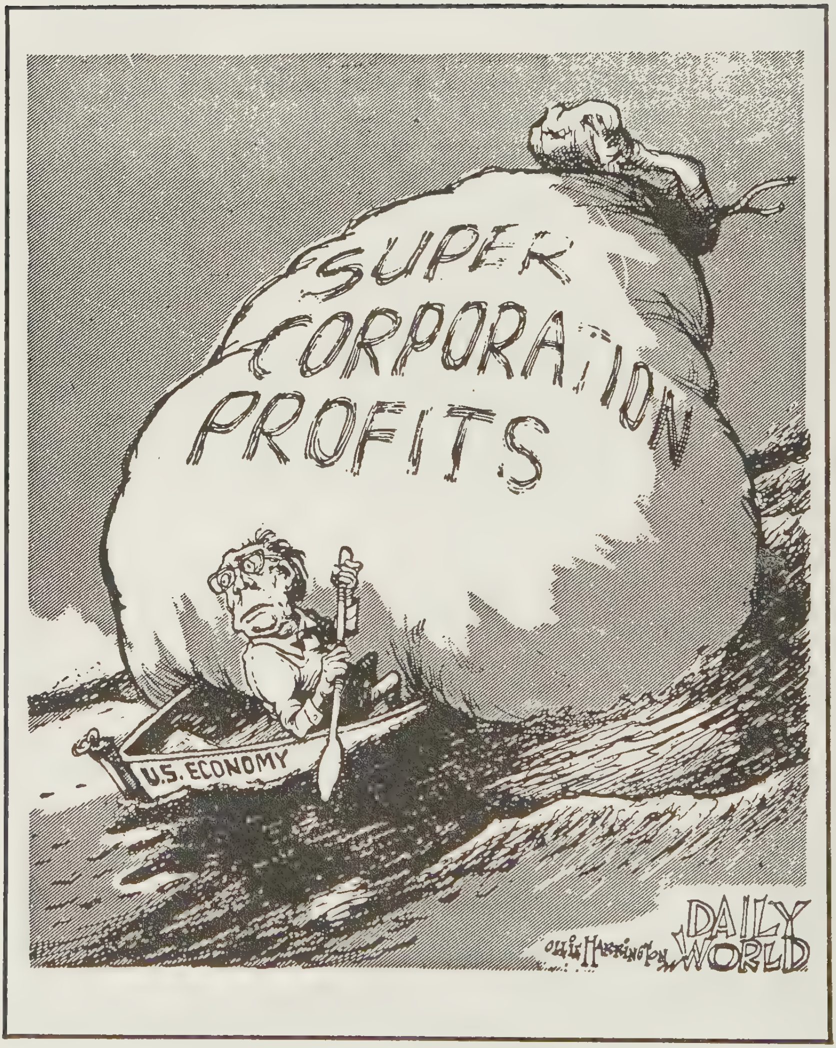
Standard Abbreviations for Reference notes and text

AFL-CIO	American Federation of Labor-Congress of Industrial Organizations
BCD	*Business Conditions Digest* [monthly publication of U.S. Department of Commerce]
BEA	Bureau of Economic Analysis of the U.S. Department of Commerce
BLS	Bureau of Labor Statistics of the U.S. Department of Labor
BW	*Business Week*
CIA	Central Intelligence Agency
CMEA	Council of Mutual Economic Assistance
cpi	consumer price index
CPR	Current Population Reports, Census Bureau
DOC	U.S. Department of Commerce
DOD	U.S. Department of Defense
DOL	U.S. Department of Labor
E&E	*Employment & Earnings* [monthly publication of Bureau of Labor Statistics, DOL]
EEC	European Economic Community
EROP	*Economic Report of the President*
FRB	Federal Reserve Board
FTC	Federal Trade Commission
FY	fiscal year
GATT	General Agreement on Tariffs and Trade
gnp	gross national product
Hist. Stat.	*Historical Statistics of the United States,* Colonial Times to 1970
IRS	Internal Revenue Service
Narod Khoz.	*Narodnoe Khozaistvo SSSR* [People's Economy of the USSR]
NIPA	*National Income and Product Accounts of the United States,* DOC
NYT	*The New York Times*
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
SCB	*Survey of Current Business* [monthly publication of the Bureau of Economic Analysis, DOC]
Stat. Abst.	*Statistical Abstract of the United States*
TNC	Transnational Corporation (multinational corporation, MNC)
UN MBS	*United Nations Monthly Bulletin of Statistics*
USN & WR	*U.S. News and World Report*
WSJ	*Wall Street Journal*


SUPER
CORPORATION
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DAILY WORLD

Introduction

The political economy of capitalism is no dry, abstract subject. It is a timely and lively social science. And to understand the most urgent issues of life and death, war and peace, prosperity and poverty, it is necessary to grasp the essentials of political economy.

The term "political economy" refers to the sociopolitical structure in which an economy evolves and to the resultant political and economic struggles. The real economic laws that govern capitalist life, the real economic phenomena, exist and develop within this context.

The title of this work, *Superprofits and Crises: Modern U.S. Capitalism,* refers to the main specific features of capitalism at the end of the 20th century. On the one hand, there are the exorbitant profits of megacorporations and the sprouting of millionaires and billionaires on a scale that would not have been believed possible even a generation ago. On the other hand, there is a knot of crises, political and economic, of increasing complexity and, in many cases, insolubility, which are weakening the entire system of capitalism and threatening its continued dominance in one country after another. As indicated by the title, the features of the U.S. economy will be examined in the most detail.

What is capitalism? There is much confusion over terminology, but there is no serious argument over the fact that the United States and Canada, the West European countries, Japan and most developing countries are capitalist, whether called democracies, monarchies or dictatorships. However, Establishment propagandists often avoid the term "capitalist," referring instead to "free" or "democratic" societies.

Their purpose is twofold. First, they seek to disparage socialism, which they denounce as restrictive and undemocratic. Second, they aim to divert public awareness from the limitations on freedom and democracy endured by the vast majority of the population in capitalist societies. Indeed, they include in the "free world" even the most outrageous dictatorships so long as the capitalist system is preserved.

However, when expedient—and especially in recent years—the term "capitalism" has been promoted. Propaganda decrees that general welfare can be advanced only by supporting capitalists, and countries moving toward socialism or that already have socialist systems are pressured to move back to capitalism.

Briefly, a capitalist society has the following characteristics:

Economic: The principal means of production are privately owned. In modern times in developed countries most economic enterprise is carried out by corporations with thousands of workers, although there are still individual capitalists who each employ a few workers. A number of capitalists pool their financial resources to form a corporation, which is headed and controlled by a few individuals, families or banks with major stockholdings. The aim of such ventures is to make profits for the corporate owners by paying hired workers less than the values they create through their labor. Production and prices are determined by each enterprise or by arrangements among several. However much these arrangements may be modified by monopolistic agreements and by government regulation, market-influenced anarchy dominates the course of events.

In most capitalist countries there are also productive enterprises owned by national and local governments and by cooperatives. When these are significant, the country's economy is sometimes referred to as "mixed"—i.e., part capitalist, part socialist. In reality, privately owned enterprises have continued to dominate, and the capitalist class will be in control so long as it holds political power.

Social: A small group of super-rich entrepreneurs, usually through control or outright ownership of corporations, employs millions of wage and salary workers and dominates economic, political and cultural life. Together with owners of medium-size companies, high-ranking corporate and government executives and managers, they constitute the capitalist class.

There is a large sector, between the capitalist class and the working class, that includes independent farmers, small businessmen, independent professionals and craftspeople. They own some capital and may or may not employ some workers, but they depend largely on their own labor. They constitute the middle class.*

Then there is the working class—the overwhelming majority of the population in developed capitalist countries. They work for wages and salaries. They own no productive capital.

Political: The government and the apparatus of state power—

*Marx refers to this strata as the petty bourgeoisie, a term not in common use in the United States. But the term middle *class* is often confused with middle *income*, referring to people in the middle of an income distribution between rich and poor. Many workers with middle *incomes* are erroneously referred to as part of the middle *class*.

military, police, courts, etc.—are directly controlled by capitalists, by members of the capitalist class trained as lawyers, military officers, financial experts, etc. Elections are dominated by the capitalists, who control the media that reach and influence the voting public and who enact the legislation restricting the eligibility of political parties that oppose the interests of big business and of candidates who are working-class representatives.

* *

For several thousand years class societies have prevailed, with one social class owning the means of production and another doing the work from which the owners profited. Struggles, often violent, between these opposing classes have been common to all the social systems. In Europe the slave society, which reached its peak in the Roman empire, was succeeded by feudal societies where there were landowners and serfs, whose bondage was not as absolute as that of slaves. There were also owners of *capital*—merchants, moneylenders and artisans—but they were not dominant.

With the advent of machines, owners of industrial capital were able to profit from the labor of workers freed from serfdom and paid money wages, and they were able to expand the scale and range of their operations. Capitalism emerged as the most dynamic system. Capitalists assumed economic and political leadership in most of Europe and North America, often through revolutionary struggles against the old orders. Tribal, slave and feudal forms were maintained in much of Africa, Asia and Latin America. And these vast areas with outmoded societies served as a source of extra profits for the capitalists, whose industrial development enabled them to create powerful armed forces that conquered many of these areas and made them colonies.

Worldwide the difference between capitalists and workers, and the struggles between them, became the decisive social factor. A relatively small capitalist class owned virtually all the productive property while the majority working class owned little and its members were dependent solely on selling their ability to work, their labor power, in order to exist.

This differentiation became more extreme with time, and by the 1980s reached a degree never known before in U.S. history. One percent of the population's households owned 50% of the nation's wealth and at least 75% of the productive capital, while 90% of the population had little or no net worth, or were net debtors.

* *

The basic tenets of this study are the classic works of Marx, Engels and Lenin. Marx and Engels provided the profound analysis of capitalism, in all its complexity, and proved that it would be replaced by a higher system of social organization, socialism. They identified the social force that would lead that revolutionary change—the working class. Consistent with their theories, they led in organizing the first political parties with the goal of accomplishing that change. Lenin carried the analysis of capitalism forward to its new and highest stage—monopoly capitalism, imperialism, the merging of government and big business—the system of the 20th century. He showed that this was the final stage of capitalism, in which the basic conditions for the transition to socialism ripened. In September 1917 he wrote:

> State monopoly capitalism is a complete *material* preparation for socialism, the *threshold* of socialism, a rung on the ladder of history between which and the rung called socialism *there are no intermediary rungs.*[1]

Two months later he led the political party of the Russian working class, which carried out the first successful working-class revolution, seized and held power, and proceeded to carry out the transition to the higher socialist rung.

What are the characteristics, then, of a socialist society?

Social: The working class becomes the dominant, ruling force in society. Cooperative farmers constitute the other major sector in the USSR. There are also cooperative trade and service groups and handicraft-type manufacturing cooperatives. Professionals—including cultural figures—are increasing in number, but more and more they are workers who achieve professional status by further training, and the distinction between professionals and workers tends to narrow. The capitalist class, as a group that owns property, has been eliminated in the Soviet Union. Private enterprise exists: farmers market produce grown on their personal plots; plumbers, carpenters, etc., service householders; artists are paid for paintings and receive fees for performances, etc. However none of these hires labor; they depend solely on their own skills and talents. Many are part-time free lancers, as they also hold salaried jobs or are members of cooperatives.

Political: Reflecting the social structure, the leading political party in socialist countries is a Communist Party, or a similar Marxist-Leninist party with a different name. In the Soviet Union—and some other socialist countries—the Communist Party is the only party. This evolved historically because other parties in existence at the time of the October Revolution refused to participate in the Soviet Government, entering instead into a Civil War and joining the interventionists. There are, however, a number of political parties in the German Democratic Republic (GDR), Czechoslovakia, and other socialist nations, and they have significant representation on governing bodies.

The national, state and local governments are led by a plurality of workers, supplemented by farmers from the cooperative and state farms, professionals, Communist Party and trade union officials, most of whom have a working-class background. This applies as well to the Supreme Soviet, the other parliamentary bodies, the Council of Ministers, and the Central Committee of the Communist Party. Special provisions provide for proportional representation of all the many nationalities in the Soviet Union, and there is a Council of Nationalities in the Supreme Soviet, which provides more than proportional representation for the smaller nations and nationalities.

Economic: The national government owns the principal means of production—factories, mines, transport systems, large trading establishments, state farms. The enterprises operate according to a central plan, which sets goals and quotas for production and supply, prices and wages, major investments, taxes and state budget allocations; coordinates education programs with anticipated employment requirements, etc. A large part of the housing is publicly owned and rented at very low rents, but there is an increasing proportion of privately owned or cooperatively owned housing.

As the economy becomes larger and more complex, planning is increasingly broad and strategic, with more responsibility distributed among industrial and agro-industrial complexes for detailed planning and cooperation within the overall framework.

Operation of enterprises conforms to the concept of working-class rule. Managers are regarded as professional organizers, not representatives of a hostile capitalist class. The workers' unions have broad powers over working conditions, health and benefit provisions, vacation facilities, hiring and firing. Every encouragement is given workers—individually and through teams of workers, their unions and Communist Party organizations—to participate in planning operations and in finding ways to improve production and reward those who develop new methods.

* *

The world has changed in many ways since the time of Marx and Engels and from the time of Lenin. Their works have been the basic guides for the workers and their allies who have carried out successful socialist revolutions in the past half century. They continue to inspire those who seek to transform social life in the remaining capitalist lands. But specific goals, the paths to their achievement, and the particular features of a future socialist society have to be worked out by the people of each country in terms of their own traditions and history, their economic and political situations.

Much has been contributed to the understanding of capitalism in the United States by early students of the imperialist epoch, like Ida Tarbell and John Moody, and by more recent critics who were influenced by Marx and Lenin. Important were Robert W. Dunn, Anna Rochester, James S. Allen, W.E.B. Du Bois, Hyman Lumer, William Domhoff, Shirley Ceresoto and Gabriel Kolko, as well as Socialist and Communist political leaders, notably Eugene Victor Debs, William Z. Foster, Henry Winston and Gus Hall. Important contributions have been made by modern Soviet economists, British critics of imperialism and others.

Economic events occur in a particular political environment and under a particular social and government structure, which affect economic life directly and influence it indirectly. All writers on economics, consciously or not, reflect their own political position and world outlook, which determine their views of economic laws and relationships, their attitudes toward the development of society. Popular U.S. economic textbooks, for example, support the capitalist political structure of U.S. society. They accept as actuality the equality of all citizens—equal democratic rights and equal opportunity—proclaimed in the Bill of Rights appended to the U.S. Constitution. They cover up the exploitation of labor by capital and the exercise of political power by the wealthiest capitalists; and they distort the image of the alternative, socialist society, which they portray as wholly negative economically, socially and politically.

In recent decades scores of studies have appeared criticizing U.S. capitalism. Many of these works—by Marxists, or by authors who considered themselves Marxists or "partial" Marxists—contain valuable material. But some reflect ideas that detract from or even negate the positive contributions of their critiques. Major recurrent fallacies include:

- nonrecognition of the conflict between capital and labor, and the increasing exploitation of labor by capital, as the basic reality of modern economic life in capitalist societies; and

• denigration of socialism in countries in the process of building socialist societies—the USSR and others.

By falsifying comparisons of the socialist societies, with capitalism in the quality of life, human rights and democratic participation in government, they undermine all struggles for social gains and for peace.

* *

The economy of capitalism is in a maze of contradictions, conflicts and crises. World War I and the victory of the Russian Revolution marked the beginning of the *general crisis of capitalism,* during which the system, despite temporary local successes and a continued overall growth in economic activity, has lost ground politically and economically—irreversibly. More and more peoples have escaped capitalist control. The colonial system has been smashed. Better organized forces have repudiated capitalism. Existing socialist states have made major economic gains in competition with capitalism and have achieved strategic military parity with it.

The only solution to the general crisis will be the universal replacement of capitalism by socialism. Not by the export of revolution, as charged, but in the only way possible—by the decision of the working people in each country and by their political victories in their own lands. The crucial question is not how long this process takes but that it take place without a global war, which in the nuclear age would be a catastrophe for all humankind.

Most important, out of World War II and the struggles of the several following years, the people in a number of countries of Europe and Asia, with total populations exceeding a billion, succeeded in overthrowing capitalism and proceeding toward building socialism.

In the 1970s a new *structural crisis* afflicted capitalism. The basic industries fell into an enduring slump, with mass unemployment and unprecedented inflation becoming long-lasting phenomena. The old methods of international exchange, based on the U.S. dollar in a stable relation to the price of gold, crumbled. Far-reaching changes in the balance of economic power among competing capitalist states occurred; the rise of Japan at the expense of its rivals created fresh contradictions and imbalances. The developing countries were engulfed in continuous financial crises, and drastic slashes in the living standards of their peoples failed to avert the danger of a debacle more severe than the bankruptcies and defaults of the 1930s. By the middle of the 1980s, no resolution of that structural crisis was in sight.

Finally, ever since the early part of the 19th century, capitalist economy has been afflicted by periodic *cyclical crises,* with recurrent cycles of decline, depression, recovery and boom. Typical cycles last from six to ten years and become more frequent and serious in periods of structural crisis.

When a cyclical crisis occurs during a structural crisis, there is a triple-layered crisis of capitalism—general, structural and cyclical. In such circumstances, all the problems of world capitalism are magnified; the sufferings of the working class are multiplied; and social struggles are intensified.

* *

Capitalism in the late 20th century has new features that must be taken into account in the study of political economy:

• Permanent militarization, even in periods of relative peace—mainly at the instigation of the United States—increasing in scale and breadth, distorting economic, social and political life.

• New forms of organization of capital, including multi-industry conglomerates and transnational corporations.

• The merger of financial and industrial monopolies, with the inflated role and power of the financial institutions.

• Increasing involvement of the state apparatus in economic affairs to shore up the capitalist economy and stimulate the profits of enterprises at the expense of their workers and consumers; to implement the militarization of the economy; and to organize the penetration, with military and financial aid, of foreign countries by the transnational giants.

• The long-term decline of basic industries and their partial replacement with new industries—plastics for steel; computerized complexes for traditional machinery; the growth of services, especially those with little or no social utility (e.g. advertising) replacing the weakened physical commodity production.

• A surge of parasitism, corruption and speculation, most flagrant in the United States but rapidly spreading throughout the capitalist world.

• Far-reaching internationalization of economic life, in contradiction to extreme differences in social conditions and mass living standards.

• Inevitable interactions of socialist and capitalist economies. Resisted and held in check by U.S. monopoly capital and its more subordinate allies, this interaction has the potential for significant positive impact on the economic life of both capitalist and socialist countries when it achieves full development.

• Outstanding scientific and technological advances that make available a broad range of new products and services and open vast new perspectives for health, education, recreation and the use of outer space, and new forms of energy for the population. However, with the reality of capitalist crises, the ability of the majority of the people to benefit from such progress is increasingly limited.

The advance of science and technology in this century has been phenomenal, especially since World War II. After the shocking horror of the U.S. atom bomb devastation in Japan, it was the socialist countries that promoted the scientific processes and their application for economic and social progress. But after the USSR's launching of Sputnik and the space voyage of Yuri Gagarin, competition between social systems spurred capitalist governments to support science and technology, mainly through grants to private corporations, universities and adjuncts of the military establishment.

Abetted by the new developments, it is evident that enough can now be produced to provide a relatively high, and constantly rising and broadening standard of living for everyone. There is no longer any objective material basis for the majority of the world's population to exist in extreme poverty. In fact, a number of capitalist-ruled former colonies and semicolonies have emerged as large-scale producers of advanced industrial products—although their social and economic backwardness has for the most part not been changed. Also, as their goods enter the markets of the developed capitalist countries, this contradiction adds to commodity gluts and general economic instability.

Overall, the gap between rich and poor, between developed and developing capitalist countries, has widened. Many of the gains in working-class living standards, hard-won during the first two-thirds of the 20th century, were halted and, in many instances, reversed.

The social sciences also advanced in the 20th century, furthered by the works of Lenin and his followers, by the study of the changing aspects of capitalist economic life, and especially by analysis of the new system of socialism.

Socialist long-range economic planning, which has resulted in such outstanding gains, was the most practical application of socialist political economy—one of the social sciences. Some capitalist governments and many corporate giants tried to adapt long-term plans to their operations, but under conditions of private ownership of the means of production, effectiveness was limited.

Toward the end of the century, social science faced new, far more complex problems of application in both socialist and capitalist countries—but the problems were different, as were the means of dealing with them. Socialist solutions relied on much greater participation of workers' collectives and industrial and agricultural enterprises to find a democratic way to proceed. Capitalist attempts at solutions led to a major offensive against labor, with the objective of overcoming crises by raising profits while lowering mass living standards.

The last half of the 20th century has been a period of unparalleled global tension. The United States has diverted a large part of its scientific effort to the development and production of ever more destructive weapons, forcing its principal target—the USSR—to do likewise. Tens of thousands of nuclear weapons exist. The U.S. government had overtly admitted its desire to initiate their use against the Soviet Union, an act that would lead to a conflict that would threaten the continuation of life on earth. (The USSR had pledged not to initiate such a war.) Hundreds of millions of people throughout the world are mobilizing to avert this ultimate danger, to demand the destruction of all nuclear arms.

Imperialism flaunts its power, intervening militarily and politically to "defend its vital interests" against national liberation movements, brandishing nuclear weapons against socialism, striving to destroy political parties and trade unions of the working class. One cannot accept with equanimity the inhuman crimes of capitalism in its period of general crisis—mass torture and murder up to the millions—whenever its power is threatened. But its excesses are reflections of underlying fear, recognition of the doom facing the capitalist system. Faced with defeat, capitalist bigwigs threaten the reckless actions that would destroy all.

In the United States, the capitalist offensive against labor has caused significant cuts in real wages and the weakening of trade unions. Racial discrimination has increased.

Capital has been internationalized, flowing readily from one country to another. Government economic intervention has increased manyfold, and includes more and more collaboration among the most advanced capitalist countries. But the regulations have not and cannot eliminate sharp rivalries among these states and among their capitalists. Nor can the anarchy of capitalism be overcome by these measures, which can at best merely temporarily soften the impact until accumulated contradictions explode.

In 1987 the capitalist world was shaken with the sharpest stock market break in history, hitting simultaneously all the continents and countries of capitalism, developed and developing. This presaged the outbreak of a global cyclical economic crisis and depression, the second of the decade. It also signified the collapse and disgrace of Reaganomics—"supply side" economics—the exercise of unlimited greed of the ultrarich at the expense of everyone else.

But an objective and scientific analysis of world affairs gives ground for optimism. The forces of peace and progress are gaining; the influence of labor—the largest and most revolutionary segment of society—is growing as the working class embraces ever larger majorities of the population. The contrast between socialism, forging ahead while dealing with its problems, and capitalism, in economic decline and crisis, becomes more apparent. It becomes clearer that capitalism will be replaced by socialism, eventually.

Summary and Outline

To summarize, this volume examines the major features of capitalism, its basic laws and their rapidly changing application in this period of accelerating crises and revolutionary transformations. Emphasis is on the second half of the 20th century in the United States—the heyday of monopoly capitalism. It begins, however, with the foundation of all societies, with labor as the creator of value, and the specific use of labor under capitalism—exploitation of wage labor by the owners of capital.

From that starting point, the increasingly complex features of modern capitalist economics are analyzed. The aim is to make the essential relationships and contradictions clear while striving to avoid getting bogged down in confusing and technical details.

Part I (Chapters 1-5): The basic laws of capitalism as they have evolved in the United States—labor and value, exploitation of labor, conditions of workers, racism, and the rate of profit.

Part II (Chapters 6-11): The control and operation of corporate America—the profits of control, bureaucracy and corruption, monopoly and finance capital, state monopoly capitalism and the superstructure.

Part III (Chapters 12–14): U.S. capitalism in its international relations—the militarization of the economy and the reasons for its magnification, imperialism in international trade relations and the export of capital, and the subjugation of developing countries.

Part IV (Chapters 15–18): The growing weaknesses of capitalism—economic crises, cyclical and structural, and the uneven development of capitalism in the United States, between capitalist countries, and between advanced and developing capitalist countries. And the final chapter contrasts capitalism and socialism.

"Will it help the economy to improve if I predict it will?"

I

1. Labor and Value

The outstanding pioneering economic theoreticians of industrial capitalism lived in England, where by the end of the 18th century capitalism was most fully developed, where there was the least interference with trade from feudal relations and restrictions, and where industrial production was already being carried out in mechanized shops employing many workers. Also vital was the fact that there was division of labor; most people bought most of what they consumed instead of producing it in their own backyards and homes. Further, there were large-scale markets where, at a given time, a specific commodity was sold at a uniform price.

In short, the life of the country provided the requisites for evolving a sound economic theory. And these trailblazers based their theoretical concepts on study of the elementary question: What determines the value of a commodity? In economics, this principle has an importance comparable to that of the multiplication table in arithmetic.

First, the definition of a commodity: it is, simply, something produced and offered for sale. A vegetable grown in one's backyard for one's own consumption is not a commodity. Neither is a homemade chair for one's own living room.

Second, there are two different kinds of value. One is quantitative value—the exchange of a commodity for money or in barter for another commodity. That is the economic *exchange value* of a commodity, approximated by its market price. The other kind of value is qualitative—the particular *use value* of the commodity in question. It is not a quantity. Bread is to eat and a shirt is to wear, but one cannot say, for example, that a loaf of bread has 10 units of use value or usefulness and that a shirt has five. Some of the most useful things in the world can't be classified as commodities at all.

An example? Animals, including humans, cannot live without air. Everybody uses it and nobody owns it. However, at the present time, with the polluted air in the cities, the cleaner air in the suburbs becomes an element in assessing the exchange value of property. Thus, in economics, perhaps more than in the physical sciences, there are many relatively minor exceptions to every law, and there is a danger of confusing real issues by getting into scholastic arguments over the exceptions.

The basic point is that air has no exchange value, no market price, but has a specific use value or utility that is not measurable. Nevertheless, as will be developed in a later chapter, the attempted quantitative measurement of utility, or use value, played a decisive part in capitalist economic theory for a rather long period, and still does in significant theoretical variants.

Smith and Ricardo

Adam Smith, a Scottish professor, published his classic *The Wealth of Nations* in 1776, the year of the American Declaration of Independence. In the very first sentence, Smith proclaimed the labor theory of value:

> The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour, or in what is purchased with that produce from other nations.[1]

Further on Smith explained:

> Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life. But . . . it is but a very small part of these with which a man's own labour can supply him. The far greater part of them he must derive from the labour of other people, and he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase. . . . Labour, therefore, is the real measure of the exchangeable value of all commodities.
>
> The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What is bought with money or with goods is purchased with labour, as much as what we acquire by the toil of our own body. That money or

> those goods indeed save us this toil. They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase-money that was paid for all things.[2]

In 1817, 41 years after publication of Smith's work, David Ricardo's *The Principles of Political Economy and Taxation* was published. This was two years after the final defeat of Napoleon, at the high point of British supremacy in the world of capitalism and as colonial overlord in Asia, Africa and the Americas. Development of industry had gone much further. It was a period of great prosperity for British capitalists at the expense of the superexploited and impoverished men, women and children of the British working class, as yet without organization.

Ricardo was a wealthy capitalist and an economist who, shortly after publication of his book, bought himself a seat in the British Parliament—just as U.S. multimillionaires today buy, if less directly, seats in the U.S. Congress. The attitude of the British ruling class to the working class is suggested by Ricardo's referring to the "race" of laborers, as if to an inferior species. And indeed, workers were forced to live in the subhuman conditions depicted by Charles Dickens.

Nonetheless, Ricardo developed Smith's law of value, corrected certain inconsistencies in Smith's analysis and sharpened the labor theory of value and its central role in capitalist economics. Accepting the subordination of labor to capital as the natural order of society, and not foreseeing any threat to that order, Ricardo had no hesitation in proclaiming essential facts about the labor theory of value. He wrote:

> That this is really the foundation of the exchangeable value of all things . . . is a doctrine of the utmost importance in political economy; for from no source do so many errors, and so much difference of opinion in that science proceed, as from the vague ideas which are attached to the word value.[3]

Smith and Ricardo included the value of labor at various stages of production—thus the value of a shirt includes the labor required to produce the cotton, a small fraction of the labor required to produce the sewing machine, and the labor of the factory machine operator. Further, with variations in supply and demand, the actual market price will fluctuate around the real value, which Ricardo called its "natural price."

Smith at times confused the value created by labor with labor's reward. Ricardo criticized the idea that if a worker doubled his productivity, he would be paid twice as much. He recognized that under capitalism the worker's laboring time became a commodity that the capitalist bought. He wrote:

> Labor, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labor is that price which is necessary to enable the laborers . . . to subsist and to perpetuate their race, without either increase or diminution. . . . The natural price of labor, therefore, depends on the price of the food, necessaries, and conveniences required for the support of the laborer and his family.[4]

In other words, the law of value, as Ricardo saw it, doomed workers to a life at bare subsistence level—the cost of the commodities necessary to keep a family functional: to maintain adequate health to continue on the job and to enable the next generation to reach working age as replacements. This brutal law of capitalism expressed the reality of the system's functioning.

The real wages of labor, according to Ricardo, tend to stay the same, with the amount of money changing in proportion to changes in the cost of living. But this is qualified by the supply and demand for labor. Ricardo expected that the tendency would be for the supply of labor to increase more rapidly than the demand for labor, so that: "In the natural advance of society, the wages of labour will have a tendency to fall, as far as they are regulated by supply and demand."[5]

Ricardo stressed that " . . . wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature."[6]

This might almost be the language of a late 20th century U.S. politician whose goal is to slash or eliminate minimum wages, arguing that this would lead to an increased demand for labor. With a further modern-sounding argument, Ricardo denounced the relief given to the hungry unemployed and to those employed at less than subsistence wages in England:

> The clear and direct tendency of the poor laws is in direct opposition to these obvious principles: it is not, as the legislature benevolently intended, to amend the condition of the poor, but to deteriorate the condition of both poor and rich.[7]

Relief would, he asserted, take more and more of the "net revenue" of the country, leaving little for progress.

Instead, urged Ricardo, the legislature should require the poor to have fewer babies, thereby improving the balance of supply and demand for labor. In the same way, zero population growth was recommended as the "solution" for countries like India by the Rockefeller Foundation; and in the United States thousands of Black and Puerto Rican women were tricked or forced into being sterilized in the second half of the 20th century.

Ricardo explained the source of profits as follows:

Since a worker would produce more wheat, for example, than the wheat and wheat equivalent in other commodities that he and his family would consume, purchased by his wages, the capitalist's profit would be equal to the difference between the worker's production and his wages, after subtracting a payment to a landlord for rent.

Ricardo gave a typical example:

For the value of 100 of any commodity, the landlord got the value of 25, the worker of 25, and the capitalist of 50. However, when with the introduction of new machinery the capitalist was able to get the worker to produce twice as much, neither wages nor rent would go up in proportion, so that the capitalist's profit share would rise.[8]

Karl Marx

The ideas of Smith and Ricardo were important starting points for the work published fifty years later, in 1867—Karl Marx's *Capital.* Marx went far beyond Smith and Ricardo in his analysis of the relationship between capital and labor. The man with money (wrote Marx), seeking to become a capitalist and make a profit, has to buy machinery, a structure and raw materials. But he cannot, as a rule, make money simply by selling what he buys in the same form, without transforming it. Value is simply transferred to the finished product unchanged, all at once in the case of raw materials, and over a period of years, through depreciation, in the case of machinery and structures. To make a profit, the capitalist has to put into the process a commodity that creates additional value, over and above its cost, in the process of production. That commodity is labor power, the only commodity the worker owns other than his goods for his own consumption.

The worker, the owner of labor power that he sells to the capitalist, must be free to sell his services; and he must *have* to sell them because he lacks the money to buy machinery and raw materials that would enable him to carry on production of finished products on his own:

> For the conversion of his money into capital, therefore, the owner of money must meet in the market with the free labourer, free in the double sense, that as a free man he can dispose of his labour-power as his own commodity, and that on the other hand he has no other commodity for sale, is short of everything necessary for the realization of his labour power.[9]

The worker sells his labor power for *its* value; that is, what is needed to recreate that labor power or ability to work for another day. But the worker is able to work a full day, while the "value" of his ability to work, of his labor power, is only part of a day's work. That difference, between the full day—of, say, eight hours—and the time needed to produce what the worker needs to continue the next day—say three hours—that five-hour difference represents the profits of the capitalist, the essential goal of capitalist production.

Because the money used to pay wages increases in value through the accumulation of surplus value from the workers' wages, Marx called that money *variable capital,* as distinct from the *constant capital* used to purchase raw materials or machinery, which merely transfer their cost to the value of the finished product.

Karl Marx's *Capital* was undoubtedly the most influential economics book ever published. Far-reaching political events had taken place: the British working class had conducted bitter class battles, had organized trade unions; earlier vague ideas of socialism had crystalized into political organization and struggle; in the 1840s popular revolutions took place in Germany and France. These uprisings were defeated, but they set the stage for further advances. Marx and Frederick Engels, participants in the German struggles, issued the *Communist Manifesto,* the guide to effective revolutionary organization, and themselves played a leading part in the formation of Communist parties.

Forced to leave Germany after the defeat of the 1848 revolution, they moved to England, where Marx was able to study most effectively the operations of capitalism.

Engels, in the preface to the first English-language edition of *Capital,* wrote in 1886:

> "Das Kapital" is often called, on the Continent, "the Bible of the working class." That the conclusions arrived at in this work are daily more and more becoming the fundamental principles of the great working-class movement, not only in Germany and Switzerland, but in France, in Holland and Belgium, in America, and even in Italy and

> Spain, that everywhere the working-class more and more recognizes, in these conclusions, the most adequate expression of its condition and of its aspirations, nobody acquainted with that movement will deny.[10]

Referring to Smith as the originator of the labor theory of value, the American social democrat Max Lerner wrote that " . . . it remained for Karl Marx to refine it, convert it into an instrument of analysis, extract the revolutionary implications that were inherent in it from the start."[11]

The struggles of the American people to win freedom from colonialism and from slavery played no small part in creating the conditions in which these important guidebooks would have maximum influence, and would further stimulate the world revolutionary movement. In fact, Marx wrote in his July 1867 introduction to the first German edition of *Capital:*

> As in the 18th Century, the American war of independence sounded the tocsin for the European middle-class, so in the 19th Century the American Civil War sounded it for the European working-class.[12]

Fifty years later the Russian Revolution of 1917, the first victorious working-class revolution, "sounded the tocsin" for global liberation struggles—for the many that have been successful and for those that are still going on. Political awareness led to greatly intensified interest in and usefulness of the economic writings of Marx and his successors, as well as to the need to project his concepts in the light of the vast changes and growing complexity of latter-day capitalism in its stage of extreme decay and in view of the challenge by the forces of progress and liberation.

Analyzing the share of the values created by labor that is appropriated by capitalists and landlords, Marx called this quantity *surplus value,* representing the *exploitation of labor* by capital. By fully appreciating, correctly interpreting and developing this basic concept, Marx unraveled all the fundamental contradictions of capitalism, and showed the inevitability and necessity of replacing it with socialism. This was a giant leap forward in economic science, analogous to such steps as developing the atomic table in chemistry, the forces of radiation in physics and the calculus in mathematics.

Marx recognized that the market *price* of a commodity rarely equaled its *value.* First, the price would fluctuate above and below the commodity's objective *value* with changes in supply and demand.

Second, the price would tend to be higher or lower than the commodity's value according to whether more or less than the average amount of capital per hour of labor was required.

But the main issue remains: that *price* is governed, basically, by *value,* which, in turn, is equal to the average hours of labor required to produce the commodity. Naturally, not all workers are equally skilled and not all work is equally hard, representing fluctuations around the *average.* But for understanding how capitalism works, it is hours of labor at average skill and average intensity that are considered.

Marxist economic theory continued to be developed after Marx. The most important major addition was Lenin's *Imperialism,* which examined the nature of capitalism in the epoch of monopolies, with the division of "Third World" colonies and semi-colonies among the imperialist powers. *Imperialism* defined the main contours of capitalist economics in the highest and final stage of the system.

Lenin's theories, as well as later developments of Marxist economics, are presented in later chapters.

Marshall and the anti-Marxists

Capitalist economics took a sharp detour from the road laid out by its pioneers, Smith and Ricardo, after Marx, the French Revolution, and the rapidly growing world socialist and trade union movements. Bourgeois economists did not attempt a serious refutation of Marx. They simply ignored him or dismissed him with insulting comments or distortions of his writings, absurd reversals of aspects of his economic theories. In post-Marxian capitalist economics, there is no longer an objective, independent theory of value, based on material production relations, but only subjective, psychological concepts not subject to measurement. For purposes of measurement, value is reduced to market price, defined as the balancing point between supply and demand, and divorced from production relations.

Moreover, capitalist economics has become the conscious instrument of the exploiting class in its attack against the workers. It provides "theories" to support capitalist positions in opposition to workers' demands; it invents new theories whenever developments raise new issues of economic policy.

Otherwise, capitalist economics has engaged in detailed analysis of markets and input-output models, and has become a service for traders, speculators and corporation sales departments. The increasingly serious cyclical financial and industrial crises of capitalism have been dismissed as accidents, having no relation to the "normal" operation of the system, and blame has often been placed on the "unreasonable" demands of workers. Capitalism has been viewed as eternal, the highest achievement of social organization, and proponents of socialism have been dismissed as eccentrics, or treated as "subversives" subject to imprisonment in many countries, including at times in the United States.

The most prominent bourgeois economist after the publication of Marx's *Capital*—up until World War I—was England's Alfred Marshall. Marshall was concerned not with a scientific analysis of economic processes but with providing ammunition for the capitalist class in the struggle with labor. Beginning in the 1890s, his *Principles of Economics* was for decades the best-selling economics text in capitalist colleges. It responded to the new situation wherein the world socialist movement was growing apace, Marx's theories were adhered to by millions, and trade unions had arisen and become effective instruments of struggle for the working class against their exploiters.

While his work is not widely used directly today, Marshall's theories are very much alive in the propaganda of the capitalist class, and remain part of the basic underpinnings of later generations of capitalist economists.

Calling himself a follower of Ricardo, he actually differed radically from Ricardo as well as from Marx, whom he attacked, and he substituted a mystification of value, a nebulous theory that amounted to an unmeasurable, imprecise apologia for capitalist profits.

Surplus value, as well as value in general, Marshall argued, is not the product of labor alone. The yarn produced in a factory, he said, is not solely the product of the laborer who makes it.

> It is the product of their labour, together with that of the employer and subordinate managers, and of the capital employed; and that capital itself is the product of labour and waiting: and therefore the spinning is the product of labour of many kinds, and of waiting. If we admit that it is the product of labour alone, and not of labour and waiting, we can no doubt be compelled by inexorable logic to admit that there is not justification for Interest, the reward of waiting.[13]

Aside from the truism—well known to Ricardo and Marx—that labor at various stages of production had to be added up, the essential Marshallian "contribution" was that the capitalist, by his "abstinence," his "waiting," creates value that, in fact, is generally greater than that created by physical labor. This and other psychological "costs" substituted for actual physical labor became the key device used by Marshall and other bourgeois economists to try to glamorize capitalism and refute Marx. Of course the capitalists weren't "waiting" in any case. They were living high off the hog even while they invested their capital and later collected their profits, whether in the form of stock dividends, interest, or entrepreneur's profit.

But note Marshall's important admission: to recognize the correctness of the labor theory of value is to admit that there is *no justification* for capitalist profits—or, ultimately, for the capitalist system.

The U.S. Department of Labor uses Marshall's approach by calculating "multifactor productivity"—averaging output per hour of all persons (labor productivity) and output per unit of capital services. Using this procedure, for example, its calculations would show that an employee on the Ford assembly line, working more effectively than the previous year, produced 2.8% more parts in 1983; while the Ford stockholder, sitting at home and collecting dividends, "produced" 3.1% more by "waiting" for dividend checks in 1983 than in 1982![14]

Obviously this kind of reasoning provides capitalists with a useful weapon in their conflicts with labor over wages, working conditions, etc. The precepts of Smith, Ricardo and Marx—that labor is the sole creator of value—are a potent weapon for labor in its struggles for a better life.

Another psychological deviation used by Marshall was "consumer's surplus," a measure of the amount of satisfaction a consumer got by paying less than the highest price he would be willing to give for a specific commodity. Moreover, the whole materialist basis of economics was casually discarded by Marshall:

> Man cannot create material things. In the mental and moral world indeed he may produce new ideas; but when he is said to produce material things, he really only produces utilities; or in other words, his efforts and sacrifices result in changing the form or arrangement of matter to adapt it better for the satisfaction of wants.[15]

Thus, by refusing to recognize the difference between use value and exchange value, Marshall promotes a mystical psychological concept that aims to blur the real material difference between the situation of the millionaire and that of the worker.

Marshall devoted much attention to the analysis of how changes in prices balanced changes in supply and demand.

On the central issue of the class struggle, Marshall abandoned his theoretical generalizations and directly entered the lists on behalf of capital against labor. He avers that unemployment is caused by trade unions, which jack up wages, and that the only cure is to cut wages.[16]

And further, Marshall directly attacks socialism:

> . . . too great a risk would be involved by entrusting to a pure democracy the accumulation of the resources needed for acquiring yet further command over nature.
>
> There is therefore strong *prima facie* cause for fearing that the collective ownership of the means of production would deaden the energies of mankind, and arrest economic progress.[17]

The Marshallian school of economists became discredited when the Russian Revolution proved that capitalism was not eternal. Also, the exposure of price-fixing and supply-restricting actions of giant monopolies have made mincemeat of supply/demand analyses based on "free, fully competitive" markets. Finally, these economic theories lost all relevance to reality in the 1930s, with the great crisis of world capitalism, huge financial bankruptcies, declines in production and rampant unemployment afflicting tens of millions, as well as the fact that revolutionary movements had become a major element and that fascist counterrevolutionary capitalist states were rising.

Keynes and Samuelson

John Maynard Keynes was the most prominent economist during the 1930s. He attempted to adapt capitalist economics to the new situation. Of special importance, he analyzed in detail the relationship between investment and consumption.

The fruits of labor are used partly for accumulation, for investment in plant and equipment with which to expand production, and partly for direct consumption. This is true in both capitalist and socialist societies. Stable growth requires balance between accumulation and consumption. But this concept contradicts the aim of capitalists—to accumulate as much capital as fast as possible by restraining wages, thereby reducing the ability of workers to purchase consumer goods.

Keynes and his followers wrestled with this contradiction, but all their attempts to resolve it to the advantage of the capitalist class failed. Meanwhile, rapid progress in the Soviet Union showed that correlative growth of both investment and consumption was possible when the ultimate goal of a society was to raise the welfare of all.

Keynes dealt with capitalism in its epoch of long-term decline, of monopolies, and of extensive state involvement in economic life. Like his predecessors, he lacked an objective theory of value and disdained Marx's work, referring to the "underworld" of Marx; he didn't even mention Lenin, who analyzed capitalism in 20th-century conditions.

Keynes recognized the harmful consequences resulting from capitalists' greed, but still considered an environment to satisfy their profit goals necessary, despite the effect of their avarice:

> The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes.[18]

Keynes represented certain reformist trends. He favored amelioration of the evils, but only insofar as they did not disturb the capitalists' "incentive" to invest and produce, with due regard for the "nerves and hysteria and even the digestions . . . of those on whose spontaneous activity it largely depends."

As the crisis of capitalism deepened, outright reactionaries, opposing all reforms, became more prominent among Establishment economists. They did not even consider it necessary to rationalize unbridled profiteering. Thus, presidential adviser Milton Friedman:

> What kind of society isn't structured in greed? The problem of social organization is how to set up an arrangement under which greed will do the least harm.[19]

Post-Keynesian economists who support capitalism rarely even define the value of a commodity. Paul Samuelson's *Economics* was for decades the most widely used economics textbook in U.S. colleges. At least 100 of its 800 pages are devoted to prices and pricing, with supply/demand determination of the marginal utility theory at its core.

Without presenting an objective theory of value, Samuelson indulges in brief polemics against the labor theory of value, limiting himself to Adam Smith's formulations. He fails to deal with Marx's clear distinction between use value as a *quality* and exchange value as a *quantity,* but contents himself with the comment that Smith's assertion that water is more useful than diamonds but costs less, is the "paradox" of the labor theory of value, which Smith "never did quite resolve."[20]

Smith did present the diamond and water example cited by Samuelson, but he stated, quite definitely, "Labour, therefore, is the real measure of the exchange value of all commodities."[21]

Thus, the labor theory of value applies specifically and solely to the exchange value of a commodity and not to its particular utility or use value.

Toward the end of his book, Samuelson proclaims the "End of the Labor Theory of Value." His "refutation" consists of the claim that the labor theory of value ignores the effect of higher ground rent in raising the price of one commodity as compared with another.[22] But he disregards Marx's discussion of ground rent as a form of distribution of surplus value and his detailed explanation of the fact that the monopoly represented by ownership of better land results in differential rent, or surplus profit, and is a factor in raising prices.[23]

Post-Samuelson

Economic, social and political life has changed more in the 20th century than in the previous five centuries taken together and the pace of change continues to accelerate. But with all the dynamic changes, labor remains the source of value, and the ever-increasing exploitation of labor remains the objective of capitalism, the source of its enormous profits, the stimulus of its increasing cruelty, aggressions and military preparations.

Some capitalists, secure in the belief that their words will not become the property of the general public, blurt out the core of this elementary truth when they are addressing "their own kind." Walter B. Wriston, then chairman of Citicorp, now the largest U.S. bank, said in a 1977 address to a banker-sponsored dinner:

> There is no mystery about the definition of capital. Every economist from Adam Smith to Karl Marx has agreed that capital is nothing but stored-up labor, either your own or someone else's. Somebody has to work hard enough to earn a wage and then exhibit enough self-denial to save some of what he earned. There is no other way to create it. To use Marx's phrase:
>
> "As values, all commodities are only definite masses of congealed labor time." Whether the commodity is money or goods, whether it belongs to a capitalist or a communist makes no difference. It is valuable because somebody's labor is stored up in it, and that is what you are paying for; or what you are borrowing for, or, if you are running a controlled economy, what you are trying to allocate.
>
> If you raise the price of a commodity, what you are really doing is trying to exchange the amount of labor stored in that commodity for

> a larger amount of labor stored somewhere else. Neither Adam Smith nor Karl Marx would have any quarrel with that statement, but this basic fact often gets lost when we fail to define terms.[24]

Just two "minor" corrections! The owner of capital does not earn a wage, nor exhibit "self denial." By means of *owning* capital—by inheritance, piracy or military conquest—he *imposes* on the wage earner denial of a large part of the value the worker's labor created, and appropriates this surplus as added capital. It does make a difference whether the capital belongs to a capitalist or to the collective working class in a socialist society, to "a communist." In the former case it is used for the central purpose of accumulating more capital; in the latter case, for improving the welfare of the collective.

Class Distribution of the Population

The Labor Department counted 119.5 million people in the labor force in 1986, including 8 million unemployed. Of the 119.5 million, by rough approximation:

- 108 million were members of the working class;
- 10 million were in intermediate positions—small capitalists, lesser officials, managers and bureaucrats, small proprietors and farmers, and self-employed professionals; and
- 1.5 million were capitalists, in the capitalist class proper.*

Thus the working class accounted for 90% of the population; the middle classes—9% of the population; the capitalist class—little more than 1%. But that 1% controls the economy of the country.

Over the years, the size of the working class—its percentage share of the total population—has steadily increased. The relative share of the middle class has dwindled. Numerically, there are more

*Estimated by data contained in the Current Population Survey of the U.S. Department of Labor, in *Employment and Earnings*, January 1987. The basis for estimating the size of the capitalist class is discussed in Chapter 2.

The intermediate layers are identified by the overlapping numbers of self-employed and the executive, administrative and managerial workers, including both self-employed and on payrolls. But the median earnings of these categories were only a bit more than $25,000, meaning that the majority of them could scarcely qualify as full capitalists. Some consider themselves workers—more than 900,000 were represented by unions and doubtless many more wanted to be. The majority are objectively in an intermediate position, between capitalists and workers, but with a strong tendency to identify politically with the capitalist class. However, as the crises of capitalism deepen, more and more will unite with workers on specific issues.

The workers are all the remaining members of the labor force.

capitalists, but there is more concentration of wealth and power in the hands of fewer of them.

Industrial Workers

Goods-producing workers, especially industrial workers, constitute the core of the working class. By 1985 they made up about one-third of the working class (see chapter 11). The proportion of industrial workers has declined as the proportion of service workers has risen. However, industrial workers have ever been the leaders in organizing trade unions and anti-capitalist political parties, as they have been in the struggles against exploitation.

As technology has advanced and economic enterprises have been concentrated into mega-units, the differences between goods-producing and service-producing workers have narrowed. Service workers have become more involved in labor issues, and their alliance with industrial workers has been very important.

The category of *productive workers* is considerably broader than that of goods-producing workers, and the distinction between those who produce surplus value and those who do not is necessary to fully understand the operation of capitalist economy.

Productive and Nonproductive Labor

Workers who produce commodities for sale create surplus value. Although roughly half the working class does not fit into that definition, those workers who do not create surplus value are also exploited by their employers, who get a share of the surplus value created in the commodity-producing sector.

For example, if an auto worker creates $5,000 of surplus value in a car, $2,500 of this is kept by the auto manufacturer and $2,500 is part of the retail markup, which is divided between the dealer and his employees. The class conflict between the dealer and the dealer's employees is just as real as that between the factory workers and their employers, even though the surplus value is all created at the factory level.

There are many categories of workers who do not produce surplus value. Government employees may perform useful services—building roads, maintaining public libraries, operating the mail service—

but as they do not, except rarely, produce commodities for sale, they do not produce exchange value.

Private household servants perform useful value for their employers but not exchange value. Employees of stock exchange firms, on the other hand, create exchange value—in the form of commissions received by their employers—but no use value; there is no addition to the country's capital or stock of consumer goods in the sale of stock from one owner to another. The same applies to bank employees, whose services are essentially to facilitate the collection of interest—i.e., of surplus value created by workers in production industry. Large categories of corporation employees—clerks who record the work done and send out bills, and especially the superfluity of largely parasitic vice-presidents and other officials—are not productive according to Marxist criteria. But Marx regarded as productive the trade workers engaged in storing, transporting or handling goods, rather than those acting as salesmen. And engineers, salaried technicians and managers who actually organize production are also producers of value.

Opinions may well differ on many specific categories that appear as borderline cases. Consider, for example, scientific and technical employees of corporations engaged in research to develop new and improved products. Should they be regarded as producers of capital, as are those who produce machinery that will make possible the production of the better commodities more efficiently?

Again, what about producers of military goods? The items they make certainly have exchange value, but is their purpose—to kill—useful in the accepted sense of the term, which includes both the direct satisfaction of human needs and the production of materials, structures and equipment that contribute to the manufacture of goods for human needs? Here they are classified as nonproductive (see chapter 12).

Or consider the checkout clerks, mainly women, in modern supermarkets. Working with speed, efficiency and a high degree of accuracy with computerized equipment—for ridiculously low wages—they perform the dual functions of computing the customers' tally and packing their purchases. Strictly speaking, the first function could be classified as nonproductive; the second as productive. This supermarket, an assembly line-style establishment, has little in common with the traditional small retail enterprise where the proprietor devoted his energies to waiting on customers.

Especially conspicuous in the modern period of monopoly capitalism is the huge expansion in the share of surplus value appropriated by finance capital, and the rapid increase in the number of employees in banks, insurance companies, stock exchange firms, etc. Marx was most explicit in regarding this as nonproductive activity, although he did not deal directly with the question of bank employees: the modern large-scale financial enterprises did not yet exist.

> With the growth of material wealth the class of money-capitalist grows; on the one hand, the number and the wealth of retiring capitalists, rentiers, increases; and on the other hand, the development of the credit system is promoted, thereby increasing the number of bankers, money-lenders, financiers, etc. With the development of the available money-capital, the quantity of interest bearing paper, government securities, stocks, etc., also grows . . . with the development of the credit system great concentrated money-markets are created . . . which are at the same time the main seat of the trade in this [financial] paper. The bankers place huge quantities of the public's money at the disposal of . . . unsavory crowd of dealers, and thus this brood of gamblers multiplies.[25]

In the latest period, billions at a time are loaned out by the bankers to groups of capitalists who want to gain control of large corporations with a minimum of their own capital. Stock exchange firms are similarly engaged in the sale of large quantities of "junk bonds" for the same purpose.

It must be made clear that the distinction between productive and nonproductive workers is not identical with the distinction between mental and manual workers, nor with the distinction between producers of goods and the producers of services.

Most manual workers are productive. A large proportion of mental workers—engaged in realizing, recording or otherwise facilitating the collection of surplus value—are nonproductive; but many mental workers, who directly contribute to the production of valuable goods and services, are productive.

Most workers producing goods are productive. Most workers performing services, inasmuch as their services are not sold on the market (e.g., government services) or are used to facilitate the realization of values without adding to the usefulness of the commodity (e.g., advertising), are nonproductive. But those workers engaged in performing useful services for the market are clearly productive (e.g., a bus driver who transports a passenger for which a fare is paid).

Most professional workers—teachers, doctors and nurses, artists and performers—create use values; but only those privately employed for sale of their services on the market are producing surplus value.

Contrary to many critics who oversimplify and distort his work, Marx followed this approach, as shown by David Leadbetter, a Canadian economist, in his "The Consistency of Marx's Categories of Productive and Unproductive Labour."[26]

During the epoch of imperialism, in the 20th century, the proportion of nonproductive workers under capitalism has risen significantly, with far-reaching social and economic effects. Leadbetter, examining Canadian data, found the proportion of nonproductive workers rising from about one-third in the early 1920s to more than 40% in the 1950s, passing 50% in 1968 and expanding to 55% in 1982, the final year covered by his study. He calculated the percentage of nonproductive workers in 1980 at 53.8%, not far from the 51.1% calculated in this chapter for the United States in 1980. (See Appendix Table 1A, p. 511.)

U.S. sociologist David Eisenhower used similar criteria in dividing U.S. workers between productive and nonproductive, but included self-employed as well as wage and salary workers.[27]

According to Marxist criteria, of about 90 million wage and salary employees in the United States in 1980, 44 million were productive and 46 million nonproductive, a difference of limited significance considering the wide margin of error in the estimates. However, since the proportion of nonproductive workers has been rising, by the late 1980s the proportion of nonproductive workers certainly exceeded 50% by a significant margin. Thus less than half of all employees are now providing the revenue not only for all forms of capitalist profit and for taxes paid to governments, but also for the wages and salaries of the majority of employees who are not themselves producing surplus value.

Labor vs. Capital, Productive and Nonproductive

The terms *productive* and *nonproductive* are not meant to convey merit or demerit but refer to the different objective economic impact of various kinds of work. It is important to recognize that the distinction between productive and nonproductive labor is necessary mainly for a precise analysis of capitalist economic relations and dynamics. There is no essential *class difference* between productive and nonproductive workers. For the most part, nonproductive workers, like productive workers, are exploited by their employers, and to an increasing extent struggle for better conditions, as do productive workers.

Take banks, for example. Banks are necessary for the functioning of capitalism but add nothing to the supply of consumable goods or services. The capitalist class, directly and indirectly, has organized society so that people are virtually compelled to use banks as financial intermediaries. Most workers and employees are paid by check and have to go to a bank to cash it or deposit it in a savings or checking account. Most business transactions—such as monthly utility and other charges—are paid by mail, requiring the use of checks, and thus of banks.

Carrying cash to pay for most purchases has become inconvenient. And as a result of the decay and corruption of capitalism, there is another reason why dependence wholly or mainly on cash is foolhardy; in the five years 1979-1983, there were 64 million crimes committed in the United States, most of them involving robbery or theft, with many leading to assault, rape or murder. During those same five years, there were 61 million families in the United States.[28] Thus the likelihood of being robbed once or even several times during a lifetime has been extremely high, making the carrying or keeping of money at home a high-risk practice.

As intermediaries, the banks, not producing values themselves, receive a substantial part of the value—the surplus value—generated in the goods-producing sectors of the economy: interest on loans, fees for banking services, investment operations, etc. The banks' top brass drive the clerks and tellers just as hard and squeeze their salaries just as severely as the factory owners drive and squeeze productive wage earners. Bank employees who do the bulk of the work, under great pressure, receive only a minor fraction of the banks' incomes. But the banks' total outlays—the tellers' low salaries as well as the executives' high salaries, the interest and dividend payments, etc.—are all derived from surplus value produced elsewhere.

From the viewpoint of the banker bosses, profits depend greatly on how successful they are in "holding down labor costs." They are not concerned with the fact that their total revenue comes from surplus value, but they are concerned that as much of it as possible is kept for them, their fellow executives and the banks' stockholders, and that as little as possible is used to pay salaries of bank employees.

Thus the bank teller's work is nonproductive in the economic-scientific sense of creating new values. It is not useless or unnecessary in this society.

Marx on Productive and Nonproductive Labor

Marx was quite explicit on this issue. He wrote:

> Just as industrial capital makes profit by selling labour embodied and realised in commodities, for which it has not paid any equivalent, so merchant's capital derives profit from not paying in full to productive capital for all the unpaid labour contained in the commodities . . . and by demanding payment for this unpaid portion still contained in the commodities when making a sale.[29]

In other words, the merchant's 20% markup on cars or 50% on drugs represents the share of the surplus value, produced by auto workers or pharmaceutical factory workers, that is conceded to him by the industrial capitalist as a necessary payment for the merchant's investment to market the products. But the merchant keeps this share of the surplus value only to the extent that he doesn't have to pay it out to his own workers, who do the actual work of handling and selling the cars and drugs. Marx explains:

> It is only through its function of realising values that merchant's capital acts as capital in the process of reproduction, and hence draws on the surplus-value produced by the total capital. The mass of the individual merchant's profits depends on the mass of capital that he can apply in this process, *and he can apply so much more of it in buying and selling, the more the unpaid labour of his clerks.* The very function, by which the merchant's money becomes capital, is largely done through his employees. The unpaid labour of these clerks, while it does not create surplus-value, enables him to appropriate surplus-value, *which, in effect, amounts to the same thing with respect to his capital* [my emphasis—VP].[30]

So the supermarket owner is driven just as much as the factory owner to speed up, to underpay, to get as much out of his workers for as little pay as possible, to fight their attempts to organize unions—in brief, to exploit them in the same way and as savagely. Increasingly, as the scale of merchant capital operations expands, nonproductive workers in trade—and in finance—are being driven to organize to protect their class interests, which are identical with those of workers in the productive sphere of the economy.

Economists who support capitalism make no distinction between productive and nonproductive labor. Opposing the labor theory of value, they regard the "value" of the worker's output as equal to the wages or salary paid, regardless of the industry or occupation.

Indeed, the measurement of gross national product (gnp) in official statistics is essentially equal to the sum of incomes paid out in the economy. That is, the capitalist is credited with "producing" an amount equal to his profit—in whatever form distributed—just as the worker is credited with "producing" the amount equal to his wages. In addition to the theoretical falsity of this approach, it suffers from huge distortion because official statistical accounting omits vast parts of the revenues appropriated by the capitalists, through "expense accounts," unreported entrepreneurial profits, fabricated deductions from profits, unreported rents, interest, etc.

In socialist society also, the labor of those producing values must provide an economic surplus, part of which is used to pay for the labor of those who do not produce values. However, none of the economic surplus is used to provide vast revenues for exploiting classes.

The distinction between productive and nonproductive labor is important not only in calculating the rate of exploitation of labor, or surplus value, but also in calculating trends in labor productivity. Official analyses of trends in labor productivity are crudely distorted, ignoring this distinction not only in figuring the number of man-hours involved in production, but, even more important, in calculating the "real" value of production. This is examined in chapter 2.

Class Struggle

Exploitation of labor is at the root of the class struggle between labor and capital. Workers know they are not getting a fair wage for their work. They resent arbitrary dictation by employers, poor and dangerous working conditions, and excessive hours of labor. Employers know that their profits depend on squeezing the utmost out of their workers. All attempts to create lasting class harmony have failed and are bound to fail as long as capitalist exploitation remains, and capitalism cannot exist without exploitation of labor.

A primary expression of class struggle is the strike, the collective action of workers to withhold labor from an employer until demands are met. Since the early 1930s there have been, in most years, thousands of strikes involving millions of workers in the United States. The longtime trend has been upward, peaking in the decade of the 1970s with more than 52,000 strikes involving 23 million workers in the 10 years.[31]

In the late 1970s, and especially during the 1980s, strike activity declined sharply, despite worsening labor conditions. The structural crisis, with its heavy unemployment; the ability of monopolies to close plants and move to lower wage countries; the antilabor offensive of the Washington administrations; and weakened labor unions all contributed to cause more strikes to be lost.

The U.S. working class has an outstanding record of militant struggle. Other countries have also had active strike actions, usually peaking in the 1970s: e.g., Canada, Australia, New Zealand, Japan, France, Italy and the United Kingdom. Increased contradictions between capital and labor in the current period make it likely that strike actions will be renewed. However, the internationalization of capital and the growth of state intervention in the economy have demonstrated the need for labor to emphasize political action pitting labor against capital on a national and, to the extent possible, international level.

As industry advanced in some developing countries, organized labor grew rapidly, and there were strikes and other forms of struggle in the 1980s—as in South Korea, South Africa and Brazil. An outstanding example of international labor solidarity is the support by U.S. unions and those of many other countries for the workers of South Africa who are fighting for basic human rights against their employers and the system of apartheid.

The highest form of class struggle is revolutionary action to replace capitalist power with working-class power, with the goal of ultimately replacing capitalism with socialism.

2. Exploitation of Labor–Surplus Value

A basic doctrine of capitalism is to get more out of workers than they are paid. Not a little more, not some modest "reward for management," but a lot more—twice as much, three times as much, and sometimes even ten times as much. Karl Marx called it "exploitation of labor" because capitalists drain the vital energies and skills of workers without providing comparable compensation. Exploitation is determined not by what a worker is paid, but by *how much he (or she) produces over and above what he is paid; that is, by the surplus value he produces.*

Some people have an incorrect understanding of the meaning of the term "exploitation." They think a worker is exploited only if the wage is very low. However, an auto worker who receives a higher-than-average wage is very much exploited, more so than some lower-paid workers. With the aid of automation and speedup, auto manufacturers get several times more from each worker than they pay him.

Establishment economists popularize theories that deny the exploitation of labor, and statisticians compile figures purporting to show that workers get most of the national income. Standard college texts and widely circulated media strive to convince people that profits are too low and declining, while wages are too high and climbing. They attribute the economic difficulties, the hardships suffered by millions, to this alleged situation.

The reality is quite the contrary—and the capitalists know it and freely admit it, but among themselves. The State of New Jersey, for example, advertised in business journals to lure companies into building factories there. Under the headline "New Jersey: America's Profit Center," was this promise: "Only New Jersey widens your profit margin these 8 important ways." The first, and most emphasized way, was:

> Profit from the highest worker productivity of any industrialized state in America! Value added per dollar of wages is a hefty $3.76 vs. the national average of $3.36. That's the only measure of labor cost that matters.

And further:

> Hourly wages can be a very deceptive way of looking at your labor costs. What really matters is how much value was added to your raw materials or component parts by those workers during the manufacturing process. By this measure, New Jersey workers are among the most productive—and therefore, the least expensive, among all the nation's industrialized states.[1]

This value added, or profit, created by New Jersey workers is divided among a number of claimants. Part goes to bankers as interest; part to renters of land, buildings or equipment; part to various levels of government as taxes; part to company executives and officials as salaries, bonuses, expense accounts, stock options, etc. The balance, or net profit, is what appears on the "bottom line" of company accounts. Dividends are paid out of net profits, or "net income," as it is usually referred to in accounting terminology.

While corporation annual reports publicize net income, as do government statistics, total profits are far greater, and almost all go to members of the capitalist class. In fact, it is often the same individuals who get different portions of the total profits. For example, in most corporations some large stockholders who receive large dividend payments are also company officials getting salaries, bonuses, expense accounts, etc. Moreover, the part paid by the company as taxes is spent primarily on behalf of the capitalist class as a whole, or of particular sections of it.

Not to be outdone by the New Jersey ad, neighboring New York and Connecticut answered with challenging advertisements. New York's come-on claimed:

> New York's manufacturing workers produce $4.25 in value added for every dollar of wages, compared with the national average of only $3.72. Furthermore, New York's average is higher than that in nine of the ten other leading industrialized states.

New York's promotional material concentrated even more on the tax and financing advantages offered to investing firms. According to the blurb, a firm investing $162 million could get back $66 million in tax exemptions, low-interest credits, and other subsidies.[2]

Connecticut's invitation to corporate investors was similarly appealing.

The Lakeland, Florida, Chamber of Commerce explained why so many companies have moved to the "Sun Belt." It advertised:

> In Lakeland, Florida, your company could receive a yearly bonus of $12,769 in value added by manufacture* per production worker. Workers give back $5.25 in value added for every dollar they're paid. That's a whopping 44.2% above the American average.[3]

What did this mean in actual figures? In 1975 the average Lakeland worker got wages of $7,935, while he produced values of $41,658 over and above the cost of materials. So the employer grossed a profit of $33,623. On a national average, the employer had a gross profit of "only" $25,406 per worker.[4]

Note that in these ads and in similar cases, the focus was on the amount of value created per dollar of *wages paid to production workers,* leaving salaries out. While some salaried workers—notably many professional and technical workers—are necessary for production, most are not. To a considerable extent, the amount the employer spends on compensation to the nonproductive employees is discretionary, determined by the firm's directors. The tendency when profits are especially lush is to build up and pay well a larger corporate bureaucracy, distributing part of the surplus value among relatives and contacts of the controlling stockholders and among subsidiary layers of the capitalist class and intermediate sectors. But when gross profits are squeezed, or when there is a severe labor shortage—as during World War II—this bureaucracy is substantially reduced.

It is significant that the New Jersey ad refers to the "highest worker *productivity.*" The natural way to think of productivity is in terms of the number of units of a product turned out by a worker in a given time period. But to the capitalist, the decisive "productivity" is the amount of profit the worker creates in that time.

The boss does not care what product or what service the workers create. Whether it be boots or bananas, missiles or magazines, the profit dollars go into a common account. This has been especially

***Value added by manufacture* is the Census term for the difference between the final value of a product and the cost of the materials and fuel used in its manufacture. In other words it represents, as the term implies, the value added by the factory workers during the process of production. For example, value added in a can factory equals the value of the finished cans less the cost of the steel, electricity and other purchased items used in manufacturing the containers.

marked in the modern conglomerate corporation, where a number—even scores—of different kinds of products are combined and grouped organizationally into "profit centers." The owners of such corporations are ever ready to buy up companies from which they anticipate a high rate of profit; at the same time, they seek to sell, even at a loss, those segments where the rate of profit falls below target.

In this vein, the metalworking company Bliss and Laughlin Industries has a chart in an annual report entitled "Net Income per Employee (Productivity)." The legend reads: "Productivity gains are primary to increasing earnings and maximizing the return on corporate assets." The chart cites figures showing that profits per employee more than doubled in a six-year period.[5] (As explained in chapter 5, companies in their reports often give their *gross profits,* which approximate the Marxist concept of surplus value.)

Exploitation of labor by owners of the means of production has a history of many thousands of years. Under slavery, workers were chattels of their owners. They were paid no money but were merely provided with minimum direct subsistence. Whatever they produced, over and above that subsistence, was gain to their owners.

Under feudalism, serfs were permitted to work a certain number of hours to produce for themselves and their families. The rest of the time they had to work for the landowner, either on the lord's land or to produce the lord's share of what the land allotted to them yielded. Thus the rate of exploitation in a feudal society could be defined as the ratio of the number of hours a serf worked for the feudal lord to the number of hours he worked for himself and his family. In that case, the social relation was measured in labor time, not money.

Under capitalism, a similar relationship is measured in money. Workers appear to be free, not compelled to work for an employer. But, like the slaves and serfs before them, they own no means of production and have to find employers who do. Still, they have something the owner needs—muscles and brains. They can sell their ability to work, or their labor power, for a contracted-for period of time—by the day, by the week, or for longer periods.

Here the essence of the relationship is obscured by the payment of cash for labor. The worker is paid a wage, for which he works a given number of hours. Suppose, for example, he agrees to work eight hours for a wage of $60. On the surface and as interpreted in capitalist forklore, it is a fair bargain: the worker is getting the market value for what he sells, his ability to work—or labor power—for the day.

But the cash transaction covers up the essential reality this arrangement has in common with slavery and feudalism. That is, the worker's wage covers what he produces in only part of the eight hours. And currently, a rather small part. He might produce $240 worth of goods in eight hours, over and above the cost of the raw materials used in the process of manufacture. The employer, after paying the $60 wages, has a profit of $180 from the $240 the worker produces. At $240 in eight hours, the worker produces $30 worth an hour. Thus, in the first two hours he makes his wage and the remaining six hours are all for the benefit of the owner.

Marx called the $180 the employer kept *surplus value,* and the percentage the employer got to what the worker kept, the *rate of surplus value.* In this case, the $180 equals three times the worker's $60, or 300%; so the rate of surplus value is 300%.

Looking at it another way, the worker getting $60 is receiving a wage equal to only 25% of the $240 of value he creates with his labor.

Marx wrote:

> The minimum limit of the value of labour-power is determined by the value of commodities, without the daily supply of which the labourer cannot renew his vital energy, consequently by the value of those means of subsistence that are physically indispensable. If the price of labour-power falls to this minimum, it falls below its value, since under such circumstances it can be maintained and developed only in a crippled state. But the value of every commodity is determined by the labour-time requisite to turn it out so as to be of normal quality.[6]

The labor power that a worker sells has a price, determined more or less by its value. Like any other commodity, the value of this labor power depends on the number of hours needed to produce it—that is, the number of hours that went into the production of the goods and services that a worker and his family need to get along at a standard of living adequate to maintain health and working ability.*

Marx referred to such a number of hours as the *necessary labor time.* Thus, in the example cited above, the necessary labor time was two hours, and the remaining six hours were surplus labor time.

Marx pointed out that the capitalist simultaneously strives to increase the workers' hours of labor but reduce the necessary labor time—the number of hours for which he pays—and reduce the number of workers he employs so as to maximize his profit. But this is a contradictory process, leading to overproduction (in relation to the

*The more skill a job requires, the higher will be the wage because greater effort is needed to ensure quality and allowance must be made for the time the worker spent getting training.

ability of the workers to buy consumer goods) and overpopulation (in relation to the number of jobs available). Thereby the capitalist drive for profits invariably leads to economic, social and political crises.

What price will be agreed on by the employer and the worker? Clearly, the terms of bargaining are not equal. The capitalist has financial reserves; he can wait. The worker is hungry; he has bills to pay; he needs an income now. There are usually more workers than jobs—often thousands apply for a few openings. The worker has limited mobility; the capitalist can seek workers over a wide area. So the bargaining over the terms of employment favors the capitalist. And as a result, often millions are forced to work for less than a living wage by any accepted standard.

To make up for their inferior bargaining power as individuals, workers have long sought to compensate through collective action: the organization of trade unions; strike actions and other means of struggle; and the formation of political parties in the attempt to win concessions through legislation that would improve labor's position in relation to capital.

Workers have made gains—and have lost some of them. On the whole, the capitalists have succeeded in pushing wages down toward, and even below, that minimum required to maintain energy and reproduce under the conditions that have evolved in the United States—higher living standards but more stringent and complex labor and living requirements than prevailed in Marx's time in England.

Let's compare the situation in 1973, when real wages were close to their all-time peak in the United States,* and in 1986. In each case, the data relate to a family of four: the worker, his wife and two children.

To compare average wages, three criteria were used:

• 125% of poverty level as estimated by the U.S. Commerce Department. This is definitely a misery level, below what is needed to "get by."

• What the American people consider the minimum necessary for such a family to "make ends meet," as reported by the Gallup poll.

• The Labor Department's "lower budget." A family living on this budget obtains necessary commodities in smaller quantities and of poorer quality than the norm; lives in a rented apartment with rents and utility rates obviously higher than the amount it has alloted for housing, except in exceptional circumstances—such as some public developments; relies on public transportation (often unavailable)

*The actual peak year was 1972, but the difference is very slight.

supplemented, "when necessary" by "use of an older car"—i.e., an ancient "jalopy"; has no money to spend on vacations or recreation.

In 1973 the average worker's wage was 33% above the 125%-of-poverty level, 2% *below* the Gallup poll level, and 8% below the Labor Department's lower budget level. By 1986 the situation had deteriorated so that the average wage was only 12% above the 125%-of-poverty level, 13% below the Gallup poll level and 15% below the Labor Department's lower budget level.*

Of course, many workers fell below the average, while about as many exceeded it.

But overall one may assume that in the United States, the richest country in the world, the average wage in 1973 barely corresponded to Marx's concept—wages required to support life at a level of minimum comfort according to the historically evolved standard. In Marx's terminology, workers were paid for their necessary labor time or, in other words, they were paid for the time required to produce value equivalent to what they had to pay to maintain a standard of living adequate to function and bring up a family.

Since the level of real wages had deteriorated by 1986, workers, on the average, were being paid for less than required to provide for their needs, for less than their necessary labor time. In order to meet their needs on the 1973 scale, workers would have had to be paid for what they produced in the first 2½ hours of an 8-hour day. Instead they were paid for only the first 2 hours' production. Thus, to help alleviate this situation of poverty or near-poverty, by 1981 three-fifths of all workers' families had more than one earner, breaking down the "traditional" pattern and creating new problems in a society without adequate social amenities for working-class families.

In 1984, the latest year for which revised Census figures are currently available, the share of labor had plummeted and the rate of surplus value had soared: In that year, the average wage of factory production workers was $18,436, while the value added *per worker* was $78,199—four and a quarter times as much.[7] Adjusting value added by subtracting an allowance for depreciation would still leave what may be called a net value added of $74,056 per worker, or a bit more than four times the average wage.†

Thus, as in the hypothetical example given earlier, out of an

*Detailed data in Appendix, chapter 2, note 1, p. 513.

†Value added by manufacture equals value of product less cost of materials consumed. But this does not allow for the gradual using up of machines and structures. Objectivity requires also subtracting an estimate of the year's partial consumption of machines and structures, called depreciation.

actual eight-hour workday, the workers were being paid for what they produced in a shade under two hours, while the employers were getting the proceeds of the remaining six hours. The rate of surplus value was a little more than 6 divided by 2, or about 300%. The exact calculation, shown in table 2-1, is 302%.*

In dollars the amount of surplus value per worker was $74,056 minus the wage, $18,436, or $55,620. That was the amount by which a factory worker was exploited in 1984, the average amount of gross profit the capitalist derived from each worker.†

Calculations of surplus value and the workers' share of production show almost diametrically opposite trends, the workers' share going down almost exactly in proportion to the rising share of surplus value. (See chart 2-1.) Table 2-1 shows how the data for chart 2-1 were calculated for the final year covered in the chart—1984.

When put this way, it is easy to see why employers want a longer, and workers a shorter, workweek. As long as total wages can be kept close to the "lower" standard, the amount of labor time a worker puts in to cover his wages remains unchanged; the longer he works, the more profit accrues to the employer.

Anyone who has been on an auto assembly line for eight hours, or banged at a typewriter for that length of time in a stenographic pool, or punched data into a computer, knows the cumulative drain of energy, of spirit, with each passing hour. And this strain becomes acute if there are two to four hours of overtime. It's in the hours of labor, more directly than in financial terms, that the worker feels, physically, the reality of exploitation.

Throughout the history of industrial capitalism, the struggle between employers and employees over the length of the working day has been particularly fierce. This was most notable in Britain during the first half of the 19th century when workers had to labor 12 or more hours a day, six days a week.

In their pamphlet, *The Communist Manifesto*, Karl Marx and Frederick Engels hailed the 30-year struggle of British workers that in 1847 led to passage of a law limiting the working day to ten hours.[8] In fact, labor's traditional May Day holiday, first observed in the United States, had its roots in the struggle for an eight-hour working day instead of the 10–12 hours still prevailing during the second half of the 19th century.

*Preliminary figures for 1985 show a rate of surplus value of exactly 300%, and workers' share of exactly 25%.

†For accuracy, adjustments are required, some of which would increase the rate of surplus value; others reduce it. (See appendix 2, note 3, p.514.)

CHART 2-1. RATE OF SURPLUS VALUE AND SHARE OF WORKERS IN PRODUCTION 1925-1984 (PERCENT)

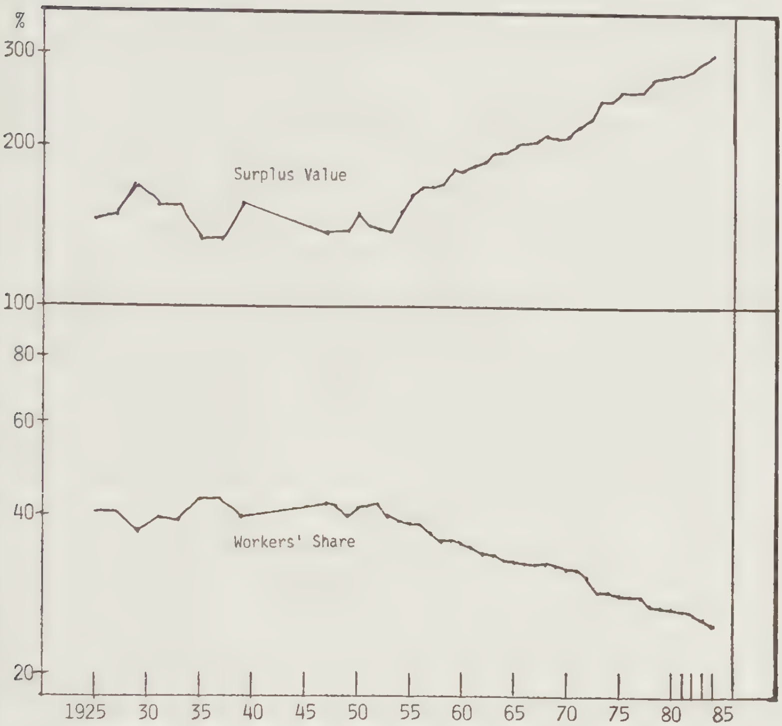


TABLE 2-1. CALCULATION OF RATE OF SURPLUS VALUE AND WORKERS' SHARE OF PRODUCTION U.S. MANUFACTURING, 1984* (*dollar figures in billions*)

(1)	Net value added by manufacture (value added less depreciation)	$931.1
(2)	Wages	$231.8
(3)	Surplus value (1) minus (2)	$699.3
(4)	Rate of surplus value (100 × (3) ÷ (2))	302 %
(5)	Workers' share (100 × (2) ÷ (1))	24.9%

*See Appendix, Chapter 2, note 2 for explanation.
SOURCE: Appendix Table 2A, p. 512

It was the Soviet workers who were the first to win an eight-hour day, soon after the victory of the socialist revolution in 1917. This standard was not won in contest with the capitalists, whose holdings had been expropriated, but was adopted to meet the needs of the people while providing an economic surplus for developing industry, for defense and social purposes. This pioneering achievement of the USSR helped stimulate the struggle of workers in capitalist countries.

By the mid-1930s, U.S. workers in manufacturing had won a standard eight-hour day and five-day week, although much longer hours continued in many trades and service industries. It was after World War II before workers in Western Europe won reductions in hours, finally achieving the 40-hour week. At the start of the 1980s, French, West German and Belgian workers made progress toward a still shorter standard workweek, with 35 hours as the goal.

There are serious limitations to the 40-hour-week law in the United States. It provides only that employers must pay time and one-half wages for more than eight hours per day, and extra wages for work on Sundays and holidays. Moreover, except where unions have won provisions limiting overtime, employers can compel employees to work more than eight hours, or on inconvenient shift schedules. Considering the high rate of surplus value in U.S. industry, it's obvious that even when an employer pays overtime rates, he still adds significantly to his total gross profits by getting the extra hours of labor from the workers. Thus the actual workweek has tended to increase in industry as companies make more and more use of overtime. During the antilabor offensive of the 1980s, even while employment in manufacturing declined and unemployment reached continuing depression levels in industrial areas, the workweek imposed on those regularly employed in *production* was increased significantly.

In February 1987, the seasonally adjusted average workweek in manufacturing reached 41.2 hours, the highest in the half century since the legal 40-hour week was won, with the exception of World War II and a brief period during the Vietnam War. *That means an average actual workweek of 45 hours or more.* Some workers are out part of the week because of illness, temporary plant shutdowns, etc. In some industries, mainly garment and printing, a basic 35-hour week was won decades ago, pulling down the official average.

Labor Department statistics show that significant overtime had become the rule in almost all industries. In December 1986, the reported average for all manufacturing was 3.9 hours of overtime, but the following industries reported more than six hours per week: flat glass; asbestos products; aluminum sheet plate and foil; engines and turbines; aircraft engines and parts; flour and other grain mill products; cotton weaving mills; paper, pulp, and paperboard mills; soap and other detergents.[9]

Included are busy armament industries, others with stable markets, and still others in serious slumps. And what may be the most destructive of all to workers' health—asbestos.

Sections of the trade union movement campaigned for a reduction in the basic workweek for a long time after World War II. But on the defensive, by the mid-1980s their main demands were to limit or end compulsory overtime. Certainly the historic drive of U.S. workers for a shorter workweek will win victories as the labor movement gains in strength and unity.

While stretching the workweek in industry, employers—for entirely different reasons—gain the most profits by using part-time labor, in many trade and service industries. The two coincident but separate processes should not be confused.

The validity of Marx's law of surplus value expressed in hours of labor is proven internationally. The fastest growth of capitalist profits anywhere takes place in South Korea. And there the workers are subjected to the longest, most savage, workweek in the world.

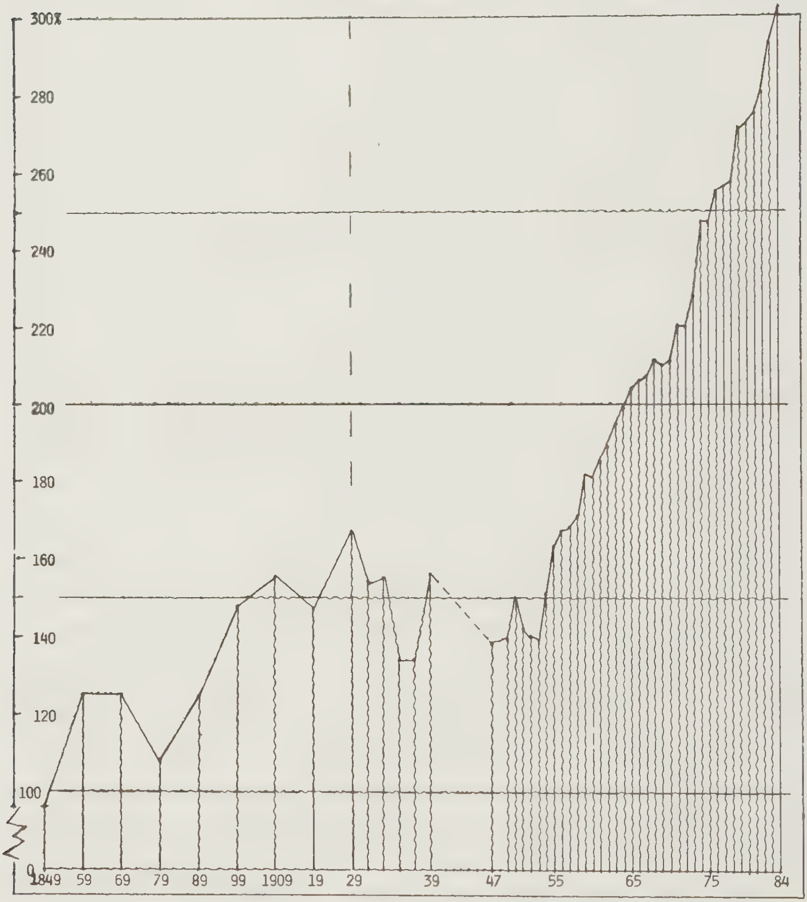
Rising Trend of the Rate of Surplus Value

Chart 2-2 shows the trend of the rate of surplus value in U.S. manufacturing industries at 10-year intervals, from the middle of the 19th century to 1979 and for all the years since 1929 for which the Census Bureau provides data. There were no figures during World War II. In 1849, the first year for which there are Census data, the rate of surplus value was 96%—that is, the value added by manufacture was divided more or less equally between the workers and their employers. Apparently this was a situation typical also of European capitalism, because Marx, in *Capital,* used 100% as a representative rate of surplus value. During the second half of that century, the rate of surplus value in the United States ranged between 100% and 125%.

With the advent of the trusts, of monopoly, in the first half of the 20th century, the rate of surplus value went up, fluctuating around 150%. But in the second half of this century there has been a spectacular rise in the rate of surplus value, from 139% in 1953 to 302% in 1984.*

*The figures for the years 1849 through 1919 are not adjusted to deduct depreciation from value added by manufacture. Such data are not available for that period. Data for calculations for charts 2-1 and 2-2 are shown in appendix table 2A, p. 512.

CHART 2-2. RATE OF SURPLUS VALUE, U.S. MANUFACTURING INDUSTRIES 1849-1984 (PERCENT)



SOURCE: Appendix table 2A

Chart 2-2 places the rapid increase of the last several decades in a long-term historical perspective, and shows the virtually continuous year-by-year rapid rise in the rate of surplus value after 1953.

Analysis of the trends shown by chart 2-2 illustrates why the term *political economy* is appropriate for scientific study of a country's economic system. It shows concretely how economics is very much involved with politics, especially the politics of the class struggle as well as with the balance of demand and supply on the labor market.

The first sustained rise in the rate of surplus value was during the last two decades of the 19th century, when the great trusts were founded. These monopolies were able to raise prices while controlling workers and keeping their wages low.

During the next two decades, between 1899 and 1919, there was little change in the rate of surplus value. That was a period of rapid growth of militant working-class movements, of the Industrial Workers of the World, of the Socialist Party, and during World War I, of great and temporarily successful strikes in major U.S. industries. The Great Steel Strike of 1919 was led by William Z. Foster, who subsequently became Chairman of the U.S. Communist Party. The high demand for labor during the war and the immediate postwar boom helped increase wages and maintain the share workers received of the values they produced.

But 1919 was a high-water mark, for the time being, of labor's victories. The capitalists and the government, with the use of armed force, succeeded in defeating the steel strike. In a preview of the post–World War II McCarthy period, Attorney General Palmer launched raids against progressives. Thousands were arrested and many foreign-born workers were deported. The footholds of unions in manufacturing industry were wiped out.

The "new era" of the 1920s was one of unprecedented profits for big business, but with none of the benefits from rising production and productivity filtering down to the workers. Thus the rate of surplus value reached a new high of 167% in 1929. The widening gap between profits and wages was an important factor contributing to the seriousness of the Great Depression that broke out in 1929 and was never fully overcome until World War II.

During this depression the fight-back of workers peaked. Overcoming repression by local and federal government police and the national guard, by the press and by hired strikebreakers, workers began to succeed in establishing trade unions in industry. Thousands participated in militant sit-down strikes and occupied basic industry factories. The Communist Party and other progressive forces grew in size and influence, and popularized demands for major reforms.

The Communists played an essential, and in important cases, decisive role in accomplishing the organization of the powerful industrial unions generally, and in the auto, coal, food, garment, metal mining, and steel industries in particular.*

By the end of the 1930s, trade unions had signed contracts providing improved conditions and wages in the coal mining, steel, automobile and other industries. Minimum wages, unemployment insurance and a social security system were won. During World War II, with its high demand for labor, the size and strength of the labor movement grew rapidly. The strengthened working class was able to procure price controls and rationing, which limited wartime profiteering, and the establishment of a Fair Employment Practices Committee (FEPC), which began to put limitations on the gross discrimination against Black workers.

The combined impact of economic developments—especially the Great Depression and political developments—caused the rate of surplus value to decline from the 1929 peak, and it remained at or below 150% for approximately a quarter of a century. However, after World War II employers and government launched a fresh antilabor attack, with the theme of anti-Communism. Spy scares and "witch hunts," extreme anti-Soviet propaganda, the buildup for a nuclear World War III, and the "cold war," combined to create the propaganda climate for this attack.

Tens of thousands of Communists and other progressives were fired from the nation's factories, including the local leaders and "spark plugs" of the unions. The government and the employers subsidized those union officials willing to split their organizations and set up more compliant, anti-Communist unions. Communist leaders were imprisoned. Many states passed "right-to-work" laws, which made it easier for employers to suppress trade unions.

Although there were still many militant struggles involving large numbers of workers, under the existing conditions the aims were relatively narrow, and deterioration in the relative position of labor could not be prevented. The size and influence of the unions were reduced as more and more factories moved to the South and to other areas where organization was effectively barred.

The full impact of these political changes was deferred by the Korean War, with the demand for labor and the imposition of partial price controls. But with the war's end, the rate of surplus value "took

*See, for example, Roger Keeran's well-documented study *The Communist Party and the Auto Workers' Unions.* (New York: International Publishers, 1986). Among Communists who played a prominent part in the various unionizing campaigns were Ben Carreathers, Ben Gold, Gus Hall, Wyndham Mortimer and Rose Wortis.

off," and the years since 1954 have been a period of continuous rise, with no reversals due to economic crises.

The surge in the rate of surplus value was accelerated by industry's application of scientific and technological advances, which made possible big gains in labor productivity that far outpaced gains in real wages. Also contributing to the rising rate of surplus value in the United States was the unprecedented escalation in the export of capital by transnational corporations (TNCs), which established factories in developing countries where wages were a small fraction of the U.S. level, thereby putting increasing pressure on U.S. workers to accept a smaller share of their product in wages or have their jobs transferred abroad.

During the 1970s, when the U.S. economy deteriorated, high and rising unemployment further weakened the working class and enabled employers to reduce real wages. The rate of surplus value increased faster than ever, more than doubling from 139% in 1953 to 302% in 1984—almost certainly without parallel in the history of capitalism. Moreover, it is extremely doubtful whether the rate of surplus value in the United States is approached in any other industrialized capitalist countries—except in Canada, whose industry is closely integrated with and largely owned by U.S. corporations, and in Japan.

Through the 1960s the increase in the rate of surplus value was accompanied by modest increases in real wages, in social benefits granted the working class, and in some moderation in the degree of discrimination against Blacks and other minorities. These gains were fruits of struggles of the workers through unions, and notably through the Civil Rights movement that peaked during those years. They represented concessions to these struggles and movements in a period of strong growth of U.S. capitalism domestically and worldwide, of its political domination over much of the capitalist world. But the concessions were less than proportional to the increased values produced by the workers, so the rate of surplus value continued to rise rapidly.

But in the 1970s a new basic trend emerged. Internationally it was characterized by the defeat of United States imperialism in Vietnam and of the oil cartel by OPEC, by the downfall of the U.S.-dictated gold-dollar monetary system, by the more effective economic rivalry of Japan and Western Europe, by the attainment of strategic nuclear parity by the USSR. Domestically there were a slowing of the economic growth trend, increasingly severe cyclical crises, financial instability and farm crises. Big business ceased making concessions and turned to an antilabor, racist offensive, which became especially marked in the right-wing Reagan Administration of the 1980s. Through this offensive, big business was able to continue increasing its profits even while economic growth was slowing and while it was losing ground to foreign rivals.

Trends during this period were in important respects similar to those of the 1920s that set the stage for the Great Depression.

Beneficiaries of Exploitation

Who are the exploiters? The recipients of surplus value—the capitalists, the owners of capital. Of course, they do not keep all the bonanza for themselves to maintain their luxurious lifestyle. Some they use to pay off their top managers, their political representatives, and the police who maintain their rule at home and the generals who impose it abroad.

How large is the capitalist class proper? A high estimate of 1% of the labor force was given in Chapter 1. Other studies suggest that 1 to 1.5 million people, including family members, are capitalists. Economist Robert J. Lampman found that in 1953 the richest 1% of adults owned 77.5% of the corporate bonds and 76% of the corporate stock.[12] Another study found that a mere one-tenth of one percent of families—40,000—owned 35% of all stocks.[13]

These 40,000 are the real rulers of America, sharing a degree of power with the 1 to 1.5 million lesser (!) capitalists. And in pyramidlike fashion, among the 40,000 there are the billionaires or near-billionaires who exert special, often dominating, power.

The share of the millionaires in total wealth is less than their share of *capital,* because many middle-class and professional people own substantial *personal property* (houses, cars, etc.), and most workers own *some* personal property, although a large proportion of working-class people have *negative net worth*—that is, they owe more than the value of their property and savings.

In 1953 when, according to Lampman's calculations, the top 1% of the population owned more than three-fourths of the principal forms of capital, stocks and bonds, their share of net worth was "only" 27.4%.[14]

At that, their share of the national wealth was slightly smaller than in 1929. That is understandable, because wartime full employment enabled working people to accumulate modest amounts of property. However, throughout the postwar period the concentration of wealth has increased, especially during the 1980s. According to a study by the Congressional Joint Economic Committee, the share of the "super-rich"—the top one-half of one percent of all households, with wealth of $2.5 million or more—increased in net worth from 25% in 1963 to 35% in 1983. The share of the top one percent, with net worth of $1.4 million or more, went up from 32% in 1963 to 42% in 1983, a higher degree of concentration than in any previous period in U.S. history (see table 2-2 and chart 2-2). At the same time, the share of 90% of the households dropped from 35% in 1963 to 28% in 1983.[15]

This 90% includes virtually the entire working class and substantial sections of the petty bourgeoisie and professionals. Their *combined* wealth is an average of those with moderate wealth and those with negative net worth.

According to economist Gabriel Kolko, between 1929 and 1950 the lowest 40% of the population in terms of income distribution had negative net worth.[16] That is, they were in debt. By the 1980s, with the active promotion of credit cards, mortgages, etc., the proportion of the population in debt had undoubtedly gone way up.

G. William Domhoff, writing in the 1980s, estimated the "upper class"—which he used as a synonym for "capitalist class"—at 0.5% of the population.[17] In an earlier, well-researched scientific study, *Who Rules America?,* he sought to identify the characteristics of the major owners of capital who control the country's major corporations and dominate its cultural and political life. He emphasized that the impact of these moguls is more than economic: they constitute a self-designated elite, a distinct social class. To highlight this, he evaluated listings in social registers and other criteria for inclusion in the "upper class": attending select private preparatory schools, "very exclusive gentlemen's clubs," a millionaire parent, a member of one of the "old and still-wealthy" families. He wrote:

> There is in the United States an intermarrying social upper class, based upon business wealth, that has a rather definite set of boundaries which are guarded by social secretaries, private schools, social clubs and similar exclusive institutions. . . . [18]

Of course there have been deviations from this social pattern, but the general description is basically valid. Domhoff points out that the capitalists extend their interests beyond the particular companies in which they are personally involved: ". . . members of the upper class now have an interest in the success of the business system as a whole."[19] And he devotes considerable research to proving that this "upper class" not only runs the economy, but also runs the country politically, controls and occupies the main positions in government. He asserts that his study

> ... is beholden to no theory about the dynamics of history or the structure of society or the future of man. In fact, it is because "ruling class" is a term that implies a Marxist view of history that the more neutral term "governing class" is employed.[20]

Regardless of the terminology Domhoff uses to protect himself against accusations of being a Marxist, his work confirms the applicability of Marxism and Leninism to conditions in the United States in the second half of the 20th century.

Within the small capitalist class as a whole, there is an elite core—the super-rich—the most active and most powerful, many of whom directly control major corporations and select governors, senators, presidents and cabinet members.

TABLE 2-2. SHARE OF TOP WEALTH HOLDERS IN TOTAL PERSONAL NET WORTH SELECTED YEARS, 1922-1983

Year	Share of Top 1% of Population in Net Worth (percent)	Year	Share of Top 1% of Population in Net Worth (percent)
1922	33.9%	1949	22.8%
1929	38.8	1953	27.4
1939	33.8	1963	32.0
1945	25.7	1983	42.0

SOURCES: Lampman, *The Share of Top Wealth-Holders in National Wealth, 1922-1956,* Table 97, p. 209, for the years 1922-1953.
For the years 1963-1983: U.S. Joint Economic Committee, in *WSJ,* 8/15/86

The designation "the Four Hundred" (or the "400") was introduced in the 1880s to describe the exclusive social circle of New York's top capitalists, headed by the Astors, and the term remained in use long after the original composition changed and was augmented by similar groupings in other parts of the country.

Currently *Forbes* magazine uses the designation in its annual listing of the 400 wealthiest Americans. For 1985, the 400 had a combined net worth of $134 billion, a gain of "only" $9 billion from 1984, because of setbacks that hit some oil tycoons.[21]

As *Forbes* pointed out, that $134 billion was more than the gross national product of Switzerland or Saudi Arabia, almost equal to that of the nearly billion people of India, exceeded by a wide margin the U.S. gold reserve, and equalled two-thirds of the U.S. budget deficit.

Included in the 400 were 14 billionaires; 33 Du Ponts, whose combined wealth added up to many billions; ten Rockefellers and five Mellons, again with combined wealth of several billions; Fords, Hearsts, and members of other well-known families.

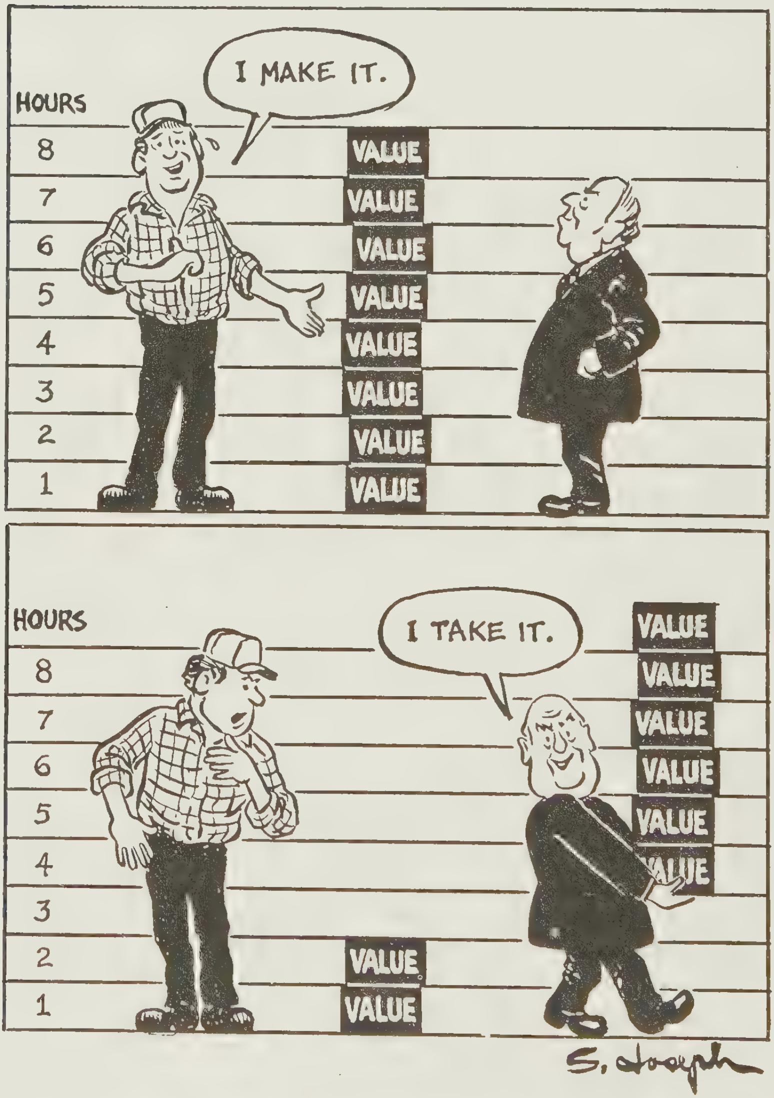
Of particular note for the 1980s, the list included two Bechtels, owners of the giant construction firm. Their family fortune was at least $1 billion. According to *Forbes,* the Bechtels were instrumental in the appointment of several of Reagan's top executives, including Shultz and Weinberger, the Secretaries of State and Defense.[22]

For such families, even the unrestrained luxury of their life-styles and their personal properties cannot absorb more than 5–10% of their wealth. The overwhelming bulk of their fortunes is *capital.* We may assume that the 400, together with their relatives and close business associates, own at least $134 billion of stock in U.S.-based corporations. That is approximately 7.5% of the average market valuation of all stocks on the New York Stock Exchange in 1985.[23]

These 400, with their families and associates, dominate U.S. economic, cultural and political life. Neither the number nor the identities are exact; undoubtedly some of the rich and powerful men and women were left off the *Forbes* list, and some who were included are passive recipients of dividends and interest. However, the concept of a small core of dominant super-rich is valid and important. These are the ones who determine the strategy and tactics of U.S. imperialism—the overseas expansions and the aggressive means of winning them; the unremitting militarism and preparation for war against the USSR, which to them personifies the enemy; the ceaseless attacks on the working class on a world scale and the timing and intensity of the anti-labor offensives.

A year later *Fortune* outdid *Forbes* in uncovering the fantastic concentration of wealth in the capitalist world. They found more than 100 billionaires with total net worth of $225 billion, which exceeded the total amount of U.S. currency in circulation or the U.S. budget deficit. Of these, approximately 50 were U.S. billionaires with total net worth of about $125 billion.[24] Presumably *Fortune* came closer than *Forbes* to uncovering the tight concentration of wealth. At any rate, none of those mentioned, so far as is known, denied being a billionaire.

This extreme concentration is consistent with the accelerated centralization of economic ownership and power resulting from the wave of corporate takeovers, stock market manipulations, and internationalization of profiteering that characterized the 1980s. It signifies a degree of corruption and decay of capitalist society presaging acute economic and political storms.



3. Conditions of the Working Class

By the end of 1988, 80 percent of families will have seen their income decline since 1977 when adjusted to account for inflation. ... But the richest 10 percent will see an average increase of 16 percent, the top 5 percent will average a 23 percent rise and the richest 1 percent will see their income grow by 50 percent.*

In the period since 1950 the rate of exploitation in the United States has risen very rapidly as labor's share in the total output declined. Labor's share—the worker's *relative wage*—is of crucial importance. At the same time, so is the absolute situation of the workers. If their wages and living standards are improving steadily and significantly, they may not be too concerned that the capitalists' profits are increasing even more rapidly. But if real wages are declining, especially when capitalists' profits continue to go up, dissatisfaction is marked and conditions for militant labor struggles ripen.

Leaders of most capitalist countries claim that their system provides substantial material, cultural and spiritual benefits to the population. U.S. capitalists boast of having conferred the world's highest living standards on the American people in general, and on its workers in particular. An oft-used assessment is that the majority of regularly employed workers have achieved "middle-class" status—a claim echoed even by some trade union officials.

So it is important to examine the actual material conditions of the U.S. working class in particular and of workers in the capitalist world as a whole.

To evaluate the life-style of any sector of society, it is necessary

**The New York Times* report of a Congressional Budget Office study, November 12, 1987.

to determine what is an adequate living standard. This measure has evolved historically and reflects the productive capacity of the society, its ability to provide the goods and services that have become requisite for normal life.

Certain components do not change radically; people require sufficient food to survive, to be able to work and to provide for their families and they must have shelter and clothing. Other components, however, do change drastically.

For example, an automobile is a great advance over a horse and buggy, and a bus over a stagecoach. It is cheaper to travel by bus than to own an automobile. But in the United States, society has been so organized around the car that for most people, except in a few large cities, an automobile is a necessity to get to work, to shop for food and to carry on other daily activities. Meanwhile, available public local transportation facilities—buses or trains—have deteriorated relative to need. Thus the shift from personal horse and buggy and from public bus and rail transportation to private automobile should in the main be considered a real increase in the cost of living and not merely a voluntary improvement in living standards.

Living standards of workers, as of any major sector of society, have to be considered dynamically, taking into account changes in productivity, in the pattern of consumption, and in relationships between the social sectors. It is also important to consider the level of life in relation not only to what society does produce, but also to what it has the capacity to produce if its potential were fully employed.

Real Wage Trends

Analysis of the evidence leads to the following conclusions:

1. During the first 70 years of the 20th century, there was a rising trend in the real wages of U.S. workers and in their overall material level of life. But since the early 1970s the trend has been downward. There has been a noticeable deterioration in real wages and in other aspects of well-being for the majority of workers.

2. As we saw in chapter 2, the *relative* wages of U.S. workers have declined dramatically.

3. *Since 1972—embracing the period of the structural crisis**—*there has been a sustained decline in the absolute standard of living of workers, as measured by real wages, unprecedented in the history of*

*See chapter 16.

the United States. Over the 10 years 1972–1982, average weekly real earnings of private nonagricultural workers declined 15% according to the U.S. Department of Labor. And then after a slight recovery during the upswing of the business cycle, those earnings turned downward again even while overall production was still rising. By 1986 real weekly earnings were still 14% below the 1972 level and trending downward, with the prospect of a more rapid fall beginning in 1987 (table 3-1).

TABLE 3-1. "REAL" AVERAGE WEEKLY EARNINGS, PRIVATE NONAGRICULTURAL WORKERS 1977 DOLLARS, SELECTED YEARS 1947–1986

Year	Average Weekly Earnings	Year	Average Weekly Earnings
1947	$123.52	1982	$168.09
1957	158.04	1984	173.48
1967	184.83	1986	170.46
1972	198.41		

SOURCES: *Economic Report of the President (EROP) 1986,* Table B-42, p. 301, BLS, E&E, various issues.

This prolonged downtrend in real wages over at least 14 years far exceeded any previous periods of sustained drop in U.S. post–Civil War history. Even during the deepest cyclical crisis of the 1930s, real wages of employed workers declined for "only" three years.

American workers still receive higher real wages than they did in 1946. Statistically, 38% of the gains achieved between 1947 and 1972 were lost by 1986, but the losses were only partly reflected in the official data. If present trends continue, all of the gains in this half century will have been wiped out by the year 2000. It can be said that the U.S. working class faces a crisis of living standards.

Labor's losses were not a "natural" response to changing economic conditions—in particular the deterioration in the overall position and course of development of U.S. capitalism. Those losses were forced by a determined big business offensive which attempted to increase profits and succeeded in doing so in the face of a declining relative world position. This antilabor offensive reached its peak in the 1980s, abetted by the right-wing Reagan Administration, which spearheaded the drive of capital against the working class.

Economist Barry Cohen characterized it:

> The labor policies of this administration are, quite simply, arrogantly and openly open shop policies. They are the policies of the "Committee

> for a Union Free Environment," transferred into the center of executive power.
>
> The brutality of the Reägan approach was symbolized by the picture, broadcast and printed for the entire world to see on August 6, 1981, of Steve Wallert, president of the Norfolk-News Local 29 of the Professional Air Traffic Controllers (PATCO) being taken to prison in leg irons and handcuffs for defying a federal judge's back to work order.

Noting that corporations increasingly petition for elections to attempt to decertify unions, Cohen commented:

> Reagan went further. In a boss's dream come true, by executive fiat he ordered the union decertified and all 12,000 of its members fired and permanently barred from federal employment—with no election.
>
> . . . It has been followed through in grossly anti-labor appointments—John Van de Water, anti-union consultant, to head the National Labor Relations Board; Raymond Donovan, mafia-connected construction tycoon as Secretary of Labor, etc.[1]

A decisive factor in the decline in real wages was the cumulative effect of the decline in trade union membership as a percentage of employed workers. From 35.5% of all nonagricultural employees in unions in 1946, membership declined to 22% in 1980. Particularly serious was the loss of industrial union membership—about 4 million workers—during the 1970s. In 1970 more than 70% of production workers in industry were members of unions, a potentially very powerful concentration. But by 1980 the percentage was 50%, and still falling.[2]

Adjustments

For a more realistic view of real wage trends, it is necessary to make adjustments which, in combination, show that in the quarter century since 1947 the improvement was considerably less than, and the worsening considerably more severe, than indicated in Table 3-1.

a. ***Taxes.*** The data in that table are for gross wages, before withholding taxes. The income tax was originally imposed in response to workers' demands that capitalists pay more of the federal revenues through progressive levies on income. Before World War II most workers paid little or no income tax. But the effective rate of taxation on workers, including both income and social security taxes, has steadily risen. By the 1980s more than three-fourths of all federal income taxes were withheld from wages and salaries, and that constituted the largest single source of federal tax revenues.

The Bureau of Labor Statistics (BLS) calculated the *spendable earnings,* after federal tax withholdings, of workers with no dependents and those with three dependents. These statistics understated the negative impact of tax withholding on workers' earnings because they did not take into account state and local tax deductions, which have been increasing even faster than the federal. Also, there are indications that the BLS underestimated the impact of federal withholdings in the final years of its calculations. The BLS stopped publishing these data after the end of 1981—the Reagan Administration having taken over—obviously to cover up part of the deterioration in workers' conditions.

b. ***Unemployment.*** A further adjustment is necessary to allow for the increasing burden of unemployment. To be realistic, it is reasonable to double the official unemployment percentage, taking into account the following factors:

- The millions of workers who want full-time jobs but can get only part-time work and hence must be regarded as half-employed;
- The additional millions who want jobs but are not counted—neither in the labor force nor as unemployed—because in the judgment of the BLS they are not actively looking for work; and
- The fact that official unemployment statistics average the employment status of self-employed persons—who by definition cannot be unemployed—and of managers, officials and professionals along with the status of production and other nonsupervisory employees whose unemployment rates are considerably higher.*

The first two factors, measured using official figures, would almost double the number of unemployed in recent years, although the rate of unemployment would be somewhat lower because this method increases the total labor force, employed and unemployed. The additional impact of the third factor, however, is more than enough to justify using double the official rate of unemployment to calculate the loss of real wages per worker.

*This has taken on special importance in the 1980s. Corporations increasingly substitute nominally self-employed contractors for employees on their payrolls. These act as sales persons or provide other services for corporations when the requirement for such services arises. They get none of the benefits of regular employees. Supply of such contract labor has become a substantial business. For the most part these workers may be regarded as semi-unemployed. Studies make clear that their annual earnings are usually extremely low, often below those of workers at the minimum wage.

Between 1972 and 1986 the combined effect of rising tax burdens and rising unemployment resulted in a loss of approximately 60–65% of the gains in real wages realized between 1947 and 1972. Table 3-2 summarizes the calculations for a worker with three dependents.

The decline in living standards was somewhat ameliorated by an increase in the proportion of adults working or seeking work, and by a reduction in the number of dependents per household.

How was it possible for the U.S. capitalist class to so limit labor's gains in relation to increasing productivity, and then to reduce real wages and worsen labor conditions so much in the richest, most powerful country?

This was due partly to objective advantages obtained by U.S. capital, notably the increased monopolization of industry and the internationalization of economic life, which were not offset either within the United States or internationally by a corresponding increase in the organized unification of the working class.

An important factor was capital's antilabor propaganda offensive, which was not successfully combatted by the main centers of the labor movement. It was a two-pronged assault: to split the working class and to blame labor for the economic ills of the country, claiming that the cure required workers' sacrifices.

The most virulent offensive climaxed in the decade after World War II with the Red Scare. This was the anti-Communist campaign that resulted in the removal, temporarily, of the most militant leaders of the working class from positions of influence in the trade union movement and, to a large extent, from industrial employment. This ploy has remained potent and in the 1980s was still supported by the International Department of the AFL-CIO.

Racism, too, became more and more important as an ideological tool of capital as the number of Afro-Americans and Hispanics in the working class multiplied.

Among the economic theories used to disorient workers and to justify increasing the employer share of profits have been:

- The supposed need to "sacrifice" in the national interest in order to pay for colonialist wars, notably the Korean and Vietnam wars, and for the nuclear buildup aimed at destruction of the Soviet Union.
- The supposed need to increase "incentives" for the investments required for economic growth.

• The alleged responsibility of high wages for inflation.

• The claimed inadequate productivity of workers, calling for lower wages and more intense labor.

• The alleged responsibility of high U.S. wages for the export of capital and the record deficits in the U.S. trade balance in the 1980s, again calling for reductions in workers' living standards to rectify that situation.

TABLE 3-2. AVERAGE REAL WEEKLY EARNINGS, ADJUSTED FOR TAXES AND UNEMPLOYMENT, FOR A WORKER WITH THREE DEPENDENTS 1947, 1972, 1986, (*1977 dollars*)

Year	Gross Wages	Spendable Earnings (gross less federal tax)	Unemployment Adjustment (Double official rate)	Net Spendable Earnings	Percent Loss from Adjustments
1947	$123.52	$120.98	7.8%	$111.54	– 9.7%
1972	198.41	176.35	11.2	156.60	–21.1
1986	170.46	147.34	14.0	126.71	–25.7
Percent increase 1947–1986:					
	+38.0%	+21.8%		+13.6%	
Percent decline 1972–1986:					
	–14.1%	–16.5%		–19.1%	

SOURCES: *EROP, 1986*, Table B-38, p. 296; Table B-42, P. 301. *Handbook of Labor Statistics*, BLS Bulletin 2175, Table D 87, p. 135; E&E.

All these arguments and allegations are false, self-serving and unscientific. A number of them are specifically refuted in this and later chapters. But one cannot underestimate their impact when promulgated by 99% of the mass media, including many self-proclaimed friends of labor.

For a worker with no dependents, the adjusted real earnings for 1986 were $116.05, representing a decline of 19.7% from the 1972 figure; an increase of 18.6% over the 1947 figure; and a reduction of 31.9% from gross wages.

Statistical Inaccuracies: An additional adjustment is called for, but no attempt is made here to quantify it. The U.S. Government has a vast statistical apparatus and strives to present accurate data for the use of employers. Trade associations also aim to compile accurate statistics for their specific industries, although much of these data are not available to the general public. However, certain types of statistics play a role in the class struggle. And the U.S. Government, in compiling them, has demonstrably biased them to favor the capitalist class.

One of the most important examples is the consumer price index (cpi), used extensively in collective bargaining, in the formulation of wage demands by workers and in wage offers by employers. In periods of high inflation, many union contracts include "escalator clauses," which provide for wage increases based on rises in the cpi. Social security benefits that senior citizens and sightless people receive are changed annually in accordance with this index.

There is strong evidence that this index fails by a considerable amount to show the full increase in consumer prices—especially in times of war or rampant inflation. Details are in the appendix to this chapter. Just one example is presented here.

The Reagan Administration reported a sharp deceleration of inflation beginning in 1983, so that by 1986 it reported a rise of barely 1% in the national cpi. Economists of Manufacturers Hanover Trust, who can hardly be accused of pro-labor bias, made their own survey of everyday living cost changes in New York City between September 1984 and September 1986. The BLS reported a 5% rise in consumer prices for New York over that period; the bank survey revealed an average increase of 23.9% for ordinary items over the same period. Typical increases were: coffee, 78%; toothpaste, 40%; ground beef, 25%; motion picture admission, 20%; news magazines, 11%. True, the bank's economists noted the lower increases in some "big ticket" items and the declines in gasoline and fuel oil prices, but they claimed that working people didn't buy so many "big ticket" items, and that the BLS exaggerated the decline of petroleum prices to consumers.[3]

Real Wages and Productivity

As was explained in chapter 2, the rapid rise in the rate of surplus value signified a corresponding decline in workers' share of the values created by their labor—*in their relative wages.* Relative wages can be viewed another way: by comparing changes in the physical volume of goods and services that a worker's wages can purchase with changes in the physical volume of goods he produces.

Suppose a worker receives a wage of $10 per hour, with which he can buy 10 containers of milk at $1.00 per container. But in an hour of work he turns out 10 shirts with a "value added"—selling price less cost of materials—of $2.00 each, for a total value added of $20 per hour.

He gets in wages the equivalent of half his production, so his relative wage is one-half or 50%. Now suppose his productivity increases so that he turns out 15 shirts per hour, and all prices and wages remain the same. Now what he produces is worth, net, $30. His relative wage has been reduced to one-third, or 33.33%.

Obviously changes in wages and the cost of living have to be taken into account. Accurate comparisons of real wages and productivity can be made over a long period for manufacturing, the basic industrial sector of the economy. For comparability, real wages per hour and production per hour are used, both figures applying to production workers.

Productivity indexes for manufacturing are easy to calculate: The Federal Reserve Board (FRB) publishes a reliable index of the physical volume of manufacturing output. The U.S. Bureau of Labor Statistics (BLS) publishes an index of the man-hours of production workers in manufacturing. Dividing the production index by the man-hours index yields an index of productivity. The results are shown in chart 3-1,* and along with other data, in appendix table 3A.

The manufacturing production line in chart 3-1 zigzags up with minor dips and peaks except for a steep drop in the 1930s and a sharper jump up during World War II. By 1985 it was at 1164, more than 11 times the 1919 level.

The man-hours line to 1950 is practically parallel with the production line, with steep drops and sharp rises, along with minor ups and downs that coincided with production. But, instead of rising in the 1950s, the line remained on a rough plateau and by 1985 it was at 132, only one-third higher than in 1919.

Because the gap between production and man-hours consistently widened after about 1950, the productivity line in the middle steadily rose and by 1985 the index of productivity was close to 900, nearly nine times the 1919 level and more than four times the just-over-200 reached in 1947. If workers were rewarded in accord with their productivity, they would have received four times the real wages of 1947, and far more than their 1972 wages. Instead they have suffered a decline over that last interval.

Analysis of productivity trends reveals that between 1899 and 1919, the first 20 years of modern U.S. monopoly capitalism, manufacturing productivity went up slowly, at 1.2–1.6% a year. Between 1919

*Chart 3-1 is plotted on a logarithmic scale so that equal vertical distances represent equal percentage changes; there is the same space between 100 and 200 as between 200 and 400, between 400 and 800, etc. Thus *rates of change* are accurately reflected.

CHART 3-1. PRODUCTION, MAN-HOURS, PRODUCTIVITY per MAN-HOUR, U.S. MANUFACTURING, 1920-1985 Index numbers, 1919 = 100

and 1929 it rose rapidly, but slowed and for periods halted during the ensuing deep crisis and World War II. Overall, the rate of productivity increase for the 1919-1947 period averaged 2.6% a year, roughly twice as fast as during the 1899-1919 span.

After 1946 productivity really soared with the compound rate of growth at 4.0% a year. After 1947 the escalation was furthered by the scientific and technological advances of the previous decades that had been postponed by the economic crisis of the 1930s and then the war. There was a slight slowdown due to the impact of the Vietnam War, the economic crisis of 1974-75, and the completion of the post-World War II expansion. Also, the transnationals were focusing investments on foreign rather than on new and modernized U.S. plants.

In the 1980s there was a renewed upsurge in productivity growth, based on:

- A new stage in the scientific and technological revolution, featuring computerization, automation, robotization;
- Accelerated modernization of the remaining U.S. plant and equipment to cope with intensified competition, especially with Japan;
- Major progress in economizing on energy and raw material consumption, stimulated by the continued rise of oil prices and other energy costs; and
- The weakening of unions as a result of the employer offensive, with permanent mass unemployment and with a revival of various methods of intensifying labor.

On the whole, the 4.0% per year productivity growth in the 40 years since 1946 was a record. Moreover, even after West European and Japanese industry caught up, making up for their productivity losses during World War II, the U.S. increase in productivity rates—say since 1973—have equaled or exceeded those of its main industrial rivals.

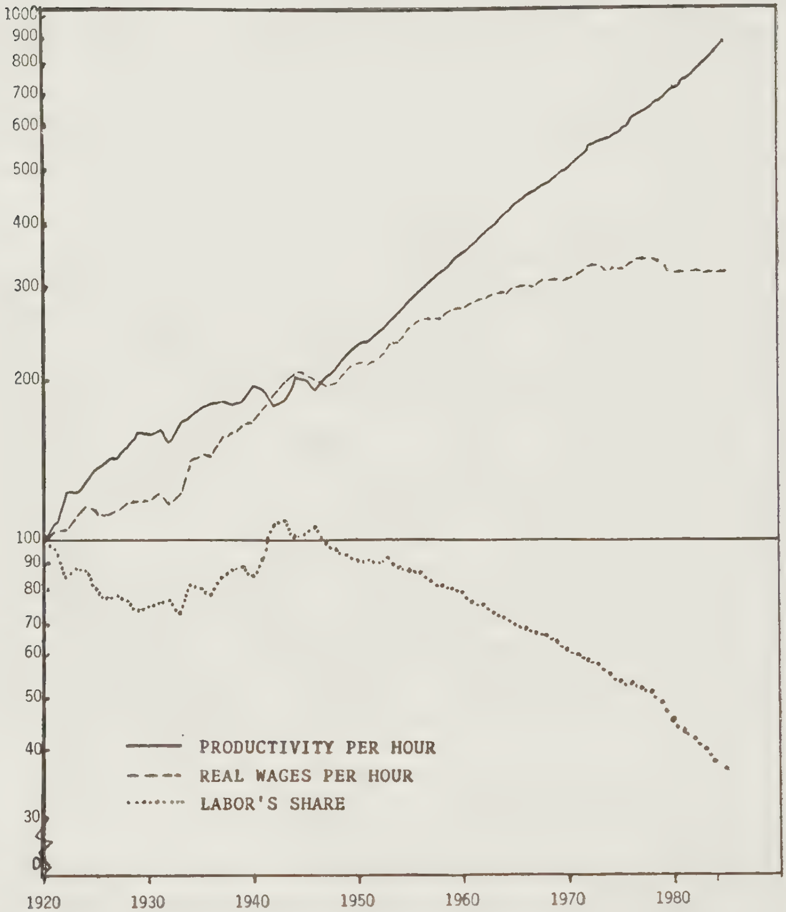
Real and Relative Wages

Chart 3-2 compares productivity per hour and real wages per hour in manufacturing, and graphically shows how labor's share has plummeted. The productivity line is the same as that shown on chart 3-1; it is clear that the real wages per hour have gone up much more slowly except during the New Deal period and World War II. In the 1970s real wages leveled off and toward the end of the decade they began to decline.

Labor's share, manufacturing workers' *relative wages,* is seen as almost a mirror image of productivity—the exact opposite—declining in the '20s, recovering in the '30s and early '40s, and then going down steadily.

By 1985 the relative wage index was down to 37. That is, factory

CHART 3-2. PRODUCTIVITY per HOUR, REAL WAGES per HOUR, and LABOR'S SHARE U.S. MANUFACTURING, 1920-1985
Index Numbers, 1919 = 100

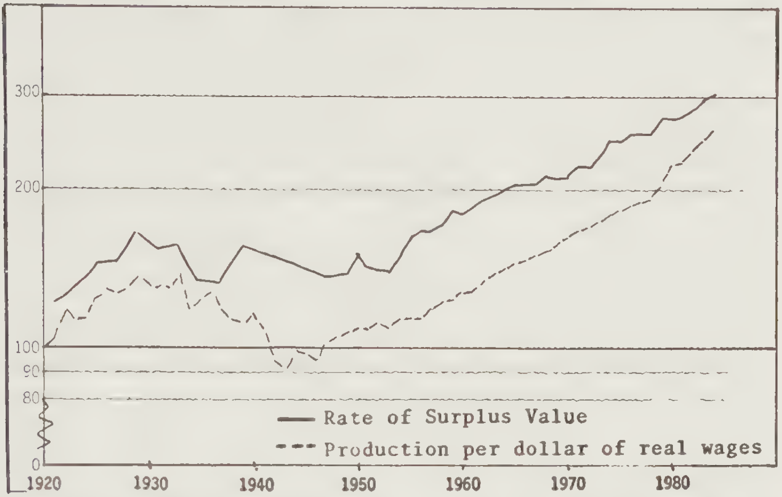


SOURCE: Labor's Share, calculated from table 3A, Appendix

labor's share of its output was 63% less than it was in 1919 or 1945. A worker who was getting real wages equivalent to 50% of the value of his output at those earlier times would be getting less than 20% in 1984. This is consistent with the calculations of surplus value in chapter 2.

Chart 3-3 compares trends in the rate of surplus value with trends in productivity per dollar of real wages. The two lines are roughly parallel.

CHART 3-3. RATE OF SURPLUS VALUE, 1921-1982; PRODUCTION PER DOLLAR OF REAL WAGES, 1920-1984 Index Numbers, 1919 = 100, U.S. Manufacturing



SOURCE: Rate of Surplus Value: Appendix table 2A; Production per Dollar of Real Wages: calculated from table 3A.

Falsification of Productivity Statistics

A commonly accepted myth put out by politicians, Establishment economists and capitalists is that labor productivity in the United States has virtually stagnated in the period since 1965. This has been, and continues to be, used as a powerful club against labor.

The main basis for such claims are the productivity statistics put out by the BLS. That agency *does* publish statistics on productivity for about 100 different industries and services, based on physical output and man-hours worked, and these studies show, in most cases, very rapid growth in productivity. But the data are not publicized by the government and are ignored by the media.

Attention is focused, rather, on so-called productivity indexes for the entire private economy, for the nonfarm economy, and for manufacturing These indexes are calculated in an entirely different way, ignoring physical measurement of output. (See appendix to chapter 3 for detailed analysis of falsified data.)

These contrived statistics show a number of years of declining productivity and an overall sluggish growth trend for the period beginning in the late 1960s. For the 16-year interval 1968–1984, the BLS index of output per hour of "all persons" in the nonfarm business sector increased at a rate of only 1.1% a year. In four of the 16 years, the index actually showed a decline. Each time there was maximum publicity.[4]

These figures have been used to buttress claims that blame labor's "low productivity" for the loss of markets to foreign competitors, for the U.S. trade deficit, and to justify cuts in workers' wages, plant shutdowns and runaway shops to low-wage countries where, it is averred, productivity is higher—or at least increasing rapidly.

BLS data showed a somewhat more favorable trend for manufacturing productivity, but still much slower than the actual rise, and media propaganda has emphasized the more comprehensive indexes, which rose scarcely at all.

Because of their effective use by capital against labor, these data have become much more than an academic exercise in proper measurement techniques. These statistics have become a major weapon of capital. They have been accepted as valid by the U.S. Government, by the business community and by academic circles, and they have not been challenged by the AFL-CIO. Unfortunately they have also been accepted uncritically by a number of progressive, liberal and social-democratic economists, including Seymour Melman, Lester Thurow, Samuel Bowles and his associates.

The jacket cover blurb on Melman's book, *Profits Without Production,* puts his thesis succinctly: "Seymour Melman . . . diagnoses the fundamental sickness of American industry—the collapse of productivity while huge profits continue to be made. . . . "[5]

Melman accepts inaccurate official statistics in his book, the basic aim of which is to attack big business profiteering, and especially the militaristic distortion of the U.S. economy. Himself an engineer, he makes important contributions by exposing the misuse of scientific and technological progress for the military while, simultaneously, he underestimates the significant effect of that progress on the civilian economy.

Economist Lester Thurow, a leading adviser of the Democratic Party, must be put in a different category. Reviewer Leonard Silk summarized Thurow's position:

> The central problem now is not putting idle resources and unemployed workers back to work, but of ending slow productivity growth,

of causing the nation to save and invest more and consume less of its income.[6]

Thurow asserts that slow productivity is a fact, and he uses that assumption for an all-out attack on labor. His concern is not with unemployment or reduced mass consumption but with the need to increase further the profits of capitalists so they can "save and invest more." For example, hiding behind the cloak of academic "science," Thurow—going even further than any conservative politician has publicly dared to do—calls for the complete elimination of taxes on corporations and the rich, and a multiplication of the tax burden on the working population through a variety of consumption taxes.

Then there is the approach of social-democratic economists Samuel Bowles, David M. Gordon and Thomas E. Weisskopf in their book, *Beyond the Waste Land,* which has had considerable influence in left academic and trade union circles.[7] These economists attribute the ills of the U.S. economy to *both* stagnant productivity and declining profitability. Accepting the concocted government figures, they blame "declining productivity" on a combination of lower worker incentive to perform and less management pressure on workers to produce, a false explanation of a nonexistent trend.

They attack not the superexploitation of labor but "waste" in the process of superexploiting labor. They do not attack the basic anti-Soviet drive of the militarized U.S. economy, but give it implicit support while deploring "waste" in carrying it out.

By fortifying the fundamental economic analysis that big business uses to justify its antilabor, military offensive, Bowles, Gordon and Weisskopf nullify their reform proposals for more public works employment, a shorter workweek, and a vaguely explained "democratic" influence over industry. They disorient those forces that are destined to lead and be active in the struggle against big business.

"Middle Class" Workers

Another important weapon of capitalists in their attempt to split the working class is to define "working class" away, so to speak. In Establishment writing, workers are divided into two categories, "underclass" and "middle class." The former are those tens of millions working for poverty-level wages or less, and those who are unemployed for long periods of time, including the youths who never had a job. The basic fact, however, is that they are a major, important section of the working class, along with those who are better paid.

"Middle-class" workers are portrayed as those whose historic status as wage workers has been so improved that they can plausibly be considered to have advanced out of the working class proper and into the "middle class." This designation is applied to industrial workers generally, to workers in construction, transportation and utilities. They are pictured as having a direct stake in capitalism, often materialized in stock ownership or participation in profit-sharing plans. Employers encourage this trend by offering inducements to their workers to buy stock at a discount, and by pressuring unions to accept profit-sharing schemes for employees in lieu of wage increases. Slogans of labor-management "partnership" are promoted, and have been developed to a fine art by Japanese companies opening plants in the United States.

There is in the United States a "middle class," as defined in chapter 1. Their incomes are generally higher than those of workers, but there are some workers whose incomes are higher than those of some middle-class people. Income is not the decisive factor here. What is decisive is their relation to ownership of capital, the character of their work and the source of their income.

Members of the middle class get a share of the surplus value produced—by exploiting the farm laborers, store and office clerks, etc., who they hire, and through returns on their investments. At the same time, they are dependent on, and often under pressure from, the monopoly corporations and banks, the former charging them exorbitant prices for the goods they purchase and the latter demanding high interest on tne funds they borrow to finance their businesses. They are particularly vulnerable to failure and foreclosure, especially in times of economic recession when many members of the "middle class" end up, willy-nilly, in the ranks of the working class. At the same time, a handful rise to become large capitalists, high-ranking executives of major companies, etc., and many others dream of such "success."

Ideologically also, they are "in the middle class," supporting the dominant sections of the capitalist class on some issues, but under some circumstances and on other issues, joining with workers.

Many of the relative handful of workers who have received wages comparable to middle-class incomes have been the hardest hit in the antilabor offensive of the 1980s. Airplane pilots, whose salaries were slashed from $75,000 to $25,000, were deprived overnight of "middle-class" living standards and, judging from their strikes and picket lines, of middle-class illusions as well.

As for workers in manufacturing, mining, transport and utilities—not to mention low-paid trade and service employees—they are definitely members of the working class in their social status, and their incomes are far from the middle-class norm. By no criteria can any sizable contingent of workers be classified as "middle class" in living standards and life-style.

The term "middle class" as used by the capitalists, actually refers to people in a supposed "middle income group." Since a large majority of the population are workers, many of them obviously would be in the "middle" of an income distribution of the entire population. However, the accepted *concept* of "middle class" is not that of a person in the middle of the income distribution, but rather of a person with a very comfortable, secure standard of living, one that includes ownership of a good home or apartment, one or two new cars, "all modern conveniences," funds for leisure and vacation—a place in the country or travel. This roughly corresponds to the BLS definition of its "higher budget standard." The BLS put it: "The *higher standard budget* will reflect a more comfortable level and manner of living sometimes known as the "American standard of living."[8]

Yes, the "American standard of living." The term, in common usage in the 1960s, has been replaced by the designation "middle-class standard of living." It signifies, according to the Labor Department concept, a family that doesn't need scholarships to send its children to college, that is able to "pay for fee services." And in the Hollywood version, it includes more comfort, more luxuries, than suggested by the definition of the higher budget level. How many workers actually reach this income level?

The higher budget level for 1986 came to $46,247.[9] That is the equivalent of about $900 per week. Scarcely any nonsupervisory workers made that much. Average 1986 annual wages of workers in nine of the highest-paid industries—construction, electrical work, coal mining, steel, autos, paper mills, petroleum refining, Class I railroads, motion picture production and services—were about $30,000 per year. And very often the annual wages fell far short of that amount because of periods of unemployment.

Unemployment

Unemployment is one of the most severe hardships capitalism inflicts on the working class. It deprives millions of both the material means of life and the psychological, moral requirement of socially useful activity. Unemployment has been a constant feature of modern industrial capitalism. It came about historically in Europe as the entrance of dispossessed handicraftsmen and peasants into the labor market exceeded the growth of demand for labor by manufacturers, and because improved technology either reduced the demand for labor or caused it to increase more slowly than the supply in particular industries. In each cyclical crisis unemployment went way up as a result of layoffs.

The capitalist class has always *needed* a reserve army of unemployed—to draw upon when expanding operations and as leverage to keep the wage level down at or close to the minimum required for subsistence.

Marx wrote:

> The course characteristic of modern industry, viz., a decennial cycle (interrupted by smaller oscillations) of periods of average activity, production at high pressure, crisis and stagnation, depends on the constant formation, the greater or less absorption, and the re-formation of the industrial reserve army or surplus-population . . . the whole form of the movement of modern industry depends, therefore, upon the constant transformation of a part of the labouring population into unemployed or half-employed hands.[10]

In the United States unemployment became especially severe because the rapid growth of industry was fueled by mass immigration, mainly from Europe. When crisis conditions occurred, continued immigration, added to layoffs, rapidly multiplied unemployment.

The industrial crisis of the 1890s, which accompanied the beginning of trustification of industry, resulted in exceptionally heavy unemployment. Unemployment averaged 14% of the civilian labor force in the period 1893–1898, peaking at 18.4% in 1894.[11]

At least half the labor force at that time consisted of farmers and other self-employed people who, by definition, could not be considered unemployed. Hence the *rate* of unemployment among wage and salary earners was at least double the figures cited.

Militant struggles of the unemployed for relief and jobs developed, with full support from the recently formed American Federation of

Labor (AFL). "Coxey's Army"—10,000 unemployed workers—marched on Washington to demand jobs but only minor, temporary concessions were won.[14]

Setting a pattern that was to be repeated several times, the prolonged depression of the 1890s was ended by war—the Spanish-American War of 1898; it marked the formal opening of the drive of U.S. imperialism for colonies with the seizure of Cuba, Puerto Rico and the Philippines.

The heaviest, most prolonged unemployment in U.S. history engulfed the country in the 1930s. For a full decade, from 1931 through 1940, more than 20% of all non-farm employees were jobless, with a peak rate of 37.6% in 1933. Masses of unemployed and homeless wandered the country, "riding the rails"—i.e., risking their lives to jump onto freight trains in a desperate search for jobs and food. This time the fightback was more massive, sustained and better organized than in the 1890s. World War I veterans organized a "bonus march" on Washington in 1932 that, although brutally attacked by the Army, had a lasting impact. Communist-organized unemployed councils became an effective, lasting movement that included the newly rising trade union movement and the advanced sections of "New Deal" political forces, and that won significant concessions in relief and part-time government jobs, as well as the inauguration of an unemployment insurance system. Farmers' struggles against the wave of foreclosures, and the actions of the starving southern sharecroppers were also important features of the period, with decisive farmer-labor cooperation.

World War II, with its demand for workers to produce munitions and its vast expansion of the armed forces, virtually eliminated unemployment. But this evil reappeared immediately after the war.

With revolutionary tides rising high in Western Europe, and the U.S. labor offensive at the end of the war, the capitalists feared the militant potential of a united struggle of the employed and unemployed. Under McCarthyite repression and the government-assisted right-wing takeover of most trade unions, the militant unemployed movement did not revive.

President Franklin D. Roosevelt, proclaiming his "Economic Bill of Rights" in 1944, listed first that every person who is able and willing to work has the right to a job at decent wages, regardless of race, color or religion. However, the Congress's implementation of this pledge was limited to a vague "Employment Act," which had no operative substance and was soon forgotten.

The president of the CIO, Philip Murray, warned: "Five million [unemployed] is menacing. Seven million is depression. Eleven million is riots and bloodshed." Then President Truman warned that a repetition of a serious depression like that of the 1930s threatened the "private enterprise system," and there was a "real danger" that the American people might turn to socialism.[15]

With capitalist rule relatively stabilized in Western Europe, and right-wing forces dominating the U.S. labor movement, big business overtly proclaimed its interest in the maintenance of a large reserve army of unemployed. First a goal was set at a minimum of 4% unemployment—as officially undercounted—to ensure the profitable, smooth operation of their system. By the late 1970s they raised their sights to 6%, and even higher rates caused no concern so long as the workers were unable to retaliate effectively. The jobless rate gradually increased from an adjusted 9.12% in the 1946–50 period to 16.64% in 1981–85 (see chart 3–4).

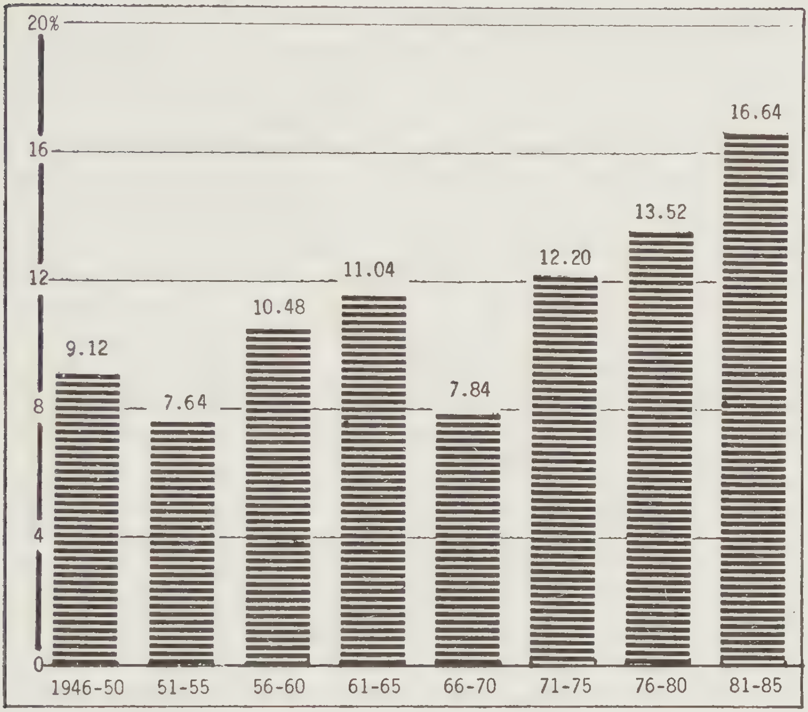
After peaking in the economic crisis of 1980–82, the unemployment rate remained high, particularly in some specific areas: among Blacks, Puerto Ricans and Native Americans; and especially among youth. For these sectors, the situation was as severe as in the 1930s.

Official undercounting became particularly brazen in the 1980s.

The ramifications of mass unemployment were analyzed by Professor Bertram Gross. He found that the total number of jobless people in 1986 approximated 20 million, compared with the official figure of 8 million. He estimated that the insecure and underpaid—subjected to inadequate wages and working conditions, under pressure because of the threat of unemployment—numbered 40–60 million, and that at least half the total population was adversely affected by unemployment.[17]

Even Labor Department studies make clear that the "average" number of jobless covers only a fraction of those who were not employed at some time in any given year. Thus the BLS reported that in 1985, with 8.3 million officially counted as unemployed, *on the average,* a total of 21 million individual workers were officially recognized as having been unemployed during part or all of the year.[18] Adding the 5.9 million not counted in the labor force who "want a job now" to the 5.6 million forced to work only part time "for economic reasons" brought the total who suffered from unemployment during the year to over 30 million.

CHART 3-4. RATE OF UNEMPLOYMENT IN THE UNITED STATES*
Five-Year Intervals, 1946–1985



*Unemployment rate shown is double the rate published by the BLS

With the deterioration of U.S. industry in the 1980s, thousands of plants and mines were shut down as their owners moved operations abroad or as foreign competitors took over their markets. Over a five-year period, 11.5 million workers suffered the most drastic form of unemployment—the elimination of their means of livelihood through the destruction of their workplace, as distinct from "mere" temporary unemployment for seasonal reasons, inventory adjustment, or a down period in the business cycle.[19]

Because of the uneven development of U.S. economic life, there is a serious negative impact on workers in areas where there are jobs. The unemployed flock to these areas, and as a result housing and public facilities do not keep pace; landlords and merchants raise prices mercilessly. This has occurred in areas with zooming armament orders, in the Texas oil-boom region, and in California and

Massachusetts where the high-tech industry has bloomed. Typically these booms have been temporary and their collapse has brought new norms and new forms of suffering.

In the 1980s, as the New York financial and administrative headquarters of U.S. monopoly capital expanded, spreading beyond the city's boundaries, nearby Long Island and northern suburbs followed the pattern. "New York Suburbs Offer Jobs But a Daunting Cost of Living," headlined a *New York Times* article. Workers may find jobs in this "growth area," but may still be forced to exist in shelters for the homeless because their pay cannot allow for the $50,000 down payment on a house, and the $2,000 per month upkeep. Costs are higher in the

> ...suburbs than anywhere else in the country. Large corporations, which are scrambling to fill relatively low-paying jobs in their suburban offices, are also deploying their executives to other areas where the cost of living is less burdensome....
>
> And in many of the suburbs, government and business officials have begun advising job-seekers not to come to their towns unless they expect to make $50,000 a year or more.... [20]

Ironically, the office and factory workers in the headquarters buildings and high-tech factories springing up in the area could not expect to make more than half that amount.

The increase in unemployment became a symptom of the decay of world capitalism. In the mid-1980s, unemployment reached "double digit" rates in most of Western Europe and, worst of all, in those "Third World" countries that have become thoroughly integrated into the capitalist world economy. Estimates were that one-third to one-half of the working class were jobless in these developing nations.

Semipermanent high-level unemployment became a major feature of the structural crisis afflicting world capitalism. The slow growth of world markets, combined with rising industrial productivity in, and new sources of supply from, some developing countries led to a long-term reduction in industrial employment in the advanced capitalist countries. The sprouting of underpaid service-industry employment was not sufficient to counteract the downtrend.

In addition to the structural crisis, unemployment was aggravated by the continuing antilabor offensive of capital and the administration in the 1980s, fostering accelerated productivity, more overtime, displaced workers, plant shutdowns, plant removals to foreign shores, and the abolition or curtailment of government job programs.

In the USSR and an increasing number of other socialist countries, full employment under conditions of adequate wages and working conditions was maintained as the unemployment situation in the capitalist world worsened.

Protective Legislation

Protective legislation is an essential aspect of labor conditions. Two of the most important forms of coverage are minimum wage laws and unemployment insurance. Both have deteriorated markedly since the 1960s.

During the 1950s and most of the 1960s, the minimum wage increased roughly in proportion to the general wage level. Thus, in 1950 and again in 1968 the minimum wage was 54% of the average wage of manufacturing production workers. Thereafter minimum wages failed to keep pace. In 1975 and again in 1980, the minimum wage was down to 45% of the average wage. The Reagan Administration, despite rampant inflation, kept minimum wages frozen so that by late 1986 the minimum wage was only 34% of the average wage. Despite some improvement in coverage in 1966, by 1974 there were still some 17 million nonsupervisory employees without any such protection.[21]

Unemployment insurance coverage plunged. In the crisis year 1975, 62% of the officially counted unemployed received such funds. In 1983, only 34% received unemployment insurance payments; and in 1985, only 32%.[22]

By the mid-1980s the contrast between the situation of U.S. workers and those of Western Europe was marked. The West European workers had won relatively comprehensive unemployment compensation at high percentages of their regular salaries, lasting for long periods. Provisions in Western Europe to reduce poverty—such as government housing, controlled prices of medical services and largely nationalized medical services—were also far superior to any in the United States.

Poverty

Large sections of the working class have suffered dire poverty throughout the history of industrial capitalism. There is no eternal, universal definition or concept of poverty: it changes as requirements for living become more complex and as the potential for satisfying those requirements develops. It varies from country to country, depending on each one's history and evolution of social and living standards. At a given time and place, a worker and his family live in poverty if their wages fall below the amount necessary to support the minimum necessary worker's standard of living, as defined in chapter 2.

The U.S. Department of Commerce has issued official estimates of the number of people and percentage of the population living in poverty for the years since 1959. The number peaked in 1960 at 39,851,000 or 22.2% of the civilian population. During the 1960s, as unemployment declined and real wages rose under the impact of the Vietnam War boom and the concessions granted labor to minimize opposition to the war (the "Great Society" program), plus the mass Civil Rights struggles, the extent of poverty declined. The official figure for 1973 was 22,973,000, or 11.1% of the population. Thereafter, as real wages dropped, as unemployment rose, and as the antilabor, racist offensive of big business gathered momentum, poverty shot up. The official figure for 1983 was 35,266,000 or 15.2% of the population. The cyclical recovery in the economy brought only a small decline, to 32,370,000 people or 13.6% of the population living in poverty in 1986.[23]

However these statistics distort the dynamics of poverty. The Commerce Department has twice revised its methods of calculation—in 1966 and still further in 1974—so as to reduce the number *counted* as living in poverty by approximately 10%.[24]

The Black poverty rate was 31.1% in 1986, and that of Hispanics was 27.3%. Among urban children of these oppressed peoples, the poverty rate approximated 50%. To make matters worse, all relief provisions, including unemployment insurance, food, relief, government low cost housing programs and medical aid were sharply curtailed. Homelessness became a major problem, afflicting millions. Hunger became a grueling factor for the poor, as indicated in this report by Representative Leon E. Panetta (D., CA), chair of the Nutrition Subcommittee of the House Agriculture Committee:

> ... the growth of hunger and proverty is now turning up as cold, hard statistics. The situation is critical, especially for our children.
>
> ... the mortality rate for infants from 1 to 12 months old appears to be increasing. It is in this period that nutritional and health measures play a large role in preventing death....
>
> The latest available poverty statistics indicate that nearly one-fourth of all American children under 6 live in poverty—a four-year

> increase of 45 percent. More than 50 percent of black children under 6 and more than 40 percent of such Hispanic children live in poverty.
>
> Physicians around the nation are reporting an increase in nutrition-related health problems in children, including instances of diseases usually found in third world countries.
>
> Over the past 28 months, I have been involved in 16 hearings on the hunger issue in Washington and around America, visited dozens of soup kitchens and talked with many people involved with the problem. Their message has been so uniform that I have no doubt it is true: The hunger problem is real and growing. . . . [25]

The above is particularly appalling when you consider that according to medical specialists who have studied the problem, hunger was largely eliminated in the United States by the 1960s and 1970s, thanks to increases in real wages of employed persons and to government programs that provided assistance to those whose incomes were insufficient to guarantee an adequate diet.

In the 1980s this situation was reversed. According to J. Larry Brown, chair of the Physicians' Task Force on Hunger in America—connected with Harvard University—by 1985 there were 20 million Americans suffering from hunger, of whom 12 million were children. "Although more recent data are not available, later evidence suggests that the problem of hunger in America has grown worse."[26]

Hunger is associated with high infant mortality, and only 7 of 25 industrialized countries had higher rates than the United States. Data in Brown's report show that the Black people are, proportionally, most victimized by hunger, and the results show up in an infant mortality rate double that of whites.

The scourge of homelessness has been an unforeseen result of the anti-people offensive of landlords, bankers, real estate operators, and governments at federal and local levels. In brief, the supply of housing available to people of low income has been drastically cut, forcing large numbers to try to survive in the open, in railroad and bus terminals, and in shelters provided by municipal governments. There is no systematic count, but taking into consideration estimates from various cities, the total by the winter of 1986–87 was certainly over a million. Many times that number, of course, were managing by "doubling up" with relatives or close friends.

Concerning medical care, *The New York Times* editorialized:

> The Administration has tightened welfare and Medicaid eligibility. And the number of Americans unable to afford medical care has

> grown in just five years from 25 million to 37 million . . . a million Americans each year are now refused medical treatments and five million others don't even seek help they need.[27]

Gus Hall described the situation in the winter of 1985–86:

> There is a new, ugly element added to the winter scene, U.S.A . . . growing millions of hungry, homeless and heatless. This has become an integral feature of every winter.
>
> People are freezing, starving and dying of neglect and lack of medical care. No state is spared and the blight has reached into the suburbs and farm areas. Los Angeles is now called "the capital of the homeless," because people who have nowhere to live are trying to escape the cold by going to California.
>
> In New York City alone, where the crisis has become a full-blown emergency, 300,000 are unemployed, 60,000 are homeless, 144,000 doubling-up, over 25% living in poverty, too poor to qualify for food stamps, and 600,000 children hungry and 40% living in poverty, 50,000 live in freezing, filthy, dilapidated apartments.[28]

Family income and poverty statistics of the Census Bureau emphasize the contrast between the poverty of the masses and the prosperity of the propertied classes. Between 1973 and 1983, the percentage of families in the top income groups—$35,000 per year or over in 1983 dollars—went up from 26.6% to 29.6%. At the same time, the percentage of families in the extreme poverty groups—under $7,500 in 1983 dollars—rose from 7.5% to 10.7%; in the poverty and near poverty groups—$15,000 and under—from 22.7% to 27.5%. Meanwhile, the percentage of families with incomes between $15,000 and $35,000, mainly working-class families with incomes above the poverty level—decreased from 50.6% of all families to 42.8%.[29]

Farmers and small business people were also victims of the 1980s offensive of big business in the United States. Farm foreclosures, business failures and home losses jumped to levels previously seen only in the early 1930s. Moreover, the ruin of farmers and small businesses accelerated even during the economic recovery years of 1984 and 1985. The administration, which had capitalized politically on its paeans to "free enterprise," ruthlessly demolished long-established price support and other programs that enabled many smaller farmers to remain in business, while multiplying subsidies and giveaways to armament manufacturers, big bankers and industrialists.

Scale of the Poverty Problem

Poverty is an enormous problem in human terms, but small in financial terms for a rich country like the United States.

In 1983, families below the poverty line needed an average additional $4,020 in income to raise them above the poverty level; single individuals needed $2,232. Based on these data, calculations reveal that the total income deficit for the 35 million people living below the poverty line was $46 billion.[30] That was a mere 1.4% of the gross national product. It was 23% of the funds squandered on the military, and a like amount of the revenue NOT collected because of tax loopholes and other bonanzas that benefited the rich and the corporations.

This does not mean that the elimination of poverty is simple. The capitalist class has always been determined to create and augment an ample group of impoverished in order to depress wages, to foster racism, to inspire fear and discourage militancy among workers. From among the ranks of the poor, capitalists can obtain household servants, recruit strikebreakers, assure enlistments in the armed forces and, in certain situations, recruit brutalized mercenaries for interventionist aggressions.

Millions of people yearly are impoverished through loss of jobs, foreclosed homes and farms, death of breadwinners, exorbitant medical expenses, accidents and other calamities. The lack of social protection against such occurrences is a consequence of the anarchy and instability of capitalism.

To alleviate this distress requires an effective full employment program, a mandatory—and enforced—higher minimum wage, relief compensation and extensive unemployment insurance. Enactment of such measures would not be onerous in relation to the U.S. economy.

Similar trends of deteriorating conditions of the working class have prevailed throughout most of the capitalist world in the last quarter of the 20th century.

Again it must be emphasized that poverty is a class phenomenon, and in the United States the working class is the prime victim. The political gains of capital and the setbacks of labor contributed greatly to the increase in U.S. poverty since the early 1970s.

"Freedom" and "Human Rights"

The yawning gap between rich and poor, between capitalist and worker, gives the lie to official boasting about "freedom" in the United States.

The International Bill of Human Rights is a major part of international law, having been ratified by scores of members of the United Nations (the required number was 35). Adopted in 1974, it consists of two covenants: one on economic, social and cultural rights, and one on civil and political rights.

Article 23 of the Universal Declaration of Human Rights, which in effect summarizes the main points of the Covenant on Economic, Social, and Cultural Rights, reads:

"Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment."[31]

Sections of the covenant spell out the right to decent wages, adequate and rising living standards, and rights of trade unions, among other standards that would be on the agenda for prompt action by a progressive legislature.

President Carter signed these covenants in 1977 but they were never ratified by the U.S. Senate. Instead, Congress passed—and Carter signed—a "Full Employment Bill," which merely set the goal of reducing unemployment to 4% by 1983 but provided no means for doing so. The actual official rate of unemployment in 1983 averaged 9.6%.

Indeed, the rulers of the United States and a number of other capitalist countries have largely abandoned even verbal concern for mass social and economic welfare. More and more brazenly they identify "freedom" with "free enterprise" for monopoly capital, while striving to eliminate all remnants of social protection for the working class.

Throughout history the corporate bureaucracy has violently suppressed the attempts by workers to improve their conditions through strikes or other forms of mass action. And obstacles have consistently been erected to prevent the effective use of the electoral apparatus. Antilabor repression in the United States was especially severe in times of militant fightback—after the two world wars and during the crisis and depression years of the 1930s.

Aside from retaliations against the organized actions of workers, everyday police violence against the working class deprives millions of the "human rights" vaunted by the power elite. Police killings of civilians—especially minority peoples—are common in the United

States to a degree unmatched in other developed capitalist countries, with the exception of South Africa. Imprisonment of workers has escalated with the structural crisis and the deepening general crisis of the last quarter of the 20th century, adding to an already increased prison population (see chapter 7).

Women Workers

Women comprise an increasing section of the working class, and are subject to extra exploitation. Between 1947 and 1986 the number of male workers increased about 50%, and female workers about 150%, reaching 44% of all employed people.[32] They are seriously discriminated against in wages and salaries, and in promotion opportunities. In 1986 the median weekly earnings of full-time women workers was 67% that of men, an improvement of about 6 percentage points since 1970, but still too low by far. The wage discrimination persisted at every job level. Women professionals received 71% as much, salespersons 51% as much, and factory operatives 63% as much as men in the same occupation groups.[33]

Of course, employers reap extra profits directly from this discrimination against women and from their use of women workers to pull down wages of men. Approximately 6 million women are employed as factory production workers or nonsupervisory workers in other commodity-producing industries. At a minimum differential of $100 per week for similar work, this adds up to $30 billion of extra profits per year.[34]

As more and more women combined working with raising children, their burdens increased owing to the extreme shortage of affordable child care, inadequate maternity leave provisions, etc. The social dissolution affecting American life left millions of women without husbands but with children. Black women were most grievously afflicted by this situation. In 1984, 43% of Black families and 13% of white families were headed by women. Of these, 52% of the Black families and 27% of the white families had incomes below the official poverty level.[35] These Black women—and, indeed, their children—are extreme victims of sex and race discrimination combined.

Women, supported by progressive males and trade unions, are struggling for the principle of equal pay for work of comparable skill and requiring comparable education, and some local victories have been won in this struggle.

Antidiscrimination laws apply to women as well as to Afro-American and other minorities, but have not been seriously enforced in either category.

An all-around joining of campaigns for equality, assuring advances for each group, is called for. Particular far-reaching measures are required to improve the situation of women in their combined role of workers and mothers.

4. Racism

The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black-skins, signalised the rosy dawn of the era of capitalist production. –Karl Marx.[1]

Thus the industrial capitalists accumulated their first large amounts of capital with which to set up the factories of the 18th and early 19th century. U.S. capitalists, starting in the colonial period, were major participants in this cruel and inhuman process of self-enrichment. The early U.S. Navy protected the "right" of American-built and -owned vessels to prowl the coasts of Africa in search of slaves to take to the U.S. South. It was the southern slave owners who, for the first 80 years of U.S. independence, were major garners of wealth through the forced labor of these slaves and their children and grandchildren.

After the defeat of the South in the Civil War and the brief period of Reconstruction with its start toward a democratic system, the plantations were restored to the former slavocracy—with the aid and abetment of the federal government. A regime of semiserfdom and sharecropping was imposed, with its segregation, impoverishment, and deprivation of all political and civil rights for the Black people.

The evils of racism still continue in the United States, if in less glaring forms than during the slavery epoch. That these evils still exist is justified ideologically by white chauvinism, by myths of racial supremacy or inferiority, and by vile slanders against the 60 million Black, Hispanic, Native American and Asian peoples, the largest number of victims of racist discrimination in any country in the world.

Discrimination against most people of Hispanic origin,* notably Chicanos, Mexican-Americans and Puerto Ricans, also has historic roots in foreign conquest and plunder—the seizure of a large part of what had been Mexico in the Mexican-American War; the invasion and virtual colonization of most of Central America and the West Indies, which continues to this day in the attempt to impose U.S. rule over all of Central America. These conquests led, originally, to U.S. corporate involvement in the superprofitable sugar, banana, coffee and petroleum monopolies. They also led to the influx into the United States of starving peasants, escaping the harsh dictatorships imposed by the U.S. Marines. These immigrants, together with the resident Chicanos, became a major source of cheap labor in U.S. agriculture and, increasingly, in industry.

The subjugation of Native Americans and appropriation of their traditional lands and resources, the dispossession and exile of entire tribes, confining them to "reservations," were especially brutal. But more and more Native Americans, too, have become part of the working class.

As of 1985, 24% of the 244 million people in the United States were racially oppressed, including 32 million Afro-Americans, 20 million Hispanics, and 8 million Asians and Native Americans.†

These statistics understate the importance of racism. By the middle and late 1980s, minority peoples were majorities in many central cities, and minority children were large majorities in the public schools. A political concentration of minority influence in the central cities has resulted in the election of a number of Afro-American mayors and members of Congress. At the same time, it has represented a process of ghettoization of minorities, with white populations enjoying higher living standards in the surrounding areas and suburbs.

Moreover, because of higher birth rates and immigration, the proportion of minority peoples in the total population is rising rapidly.

*Many prefer the term "Latinos." Here the term "Hispanics" is used as a matter of convenience because it is used in official statistics.

†These figures allow for undercounting of 3 million Blacks, 3 million Hispanics and 1 million "other" by the Census Bureau. That agency estimated, conservatively, that it undercounted the Black population by 7.7% in 1970. There is evidence that the undercounting of Blacks has risen significantly since 1970, notably in the wide spread between the low reported Black male population and the reported Black female population. The undercounting of Hispanic people largely consists of the millions of undocumented workers and their families living in the USA.

The cumulative impact of discrimination mounts, and it undermines the living conditions of all working people.

The 60 million oppressed peoples within the American nation are entitled to all the rights of all other Americans. Most are descendants of people whose arrival here predated the forebears of those with European heritage. They are "as American as apple pie"—or pizza, or gefilte fish, or tacos, or scrapple. But they are oppressed, discriminated against, deprived of full participation in many aspects of life, and segregated in more or lesser degree. Hence their ethnic characteristics as erstwhile Africans, Latin Americans and Native Americans have been retained to a greater extent, usually, than those of European national background.

Their struggle is for complete effective equality, including the right to full integration to the extent *they* determine, acceptance and use of their own languages, and the practice of their own religious beliefs.

At the same time, it is the responsibility of the white majority to join in and to aid the struggle against racism. Marx's saying that the white man cannot be free while his Black brother is enslaved is equally valid today. In the basic economic sense, it means that the lower wages, inferior social benefits and poor working and living conditions that are the lot of oppressed peoples are used as levers to undermine the standards of all workers. In a broader, more vital sense, *racism is used to prevent the unity of the working class,* thereby critically weakening it in the conflict with capitalism.

It is in this context that U.S. Communist Party leader Gus Hall called racism "the nation's most dangerous pollutant."[3]

Racism is a class phenomenon. The Chinese brought to this country to build the railroads and develop California's agriculture were subjected to vile slander, to the myth of the "Yellow Menace." But the Japanese bankers and industrialists who have been coming to the United States to invest, to exploit U.S. workers, are treated as equals and partners—if also as rivals—by the same capitalists who use racist epithets against workers of Asian origin.

While there are exceptions, Afro-Americans, the most numerous of the oppressed peoples, are the most cruelly oppressed. Anti-Black prejudices are most actively promoted by the capitalist class. The struggles for Black liberation—from the slave revolts and the U.S. Civil War to the civil rights struggles and legislation of the 1960s, and the many ongoing campaigns for Black equality—have been momentous. Afro-Americans are overwhelmingly members of the working class. They have played a major role in the building of U.S. unions, especially in the core heavy industries, and continue to do so.

For that reason, data concerning Afro-Americans are emphasized here. It must be borne in mind that caution is required in making statistical comparisons between Afro-American and Hispanic peoples, however. The data on Hispanics look better than the reality because of the inclusion of politically favored middle class and capitalist emigres from socialist Cuba, and of Spanish-Americans of European origin.

The simultaneous increases in nonwhite population, in the racist and antilabor offensives of big business, and in the deterioration of labor and living conditions for all workers emphasize the need to combine labor's economic demands with the campaign for equality. Actually, white workers, and white people as a whole have supported and participated in struggles against discrimination.

The words of Henry Winston—then National Chairman of the CPUSA—are even more relevant now than when first published in 1973: "No force in the country could match the power and strategic position of a united working class—white, Black, Brown, Red, Yellow." He stressed the need for working-class unity with broader sections of the population in campaigns against racism and for peace, and on other issues extending beyond straight trade union concerns.[4]

Racist oppression is social, political and economic. The focus here is on the economic aspect, but all three are connected, as social and political discrimination create the conditions for economic prejudice. Until the 1960s social bigotry against Afro-Americans included, in the South, the formal legal segregation of Black people on trains and buses and in separate and inferior schools and housing; their exclusion from many public places, and provision to them of inadequate medical service. Less formal, less rigid, but still degrading segregation was imposed on Black people in other parts of the country.

Political discrimination effectively barred almost all southern Afro-Americans from voting. They were subjected to police terror, arbitary arrests and forced labor on chain gangs, to torture and murder by Ku Klux Klan mobs. Especially, and not exclusively in the South, they were subjected to police harassment, discriminatory treatment in arrests, court decisions and sentencing for alleged crimes. In the United States as a whole, Blacks were almost completely excluded from holding political office; during the first 29 years of the 20th century there wasn't a single Black member of Congress, and only one for the following 20 years.[5]

In the economic sphere, during the first half of the 20th century Afro-Americans were largely limited to employment as sharecroppers, agricultural laborers and household servants, in menial service positions, and in the lowest wage, most difficult, exhausting and dangerous jobs in industry. They also suffered most from unemployment.

There are only fragmentary data on comparative Black and white incomes prior to World War II, and what statistics there are concern the depression decade of the 1930s. Then Black family income averaged about one-half that of white families in southern cities.[6] Wages of employed Blacks averaged about two-fifths those of employed whites.[7]

There was a change in the economic and social situation of Afro-Americans under the impact of World War II and its aftermath. With the stepped-up demand for labor, millions of minority people escaped the feudal agro-oppression of the South to jobs in industry. Many were drafted into or volunteered for the still-segregated armed forces. Social relations between whites and Blacks did improve some, abetted by the trade unions, which became increasingly important in basic industry. Militant organizations—in addition to the more cautious traditional Black organizations such as the National Association for the Advancement of Colored People and the National Urban League—had a significant impact on public opinion. Mass struggles won specific targeted concessions, such as the admission of the first Black ballplayer to the major leagues and the public appearances of the heroic singer, actor and political activist Paul Robeson. The enlarged and strengthened Communist Party was a motivating force in these struggles, notably through the Civil Rights Congress, headed by William L. Patterson, and the National Negro Congress.

The antifascist character of World War II gave momentum to the movement for Black equality. And the rapid growth of U.S. civilian industry after the war—based on the dominant position of U.S. capitalism in a war-wracked world, plus the expanded domestic market—enabled Blacks to maintain some of their wartime economic gains as the migration from farm to city, and from south to north, continued.

However, U.S. politics turned to the right as capitalists took over Hitler's anti-Communism and anti-Sovietism and his drive for world domination, and the racist forces in the United States were fortified. Positive developments in the conditions of Afro-Americans were limited until the 1960s when, encouraged by the victories of anticolonial and anti-imperialist revolutions in Africa, Asia and nearby Cuba as well as by the rise of antiracist, anti-imperialist consciousness among large sections of U.S. youth and trade unionists, a massive civil rights movement against racism peaked. It was spearheaded by such Black leaders as the dynamic Reverend Martin Luther King, Jr., and involved militant mass actions, especially by Afro-Americans but with broad support from whites. Major social and political gains, and some economic gains, were won.

Civil rights legislation of the 1960s guaranteed Afro-Americans the right to vote, outlawed segregation, barred discrimination on the job, and promised affirmative action to reduce existing inequalities in employment and wages. While these laws were never fully enforced, they did lead to some social, political and economic gains. But in no sphere were these gains decisive; they amounted essentially to fractional reductions in the intensity of racist oppression and discrimination.

A racist regression was launched in the 1980s under the Reagan Administration, which gutted the administrative bodies appointed to enforce the civil rights laws, used the courts to assist employers in effecting racist discrimination, and recreated an environment that enabled southern racists to revive such practices as barring Black voters from the polls in the countryside. This counteroffensive, so contrary to the course of world history, has to be reversed.

One indication of the political gains of Afro-Americans since the 1960s is the increase in the number of Black representatives in Congress from five in 1964 to 21 in 1985. Many cities have elected Black mayors as Afro-Americans became urbanized and the more affluent whites moved to the suburbs. From less than 1,000 in 1964, the total number of Black elected officials rose to 5,654 as of January 1984—still only about 1.5% of all elected officials.[8]

Improvement in the social condition of Black people should not be exaggerated. Education has remained largely segregated and, for minorities, inferior in many places. The schools attended primarily by Afro-Americans lack the courses and staff necessary to prepare students for jobs in high technology, or science and other professions. Even in schools with both white and Black pupils, the latter are apt to be "tracked" by the authorities into courses preparing them only for manual or elementary clerical jobs, while white pupils are given courses aimed at preparing them for college entrance and a better occupational future.

One feature of this discrimination is the declining number of minority teachers. In 1980, 12.5% of primary and high school teachers were from minorities. Under Reagan, the federal government stopped collecting data in order to cover up the results of city and state surveys. These data showed so marked a downtrend that an education official predicted that the proportion of minority teachers will be halved by the year 2000. Meanwhile minorities constituted 30% of primary and high school pupils by 1986, with the expectation of a rise to 33% by 1989 and 38% by 2000—even higher if account is taken of immigration.

The number of minority students obtaining college degrees declined 52% between 1976 and 1983, their number in the latter year amounting to only 8% the number of whites granted college degrees. Fewer and fewer Blacks have been going to college. Among other factors are " . . . rising college tuition, changes in Federal student aid policies, and lessened commitment to equity as a social goal."[9]

Housing for Afro-Americans also remains critical. As superior housing and facilities have been made available in the suburbs for "escaping" whites, Blacks and Hispanics have been herded into deteriorated, segregated inner-city areas. The Dallas *Morning News* assigned a team of reporters to examine communities coast to coast to determine what progress had been made in achieving neighborhood integration in the building of subsidized and public housing:

> They found virtually none. Low-income projects built with the promise of helping poor Blacks escape central cities were nearly always found occupied almost exclusively by whites.
>
> As development moved progressively farther from the central cities, the patterns of segregation were reinforced. . . . Because of the distances between Black and white areas, busing to achieve school desegregation became an ineffective tool in many places, even when politically accepted.
>
> Probably the most important effect of the racial isolation, some authorities say, is that poor members of minority groups are so far from entry-level jobs that they are caught in an unemployment lock-step. While minority youths line up for any openings in the central cities, merchants in developing ex-urban areas complain they cannot find enough applicants to staff their stores and fast-food establishments."[10]

And Black people lack the day-to-day security of civilian life: they are five times as likely to be murdered as whites and are more frequent victims of other crimes. Roughly half of all inmates of jails and prisons are Black or Hispanic—a situation not reflecting a corresponding ratio of Black and Hispanic crime. They are more likely to be arrested and, if arrested, much more apt to be imprisoned, regardless of their guilt or innocence, than whites. They do not have access to adequate legal defense (only 2.7% of all lawyers and judges are Black; 1.0% Hispanic) and have to face racist judges and prosecutors. Mentioning this fact takes no credit from those courageous lawyers, white and Black, who have defended Black victims of official persecution. The lynchings that took place in the pre-World War II South have been succeeded by frequent murders of Black people by police, and not only in the South, and the majority of all persons legally executed since 1930 have been Black.[11]

The separation of whites from Blacks, physically and economically, has also stimulated the formation of racist fascist gangs among the white middle-class suburban youth. There are 70,000 to 80,000 members of such gangs in California alone, according to a police official. They "use dope, commit shootings, robberies"—including murders of Black youth.[12]

Class Basis of Economic Discrimination

Afro-Americans are overwhelmingly members of the working class, more proportionally than any other ethnic group. It is the capitalist class that obtains extra profits from discrimination against Blacks in wages, working conditions, and charges for rent and commodities.

Black workers formed the main components of the Civil Rights struggles, and in their workplaces led the struggles for affirmative action and equality on the job. It was the trade unions, including Black and white workers, that achieved major gains in this respect as a central part of their confrontation with employers.

It is as workers that the Afro-American people will win decisive advances, achieve equality. Yet there is an attempt to divert Blacks into focusing on gaining status as capitalists, an attempt to win Black support for capitalism as a social system.

"Black Capitalism"

Afro-Americans have been systematically prevented from owning capital in this society where such ownership is the key to power and prosperity. Only a handful are capitalists employing significant numbers of workers, or high-level corporate executives. And these remain on the lower rungs of the capitalist ladder, wholly excluded from the dominant monopoly capital groups. A larger, but still small number, are petty bourgeois, owners of small businesses or farms. Exclusion of Blacks from substantial ownership of capital is more complete than for any other racial group.

In the corporate world, it has become fashionable to employ some token Afro-Americans in minor administrative or executive ranks. But they hardly ever are promoted to really important posts, with input into policy or control over major operations. Even these token opportunities declined in the mid-1980s as many corporations began to reduce managerial staffs to economize or as a byproduct of mergers.[13] A handful of Black personalities have been placed on the Boards of Directors of publicly prominent corporations.

Business Week ran a special issue on "The Corporate Elite" identifying the chief executives of the top 1,000 corporations and showing pictures of them. Visual evidence confirms what *Business Week* states in a box: "Not one of the CEOs of *Business Week* 1000 companies is black. Only two are women."[14]

Since capitalists of a given ethnic group tend to favor people of like background in hiring, the lack of Black capitalists does contribute to the gross economic discrimination against Afro-American workers, but only to a secondary degree. Black people are deliberately barred—through the practice of withholding bank credits and other devices—from acquiring capital control, while survival is made difficult for those who do get a foothold. They have been virtually eliminated from farm ownership or operative tenancy, whereas formerly there was a rural majority of Black people and there were a few hundred thousand who, with the breakup of the sharecropper system, managed to obtain operative control of farms.

Yet only 2.8% of Black and 4.3% of Hispanic family heads were capitalists or small proprietors in 1984, compared with 9.7% of white family heads (broadly defining capitalists to include private managers and administrators as well as the self-employed.)[15] And the Black capitalists were hanging on at the lowest fringes of the class, subject to continuous pressure from the monopolies that dominate the country's economic life. The largest Black-owned company had less sales in a year than any of the half-dozen largest corporations had in a single working day.[16]

Total employment in the 100 largest Black-owned companies came to less than 21,000, a pitiful one-sixth of one percent of the 12 million Black people counted as being in the labor force.[17]

Afro-Americans reported property and self-employed income of only $5 billion in 1983, and it was $6 billion for Hispanics, compared with $270 billion for whites. Per adult in the population, Blacks received one-seventh as much as whites.

In the first substantial study of its kind, the Census Bureau found that in 1984 the median wealth of a white family was 11.5 times that of a Black family, and eight times that of a Hispanic family. This study covered both wealth in the form of capital and personal wealth, such as home ownership, net of debt. Three out of ten Black families had either zero net worth or negative wealth—that is, they owed more than they owned.[18]

One might think that, deprived of wealth, with much lower incomes and suffering more from poverty, Blacks would receive more social assistance of various kinds, proportionately, than whites. However, whites received more transfer income* per adult than Blacks or Hispanics,[19] although minority peoples have much greater need of unemployment relief, aid to supplement poverty income, and medical and old-age support. This does not stop racists from carrying on about "welfare loafers" and trying to slash benefits even more.

Economic Discrimination as a Source of Superprofits

The summary estimation of economic discrimination is indicated by comparing incomes. The Census Bureau reported that in 1984, per capita income of whites was $10,939. Per capita income of Blacks fell below that by $4,662; of Hispanics, by $4,578, and of other non-white peoples by $1,696. Multiplying these differentials by the population in each group shows *a total racist income differential of $220 billion,* of which $141 billion represents the racist differential against Afro-Americans.[20]

In 1973 the total racist differential came to $66 billion, of which $46 billion was denied to Black people. Thus, in the 11 years from 1973 to 1984 the total loss had multiplied by 3.3 times and had considerably exceeded the rates of increase in total personal income and the consumer price index. So the amount lost due to discrimination increased both in real terms, adjusting for inflation, and as a percent of the population's total income.[21]

Not all of the differential went into extra profits for the capitalists. A substantial part represented loss of income by minority peoples on account of unemployment, or employment in occupations that do not

*Transfer income is income derived from social security, pensions, welfare, etc. rather than from wages or property ownership.

directly contribute to profits, or in denial of a proportionate share of surplus value. On the other hand, reported differentials were understated because capitalists' incomes are grossly underreported.

The wage differential alone—that is, the difference between average wages or salaries of employed whites and of employed Blacks, multiplied by the number of Black workers—came to $50 billion. Adding corresponding figures for Hispanics and other non-white peoples brings the total to $79 billion.[22]

Taking the midpoint between the income differentials and the wage differentials, a rough estimate of the amount of superprofits resulting from racism in 1984 comes to $150 billion, of which $91 billion represents superprofits from extra exploitation of Blacks, $53 billion superprofits from extra exploitation of Hispanic peoples, and $6 billion from extra exploitation of Asians and others.

This $150 billion of extra profits from racist exploitation in the United States substantially exceeds the reported return on U.S. foreign investments in 1984—$96 billion—which represents extra profits from superexploitation of workers in other countries.[23]

Put another way, the combined superprofits from extra exploitation of minorities in the United States and from foreign investments—$246 billion—accounted for about one-third of the total property income received in the United States in 1984.[24]

These estimates give a rough approximation of the real situation: that racist discrimination against minorities in the United States is a significant factor in the accumulation of the profits of U.S. capital, and a major part of the superprofits obtained by monopoly capital. This is intimately connected with the exploitation and plunder of oppressed peoples abroad, many of whom are related, historically, to racially oppressed people in the United States.

"Labor Aristocracy" Concept Invalid

Before World War I, in Britain and some other countries with vast colonial empires, some of the huge profits from the looting of colonies were used to provide tolerable conditions to favored sections of the British, French, etc., working class. Lenin showed how this "labor aristocracy" tended to support imperialist policy, preventing the unity of the working class and weakening it politically.

Now some ultra-left groups in the United States charge that the bulk of U.S. white workers constitute such a "labor aristocracy," a view that has gained some currency in student and professional circles. However, it is quite false as applied to modern U.S. conditions. The theory hampers the unity of U.S. workers with those in developing countries and undermines recognition by white workers of the need for uniting with Black workers in the struggle against racism—as on all other issues.

Far from being bribed out of profits from foreign investments, American workers pay more in taxes to support the U.S. military, which "protects" the investments of the transnational corporations abroad, than the total sum of the profits. Moreover, in its all-out offensive against labor, capital has cut the real wages of those in the highest wage occupations most sharply and has, in addition, slashed their number.

Although it is true that some trade union officials do differentiate between "middle class" and "lower class" workers, such statements do not reflect the viewpoint of the working class as a whole or the real policies of the trade unions.

Developments in the 1980s have brought home to the U.S. trade union movement the fact that wage differentials against workers in developing countries are used by U.S.-based TNCs as powerful weapons against U.S. workers to impose lower real wages and higher unemployment, as well as loss of their trade union rights.

By the same token, differentials against Blacks, Hispanics, etc., within the United States have been used against all U.S. workers, including white workers, in attempts to lower real wages and increase the reserve army of the unemployed. Previously, Black workers from the Southern cotton fields were used to replace Northern white workers, including in strike situations, and this practice was used to arouse racism among the white workers. But that situation has long gone. Today Black workers, and to an increasing extent Hispanic workers, are an integral part of the working class all across the country. Being among the most militant, because of their superexploitation, they strengthen the position of all workers. As the numbers of Black, Hispanic and other non-white workers increase, the differentials against minorities are used more and more as a weapon to erode the wages and conditions of white workers. Most unions recognize this and are vocal supporters of affirmative action, although there are serious exceptions and the limited results suggest that emphasis on this point has been insufficient.

It is important to recognize that discrimination against Afro-Americans does not in any way reduce, let alone eliminate, exploitation and oppression of white workers. The majority of people living in poverty are white. The majority of unemployed workers are white. The majority of workers whose right to organize unions has been curtailed are white.

Trends in Economic Discrimination against Afro-Americans

Comprehensive comparative income figures of whites and Blacks were first collected in 1945. In that year the median income of Black families was about 56% that of white families. Undoubtedly that was a considerably higher ratio than had been achieved in a prewar year, but was probably equaled or exceeded at the height of World War II. Chart 4-1 shows the trend since 1945.*

In the following two decades, some of these gains were lost as wartime labor shortages disappeared and unemployment reappeared, so employers were able to exercise their racist prejudices again, although less freely than before. During those 20 years, the ratio of Black to white median family income fluctuated in the 50–55% range. However, after 1965 there was an uptrend under the impact of the civil rights struggles, peaking at 61% in 1969-70.

Thereafter, the trend has been gradually downward, as unemployment has risen. The situation further worsened in the 1980s, under the racist Reagan Administration. All affirmative action measures have been eroded and evaded in a myriad of ways. By 1984 the ratio of Black to white family income was down to 56%, about the same as 1945. However, the Census Bureau had made a technical change in the method of calculating family incomes, which raised the ratio of Black to white family incomes by 3%. Without this change, the ratio in 1984 would have been 53%, or eight percentage points lower than 1969–70.

In summary, the serious deterioration in the situation of Black people—beginning in the 1970s—coincided roughly with the structural crisis of the U.S. economy (chapter 16). The employer offensive and the erosion of the conditions of the working class as a whole were also concurrent. This emphasizes two political realities:

- A racist attack against the Afro-Americans facilitates a broad antilabor offensive by capital.
- An assault against the working class as a whole hits with exceptional severity the Black sector of the working class.

*See Appendix table 4A, for data and source.

CHART 4-1. PERCENT BLACK OF WHITE MEDIAN INCOME, 1945-1983

*Method of calculation changed in official figures to make result seem more favorable.

Regional Differences

The overall national trend of race differentials in family income hides major differences in regional trends, some quite surprising. In 1953, the earliest year for which such comparisons are available, Black family income was 75% of white family income in the North and the West, but only 49% in the South. During the 1960s, with the civil rights actions and legislative gains that were focused mainly on the South, the ratio of Black to white family income in that region jumped to 57%, a level maintained thereafter. But during the 1970s the ratio of Black to white family income in the North and the West dropped drastically, reaching 57% in 1983, approximately the ratio for the South.

While general in all northern regions, the losses of Blacks were most pronounced in the Midwest—from 76% of white family income in 1969 to 51% in 1983—a catastrophic real-income decline of about one-third, impoverishing Black families in the industrial heartland of the country.

The reason is clear enough. Black workers were last to be hired and first to be fired during the structural crisis of the U.S. economy, which centered on the basic industry of the "rust bowl." In many Midwest cities and areas, *official* figures of Afro-American unemployment rates went well above 25%, and were as much as three times the high unemployment rates of white workers.

This is illustrated by table 4-1, showing unemployment in four central industrial metropolitan areas:

TABLE 4-1.

Area	Unemployment Rate, 1982		
	Black	White	Ratio, Black to White
Chicago	26.1%	8.9%	2.9
Detroit	33.6	12.9	2.6
Cleveland	23.8	8.5	2.8
Pittsburgh	25.9	11.5	2.3

SOURCE: Economic Commission, U.S. Communist Party, in *Daily World*, 2/23/84

By 1983, the median income level of Black families in the Midwest was lower than the median income level of Black families in the South, the traditional area of maximum oppression. For Afro-Americans as well as for whites, the overall North-South income differential has been reduced to about 10%, which may largely be offset by lower living costs in the South.

The ratio of Black to white family income in the Northeast was generally about the same as the ratio for the North as a whole. But the ratio in the Far West remained significantly higher than in other northern regions most of the time. This is related to the fact that Chicano people outnumber Blacks in the Far West, and discrimination against them equals, or in some cases exceeds, that against Afro-Americans.

The regional situation is shown in table 4-2 and chart 4-2.

TABLE 4-2. PERCENT BLACK OF WHITE MEDIAN FAMILY INCOME BY REGIONS, 1953, 1969 AND 1983

Year	SOUTH	NORTH			
		Northeast	Midwest	West	North Total
1953	49 %	72%	76%	82%	75%
1969	57	67	76	75	73
1983	56.5	56	51	70	57

SOURCE: U.S. Commerce Dept, Annual Surveys of Family Income, Series P-60

In addition, in 1983, nationally, full-time Black male workers received only 68% as much as full-time white male workers, while among full-time females, the median wage for Black women was 88% that for white women. But because of severe discrimination against women generally, the female median wage is far below that for males, with white females receiving 41% below the wages of white males, and even 14% below the median for Black males.

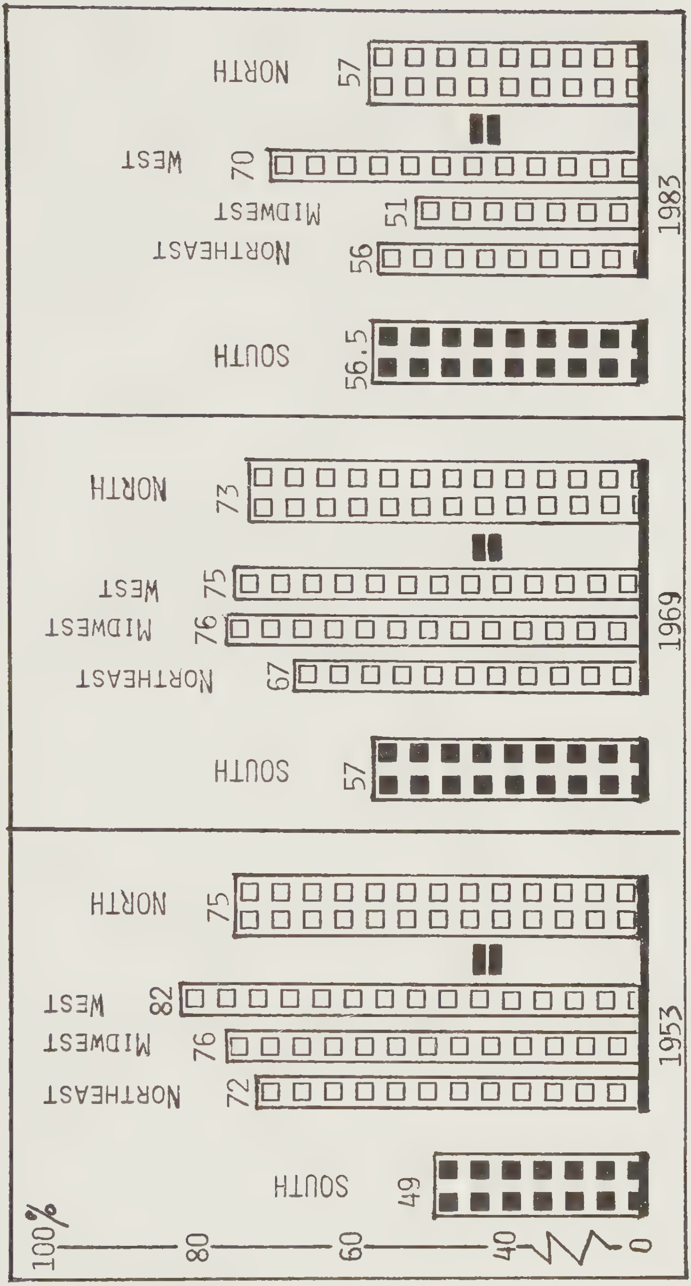
The lesser degree of discrimination against Afro-American women in comparison with white women than in the case of men may be explained by two circumstances:

- The wages and salaries of women are so low in the first place that it isn't practical to go much lower.
- The trend of employment in traditional "women's jobs" has been increasing while the trend for many traditional "men's jobs" has been either stagnant or declining.

Thus there is more of a call for the labor of Black women than for the labor of Black men.

Discrimination against Afro-Americans applies in all occupations, but the higher the degree of skill and training required, the greater the relative discrimination. Thus in 1983 the average salary of executive,

CHART 4-2 PERCENT BLACK OF WHITE MEDIAN FAMILY INCOME BY REGIONS, 1953, 1969 and 1983



administrative and managerial personnel was 27% lower for Black males than for white males; among professionals, the pay of Blacks was 31% lower; and among skilled craftsmen, 25% lower. Among machine operators, assemblers, etc.—the basic sector of industrial workers—Blacks received 15% less, and among laborers, 11% less.[25]

A major form of discrimination is the failure to promote Black workers as they acquire experience and perfect skills. In the spring of 1985, among male youths, the median weekly earnings of Blacks were $32 below those of whites, or 13% lower. In the main age range, from 25 to 54, the differential escalated to $152 per week, or 36%; while for workers 55 and over, the differential was $196 or 41%. Thus white, fully experienced older workers received 96% more than young starting workers; Black experienced workers only 33% more.[26]

Unemployment

The scourge of unemployment hits Afro-Americans with particular force. Even in comparatively "good times," the unemployment rate of Blacks is what it is for whites in the deepest crises and depressions—such as during the 1930s. Table 4-3 compares white, Black and Hispanic unemployment rates for the period 1965-1986.

TABLE 4-3. UNEMPLOYMENT RATES, BLACK, WHITE & HISPANIC 1965, 1970, 1975, AND 1978-1986 (MARCH OF EACH YEAR) (*percent*)

Year	White	Black	Spanish Origin	Year	White	Black	Spanish Origin
1965	4.3%	8.5%	n.a.	1981	7.0%	15.9%	11.2%
1970	3.9	6.7	n.a.	1982	8.6	18.9	13.4
1975	8.5	14.7	12.8%	1983	9.7	21.0	16.3
1978	5.8	13.2	9.5	1984	7.2	17.2	11.6
1979	5.4	12.6	8.7	1985	6.6	15.6	11.3
1980	6.0	13.4	9.2	1986	6.2	14.7	10.3

SOURCES: *Stat. Abst.*, 1986, No. 686, p. 407; BLS, *The Employment Situations*, April 1986

During most of the post-World War II period, through the middle 1970s, the official Black unemployment rate was approximately double that of whites. The positive actions of the 1960s failed to reduce the degree of discrimination in that respect. And after the mid-1970s, under the impact of the structural crisis and heightened racism, the degree of Black unemployment was stepped up.

Compare the data for 1975 and 1983, both peak unemployment years in major cyclical depressions. The white unemployment rate was 8.5% in 1975 and 9.7% in 1983, a rise of 1.2 percentage points. But the Black unemployment rate increased from 14.7% in 1975 to 21% in 1983, 6.3 percentage points. And in the recovery year 1984, while the white unemployment rate fell to 7.2%, lower than the 1975 rate, Black unemployment dropped only to 17.2%, still considerably higher than the 1975 rate and 2.4 times the rate for white workers (chart 4-3).

The undercounting of Black workers and of the number of unemployed Black workers is especially marked. Up to half of the Black workers who are unemployed are not included, since they do not conform to the official definition of the labor force. Consider the fact that the percentage of adult Black males counted as being in the labor force is substantially lower than the corresponding percentage of white males. This is clearly a fallacy: relatively fewer Black men than white can afford to pursue advanced studies without working, can afford to retire early, and—because of a lower life expectancy—are aged 65 or over. Again consider the fact that in 1985 about 57% of white teenagers were counted in the labor force and only 41% of Black teenagers. Obviously, relatively more Black teenagers need and want decent jobs than white teenagers. Even so, official statistics show about 40% of Black teenagers unemployed in 1985. If counted the same as white teenagers were, the percentage would be about 60%.[27]

The Labor Department *counted* 1.8 million Black workers, or 14.6% of the total, as unemployed in the first quarter of 1986. But adding another 1.4 million who said they wanted a job, and 0.8 million with only part-time jobs, the total—for total or partial unemployment—would be 4 million, or 30% of the more fully counted Black labor force.[28]

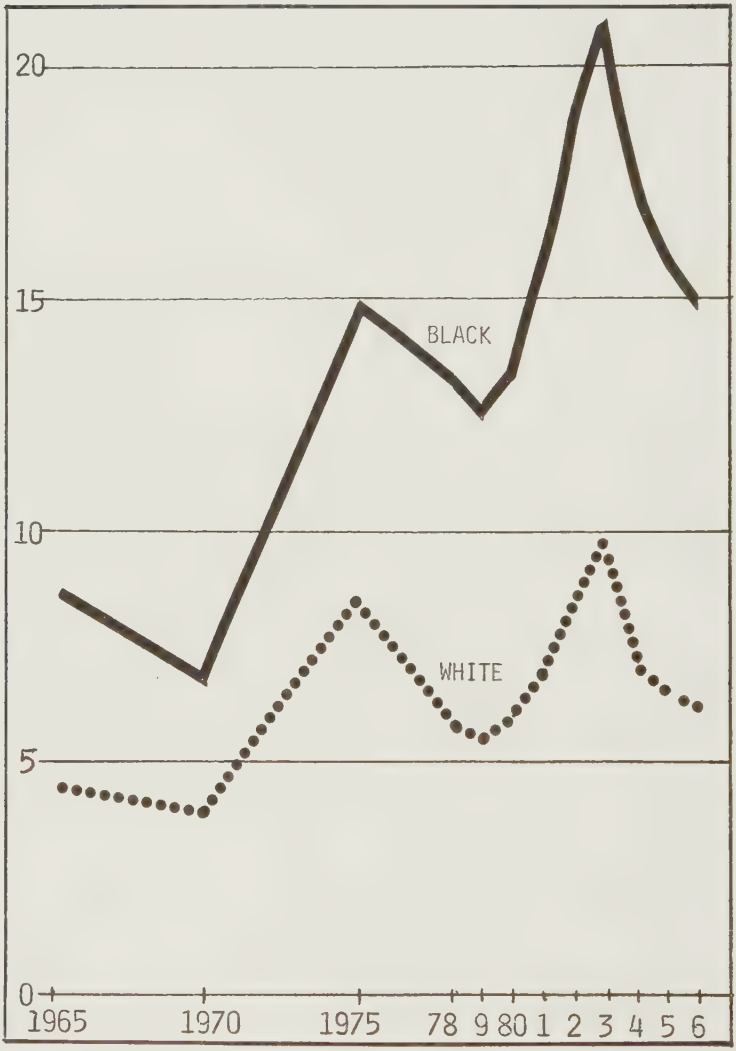
Special note must be made of the extra discrimination against Black men. In 1986, 28% more white men were employed than white women, but employment figures for Black women and Black men were approximately equal.[29]

The problem is particularly acute in major urban centers. In New York City, where the city government is by far the largest employer, 70% of the women, but only 31% of the men employed on the mayoral agency payrolls were "minorities."[30]

This discrimination against Black men is especially harmful to Black youth, who see no future opportunities. It has had a serious impact on family life and is an important factor in the relatively large proportion of single Black mothers, on the triple burden they carry.

The rate of unemployment among Hispanic workers, while higher

CHART 4-3 UNEMPLOYMENT RATE, WHITE AND BLACK WORKERS
SELECTED YEARS, 1965–1986 (%)



than that of white workers, did not increase as rapidly as that of Black workers. By the 1980s, the employment status of Hispanic workers was, for the most part, not as severe as that of Black workers.

Still, by the 1980s, it must be emphasized that both *Black and Hispanic workers were in a period of permanent double-digit unemployment rates,* a situation that will continue until decisive action is taken to solve the problem.

Special Superexploitation of Immigrants

The most cruelly oppressed and exploited are the migrants from Mexico and the Caribbean who enter the United States under temporary programs for farm labor, or, in larger numbers, those who enter "illegally"—the so-called undocumented workers. These migrants constitute a large part of the agricultural labor force, perhaps even exceeding the number of U.S. citizens engaged in such work. Many are also employed in the lowest paid service and manufacturing jobs. Lacking any legal rights, they are subject to police violence and mistreatment by employers. Their living conditions are scarcely better than those provided farm animals—except that the conditions for the animals are suitable for livestock and not for humans.

These workers receive little or no protection from minimum wage, maximum hours, or other labor legislation. Despite the fact that their wages are the lowest in the country, those who plan to return home save what they can to avert starvation of their families.

Statistical reports distort the realities of their situation, or in many ways simply omit them. Since many migrants manage to stay in the United States after their temporary employment in agriculture is over—although still subject to instant arrest and deportation—estimates of their numbers vary widely but center around 5 million. Millions enter in any given year, and of them, more than a million a year are arrested and deported.

Since most of the migrant workers are from Mexico and other Spanish-speaking countries, all statistics on living conditions of Hispanics are biased upward by omitting much data about these immigrants. This is an important qualification to the observation that in most respects statistical indicators show a greater degree of superexploitation, poverty, etc., among Afro-Americans than among people of Spanish origin. There is further discussion of immigrant workers in chapter 14.

Poverty and Hunger Among Afro-Americans

In 1983 there were nearly 10 million Afro-Americans below the official poverty level; that is 35.7% of the counted Black population. Those 10 million represented an increase of 2.8 million, roughly 40%, from the postwar low of impoverished Blacks in 1969, and the percentage was three times the proportion of whites living in poverty. And nearly half—46%—of all Black children were living in poverty.

Poverty not only hit relatively more Black families, but it hit them harder. The median deficit—the extra amount needed to come up to the poverty level—for Black families was $4,080, as compared with $3,325 for white families below the poverty level.[31]

These comparisons do not imply in any way that poverty among white people is not serious. More than twice as many whites as Blacks suffer poverty. Here, in the richest and most productive country in the world, tens of millions of its people are living in deep poverty, are ill-fed, ill-clothed, ill-housed. And these evil conditions are intensified as they are inflicted on an oppressed racial minority.

Two-thirds of the men and three-fourths of the women living in poverty in 1983, of working age and neither going to school nor keeping house, actually worked all or part of the time in 1982. Most of the others wanted to work and were unable to find jobs. The majority of Blacks living in poverty, with the exceptions noted, worked during 1982.[32]

This fact is important to refute the reactionaries who denounce the impoverished as "loafers," "shiftless," and similar epithets.

Affirmative Action

Concrete action to remedy or reduce discrimination is called "affirmative action." Under Civil Rights legislation of the 1960s and 1970s, contractors doing at least $50,000 business with the federal government and employing 50 or more workers must submit "affirmative action" programs to remedy "deficient" employment of Black and women workers when compared with their proportions in the local job market. Since almost all large and medium-sized corporations do some business with the federal government, that stipulation covers over 15,000 corporations with 23 million workers. A U.S. Government agency, the Office of Federal Contract Compliance Programs, is empowered to impose affirmative action programs, including goals and timetables, on those corporations.

However, it must be emphasized that enforcement by this and other government agencies has been scanty, at best. For the most part, the officials in charge of the government agencies are representatives of the capitalist class and share the capitalists' aim: to continue getting extra profits from discrimination. Thus they are reluctant to carry out the duties imposed by Congress, which compounds the wrong by appropriating meager funds for affirmative action purposes.

A number of large corporations have partially carried out affirmative action programs, resulting in more employment of Afro-Americans, other minorities and women. So have some state, city and local governments.

Trade unions have led in important campaigns to win serious affirmative action gains, including use of specific goals and quotas to provide for decisive advance.

In the landmark Weber case the United Steelworkers of America (USWA) and the Kaiser Corporation agreed that in the company's Louisiana plant, where only 2% of the craft workers were Afro-American, 50% of all new hires for such jobs would be Black until Black craft workers comprised 39% of the total, corresponding to the percentage of Afro-Americans in the area's labor force.

Weber, a white worker, sued, claiming his rights for advancement were curbed. The USWA fought the case, supported by the AFL-CIO, against adverse lower court decisions and up to the Supreme Court. The USWA won in 1979. This victory established the relevance of, and the necessity for, quotas for hiring and promotion of minorities in order to overcome generations of discrimination and employer prejudice. In fact, employer resistance has largely ignored the intent of the ruling in the Weber case, and there has not been a sufficiently strong union campaign to pressure for its application elsewhere.

Supreme Court justice Rehnquist wrote a vitriolic dissenting opinion. His subsequent promotion to chief justice by President Reagan jibed with the active racist assault by the Administration in the 1980s.

A major campaign by U.S. labor for compliance with affirmative action measures would reduce economic discrimination and strengthen the forces requisite for all labor, white and Black, to win major gains.

Many capitalists and local government officials, who initially opposed affirmative action, have come to acknowledge that these measures have improved relations with and among their workers, have reduced conflicts, and have led them to employ many able people they would not otherwise have hired.

On the other hand, many corporations whose officials gave lip-service to affirmative action have carried out racist practices in their actual operations. For example, there is IBM, the wealthiest corporation in the United States. It long retained its operations in South Africa, with its spokesmen boasting of its (pitifully inadequate) modifications of the apartheid-decreed racism in employment there. And in the United States, IBM employs high-paid researchers from all over the world but uses segregated groups of minorities, including Hispanic immigrants, for cleanup jobs.

In 1976, a Black employee complained to the Equal Employment Opportunities Commission (EEOC) of IBM's discriminatory practices in hiring and promoting professional and managerial employees. It was four years before the EEOC filed suit and a further three years before the case came to trial in 1983. The decision was so limited in application to the specific situation that there was no interference with IBM's basic racist procedures. Meanwhile, by 1977 the complainant, despairing of government action, had resigned. To achieve all the delays and trivializations, IBM had retained two prestigious law firms and at times had as many as 20 lawyers, experts and aides in the courtroom on its side.[33]

There are a number of devices used by employers to claim compliance with affirmative action and still maintain racial discrimination, especially against Afro-Americans.

One is to accept "goals" for hiring Blacks without firm time specifications and ways of enforcement, as well as without sufficient detail as to the levels at which Blacks are to be hired. Effective affirmative action requires strictly defined and enforced *quotas* for hiring Afro-Americans across the board of skills and salaries, with a time schedule that will ensure full proportionate employment of Blacks at all levels by a specified date. The quotas must be related to the proportion of Blacks in the area population, and training programs must be included, where needed, to qualify sufficient numbers of Blacks for the higher-level jobs.

Adoption of quotas is most fiercely fought by racist employers, through publicity and through endless lawsuits designed to delay and often to derail affirmative action programs, or to significantly limit their application. Sometimes individual white workers can be found to collaborate with employers by claiming that they are discriminated against when quotas favor employment of Black workers. But action to correct discrimination against Blacks cannot, logically, be considered discrimination against whites.

The Reagan Administration actively supported or itself initiated court cases against affirmative action, although in one important case in 1986, the Supreme Court upheld a genuine affirmative action program. However, court decisions on this issue vary from case to case. Consistent introduction and enforcement of effective affirmative action measures require strong support on all fronts by the trade union movement.

Naturally, similar programs are required for Puerto Ricans and Chicanos in areas of their population concentration. And such programs for women are required everywhere. A special movement for "comparable worth" designed to eliminate lower pay for traditional "women's work" than for work of comparable skill and effort considered "men's work" has made some significant breakthroughs.

However, an important technical device used to circumvent affirmative action programs is the practice of lumping together gains in employment of "all minorities" or even "minorities and women." This ploy is applied most often when more Asians are hired to cover up continued discrimination against Afro-Americans and Hispanics.

Also at issue is the need to adjust seniority programs to take into account the later employment of Black workers. Without such adjustment, affirmative action gains for Afro-Americans in auto and other cyclical industries are wiped out at every downturn in the cycle.

A major form of discrimination against Spanish-speaking people is the failure to include Spanish language teaching in the schools, to provide equal legal status to the Spanish language, and to publish all materials in Spanish as well as English in areas of Hispanic concentration. Obviously this lack is a serious handicap and contributes to the economic discrimination against the Spanish-speaking people.

Racist Offensive of the 1980s

The 1980s right-wing assault against Black and other oppressed peoples was designed not only to wipe out all progress against racism of earlier decades but also to revert to the discrimination and segregation of a half-century earlier. The offensive was accompanied by a leap in superprofits derived from racism, fostered by the growth in population of oppressed peoples. And, at the same time, there has been a rise in anti-Semitic propaganda and atrocities, with a revival of racist and anti-Semitic organizations. Particularly alarming has been the increase in racist violence, especially against Blacks, including murders by civilian gangs and by police, bombing of homes, and use of the TV and radio to spread racist and anti-Semitic ideology. These are symptoms of nascent fascism.

As in Hitler Germany, the U.S. domestic anti-Semitic and racist campaign has gone hand in hand with international aggression and colonialism, rationalized by anti-Soviet, antisocialist, anti–national liberation propaganda. In short, intensified racism in the United States has been an important feature in the implementation of U.S. imperialism's drive for world domination.

The linkage of racism, anti-Communism and imperialist aggression was highlighted in the 1984 invasion and occupation of the Black, socialist-oriented island republic of Grenada by U.S. troops. Under Washington's dictation, all the gains reached in the several years of progressive government were erased and the evils of unemployment, poverty and repressive government were visited on the recolonized population. Moreover, President Ronald Reagan engaged in vulgar boasts of his armed forces' "victory" over the 100,000 Grenadians—one person for every 2,400 in the United States!

The Reagan Administration consistently defied civil rights laws and acted to get rid of Black appointees at higher and medium levels in the federal government. A comparison of appointments in Reagan's first term with those of his predecessor, Jimmy Carter, showed:

> . . . 12.2 percent of Mr. Carter's full-time professional appointments were Black as against 4.1 percent now; 16.1 percent of the Carter Administration's judicial appointments were Black compared to 2.5% for Mr. Reagan. Of United States attorneys appointed under Mr. Carter, 6.9 percent were Black compared with 1.1 percent for Mr. Reagan.[34]

The New York Times reported:

> The Equal Employment Opportunity Commission has quietly abandoned the use of numerical hiring goals and timetables to achieve those goals in settling discrimination cases against private employers. . . . The Justice Department, which handles discrimination cases in the public sector, has tried unsuccessfully to undo numerous settlements involving quotas to remedy job discrimination and has abandoned their use as a remedy.
>
> But many judges still rely on hiring goals and timetables to settle

> discrimination cases and they have been used on a voluntary basis by employers in settling discrimination disputes.[35]

The Wall Street Journal headlined its article on the subject: "Quotas in Hiring Are Anathema to President Despite Minority Gains." The article gave examples of highly qualified people who obtained jobs solely as a result of affirmative action. It noted cases where white males objected or filed lawsuits because their promotions were delayed to advance previously discriminated-against Afro-Americans or women. During the 1970s, the story continued, Washington supported—although not very actively—mild affirmative action programs as "needed to make up for past discrimination."

> Until Ronald Reagan, that is . . . the Reagan administration has mounted a wide-ranging attack on existing affirmative action policies, one that could eventually reach virtually every public and private employer—to say nothing of millions of workers.

The article noted that, using as a legal basis a racist Supreme Court decision on layoffs, Reagan's Justice Department went to court to try to void 51 affirmative action programs of state and local governments, and it supported all court attacks against private programs of this type.[36]

The Administration's racist offensive met resistance from trade unions, from organizations of Blacks, Hispanics, Native Americans and women, as well as from quite a few local governments and even some private employers. Still, it has contributed to the intensification of racism. The President's team has not only opposed specific goals for reducing discrimination, it has also urged cancellation of previously set goals and argued that everything should be left to "free enterprise" and "free competition," which would "give everybody opportunity consonant with his or her ability"! This reasoning has evaded the fact that economic disparity has no basis in natural ability and potential, but has been a tool of the capitalist class to secure higher profits.

Racists charged that affirmative action—especially quotas to improve the job potential of Blacks—was "reverse discrimination" against whites, an absurdity that has had some propaganda impact because of permanent, serious unemployment and the consequent competition for jobs. Adding to the chorus, leaders of some Jewish organizations have equated affirmative action's minimum quotas designed to end discrimination with earlier maximum quotas that had imposed discrimination on Jewish workers and professionals—which are by no means wholly eliminated. On the contrary, the present moves for positive quotas and other concrete goals to end discrimination are wholly consistent with and go hand in hand with actions to eliminate those maximum quotas that discriminate against ethnic, religious or racial groups.

The propaganda against affirmative action goals has had dangerous social consequences as well. It has encouraged anti-Semitic forces, which note the high proportion of Jews in the professions and, echoing Hitler and Goebbels, blame the ills of American farmers on "Jewish bankers."

It is important to emphasize that Jewish opponents of affirmative action do NOT speak for American Jewish people as a whole. Jewish progressives have always been in the forefront of the fight against racism, and their militancy was highlighted by the martyrdom of the Jewish youths who were murdered in the South, along with their young Black co-fighters, during the civil rights struggles.

An eloquent advocate of affirmative action is Rabbi Murray Saltzman, a member of the U.S. Civil Rights Commission from 1975 until 1983, when he was replaced by a Reagan-appointed opponent of affirmative action. Saltzman wrote:

> A pernicious history of slavery and segregation has embedded discriminatory patterns into our social and economic fabric. These pervasive patterns cause seemingly neutral or color-blind operation of our society to be inherently prejudicial. . . .
>
> These entrenched patterns have not and will not yield to color-blind remedies. To overcome entrenched discriminatory patterns that infect our society, the Supreme Court . . . has confirmed to appropriateness of color-conscious remedies.

Concerning quotas, he went on:

> No one who cherishes . . . equality favors quotas that stigmatize or set a ceiling on the aspirations of entire groups of people. This is an abhorrent practice. We have, happily, largely eradicated it. However, quotas, like drugs, can serve harmful or beneficial purposes. The abuse of drugs does not negate their total application for healing. . . . It is almost ludicrous to assume that society . . . cannot distinguish between quotas that seek to include rather than to exclude, to overcome inequality rather than to enforce it. The past abuse of quotas must not force us to abandon them as we work to overcome discrimination.[37]

The anti-labor essence of racism was blatant when in 1985 the Administration pressed for legislation to lower the minimum wage for teenagers from the existing poverty level of $3.35 an hour to $2.50. The Administration admitted this was aimed largely at Black youth, and it " . . . mounted a campaign to gain support from Black leaders for a lower minimum wage for teen-age workers," with then-Labor Secretary R. J. Donovan leading the lobbying. Obviously such legislation would not increase employment at all, and it would throw many higher-paid workers out of jobs—including Black workers—while subjecting large numbers of teenagers, including many whites, to a choice between no job or poverty wages.[38]

In the mid-1980s the Boston area had one of the lowest unemployment rates in the country because of the rapid growth of major "high tech" industries in its environs. By 1986 Afro-Americans made up 23% of Boston's 620,000 population, along with a sharp influx of Hispanic and Asian peoples. But Bruce C. Bolling, Afro-American President of the City Council, pointed out:

> Boston is enjoying its greatest construction boom in history. . . . But the city is losing its affordable housing and there is 50 percent unemployment among minority youth. Eighty percent of the jobs in Boston that pay in excess of $15,000 a year are held by people who live outside the city. Even 65 percent of the clerical positions go to outsiders.[39]

Encouraged by Washington, the dominant racist forces in Boston were determined to prevent the efforts of Bolling and others to alter this situation.

Said Albert L. O'Neill, an opposition City Council member: "The flaming liberals and activists think they will run things now, but I'm going to disrupt them."[40]

The resurgence of racism in the 1980s was a major component of a revived threat of fascism, evidenced in the political, military, social and economic spheres.

Native Americans

Native American tribes were victims of the genocidal warfare of the better-armed U.S. troops and scouts as early American colonizers moved across the continent. Today the descendants of the survivors are still struggling for economic, social and political rights, while determined to retain their own culture. The U.S. Government has broken treaties that guaranteed tribe ownership of precisely defined tracts of land, has stolen mineral and timber rights, and has forcibly removed vast numbers of legal residents to reservations. Now a large proportion of the Native Americans live on tribal reservations where the land is barren and where there are few opportunities for gainful employment; where education is minimal, health care facilities inadequate, and government concern for the welfare of the people practically nonexistent. A study showed that on the largest reservation, the Navajo, unemployment reached 40%. On other reservations the figure ranged between 23% on the Salt River Reservation to 82% on the Rosebud Reservation of the Sioux Indians.[41]

What Can Be Done?

Racism is fostered by capitalism. But capitalism can exist without racism and must be forced to temper its superexploitation and oppression. To overcome discrimination in employment, focus should center on two steps:

- Affirmative action must require employers to hire specific percentages of Afro-Americans, other minorities and women at each job level, according to their respective percentages in the composition of the local population and the number of job applicants.
- Affirmative action must end unlimited application of the concept "last to be hired, first to be fired," which wipes out most affirmative action gains when companies lay off workers.

The role of trade unions is very important. To regain lost ground and to win major gains for the working class as a whole, unions must make far-reaching affirmative action measures an integral part of their bargaining demands and must be prepared to modify seniority clauses so as to protect gains achieved in the struggle for racial and sex equality.

5. The Rate of Profit

Surplus Value Equals Gross Profit

Capitalists, when they want to boast about their success, emphasize the immense returns they receive, differentiating between the net values created by their production workers and the wages they pay to these workers. It is obvious from the data (see chapter 2) that the amounts involved are many times those normally reported as "net income" in corporation reports. It's also clear that the capitalists realize, without explicitly admitting it, that their profits depend on the degree to which they succeed in exploiting labor.

Chapter 2 also explained that the total returns to the capitalist class, as measured in the United States, are close to the Marxist definition of *surplus value.* In U.S. Census Department statistical terminology, the term used is "value added by manufacture less depreciation and wages."

But that is radically different from the "bottom line" publicized in corporation reports. For example, in 1980 surplus value in manufacturing, as defined, came to \$539 billion.[1] But net income after taxes, of all manufacturing corporations, as reported by the Federal Trade Commission, came to "only" \$92 billion[2] or less than one-fifth as much. The reason for the disparity is that surplus value is divided among several sections of the capitalist class and—in the form of taxes—among national, state and local governments.

When considered in this way, as a sum to be distributed among various recipients, Marx referred to surplus value as gross profits. Because that sum is created by the exploitation of labor, it is surplus value. But, insofar as it is appropriated by various capitalist claimants, it can be thought of as gross profits. And that is how capitalists see it.

So their measure of gross profits essentially coincides with the Marxist concept of surplus value.

When writing about gross profits, Marx emphasized that he was referring to the total surplus value, and not merely a section of it going to one category of claimant:

> For the productive capitalists who work on borrowed capital, the gross profit falls into two parts—the interest, which he is to pay the lender, and the surplus over and above the interest, which makes up his own share of the profit.[3]

Further, he discussed the qualitative difference between the two parts of the profit—between the interest, which represents only capital outside of the production process and existing before it, and profit of enterprise flowing to the capitalist alone, which he regards as reward for his "work as a capitalist," for superintending labor, etc. When the capitalist provided his own capital, he considered his gross profit as being divided into two parts—interest on the capital and profit of enterprise.[4]

Elsewhere, Marx made clear that gross profit included elements other than interest and profits of enterprise. He also included rent and the various forms of booty taken out of the gross profit by the insiders who controlled the operation. Whether or not the accountants of modern corporations studied Marx, they use the same term, "gross profits," to describe total take, or returns from the exploitation of labor. Their definition of gross profits—as equal to total receipts less cost of goods sold and depreciation—tallies in principle with surplus value. The "cost of goods sold" is equal to the cost of materials and supplies required to manufacture the products plus direct labor costs—that is, wages and other payments to workers engaged in production. Depreciation, in effect, is that part of the value of the machines, equipment and structures that is estimated to be used up through wear and tear during the course of the accounting period.

Corporations do not publicize their gross profits, but a substantial number—perhaps a third of large industrial companies—do include the figures, without emphasis, in the back pages of their annual reports.

To give some idea of the relation between "gross profit" and "net income after taxes," as usually publicized, table 5-1 presents the 1981 data from annual reports of industrial corporations, including the two largest industrial giants in the United States.

As can be seen from table 5-1, the ratio of gross profits to net

TABLE 5-1.

Corporation	Gross Profit (1981 . . . *Millions*	Net Income *of dollars*)	Corporation	Gross Profit (*1981 . . . Millions*	Net Income *of dollars*)
Exxon*	$34,227	$5,567	Mead	$ 484	$ 129
IBM	17,054	3,308	Midland Ross	220	25
Philip Morris	3,128	676	Suburban Propane Gas	199	25
Caterpillar Tractor	2,221	579	Mohawk Data Sciences	137	19
Goodyear Tire & Rubber	1,993	260	Morrison Knudson	135**	37
Internorth	1,322	243	Kellwood***	108	8
Cummins Engine	558	100			

*Exxon defines gross profit as follows: "Gross profit equals sales and other operating revenue less estimated costs associated with products sold."

**Morrison Knudson uses the term "operating income," but defines it the same as others define gross profit.

***Fiscal Year 1982

SOURCE: Annual Reports of the listed corporations

income after taxes was about 5 to 1 or 6 to 1. It is reasonable to assume that most companies do calculate their gross profit, whatever they may call it. And it is also understandable that most refrain from publishing such data and, if they do, place the figures inconspicuously in their reports and do not mention them in publicity releases.

How much more confident trade union negotiators would be in their collective bargaining strategy if *they targeted the employers' gross profits* rather than the publicized net income after taxes!

Results close to those cited for manufacturing corporations may be obtained from Internal Revenue Service (IRS) reports for manufacturing corporations and for all corporations. The IRS report for all corporations for 1979 shows gross profits (total receipts less cost of sales and other operations) at $1,426 billion—almost one and a half *trillion* dollars—compared with net income of $279 billion before taxes and $213 billion after taxes.[5]

This $1,426 billion of gross profits is more than double the $693 billion of total wages and salaries paid to *all* production or nonsupervisory workers in the private economy.[6] It works out to a rate of surplus value of 206%. This amount is less than the 271% shown for manufacturing in 1979 (chapter 2), and the difference is due partly to statistical factors, which understate gross profits for all corporations, and partly to the fact that in nonmanufacturing sectors there are more small corporations forced by monopoly pressure to accept lower rates of profit.

Rate of Gross Profit

Capitalists are more concerned, in the long run, with the *rate* of profit—the percentage return on investment—than with the absolute amount of profit. Their drive is to accumulate ever more wealth, power and profit-making capacity. Indeed, if an enterprise fails to accumulate and grow in size, it faces an increasing risk of being forced out of business by larger and stronger rivals.

A capitalist with a 5% rate of profit, assuming it is all reinvested, will take 14 years to double his money. But with a 50% rate of profit, he can more than double his investment every two years. Starting with "only" $10 million, he can become a billionaire in about 13 years.

This kind of calculation is not farfetched. It is with such extreme objectives in mind that groups of capitalists, using borrowed funds, engage in raids for corporate control, aiming to sell off the stock they accumulate at a profit that may be many times the capital they personally advanced for the operation. Nor does it exaggerate the situation of the controlling group of stockholders in a corporation operating without mergers or takeovers.

If a gross profit rate of 50% seems unreal, consider the two largest industrial corporations, whose gross profits were shown in table 5-1. From data provided in their annual reports, their rate of gross profit, as a percentage of average total capital employed, can readily be calculated. For both companies, the rates for 1981 and for 1984 were close to 100% (see table 5-2).

TABLE 5-2. EXXON AND IBM, 1981 AND 1984

	Year	Gross Profit (*millions*)	Total Capital Employed (*millions*)	Rate of Gross Profit (*percent*)
Exxon	1981	$34,227	$35,682	95.9%
	1984	32,935	35,780	92.0
IBM	1981	17,054	19,511	87.4
	1984	27,018	27,826	97.1

SOURCES: Gross Profits, Annual Reports. For 1984: Exxon, p. 27; IBM, p. 44
Total Capital Employed (average for year):
Exxon, 1984, Financial and Statistical Supplement to Annual Report, p. 14
IBM, Sum of Long-term debt and stockholders equity, 1984 Annual Report, p. 44
Rate of Gross Profit: Calculated from tabulated data

To properly apply economic theory, and to understand a major feature of the real development of U.S. capitalism, it is important to follow the historical trend of the rate of gross profits in the United States.

Data do show that for corporations as a whole, the rate of gross profit is not as high as for the most powerful industrial mammoths. But they are far higher than the profit-rate figures that are publicized, figures that relate to only one segment of the total gross profit.

An overview of profit trends is shown in chart 5-1, which depicts gross profit rates for both manufacturing corporations and for all corporations. The rate of gross profit for manufacturing corporations runs 15%-20% above that for all corporations, mainly because of differences in the methods of calculation. In both cases the trend is unmistakably upward, with the period of sharp decline during the early 1930s, followed by a rapid recovery, especially during World War II.* All-time-high gross profit rates emerged shortly after World War II, and thereafter both lines show a gradual uptrend, becoming definite in the 1960s and accelerating in the 1970s.†

Both the rapid rise and the level reached of the rates of profit—in the 50%-75% range—were far higher than is commonly believed. How can this be? And who are the beneficiaries of the excessive rates of return on capital?

First, economic analysts generally ignore the concept of gross profit and do not relate the high profit rates to total invested capital. Also, economists and the general public tend to regard "hidden" profits as a relatively minor adjunct to reported net income—to be criticized when "excessive," but not to be considered a major factor.

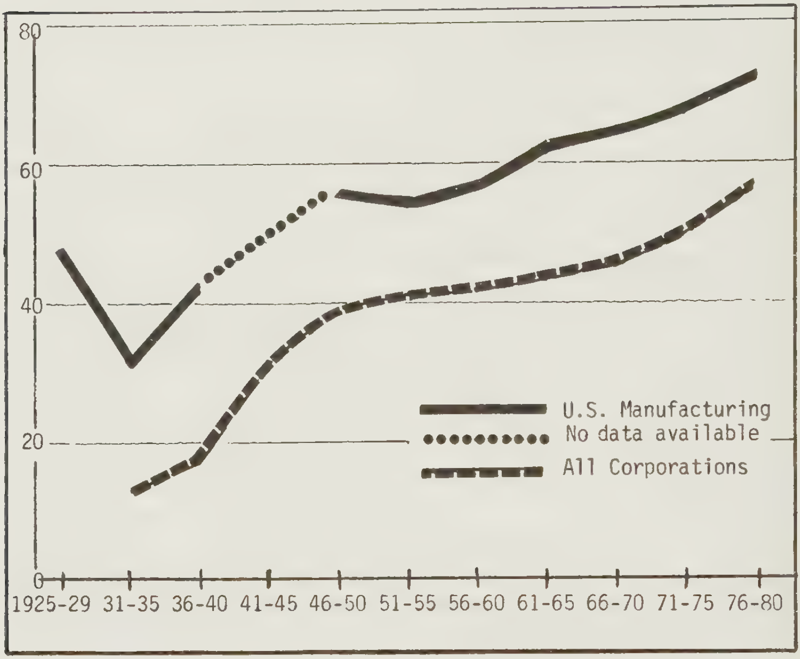
Of course in the normal course of scientific and technological progress and of the overall scale of output, the degree of capitalization of industry—i.e., the capital/output ratio—increases. This has certainly been true in the 20th century. The rising trend in the rate of gross profit shows that the rate of surplus value has gone up even faster than the capital/output ratio, contributing to the contradictions afflicting the U.S. economy.

The latest stage of the scientific and technological revolution, based on the computer and related high-tech products, is giving added impetus to the rising rates of surplus value and profit and the increasing share of profits absorbed in the profits of control.

*The chart shows the decline only for manufacturing corporations because data for all corporations are not available for years earlier than 1931.

† Statistical details and sources are given in appendix tables 5A and 5B.

CHART 5-1 AVERAGE ANNUAL RATE OF GROSS PROFIT, ALL U.S. CORPORATIONS and U.S. MANUFACTURING, BY GROUPS OF YEARS, 1925-1980



SOURCE: Appendix Tables 5A and 5B

Distribution of Gross Profits

Gross profits of corporations may be divided into five main categories: interest, rent, profits of enterprise, taxes, and all other. The first three are traditional types of distribution to various categories of owners—"passive" lenders, landlords, and "risk-taking" stockholders. Taxes represent the share taken by national, state and local governments. The "all other" consists largely of what we call the *profits of control.* That represents the portion of gross profits appropriated by, or paid out to various supporters of, the small group of dominant stockholders controlling the affairs of the corporation. In the early days of the stock company or corporation, Marx referred to them as "a new financial aristocracy." In this century, they have multiplied many times the relative and absolute power, wealth and share of gross profits directly appropriated by them or distributed at their discretion.

In the 1950s, the term "profits of control" was introduced in *The Empire of High Finance* to represent the lion's share of gross profits—over and above interest, dividends, rent and taxes—appropriated by the control group of an enterprise. These moguls retain a substantial portion for themselves and the rest they distribute among various echelons of their supporting staff, consultants, political representatives, etc.[7]

The distribution of gross profits for all corporations and for manufacturing enterprises in 1979 is shown in table 5-3 and chart 5-2. There isn't a clear dividing line between "profits of control" and "other." There are certain necessary expenses associated with production—record keeping, inventory control, invoicing, etc. Depending on a company's accounting procedure, these may be included in costs of goods sold, or as part of gross profit. In the latter case, they are not part of profits of control. Data we cite in chapter 6 indicates that, when included in gross profits, they do not exceed 25% of the total of profits of control and "other." Similarly, legal expenses may be partly collected by relatives, participants in or close associates of the controlling group of stockholders. And part may be paid to outside law firms, only indirectly connected to the dominant shareholders in the given corporation.

On the other hand, aspects of the profits of control do not appear on the books at all, such as profits from stock options and from use of inside information for trading in stocks, placing orders for materials with relatives' firms, etc.

On balance, therefore, the data shown in table 5-3 give an order-of-magnitude estimate of the stakes involved in the frenetic battles for corporate control, which have become such a prominent feature of big business financial activity in the final decades of the 20th century.

In chart 5-2 and in later discussion, the term "profits of control" is used without attempting statistical adjustments to arrive at a "true" figure.

Profits of Control

Obviously a category that accounts for roughly half of gross profits—a category here called "profits of control"—cannot be passed over lightly, especially since neither the term nor the concept appear in capitalist economic literature.

Historically, the concept begins to appear in Marx's work.

TABLE 5-3. DISTRIBUTION OF GROSS PROFITS, 1979, ALL CORPORATIONS AND MANUFACTURING

Item	All Corporations	Manufacturing Companies
	(Billions of Dollars)	
Interest paid	261	41
Rent paid	64	16
Profits of enterprise	213	105
Taxes	232	105
Profits of control and other	656	283
GROSS PROFIT TOTAL	1,426	550

SOURCE: IRS, *Statistics of Income 1979,* Corporation Returns Table 2.2, pp. 88-89
Gross profit = business receipts less cost of sales and operations

Discussing the formation of stock companies, then in the early stages, he wrote that the stock company

> ... reporduces a new financial aristocracy, a new variety of parasites in the shape of promoters, speculators and simply nominal directors; a whole system of swindling and cheating by means of corporation promotions, stock issuance, and stock speculation....
>
> On the basis of capitalist production a new swindle develops in stock enterprises, with respect to wages of management, in that boards of numerous managers or directors are placed above the actual director, for whom supervision and management serve only as a pretext to plunder the stockholders and amass wealth.

In stock companies, he wrote further: "... credit offers to the individual capitalist, *absolute control within certain limits over the capital and property of others, and thereby* the labour of others...." [My emphasis ... VP].[8]

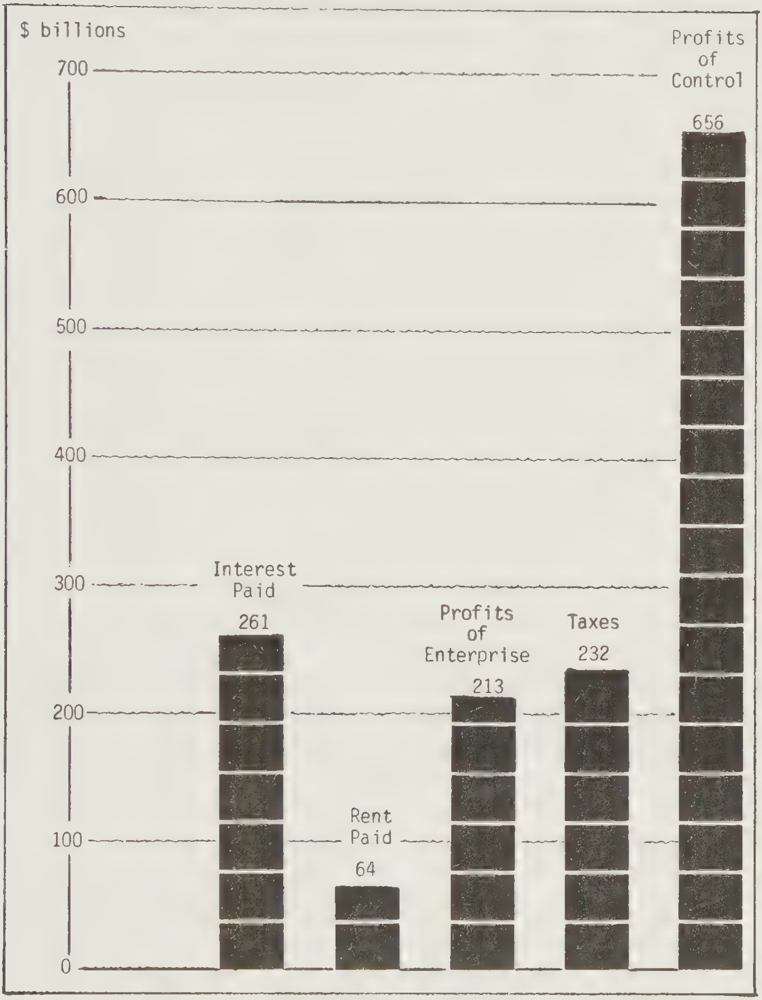
This concept of control became increasingly important. Engels, in a note to Marx's *Capital,* wrote: "Since Marx wrote the above, new forms of industrial enterprises have developed, as we know, representing the second and third degree of stock companies."[9]

And of course the stock corporation has gone through additional stages, becoming increasingly more complicated, with more and more means of capitalist swindling, in the century since Engels's comment.

The concept was advanced in more modern terms by Lenin in his classic development of Marxism for the 20th century, *Imperialism.* In it he quoted the German economist Heymann:

> The head of the concern controls the parent company, the latter reigns over the subsidiary companies which in their turn control still

CHART 5-2. DISTRIBUTION OF GROSS PROFITS, ALL CORPORATIONS 1979



other subsidiaries. This, it is possible with a comparatively small capital to dominate immense spheres of production. . . . [10]

There are, of course, wide margins of error in the table 5-4 figures, due to the different definitions used by reporting corporations and the many accounting devices they use to minimize tax liability. Nevertheless, in their general order of magnitude, the data do reflect reality. Much of the profits of control, in official statistical reports, is included in the "other deductions" catch-all. But consider only two itemized categories in corporations' statistical reports of income tax returns—"compensation of officers," and "pension, profit-sharing, stock bonus and annuity plans," (the latter separate from employee benefit plans)—that flow to the controlling insiders of the corporations. Now compare those items with the cash payments to stockholders from the profits of enterprise.

For all corporations, direct payments to corporate officers, directors, and other insiders came to $143 billion in 1979, as compared with $87 billion in dividends paid to all stockholders—a significant portion of which was paid to the same controlling stockholders. Moreover, the $126 billion of profits of enterprise not paid out either in the above-mentioned direct payments or in cash to stockholders was at the disposal of the control group, whether for additional investment of for purposes that would be of more direct benefit to themselves.

By and large, in one way or another—cash, open-ended expense accounts, payments to personal corporations, etc.—the profits of control ended up in the pockets of the control group of large stockholders, corporation officers and managerial bureaucracy; in the bank accounts of advertising agencies, accountants, lawyers, consultants, trade associations, politicians and political action committees that service and, in a basic sense, belong to the big capitalists.

Because of the importance of profits of control, chapter 6 is devoted to analysis of its various forms in the United States in the last quarter of the 20th century.

Soaring Interest Rates

The rate of interest shows a dramatic uptrend beginning in the mid-1960s. By 1981-85, the effective interest rate on the highest grade bonds was 12.82%, approximately three times the rate 20 years earlier. These were long-term rates, paid by the financially strongest borrowers. The "prime rate" charged by banks to favored short-term borrowers often exceeded 20% during the 1980s.

Never in the history of U.S. industrial capitalism, going back to the Civil War, were such high interest rates even approached. These rates spread throughout the capitalist world, reaching extremes in developing countries, where the interest was in large part to offset constant rapid depreciation of currency values.

TABLE 5-4. RATE OF INTEREST AND RATE OF NET PROFIT OF ENTERPRISE ANNUAL AVERAGE, FIVE-YEAR INTERVALS, 1911-1985

Period	Rate of Interest AAA-rated Bonds*	Rate of Profit on Equity Capital Manufacturing Corps.	Period	Rate of Interest AAA-rated Bonds*	Rate of Profit on Equity Capital Manufacturing Corps.
1911-1915	4.38%	7.3%**	1951-1955	3.00%	11.1%
1916-1920	5.22	12.8	1956-1960	3.97	10.3
1921-1925	5.21	7.2	1961-1965	4.36	10.7
1926-1930	4.62	9.8	1966-1970	6.38	11.6
1931-1935	4.34	1.1	1971-1975	7.89	11.9
1936-1940	3.11	6.9	1976-1980	9.35	14.7
1941-1945	2.73	9.5	1981-1985	12.82	13.8***
1946-1950	2.65	13.8			

*The highest-rated bonds

**Average for 1914 and 1915. Earlier data not available.

***Adjusted for excess depreciation deductions, computed from data published by Commerce Department, BEA.

SOURCES: Yields on AAA-rated Corporate Bonds: Moody's as published in *Hist. Stat.*, Vol. II, P. 1003, Series 477 (1911-1918 railroad bonds, series 476); *EROP, 1986,* p. 310. Rate of Profit on Equity Capital, *Hist. Stat.* Vol. II, 1914-1930, Series V300-V304, p. 941; 1931-46, Series 176-180, p. 928; *EROP 1985,* Table B-86, p. 332 for 1947-1983; *SCB,* various issues, 1984-85.

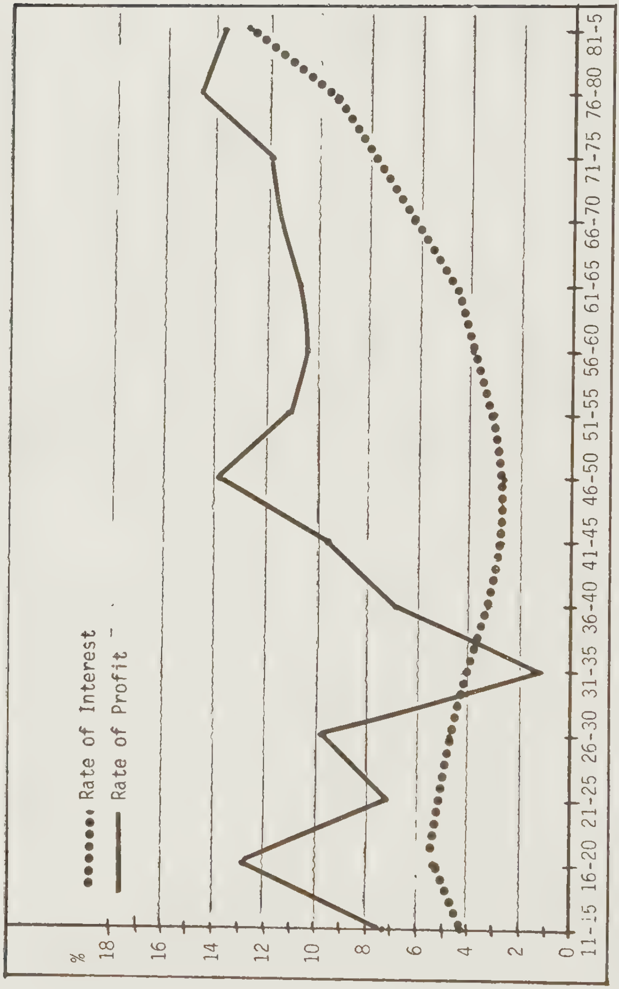
The excessive interest rates were a result of:

- the increased monopoly power of banks and related financial institutions, the ultimate sources of most loanable funds;
- the right-wing governments in the capitalist countries encouraging central banking authorities to carry out monetary policies that helped the banks maintain high interest rates; and
- an excess of demand over supply for loanable funds. (On the one hand, the demand for borrowed funds rose greatly on the part of governments, capitalists and their corporations, and of individuals as consumers. On the other hand, the monetary savings of the populations were reduced, as a share of their incomes.)

Overall, between the end of 1978 and the end of 1985, the domestic nonfinancial debt increased 113%, as compared with a 77% rise in gross national product.[11] Obviously the high relative indebtedness and high interest rates made for financial instability and were important components of the structural crisis of the 1970s and 1980s, as well as factors precipitating cyclical crises. Interest payments increased 25 times, from $46 billion in 1960 to $1.2 trillion in 1985.[12]

Table 5-5 shows changes in the distribution of surplus value, aside from profits of control and taxes, over a 55-year period. The

CHART 5-3. RATE OF INTEREST AND RATE OF NET PROFIT OF ENTERPRISE
Annual Average, Five-Year Intervals, 1911-1985 (Percentage)



SOURCE: Table 5-4

marked decline in the share of unincorporated proprietors' profits emphasizes the weakening of nonmonopoly sectors of capital. The share of interest became the largest component by 1984, 39% of the total.

TABLE 5-5. PERCENT DISTRIBUTION OF PART OF SURPLUS VALUE, SELECTED YEARS, 1929-1984

Type of Return on Capital	1929	1950	1979	1984
Unincorporated Proprietors' Net Income	44.3%	51.5%	27.7%	19.7%
Corporate Profit After Tax	25.3	32.4	32.8	27.0*
Landlords' Rental Income	16.6	13.1	11.5	14.2
Net Interest	13.8	3.0	28.0	39.1
TOTAL	100.0	100.0	100.0	100.0

*With inventory valuation adjustment and capital consumption adjustment.
SOURCES: National Income and Product Accounts of the U.S., Table 1.11, in NIPA 1929-74, pp. 34-36; NIPA 1976-79, p. 7; *SCB*, Sept., 1985, p. 5

A *Forbes* financial writer commented on the surging interest payments of the 1980s:

> Gross interest payments are flowing through the economy at a rate approaching $900 billion a year—about $4,000 per year for each American man, woman and child. That's interest, mind you, not debt. It's an increase of 200% since 1976. Interest payments, in short, have risen more than twice as fast as the gross national product.[13]

Of course there is considerable duplication in the more than a trillion dollars per year of interest payments recorded in the mid-1980s. For example, banks collect interest from borrowers and pay part of it out to depositors. But each of the payments must be made, and on time. The failure of one recipient to receive interest on time in turn jeopardizes his payment of interest. Clearly this is a vast burden on borrowers and a source of instability.

In 1982, when a cyclical crisis reached its most acute phase, major corporations went into bankruptcy and others were on the verge. The search for cash, for "liquidity," became the decisive drive for all those sections of capital, domestic and international, that were hardest hit by the crisis. Moreover, the aftereffects, with *increasing* bankruptcies, continued for years into the following cyclical recovery.

Workers who were fired or whose wages were slashed lost their homes through foreclosures—and often their cars through repossessions. Tens of thousands of farmers, whose borrowings were "secured" by rising crop prices and land values, could no longer cover interest and principal charges when crop prices and land values declined, and they lost their farms. Scores of small banks that specialized in farm credit went under.

At the same time, the sharply higher interest payments and rates signified the heightened relative power of money capital, concentrated in the hands of banks and other financial institutions, in the structure of modern capitalism. Along with other features, the concentration of money capital represented a further stage in the dominance of finance capital and a financial oligarchy as described by Lenin in *Imperialism.*

Rising Rates of Profits of Enterprise

The rate of profit on equity capital of manufacturing corporations rose decisively in the post–World War II period, although not as dramatically as the rate of interest (see table 5-4).

Big business was fully cognizant of the profit uptrend. *Fortune* headlined an article in May 1981: "Profitability Goes Through a Ceiling." The author, Carol J. Loomis, writing on the profit rates of the 500 largest industrial corporations, observed that:

> Historically the 500's return on equity kept bumping up against a ceiling of around 12% . . . this performance was not only acceptable, but super, since it presented shareholders with a rate of return well above that available from fixed-income investments.

But under later conditions of inflation, she wrote, it was no longer acceptable. " . . . major corporations were not put on this earth to be marshmallows in the teeth of inflation." And she pointed out that despite the fact that it included another recession, the five-year period ending in 1980 showed

> . . . a median return on equity averaging 14.3% . . . a full 2.9 percentage points better than the average for the preceding five years and 2.5 points better than the best previous period, 1965–69.

Fortune further concluded that these profit figures were real and not the result of "inventory profits or other inflation-related artifacts."[14]

Noting the rise in industrial corporations' profit rates, public utility commissions, which formerly allowed profits of 10–12% on equity capital of utility companies, raised the typical allowances during the early 1980s to the range of 15–17% in regulating the charges for electric power and gas. Since rising interest rates added even more to the "costs" of the utility companies, whose borrowed funds typically exceed their equity capital, this is a clear example of how the rising profit rates—whether appropriated in the form of interest or profits of enterprise, or both—directly cause price inflation. Interest rates tapered off in the mid-1980s, but remained far above historical norms.

Capitalist spokesmen claim that the key to economic growth and prosperity is a high rate of enterprise profit, blaming poor economic performance on what they claim are inadequate profits. True, a high rate of anticipated "net income"—the term used generally to describe profits of enterprise after taxes—is a key indicator used by corporate officials to decide whether and where to invest for future expansion. Thus, accumulated reserves are regarded as advantageous for making investments.

But the rate of profits of enterprise is but one of a number of factors, with gross profits being a more abundant source. Much of this part—consisting of interest and profits of control—is potentially available for investment. Moreover, market conditions are apt to be more decisive than availability of a particular form of capital in determining investments.

The ultimate market for consumer goods tends to expand more slowly than the supply of capital, especially when there is a rapid rise in the rate of surplus value and gross profit as compared with wages, as in the United States since World War II. However, when there is a strong demand for commodities, as in a war situation, the capitalists mobilize every reserve of capital, in whatever form, in order to reap huge profits.

Two examples prove that the profits of enterprise are not the sole ingredient for economic stimulus: (1) Japanese capitalists make much more use of borrowed funds than equity investment, yet their economic growth has been several times that of the United States; and (2) the decades of the 1970s and early 1980s were periods of soaring enterprise profits in the United States, yet economic performance was much poorer than in the two previous decades.

Having set high profits of enterprise as the basic ingredient for economic progress, capitalists' cohorts tend to blame any poor performance on inadequate returns. One method they use to justify their reasoning is to manipulate statistics so as to convert a reality of rising net profits into declining net profits.

As shown in table 5-4 and chart 5-3, the rate of enterprise profit has been on the increase during the 1970s and into the 1980s. Net enterprise profit after taxes, as adjusted by the Commerce Department to a uniform depreciation standard, has also increased as a share of national income, the percentage share for 1984 and 1985 exceeding those for all of the previous 15 years.

Alongside officially published statistics showing the uptrend in gross enterprise profits and in the rate of enterprise profits, the U.S. Government has published other statistics purporting to show a decline in the rate of enterprise profits.* These data provide ammunition for apologists of big business who seek to blame economic troubles on inadequate profits and demand tax reductions and wage cuts to boost profits still higher.

Faked statistics of declining profit rates served well the interests of monopoly capital when the Reagan Administration launched its antilabor offensive. Later, when boasting of the "successes" of the attacks, capitalists ceased giving publicity to calculations of declining profit rates. But it should be borne in mind that these calculations, in any event, referred to only one segment of gross profits—the profits of enterprise—and ignored the enormous and escalating parts of gross profits—interest and the profits of control.

Both the rate of interest and the rate of profit on equity capital turned downward in the United States in the period 1985–87. There were also indications that the rate of gross profit stopped rising and at least temporarily turned downward in the mid-1980s. A number of factors contributed to this. The increasing internationalization of world capital markets tended toward an equalization of profit rates in the major capitalist countries, pulling down the higher rates in the United States. The accumulated reservoir of surplus value went far beyond the possibilities of real physical capital investment in a capitalist economy showing increasing symptoms of stagnation. The "Third World" countries, unable to pay off their debts, could not borrow additional sums, thus reducing the overall world demand for borrowing. The Federal Reserve Board, anxious to prevent a cyclical crisis, followed an "easy money" policy that resulted in banks having additional funds to loan. Higher interest rates in the United States than in Japan and major West European countries drew hundreds of billion of dollars in funds for investment into the U.S. bond and stock

*The purported declining rates of profit are calculated by relating net income after taxes to a contrived "replacement cost" of plant and equipment, rather than to actual depreciated cost of plant and equipment. The substitution has no justification in principle and is applied so as to give the desired result. Neither the data nor the details of calculation are regularly published.

markets. Thus, overall, the supply of loan capital increased faster than the demand for it.

The rate of return on equity capital in the United States came under increasing pressure from the gains of rival capitalist concerns in world markets. More fundamentally, it seemed increasingly likely that the deepening general crisis of capitalism and the continuing structural crisis would end the long period of rising rates of gross profit in the United States and actuate fundamental forces tending to reduce it.

But even as real profits came under more and more pressure, fictitious paper profits soared. The accumulated surplus value of the capitalists—buttressed by vast amounts in pension funds, life insurance reserves, etc.—had no field for productive investment and was ventured wildly in the stock market, real estate and commodities markets and in a whole catalogue of new speculative instruments. Prices on stock exchanges in the United States and other world capitalist centers zoomed during the 1980s, in many cases losing all connection with actual or even potential dividend returns.

This situation, combined with tensions in financial markets resulting from domestic and foreign indebtedness, created conditions for acute financial and cyclical crises of overproduction.

Marx on the Rate of Profit

Marx, in *Capital,* made important contributions to understanding the formation of the rate of profit and its dynamics. He noted that the rate of profit, for example, is influenced by two contradictory factors.

- On the one hand, the increase in the rate of surplus value tends to raise the rate of profit.
- On the other hand, with the advance of technology, more fixed capital is required per worker, tending to reduce the rate of profit.

Only that part of capital used to pay wages directly yields profit. Capital used to purchase machinery and materials is simply transferred to the final product, directly or through depreciation accounts. Over time, there was no limit to the extent to which this latter kind of capital, which Marx called "constant capital," could expand. But there was a limit to how much surplus value could be gotten out of a worker, as there were only so many hours in a working day.

So the tendency of the rate of profit would be to fall.

Marx called the ratio of constant capital to the capital used to pay wages the "organic composition of capital." The higher this organic composition the lower the rate of profit, all other things being equal. Indeed, in the United States, the ratio of the organic composition of capital increased from 2.85 in 1950 to 4.08 in 1983 (calculated from data in appendix table 5A). How is it, then, that the rate of gross profit went up, not down? There is only one answer. The rate of surplus value went up even faster, nearly doubling between 1950 and 1983.

This fact has considerable practical importance. Does it prove that Marx was wrong? By no means. But it was misconstrued by social-democratic economists who used Marx to echo the capitalist claims of a declining rate of profit in the 1970s and early 1980s, as David Gordon did in a featured *New York Times* magazine article in 1985.[15] Similarly, Bowles, Gordon and Weisskopf not only accepted the capitalist claim of declining productivity, but also swallowed the jiggled statistics to the effect that the rate of profit had been cut in half between the mid-1960s and early 1980s.[16]

Weisskopf went further, claiming that this was because the workers gained too much in wages and social benefits—at a time when their real wages were declining! He asserted that sacrifices were essential and advocated a "social-democratic strategy . . . to spread the burden of economic sacrifice that people will have to bear for the economy to be revitalized." People would have to go through a period of "austerity" and "tighten their belts . . . in order to release resources for investment rather than consumption." It would be politically "more feasible" to put this over if the public were convinced that "both present burdens and future benefits would be equally shared."[17]

Weisskopf called this the "democratic socialist" way, but it boiled down to a pale echo of the "conservative" program he and his coauthors formally criticized, camouflaged with general concepts of democracy and worker participation. It is the exact opposite of the class struggle approach of Marx and his followers.

Social-democratic apologetics is important in the United States because of its influence among the leaders of some major trade unions. It also represents the kind of thinking that leads social democratic governments, placed in power by workers in West European countries, to betray their pledges and end up carrying out programs desired by the capitalists, thus losing the confidence of the working class and as a result losing power to the direct representatives of big capital.

What these apologists ignore is the fact that Marx, after explaining the law of the declining tendency of the rate of profit, enumerated five factors that *counteract* it:

1. Raising the intensity of exploitation—that is, making workers toil harder without giving them extra compensation; in short, what we call "speedup."

2. Depressing wages below the value of labor power—that is, below what is necessary to provide accepted working-class living standards.

3. Lowering the cost of raw materials, machines, etc.—the cost of constant capital—and hence the organic composition of capital.

4. Relative overpopulation, which makes available a large supply of cheap labor and encourages the expansion of labor-intensive industries with relatively little capital. (A relevant current example—the millions of undocumented workers entering the United States.)

5. Foreign trade, enabling capitalists to sell goods for higher prices and buy them at lower prices than would be possible on the home market.

Because of these factors, Marx wrote:

> We have thus seen in a general way that the same influences which produce a tendency in the general rate of profit to fall, also call forth counter-effects, which hamper, retard, and partly paralyse this fall. The latter do not do away with the law, but impair its effect. . . . Thus, the law acts only as a tendency. And it is only under certain circumstances and only after long periods that its effects become strikingly pronounced.[18]

Thus there may well be times when the "certain circumstances" for the rate of profit to fall do not exist, because the "counteracting factors" are powerful enough to maintain or even raise the rate of profit.

Profit Rates Under Conditions of Competition and Conditions of Monopoly

But in considering profit trends over the long term, Marx asks a natural question: If, by introducing a better, more expensive machine, a capitalist increases his organic composition of capital, and hence reduces his rate of profit, why does he do it?

The answer is that the capitalist doesn't look that far ahead. In the short run, he calculates—quite accurately—the new and better machine will increase his rate of profit, as long as he is the first, or one of the first, with the innovation. That is, the price of the commodity is determined by the more costly old method of production, so the capitalist who installs the new machine is able to produce at lower cost. As long as he can sell at or near the old price, his rate of profit is actually increased. But when use of the new method becomes general, so that all labor costs are sharply reduced, the value and price of the commodity will fall in line with the new situation and the rate of profit will drop correspondingly. As Marx put it: "His method of production stands above the social average. But competition makes it general and subject to the general law. There follows a fall in the rate of profit," a process that occurs " . . . wholly independent of the will of the capitalist."[19]

The key idea here is effective competition. In Marx's time, competition was generally the determining factor in trade. But in the 20th century the dominant sector of capital, monopoly capital, has been able to reduce drastically the effectiveness of competition, especially price competition. As monopoly has become more and more powerful, big business has been able to sell more and more products for more and more profit over longer periods.

As important as domestic monopoly are the superprofits from foreign investments, which became a major factor in the 20th century. The long-term uptrend in the rate of profit applies specifically to U.S. big business, and not necessarily to the capital of other countries.

Marx saw this feature arising in its earlier forms, and foresaw that it might, at least for substantial periods, reverse the tendency of the rate of profit to fall. He wrote:

> Another question—really beyond the scope of our analysis because of its special nature—is this: Is the general rate of profit raised by the higher rate of profit produced by capital invested in foreign, and particularly colonial, trade?

And he expresses his opinion:

> As concerns capitals invested in colonies, etc., on the other hand, they may yield higher rates of profit for the simple reason that the rate of profit is higher there due to backward development, and likewise the exploitation of labour, because of the use of slaves, coolies, etc. Why should not these higher rates of profit, realised by capitals invested in certain lines and sent home by them, enter into the equalisation of the general rate of profit and thus tend, *pro tanto,* to raise it, unless it is the monopolies that stand in the way.[20]

Clearly Marx was referring to what is now called direct foreign *investment* as distinguished from simple trading operations.

This question can no longer be left "beyond the scope of our analysis" in the present epoch of transnational corporations, whose direct foreign investments account for one-fourth to one-half of their total profits, and with the rate of profit on these foreign investments systematically higher than on domestic investments.

Direct foreign investments are now a matter of prime importance in determining the long-term trend in the rate of profit of monopoly capital. Those who use statistics relating only to the domestic operations of U.S. capital to "verify" Marx's law of the declining tendency of the rate of profit as an absolute trend of U.S. capital are wrong to ignore this significant feature of Marx's discussion of the question.

Another characteristic of modern imperialism, which provides extra profits and counteracts the tendency of the rate of profit to fall, is the increasing militarization of the economy and the superprofits derived therefrom.

Still another very important means of raising the rate of profit in the United States in recent decades has been through shifting the tax burden from capital to labor. Although this shift does not affect the gross profits before tax deductions, the share of profits remaining in the hands of the capitalists after taxes is increased.

It is notable that in his major economic works Lenin did not refer to the law of the declining tendency of the rate of profit, but did emphasize the inordinately high rates of profit of the leading German and U.S. monopolies. He wrote in 1916:

> The American trusts are the supreme expression of the economics of imperialism, or monopoly capitalism. They do not confine themselves to economic means of eliminating rivals, but constantly resort to political, even criminal methods. It would be the greatest mistake, however, to believe that the trusts cannot establish their monopoly by purely economic means.[21]

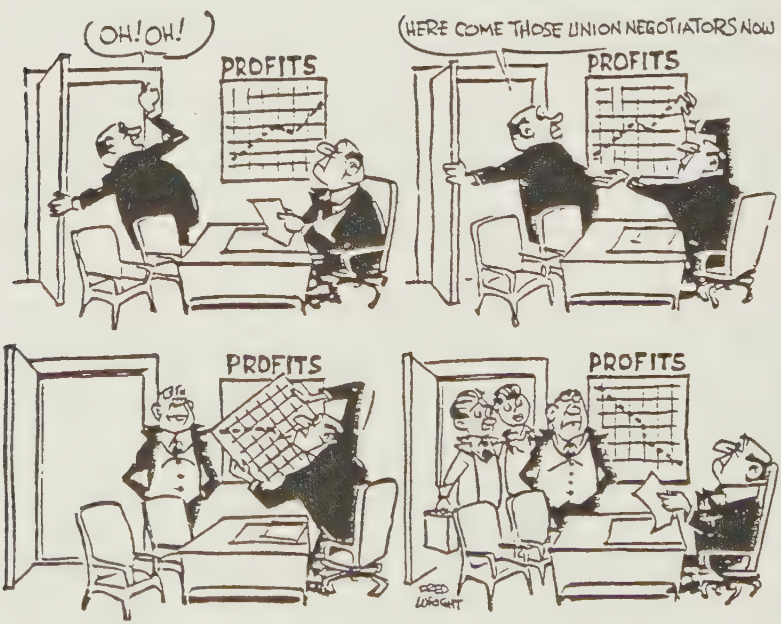
In the 60 years following, the U.S. trusts achieved undoubted supremacy in the world of imperialism. Since World War II they have added to economic, political and criminal methods *especially* the use of military power to make most of the capitalist world their happy hunting ground, with guaranteed superprofits and super *rates* of profit.

Under such conditions, it is surprising that the average rate of profit of U.S. monopoly capital should trend upward, not downward? Even if, at the same time, the rate of profit in some other capitalist countries might be stagnant or clearly trending downward?

Extravagant rates of profit are not unique perquisites of U.S. monopolies, however. An inflated rate of profit was necessary for the sharp gains of Japan after World War II, and inordinate rates of profit were realized by South Korean and Taiwanese enterprises which, under U.S. military occupation and "protection" from their own peoples, installed the most advanced technology while hiring workers at trifling wages. Of course, these profits were shared with the U.S. and Japanese corporations that enjoyed the status of "partnership" with their neocolonial associates.

Will the soaring uptrend in the rate of profits of U.S. capital change? Definitely, yes. There may be a lack of clarity on this issue by some trade union leaders but it is the aim of the working class to reduce the *rate* of profit as well as its amount; and it is the aim of Third World peoples—in their struggle for full national liberation—to reduce the exorbitant rate of profit and to oust the TNCs, actions that would greatly reduce the companies' overall rates of profit.

The losses of U.S. capital in rivalry with the capital of Japan and Western Europe are also a trend in the same direction—reduction in the U.S. rate of profit. This combination of forces is certain to end the rising trend in the rate of gross profits of U.S. big business, and may already have done so.



II

6. Profits of Control

The 1980s, with the unlimited scope for capitalist piracy that was encouraged by the right-wing administration in Washington, saw a feverish big-business drive to gain corporate control, with the attendant profits and power.

The 1980s saw a virtual end to limited legal restraints on big business activity—antitrust laws, security market regulations, protection of consumers' and workers' safety and health, etc.—that had been won through long working-class and antimonopoly struggles. And the administration was the brazen propagandist for corporate profiteering as the only road to "economic growth," a vaguely defined concept whose essence was growth in profits and wealth of the capitalist class. With this encouragement, battles for control of corporate empires were waged on an unprecedented scale. Vast capital resources were expended, with the acquisition of more and more profits.

It is important to keep in mind the prime motive for these actions. Whichever corporate aspirant wins, the working class loses, for it is the exploitation of workers that is the ultimate source of the increased profits. Big business is well aware that working-class resistance has the potential to stem profiteering in general and the soaring profits of control in particular.

The profits of control were a basic objective in the merger boom of the 1980s, when hundreds of billions of dollars were spent each year in the takeover of large, even giant, enterprises. Fierce battles were often waged—as between Texaco and Pennzoil in the tug-of-war over Getty Oil, with a ten-billion-dollar lawsuit ensuing.

There is no *apparent* rational economic reason to explain payment of such high prices. In a television interview, a spokesman for the American Enterprise Institute was asked to explain why such exorbitant sums were involved, and his answer was right to the point: "That's the price paid for control." And although in the short run the high purchase prices reduced the rates of gross profits, the acquiring group could add the profits of control of the taken-over corporation. Furthermore, mergers would often lead to reductions in the work force, thereby cutting labor costs. Conditions were also created for tightened monopoly price increases.

"Standard" mergers between corporate giants are discussed in chapter 8. But "leveraged buyouts" are included here because this vehicle, which came to the fore in the 1980s, enabled the drive for profits of control to take off in a new, adventurous way.

Leveraged Buyouts

In "leveraged buyouts" groups of capitalists, using mainly borrowed funds, buy all the stock in a "public" corporation—one with many stockholders, regularly traded on a stock exchange or "over the counter." They pay the stockholders as much as double or more the previous market price of the shares. In exchange they get complete ownership and control.

With the aid of investment banks, they mobilize enough funds to borrow 90% of the required capital in the form of bonds. These bonds pay a higher than normal rate of interest, but because of the risk, they are called "junk bonds." Nevertheless, they are eagerly purchased, even by some of the most powerful financial companies, because the high rate of return is regarded as more than compensating for the risk.

The purchasers get all the net income, after payment of interest and taxes, on their relatively small personal investment, thus realizing a very substantial rate of profit. In addition, they reap the even larger profits of control. In some cases, after an interval, the company may be "restructured" and its stock again sold to "the public," at a still higher price, through a new stock issue—with a huge capital gain for the original buyers.

In one case, a corporation headed by Seymour Holtzman bought the publicly held third of the shares of the Gruen Watch Company for $1 million. After "restructuring," preparations were made to sell shares in the reorganized and merged Gruen company to "the public" for $100 million.[1]

Banks and other financial institutions, including the largest in the country, participate in these leveraged buyouts both as lenders and as partners in the takeover group. "Some institutions say their return, figured as a blend of their equity and debt investments, has been as high as 40 percent."[2]

The number and size of leveraged buyout deals has soared. In 1983, terms were disclosed on 87 deals totaling $4.5 billion; this rose to 119 deals totaling $19.3 billion in 1985, and 39 deals worth $13.7 billion in the first half of 1986, according to the same source. New groups of capitalists have multiplied their wealth by specializing in leveraged buyouts—e.g., Kohlberg, Kravis, Roberts & Co.; Forstmann Little & Co. The investment banking firm of Drexel Burnham Lambert for a period obtained a dominant share of this activity.

A well-known investment banking-brokerage firm lists 76 individuals and organizations actively interested in and capable of doing $750 million to $20 billion (!) leveraged buyout deals. The list includes most of the major investment banking houses and a variety of individuals and partnerships, some headed by scions of old wealthy families but most consisting of relatively new centi-millionaires and billionaires.[3]

While often making spectacular gains in a "bull market," these new stars in the financial firmament are dependent on the major banks and rarely represent serious long-term challenges to the dominant oligarchy of finance capital (see chapter 9).

It is hardly surprising that Drexel Burnham Lambert, which "pioneered" in leveraged buyouts, became involved in major scandals that erupted around the high-stakes battles for corporate control. Employees and a former prominent deal-maker working with Drexel Burnham were found guilty of financial crimes in a government investigation that by 1987 "accelerated . . . and now shapes up as the biggest investigation of an investment-banking firm in Wall Street's history."[4]

Of course the scandals, however much they might affect the fate of individuals, did not stop the operations. They merely undermined the leadership of Drexel Burnham, with the largest Wall Street houses striving to get larger shares of the business.

A *Business Week* feature on Drexel Burnham, which had grabbed 70% of the "leveraged buyouts" business through issuance of "junk bonds," compared the company with the J. P. Morgan firm at the turn of the century. Note this:

> Drexel's influence took a quantum leap when it began flexing its financing muscle in what has become to be known as *"the market for corporate control"* [!!!—VP] formerly called the stock market.[5]

This is how the big players, who dominate the market and account for the bulk of the dollar value of transactions, see it. As *Business Week* commented: "On Wall Street today, profit is power." And the partners in Drexel Burnham take plenty of the profits of control for themselves.

"Last year the firm set aside some $600 million of its $2.6 billion in revenues for bonuses," the *Business Week* article continued. The most effective organizer of junk bond deals, Mike Milken, took away $40 million.

If the account of these operations is reminiscent of the notorious financial swindler of a generation ago, Ponzi, whose customers ultimately lost all their savings, the resemblance is not without relevance. Indeed, the next major financial crisis in the United States is made more likely and will certainly result in dramatic losses to many investors, large and small, involved in "leveraged buyouts" and their later resale at inflated prices.

At the same time, there is a growing tendency on the part of U.S. industry and finance to shift to the use of borrowed interest-bearing capital and less reliance on equity capital. This is a move in the direction of the capital structure long prevailing in Japan, but on a more disorganized, anarchic basis with more potential for disastrous collapse.

Forms of Appropriation of Profits of Control

As indicated in chapter 5, the profits of control have become the largest single component of gross profits. They benefit the small control group of a company, along with the satellites—personal associates, relatives, managerial staff, outside professional advisers and consultants, and political aides. Those admitted into the higher circles of the group tend to be selected from relatives, graduates of the same private preparatory schools, members of the same fraternities at the Ivy League colleges and of the same exclusive social clubs. But this is not an absolute; many who come from less elite backgrounds are brought into the inner circles because of special talents for making money or as financial operators, union busters, lobbyists or experts in other professional or technical fields.

Profits of control are realized in many ways, including but not limited to:

• the return that the founders of a corporation get on the shares of the initial stock offering, which they kept for themselves or purchased at a fraction of the market price;

• the capital gains those "in the know" acquire by the timely buying and selling of stock—their own and that of other companies—made possible by inside advance information on changes in rates of profit;

• the corporation's payment of a large part of the executives' luxurious life-style costs under the guise of business expenses;

• extravagant salaries, bonuses, pension rights, etc., far beyond any rational payment for managerial services;

• "golden parachutes" to top executives and managers and to large stockholders as part of the price for ceding control to a new group;

• high consultant and professional fees to associated lawyers, accountants, business advisers;

• lucrative orders to firms that executives—or their relatives and associates—own or have an interest in;

• inordinate expenditures for advertising, public relations, and sales promotion;

• lavish financing of politicians who represent the general class interests of capital and who are willing to abet the particular requirements of their supporters;

• bribery of government officials both at home and abroad, of prospective customers, of strikebreaking gangsters, and, where possible, of corrupt union officials; and

• creation and support of a swollen parasitic corporate bureaucracy, which provides a broad political base for the capitalist class and jobs for its adjuncts—friends, relations, etc.—plus, in some major industries, reserves who can double as scabs should production workers go on strike.

Some of the above items are not wholly "profits of control" but include expenses necessary for obtaining and retaining control.

The term "profits of control" reflects the fact that these vast sums are taken for the personal use of the top corporate brass or distributed by them to their corporate cohorts. The concept of the profits of control, not explicitly recognized in standard economic literature, is implied in frequent references to special features of executives' life-styles—their "excessive" salaries and bonuses, their actions of dubious virtue or legality, e.g., "insider's profiteering from stock manipulation." Nor is there any standard accounting term that corresponds to the profits of control, although the category *Selling, general, and administrative expenses* in most corporation reports largely overlaps this classification.

Profits of control are skimmed off the top of gross profit, before payment of interest on debts, income taxes, dividends or buildup of capital reserves. For many decades the general tendency has been to increase this "take" in the share of surplus value as compared with dividends, partnership profits and the like. A special motivation was to avoid paying the increased taxes that were levied after World War II. This has been possible mainly because of an accounting "gimmick": the items here referred to as profits of control appear in accounting terms as *expense* items, and hence are not taxable. The U.S. Treasury Department, part of the capitalist hierarchy, sanctions this maneuver. In addition, a substantial part of these funds is taken or distributed "under the table," through what is referred to as the "underground economy." In effect, actual corporate taxes paid have thereby been reduced to less than half the official rate.

In essence, profits of control is that segment of surplus value appropriated by or distributed by the group of controlling stockholders over and above the normal, average rate of return on their personal investment in the enterprise.

Scale of Profits of Control

Statistical measures of profits of control, although necessarily inexact, have been calculated, and they should be regarded as an order of magnitude rather than as an exact amount. But whether the "actual" figure in 1979 was estimated to have been $600 billion or $800 billion, or the $656 billion shown on chart 5-2, it was an enormous quantity. Thus, analyses that omit this category from consideration and from discussions of economic relationships grossly distort the reality of modern capitalism.

It is difficult to measure profits of control exactly, not only because standard accounting procedures do not identify them adequately but also because categorization for accounting purposes is imprecise. Who can say how much corporate "travel and entertainment" expense is valid as part of production and distribution costs and how much is a fringe benefit for executives—a hidden form of the distribution of profit? How much of the million-dollar salary of a top corporate official is appropriate payment for his labor and how much is a share of profits? Is his labor really worth five times that of a President of the United States?

In addition to the $656 million of profits of control estimated from income tax returns, perhaps half as much again is hidden in the "underground" economy (see chapter 7).

Available data indicate that the profits of control have been multiplying apace and absorbing an increasing share of surplus value since World War II. One sign is the more rapid increase in the annual rate of gross profit in manufacturing (table 5-3) than the rate of return on equity capital in manufacturing (table 5-6). Another indicator is the rapid increase in the proportion of administrative employees in manufacturing (table 6-1).

Rate of Profits of Control

Chapter 5 showed that the rate of gross profit on total capital ranged from 50% to 70% in the last 30 years, while the rate of profit on equity capital was in the 10–15% range and the rate of interest was generally lower.

The rate of return taken by the control group on their investment is even higher than the rate of gross profit. And although some of the profits of control are distributed to henchmen, the amount personally retained by the executives could well be several hundred percent of their actual stake.

The investments of the Rockefellers in Standard Oil companies, of the Watsons in IBM, the du Ponts in their chemical company, the Eastmans in Eastman Kodak, etc., were made long ago and have yielded fantastic rates of return. This process is being repeated today by successful "venture capitalists" and by some of the superrich families. The Rockefellers and Whitneys, for example, have well-publicized venture capital funds, which they carefully parcel out to the most promising new undertakings, getting in "on the ground floor" on terms auguring a huge rate of return.

Expansion of Administrative Offices

The fastest growing major category in corporate accounting is "selling, general, and administrative expenses" (sg&a). Year in and year out, in good times and bad, this item increases for most companies, making it the bookkeeping factor that frequently converts substantial rises in gross profits into stagnation or even decline in the "bottom line."

The impact of executives' salaries and bonuses, of sales, advertising and promotional expenditures, of outlays for insurance, lawyers, accountants, consultants and other mushrooming corporate bureaucracies—all lumped under sg&a—in combination absorb much of the gross profits of many large corporations.

Harvey Poppel, senior vice-president of the prestigious management advisory firm, Booz, Allen & Hamilton, wrote in 1979:

> Current statistics strongly suggest that there is ample room for productivity improvement, especially among the managerial and other professional white-collar ranks in 1979. U.S. business will spend a staggering \$465 billion to compensate their managerial and other professional people upon whom the burden of responsibility for strategic management rests. This is more than triple what they spend on clerical workers.

An additional \$120 billion was spent "in support of" those officials. "... the cost of internally supplied support people in the form of secretaries, typists, file and mail clerks is mushrooming while managerial and professional productivity stagnates."[6]

That \$585 billion spent for direct compensation and fringes for the managers and professionals, and for their support personnel, was more than 80% of the \$693 billion in wages paid to the 60 million production, or nonsupervisory, workers who were employed in the U.S. economy in 1979. And that percentage has been increasing steadily.

The \$585 billion applies to both the entire private economy and government establishments. By far the larger part is in the private sector, and it comes directly from the surplus value created by the labor of workers producing commodities. The part going to government bureaucrats is financed by taxation of the general public, so whether it is paid for by workers in the form of sales taxes, withholding taxes, etc., or by corporations out of profits, this too represents a part of surplus value.

Is that \$585 billion estimate of Poppel's reasonable? Assuming that three-fourths—or \$439 billion—relates to private as opposed to government bureaucracies, that is well below the \$656 billion of 1979 corporate profits of control indicated by IRS reports. It does account for two-thirds of it, leaving a believable one third for payment to the outside service and other recipients of sg&a outlays, such as lawyers, accountants, advertising consultants, etc.

Thus the Booz, Allen estimates and the IRS figures confirm the vast extent of the profits of control as well as the fact that the corporate bureaucracy absorbs the largest segment of it.

In 1980, according to Booz, Allen, "... office productivity may now be declining," while the Yankee Group estimates that direct office costs in the United States "... could reach $1.6 trillion by 1990."[7] Between 1967 and 1981, production of office, service and miscellaneous equipment increased two and a half times, while output of industrial machinery increased only one-fourth.[8]

The Census Bureau provides clear evidence of the growth of the corporate bureaucracy for manufacturing concerns. Table 6-1 shows how payrolls of the central administrative and auxiliary establishments of manufacturing concerns have grown over the past three decades.

TABLE 6-1. PAYROLLS IN MANUFACTURING (*millions of dollars*)

	Administrative & Auxiliary (1)	Production Workers (2)	Percent (1) of (2)
1954	$ 2,983	$ 44,590	6.3%
1958	4,474	49,605	9.0
1963	6,616	62,094	10.7
1967	8,728	81,394	10.7
1972	13,772	105,495	13.1
1977	21,981	157,164	14.0
1980	33,916	198,164	17.1
1983	40,489	212,417	19.1

SOURCES: U.S. Census, *Annual Survey of Manufactures 1983,* Tables 1a and 1b, pp. 1–4 and 1–5; *Stat. Abst., 1958,* no. 1023, p. 780

Between 1954 and 1983, the payrolls of administrative personnel (including auxiliary) of manufacturing firms multiplied 13.6 times, while the payrolls of production workers rose only 4.8 times—not very much more than living costs. Employment and payrolls of supervisory and office workers in the operating establishments also went up more rapidly than did the employment and payrolls of production workers.

A significant share of the $142 billion of office salaries paid in operating manufacturing establishments, in addition to the $40 billion paid in administrative offices, is part of the profits of control. In the key manufacturing sector, where exploitation is sharpest, the number of supervisory and nonproduction workers, one for every five production workers in 1947, approached one for every two production workers by 1985!

Many of the clerical employees within the corporate bureaucracy are subject to intense pressure on the job, for very little pay. Stenographers, computer operators, clerks, etc., in the huge pools of insurance companies and law offices, as well as speeded-up bank tellers are indeed much exploited, even though their operations are not creating real values. But their labor is necessary for the corporate executives and directors, for the holders of bonds and stock to realize the surplus value created in the productive sectors of the economy (see chart 6-1).

Perhaps a more dramatic way of visualizing the spreading of the profits of control through the corporate bureaucracy is to consider the increasing layerization of management—that is, the various strata of administrators who report to each other. In 1985 Tom Peters wrote on the layering of the corporate bureaucracy; surveying "top companies," he found that 26 of them, with "only" seven layers of management, reported increases in profits. However, 15 of the companies, with eleven levels of management, sustained a slight decline in bottom-line net income. He commented: "To me, even 7 layers seems too high. Eleven layers is downright dispiriting." And he gave examples of corporations that are "chipping away at bloated management hierarchies. . . . " But he cautioned:

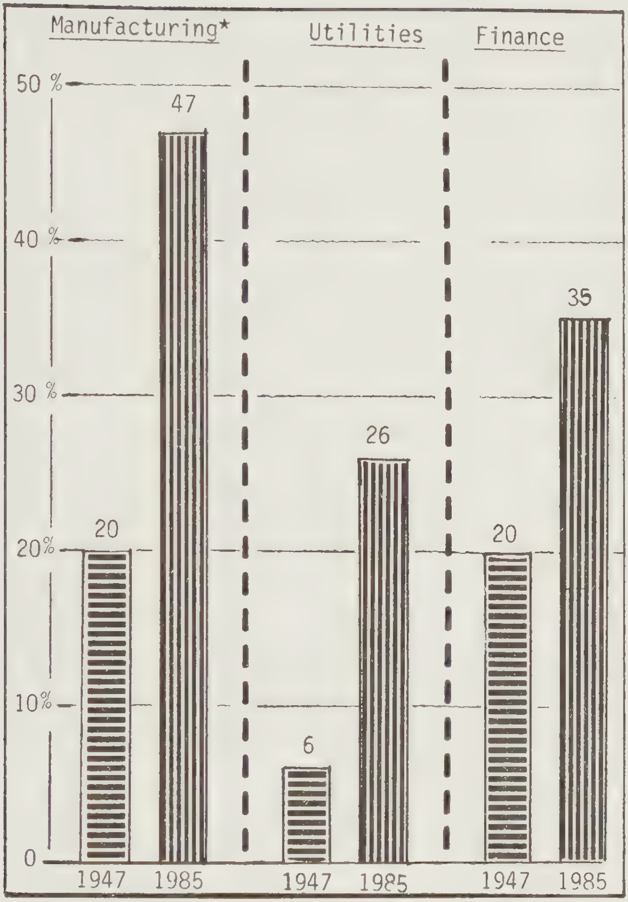
> Still, despite the evidence of the benefits of lean staffing, until recently the vast majority of American companies have viewed it as a cyclical unpleasantness. It was almost a knee-jerk reaction: Cut staff during a recession, build the fat back in when the recovery gets under way.[9]

Economist David Gordon noted that management salaries rose by 1983 to "almost one-fifth of the entire corporate economy." In 1982, he reported, managerial and administrative personnel accounted for 12% of all nonfarm personnel, as compared with 4.3% in Japan, 3.3% in West Germany, and 2.3% in Sweden.[10]

But the high-paying administrative jobs for members of capitalist families are the most prized possessions of the U.S. ruling class. And they are most reluctant to yield this perk in the face of tough Japanese competition. They prefer to deal with the challenge by sharpening the offensive against the workers at home and in other countries exploited by U.S. capital. In fact, the millions in the corporate and government bureaucracies are by and large economic and social parasites regardless of the character of the industry in which they are involved.

CHART 6-1.

SUPERVISORY & EXECUTIVE WORKERS AS PERCENT OF PRODUCTION WORKERS, PRIVATE NON-FARM



*The definition for manufacturing workers is broader than for other industrial groups, including also clerical workers. However it excludes central administrative employees, essentially bureaucratic, of manufacturing corporations.

SOURCE: U.S. Department of Labor, Employment & Earnings, U.S. 1901-1984; Employment & Earnings, May 1986.

Executives' Compensation

The control group constantly tries to raise its share of surplus value regardless of the stage of the business cycle. In 1982 there was much publicity about the hoist in top executives' compensation —an item included in "administrative expense"—despite the economic crisis and in the face of mass layoffs and cuts in real wages.

"Executives Pay Goes Up, Up and Away," headlined a *U.S. News and World Report* article. It noted that in 1981 there was a rise of 13.4% in the median pay of top officials, to $375,000 a year from $330,758 a year earlier. The article began: "Hard times aside, pay levels of corporate chiefs have again hit new heights, raising questions as to whether they are worth the money."[11]

"No sign of recession at the top," said *Business Week*.

> Even though 1981 was a rough year for most industries, executives at the 288 companies included in *Business Week*'s annual compensation survey fared well, managing to stay far ahead of the 8.9% increase in the cost of living. Total compensation of top officers . . . rose an average of 15.9% over 1980, compared with a 13.7% jump the year before.

In the mid-1980s, when the antilabor offensive brought wage increases to a virtual halt, and in many cases imposed wage cuts, the rapid hike in salaries and bonuses of the corporate brass continued. A 1986 report on the pay of company chiefs of 41,000 smaller and medium corporations found:

> Pay raises . . . are lower this year but still well ahead of inflation. Smaller-business chiefs are getting an average 8.3% salary and bonus raise in 1986, down from 10.1% last year and 12.5% in 1984. . . .
>
> Yet the real rate of increase, after allowing for a lower inflation rate, is almost unchanged. . . . In fact, chief executives of smaller businesses have enjoyed pay raises of almost three times the inflation rate for three years in a row.[12]

Each year *Business Week* features executives' pay, listing the 25 with the highest compensation. The 1986 tabulation of highest-paid executives in 1985 showed those who received in excess of $2.5 million each, including two whose take was in excess of $10 million each (table 6-2). These figures exclude the value of expense accounts, stock options, and profits derived from their inside knowledge of stock market and other operations.

TABLE 6-2.

Executive	Company	Total Compensation ($ *thousands*)
1. Victor Posner	DWG	$12,739
2. Lee A. Iacocca	Chrysler	11,426
3. T. Boone Pickens Jr.	Mesa Petroleum	8,431
4. Drew Lewis	Warner Amex	6,000
5. Robert L. Mitchell	Celanese	4,756
6. Sidney J. Sheinberg	MCA	4,484
7. Robert Anderson	Rockwell	3,636
8. Clifton C. Garvin Jr.	Exxon	3,561
9. David S. Lewis	General Dynamics	3,351
10. John H. Gutfreund	Phibro-Salomon	3,206
11. George B. Beitzel	IBM	3,017
12. Roy A. Anderson	Lockheed	2,976
13. Joseph B. Flavin	Singer	2,972
14. Peter A. Cohen	Shearson Lehman Brothers	2,911
15. Michael D. Rose	Holiday	2,909
16. Frank Price	MCA	2,894
17. Richard J. Schmeelk	Phibro-Salomon	2,839
18. Steven J. Ross	Warner Communications	2,800
19. Gerald Greenwald	Chrysler	2,780
20. David R. Banks	Beverly Enterprises	2,778
21. Richard M. Furland	Squibb	2,760
22. Henry Kaufman	Phibro-Salomon	2,760
23. Harold K. Sperlich	Chrysler	2,760
24. Spencer Scott	Citadel Holding	2,647
25. Peter T. Buchanan	First Boston	2,533

SOURCE: *BW,* May 5, 1986.

Some of the variations in executives' incomes cannot be explained by textbook economic theory. *Fortune* used the headline "The Madness of Executive Compensation" over an article by Carol J. Loomis, who wrote:

> In a totally rational world, top executives would get paid handsomely for first-class performance, and would lose out when they flopped. But to an extraordinary extent, those who flop still get paid handsomely . . .
>
> If directors behaved responsibly, they would handle the stockholders' money as if it were their own, avoiding compensation excesses. So many examples of near-unarguable excess exist that a lot of directors must be thought guilty of falling down on the job, perhaps in part because they are often themselves corporate executives and therefore beneficiaries of the system.

The author cites the opposite example, of the "successful" chief executive of Raytheon Corporation, whose company's profit went up 24.1% per year and its stock price up 147%, but who received compensation of "only" $635,000. But Rand V. Araskog, the chairman of ITT, supervised a profit increase of "only" 3.5% per year and a stock price *decline* of 12%, but received $1,150,000 in 1981—including the $173,000 carrying charge on his Manhattan apartment.

Loomis identifies the highest-paid chief executive of a multi-industry conglomerate, J. Peter Grace of W. R. Grace Corporation, whose supercompensation of $2,164,000 included a special bonus of $1 million "in recognition of his accomplishments during his 36-year tenure as the company's chief executive."*

But according to Loomis, those "accomplishments" didn't benefit the stockholders. As grandson of the company's founder and as a major stockholder, Grace is a clear-cut example of a chief official taking an outsize chunk of the total gross profit for himself.

Loomis also mentions General Motors, which tried in 1982 to raise executives' bonuses after reporting "losses" and putting over workers' pay cuts. But "... a storm of protest from union members prevented it from immediately applying the new rules."[13]

There is a certain, perhaps simulated, naiveté in this treatment by big business-oriented *Fortune.* Fundamentally, the executives are not there to service stockholders any more than to benefit workers. But there is a difference in the relationships. The conflict between executives and workers is basic; everything executives get is squeezed out of the workers, whereas the executives do share with the small stockholders the benefits from the workers' exploitation. At the same time, these companies reached their supersize in large part by mobilizing the capital of small investors, providing the small investors with a minimal share of the surplus value while using their capital to maximize the return to the corporate brass and controlling large stockowners.

During 1981 and 1982, auto, rubber and trucking workers, among others, were pressured into making major concessions in wages and fringe benefits on the grounds that their employers were facing bankruptcy and would otherwise be forced to close up shop.

Douglas Fraser, president of the United Automobile Workers (UAW), was particularly active in ramming through multibillion-dollar "give backs" to the Big Three auto companies, over widespread opposition from rank-and-file union members and local leaders. Auto

**Fortune* omits certain deferred compensation payments that are included in the *Business Week* compilation.

workers, understandably, were particularly sensitive to the continued greedy grabs of the corporate bosses. Lee A. Iacocca, the hotshot chairman of Chrysler (second highest-paid corporation executive on the *Business Week* list), received huge bonuses, while the company plunged deeply into red ink and had to be bailed out by the banks, with government assistance. But Chrysler workers were penalized—they had to take bigger wage cuts and they lost a higher percentage of jobs than did their fellow unionists at Ford and General Motors.

The job loss in the entire auto industry was serious. In the first year of the crisis, 1980, General Motors maintained its white-collar administrative staff virtually intact, while slashing production worker employment about 30%.

AFL-CIO president Lane Kirkland noted that when U.S. auto workers were getting four times the wages of Japanese workers, there were few imports of Japanese cars, but when U.S. workers were receiving only 30% more than Japanese workers, Japanese cars were swamping the U.S. market. Pinpointing what he considered to be the real cause of losses by the U.S. companies, he said the auto manufacturers "... conveniently overlook the disparity with Japan in executive costs, which is something like 10 to 1."[14]

Widespread recognition of the fact that exorbitant profits of control were being maintained contributed to the steelworkers' resistance and to their outright rejection of steel company demands for concessions such as the auto workers had accepted. Michael Bilcsik, president of Local 1256, USWA, at the Duquesne, Pennsylvania, plant of U.S. Steel, noted that only 1,000 of 3,000 production workers remained on the job. "Mr. Bilcsik said that when he asked the company recently whether it planned to lay off management employees, it said only 38 positions were being eliminated. 'Who do they think they are?' he said."[15]

Expense Accounts and Executives' Perquisites

A very large part of the profits of control goes to provide the luxurious living arrangements of the ruling clique and, on a lesser scale, their teams of professional aides and representatives. The same applies, if on a more restrained level, to top officials of the government and of government-owned companies, public authorities, etc.

The expense-account evil has become increasingly brazen as permissible boundaries of what corporate executives can get away with widen: sumptuous apartments, yachts, vacations at special resorts, overseas trips, company airplanes for personal use, fur coats for their wives, chauffeured limousines, prostitutes—there is really no limit for those at the top.

These "perks" are not only flagrantly ostentatious, a shock to decent moral standards—especially when millions are suffering privation—but they are on a scale major enough to affect the economic life of the country and to complicate economic analysis, because so much is unmeasured by any statistical agency.

In a *New York Times* interview,[16] Sidney Rutberg, a writer for financial publications whose book[17] detailed the scale and variety of this lifestyle, estimated that expense-account living, narrowly measured, came to $54 billion annually by 1981.

According to the *Times* interview, 25% of all meals bought in New York City were on expense accounts, but in the principal business districts the figure was 50%, and at the "top"—that is, highest price—restaurants, 70-90%. Reportedly 65% of the nation's hotel and motel accommodations, with room costs of $25.9 billion yearly, were paid for on expense accounts; and one-half of the airline passengers, who paid $30 billion a year in fares, were on paid-for "business" trips.

The article quoted author Philip M. Stern as saying: "The expense account creates a two-class society, those who can utilize expense accounts, generally the middle and upper classes, and those who cannot, the working class and the poor."

A *Wall Street Journal* feature story in 1977 said:

> Hugh M. Hefner is different from you and me. He makes $300,000 a year in salary and has dividend income this year of $797,000.
>
> Moreover, Mr. Hefner, the founder and chairman of Playboy Enterprises, Inc., lives in Lucullian splendor, largely at company expense, in either of two mansions. He has tired of the 74-room Chicago mansion (operating expenses $861,000 a year), so it is up for sale at $2.5 million. He prefers the 29-room mansion near Los Angeles (operating costs almost $1.9 million a year) with its elaborate pools, artificial grotto, exotic flora and fauna and other pretty things. . . .
>
> While Mr. Hefner's perquisites may be the envy of a lot of people, the differences between him and a lot of other top executives are mostly a matter of degree, for among major corporations (and many privately owned companies, for that matter), the company limousine, yacht, airplane and lodge are almost corporate cliches.[18]

The article also contained results of a national survey of 468 companies by a management firm, showing that:

> . . . 83% of the companies had a physical examination plan for top executives; 62% provided company cars, 62% paid for liability insurance for directors and officers, 79% for spouses traveling on company business, 53% for country club memberships, and 55% for luncheon club memberships.

According to accountants, the IRS has an informal scale, related to salary, of the amount allowed as tax-free expenses on expense accounts and related perquisites. Indicative of this scale is this result of the survey reported in the *Wall Street Journal* article: " . . . a top executive making $100,000 gets about $30,000 a year in noncash compensation, while the $30,000 executive gets about $10,000 in such benefits."

Occasionally tax reform groups or disgruntled stockholders complain about the huge amounts siphoned off in this way, and politicians seek votes by promising to do something about them. At one such period, in 1975, *New York Times* correspondent Marilyn Bender wrote:

> Such traditional and conspicuous prerogatives of high executive office . . . as chauffeur-driven limousines and country-club memberships may be somewhat imperiled. However, those with significant monetary value such as total medical coverage, million-dollar life insurance and various risk-free, capital accretion deals are regularly being negotiated to lure or keep managers at the top of the corporate totem pole.
>
> *Such benefits in lieu of extra outright compensation have the additional attraction of near-invisibility* (My emphasis—VP).[19]

Actually, however, there has been no significant legislative or administrative action to restrict executive perquisites and expense-account incomes. Indeed, the tendency is to increase their importance, both by adding new "perks," etc. and by broadening their applicability to wider segments of the corporate bureaucracy. According to Bender, this broadening makes it easier for corporation accountants to justify the necessity of the expense allowances.

Jimmy Carter, while President, railed against "three-martini lunches," and suggested that Congress tax 50% of the cost of some business meals, but this proposal was not adopted. A similar fate awaited a much-touted reform suggested by President Reagan that would have limited full deductibility of business-lunch expenses to $25 per meal. This and a few other "loophole closing reforms" were demagogically put forward to get passage of major tax reductions for corporations and rich individuals—which Reagan was proposing—with the understanding that the "reforms" would be left behind in making their way through executive agencies and Congressional committees.

A former tax accountant who became owner of an expensive restaurant—John L. Foy—complained in *The New York Times:*

> If, for example, a Silicon Valley software company schedules a marketing meeting in New York City, all the following expenses would be fully deductible: first class air fare from Los Angeles to New York ($1,500), helicopter service to and from each airport ($237.60), rental of a Rolls-Royce limousine ($60 per hour), a suite at the Waldorf-Astoria ($1,650 per day) and rental of a personal computer for each person at the meeting. Yet if that same company chose to take potential clients to a lunch or dinner where services and products could be explained, the current tax proposal would deny full deductibility for any expense over $25 per person.
>
> Thus, the Administration's tax proposal will take one segment of one industry and penalize it through the tax code. No other American business is treated in such a discriminatory manner.

But the letter writer was not really worried about the potential losses:

> It is not difficult to predict some of the ways in which people will attempt to elude the proposed law. Businesses may simply report more people at the table than were actually present. Hotels will bury food charges in meeting-room rentals. Corporations will use more private dining rooms on their premises, where all charges can be hidden in operating and administrative costs.[20]

Of course it is well-known that members of Congress have granted themselves exceptional expense privileges, and high-level U.S. government executive department officials enjoy similar extras.

Because corporate officials are able to salt away large sums at company expense, and because the provisions of the bankruptcy laws are brought into play, corporations *do* go broke—but their controlling stockholders and chief executives do not. They emerge with millions intact for their next ventures—in the case of large corporations—and lesser loot in the case of small concerns. Sidney Rutberg wrote:

> In my own experience, which has been rather closely tied to the garment industry, the company Cadillac or Mercedes is standard equipment. . . . You can't even go broke in the garment field unless you have a chauffeured limo to drive you down to the courthouse to file bankruptcy papers.[21]

A different example of a bankrupt company is the story of high-flying John Z. De Lorean, the automobile industry executive and promoter who gave up a top job at General Motors to start his own company to manufacture deluxe sports cars in Northern Ireland.

Borrowing heavily from British government and private sources, the De Lorean company lost money from the start and by 1982 faced bankruptcy. In a desperate attempt to "save the company," De Lorean, it was alleged, became banker for a cocaine transaction that involved tens of millions of dollars. He was arrested for his participation and the company did file for bankruptcy. But not De Lorean. While his company was losing millions, he accumulated a "20-room layout in one of the city's most prestigious buildings"; an estate near San Diego—asking price $5 million—"equipped with such opulent touches as a motorized cover on the 41-foot swimming pool, an eight-person hot tub screened by shrubs and flowers . . . "; and " . . . the New Jersey place," purchased only last year for $3.5 million, while the company was nearing bankruptcy. This "430 acre estate in Bedminster" included a "25-room Georgian mansion with its pillared veranda, and oval-domed library and a solarium . . . guest cottages, a cattle barn and stables." The FBI estimated De Lorean's net worth, aside from his worthless De Lorean Motor Company stock, at $28 million. And from the accounts, it appeared that the bulk of this is what he skimmed off the De Lorean Motor Company's capital funds before they were exhausted.[22]

Besides contributing to a general atmosphere of corruption and decay, expense-account living plays a major role in the economic life of the country. In 1985, some 3.5 million of the 8 million passenger cars produced in the United States were listed for business use. In comparison with 1977, production of cars for business use increased 38%, while production of cars for personal use declined slightly.[23]

Thus one of the main industries has become to a considerable degree dependent on expense-account living of the upper crust.

Tax Loopholes and Tax Shelters

The luxury and opulence of royal courts pale before the self-indulgent overconsumption of modern multimillionaires. And it is the workers and lower-level professionals—90% of the population—who pay for this sumptuous life-style through heavy taxes, rising prices and lowered real wages.

Rutberg's cynical assurance is apt—that capitalist government agencies will never rectify the situation or put a serious crimp in it: they are part of the same apparatus. The inequitable tax system operates in all capitalist countries, including those, like Sweden, that have nominal income tax laws designed to cap extravagance and to contain in some measure the gross class inequalities in income.

For those who can wangle it, expense-account living provides twofold benefits: additional "unearned" income and tax-free income. And the government loses taxes twice—from the corporate income tax and from the personal income tax.

There are many "tax loopholes." In official language, which is purposefully obscure, they are referred to as "tax expenditures." According to budget figures for fiscal year (FY) 1983, federal taxes not collected on account of loopholes were expected to be well in excess of $200 billion. Corresponding to this, and several times larger, was additional untaxed income excluded from national accounting, distorting the totals and, especially, the reported class distribution of income.

In this category, particularly important is the "tax shelter." Basically, a tax shelter is an enterprise in which a capitalist invests some of his profits and which provides him with a fictitious loss acceptable to the IRS. The capitalist thus gets a profit from *both* his regular, taxable business and from the "tax shelter," without having to pay any tax whatsoever: the accounting loss allowed on the tax-shelter enterprise balances the reported profit on the regular business. Some years ago Philip M. Stern wrote:

> The game of "tax shelter" has become a nationwide pastime that engages the brains and energy of gifted people. It has created an entire industry. Tax advisers to the wealthy say they are deluged with "shelter" literature and besieged by visits from "packagers" of "shelter" deals—who get an 8 percent commission for every deal they sell. . . .[24]

The financial records submitted to the Office of Government Ethics by top Reagan Administration officials, on their appointment, show that most of them were involved in tax shelters—with oil royalty deals most prominent, followed by real estate and farmland schemes.

William French Smith of Los Angeles's leading law firm was a key person in that city's group of multimillionaires who backed Reagan as their political representative. They lavishly financed Reagan, who appointed his friend Smith as attorney general, in charge of enforcing the laws of the United States.

In late 1980, shortly after Reagan nominated him for the post, "Smith obtained a $50,000 tax deduction when he invested $12,900 in a gas tax shelter called Blackhawk Energy Partners Ltd. . . . " And a year later, while in office, "Mr. Smith invested $16,500 in late 1981 in Yale-Quay Energy Partners, which is drilling for oil in Payne County, Okla, and another $16,500 by March 31 of this year."[25]

From this latter investment of $33,000, Smith will get a $99,000 tax deduction—partly to cover "contingent risks" beyond his investment.[26]

In addition to railing against three-martini lunches, President Carter—a demagogic politician—had also asked Congress to close some tax loopholes. But nothing was done. In 1981 Reagan, under the guise of "supply side" economic theory, was successful in getting Congress to widen existing loopholes and to open some new ones. Congress actually went beyond Reagan's recommendations, as members made deals with lobbyists for particular interest groups. So special "tax breaks" were added to the "Christmas tree" of giveaways to the privileged in exchange for campaign funds and other emoluments to compliant lawmakers.

Thus the legislation referred to as the biggest tax reduction in history saved corporations and the rich *hundreds of billions of dollars.* This action contributed substantially to worsening Federal Budget deficits, which created sufficient alarm in financial circles for Congress, in 1982, to draw back slightly from the 1981 giveaways. But revisions were designed to impact mainly on small investors rather than on financial bigwigs.

The social aspect of these measures has been serious—a further shift of the tax burden from capital to labor and a reduced share of surplus value going to the government. Corporate income taxes declined from 34.2% of total federal revenues in 1950 to 16.0% in 1970 and to 8.5% in 1984.[27] This decline has occurred despite the uptrend of corporate profits in total private income. And it has been accompanied by a similar decrease in the share of income taxes paid by the rich. During these three and a half decades, the basic rate of taxable corporate income declined minimally, but there was a radical drop in tax payments by corporations and the wealthy as a result of their greedy use of tax loopholes and their increased ingenuity in widening them. In fact, a major profession has emerged: accountants who specialize in advising the rich, and their corporations, on tax avoidance.

Directors' Fees

A lesser but significant way of distributing profits of control is through directors' fees. Those holders of large blocks of shares in a company who have not been involved in a hostile battle for control are considered eligible for a directorship. Major corporations and their leading banks often exchange directors. Influential outside law firms are often represented on a company's board, and former government officials with connections are welcomed. There is a continuous flow of officials between corporate and governmental executive suites.

"Outside directors"—those not holding full-time executive positions in a company—are paid a fee for attending occasional meetings, being available for advice, providing contacts, etc. "Outside Directors' Pay Said to be Climbing Fast," ran a *Wall Street Journal* headline over a story about a Conference Board survey of more than 1,000 large corporations. It showed that the median compensation to outside directors in manufacturing concerns rose 30% between 1979 and 1981, climbed 37% in financial companies and 33% in other nonmanufacturing firms. The median pay was $25,000 for manufacturing, $15,800 for financial, and $21,085 for other corporations. And in addition, companies were expanding fringe benefits, such as company-paid insurance. A capitalist may well have several corporate directorships, reaping $200,000 or $300,000 a year for going the rounds of board meetings. What a "pasture" for retired chief executives—compensation from these outside directors' fees, combined with their tax-sheltered pensions and the profits they make as a result of stock market information they get at these board meetings, may be greater, and gained more rapidly, than they received when they were working.

Golden Parachutes

"Golden parachutes" are payoffs to major stockholders and executives of corporations when control is transferred to a new group. Such considerations have always been a bargaining point in mergers and corporate takeovers. What is new is their scale, their openness, and their adoption as a formal part of the corporate financial structure. The analogy of providing for a safe landing from an abandoned airplane is obvious. The "golden" appellation indicates that far more than safety—bounteous enrichment—is involved.

Stephen E. Prokesch wrote that the varied forms of payment, in addition to huge cash outlays, are complex, not fully revealed, and difficult to quantify in an overall sense; he added, "But one thing is clear: Parachutes are giant-sized—and getting even more so."

> In 1983, when William M. Agee, the chairman of the Bendix Corporation, pocketed $4 million after selling his company to Allied, outsiders expressed shock at the size of the payment. Yet two years later, parachutes of many times that amount were common. For example, when Pantry Pride acquired Revlon, Inc. late in 1985, Michel C. Bergerac, Revlon's former chairman, departed some $35 million richer.[28]

Earlier, such parachutes went to only the top executives, those with maximum influence on the shifting of control. But, with time, the trend has been to broaden the list of parachutists, so that it has tended to become a perquisite of status in the upper echelons of the corporate bureaucracy. "Late last year, RCA's board installed golden parachutes for 62 executives before authorizing the negotiations that led to the announced plan to sell RCA to G.E. [General Electric ... VP] for $6.28 billion." Beneficial Corporation provided that all 500 of its employees would be guaranteed three year's salaries if displaced by a hostile takeover. By 1985, an estimated 33% of the 250 largest U.S. industrial corporations had formal golden-parachute plans. But with or without normal plans, " 'Golden parachutes have become part of the fabric of compensation programs at most large companies,' said Carol M. Bowie, editor of Executive Compensation Reports, a newsletter."[29]

Accountants—and Lawyers, Advertisers and Politicians

The professional servitors of capital also garner a goodly slice of the profits of control. The take of accountants, especially, has rocketed as the importance of tax avoidance has grown. A *New York Times* headline called 1981 "The Year of the Accountant," with the subhead: "Business was good last year, and with all the tax law changes, 1982 is shaping up to be even better, recession or not."[30]

In 1960, said the *Times,* there were 1,071 U.S. partners in the Big Eight (top accounting) firms. By 1981 the number had jumped to 7,006. Each of the firms raked in close to a billion dollars in fees, for a total of $6.756 billion. The total number of partners, including those stationed abroad, came to 14,477.

> Peat, Marwick, Mitchell & Company boasts that it is the biggest employer of American college graduates each year, hiring some 2,000 new graduates annually. . . .
>
> Accounting, like the law and undertaking, is a business that thrives in good times and bad, including the current recession. . . . But it is the Economic Recovery Tax Act of 1981 that is giving accountants an extraordinary surge in their business. This boost comes not only from corporations trying to sort out the impact of the tax act, but also from individuals willing to pay for tax accounting services that can run well into several thousand dollars. . . . "The more confusing the tax act is for clients, the more it opens up avenues of work for accountants," said an editor of an accounting newsletter quoted by the *Times*.[31]

There is no pretense at an attempt to conform exactly to the intention of the tax law. "What we are really doing is selling results. . . . We are selling clients tax savings at a discount," said Mr. Raby of the Accounting Institute.

The accounting firms have always had good relations with the tax collection agencies, but never better than under the Reagan Administration. "The nation's CPA's were heartened by the Reagan Administration's appointment of two of their number to major positions. Charles A. Bowsher, formerly of Arthur Andersen & Company, the No. 3 firm, was picked as Comptroller General of the United States and Roscoe L. Egger Jr., formerly of Price Waterhouse, was chosen Commissioner of Internal Revenue Service," the *New York Times* article confirmed.

Because of the extreme complications of the tax law, millions of moderate income people, who formerly would have made out their own tax returns, are now forced to pay fees to accountants and lawyers to do it for them.

Similar considerations apply to the role of corporate lawyers and advertising concerns. The share of politicians in the profits of control is discussed in chapter 10.

Tender Loving Care of the Corporate Bureaucracy

Corporate bosses have one attitude toward production workers: exploit them to the hilt and then discard them without ceremony or sentimentality when their profit yield declines. Or even when an opportunity arises to exploit other workers, elsewhere, more profitably.

Top management tries to keep impending layoffs secret from the workers. Thousands and tens of thousands can be thrown off the payroll without warning, with no, or trivial, severance pay. Concessions are made only where strong union contracts force advance notification of layoffs, substantial severance pay, supplemenatary unemployment insurance, etc. In the United States, only a small minority of production workers have won such concessions. In some West European nations, where unions are stronger and under left leadership, many workers have achieved significant protection from such cavalier treatment.

The U.S. plutocrats have an entirely different attitude toward their administrative and professional staff and their white collar adjuncts, however. These staff members, by and large, come from the same or similar social strata as the dominant shareholders; they are the "loyal employees" who are expected to support the company—in the plant and politically. Many are related to, personally known to, or recommended by friends of one or another of the control group. Moreover, the staff is part of the hierarchy of power within a corporation: each executive's prestige is reflected in the number of people who report to him or her. The costs for staff are not considered a direct production expense but are accounted for in an entirely different way—as one method of distributing part of the gross profits.

Thus, in recessions, staffs are kept intact as long as possible and are reduced only fractionally, belatedly, after the number of production workers has been decimated.

With few exceptions, clerical workers in the United States have not yet succeeded in establishing trade unions to stand up for their rights. As a result employers take advantage of their lack of effective organization, although they often maintain a degree of paternalism toward them that does not apply to blue-collar workers.

But in a deep and prolonged depression, there must be some balance between the interests of the stockholders and the corporation's financial liquidity on the one hand and the size and privileges of the corporate bureaucracy on the other, when layoffs of administrative, professional and other upper-echelon white-collar personnel become necessary. Still, every effort is made to help the laid-off employees obtain alternate employment, and generous severance arrangements postpone for months any cost savings by the company from the layoffs.

The Wall Street Journal, in 1982, published an op-ed piece on "The Agonizing Decision of Cutting Corporate Staff." The article began:

> *I'm sorry but we don't have a job for you here anymore.* It's the toughest thing a manager ever has to say to an employee, and these days, as companies everywhere reduce their staffs, it's being said often.[32]

The article went on to describe in detail the methods used by the Weyerhaeuser Corporation to lay off 800 of its salaried employees. That was after two years of far-reaching cuts in production-worker employment.

According to the *Wall Street Journal* piece, white-collar employees laid off at Weyerhaeuser were kept on the payroll for five months and then received a week of severance pay for each year of service. They also got free counseling from an outplacement center. No employees with 20 years or more seniority were let go. Even if a particular job could be eliminated, they were guaranteed a place somewhere in the company. Moreover, the professional and managerial staffs continued to get annual increases even when company bottom-line profits were down and production-worker employment had been slashed.

One motive for overmanning managerial, technical and other white collar staff is to provide a strikebreaking reserve. Strikes have often been broken this way, especially where an adequate level of output could be maintained with a skeleton staff by neglecting maintenance and concentrating on the most pressing orders.

For example, more than 1,800 members of the International Brotherhood of Boilermakers struck the Norfolk Shipbuilding and Drydock Corporation yard at Norfolk, Virginia, in August 1985 after working nine months without a contract. A company spokesman claimed that 400 supervisors were operating the yard.[33] If the strike had continued, these supervisors would have formed a nucleus around which strikebreakers could have been put to work.

Telephone companies and oil refineries are noted for resorting to this type of antilabor action. Because of the technical nature of their functions, they are especially amenable to temporary operation by managerial personnel.

Computerization and intensified competition—not only among U.S. giant corporations but also with their Japanese, West European and other rivals—were changing the scene by the mid-1980s. Even before the onset of a general crisis of overproduction, a number of major corporations were cutting back on middle-management staff. This was deemed necessary, among other measures, to maintain the reported net income after taxes, even at the expense of part of the profits of control. Also, mergers and corporate takeovers often led to the elimination of duplicate managerial networks, thereby raising net income. The likelihood has evolved that in another general depression, unemployment among white-collar, professional and administrative-managerial employees would be more serious than ever before.

Social Significance of Profits of Control*

The acquisition and distribution of profits of control are a central eature of the social corruption and decay of modern capitalism. They stimulate, support and are interconnected with the whole complex of unethical and decadent phenomena that have reached a new peak in the current life of the United States. Analysis of this phenomenon is the theme of chapter 7.

*Details of gross profits and profits of control for two major corporations are shown in the appendix for chapter 6.

7. Corruption and Decay

In a television interview program concerning a series of major financial crimes rocking Wall Street, chief prosecutor Rudolph Giuliani, said: "There's nothing illegal about becoming a millionaire in your thirties—in fact, it isn't such a bad idea. You have to do it legally."

That brings out one element of the moral decay of the system—glorification of greed. Rapid accumulation of wealth is quite acceptable, even praiseworthy, no matter how parasitic the method, no matter how much exploitation, cruelty and immorality are involved, so long as everything stays within certain legal limits unrelated to any social or moral criteria.

Robert Lamb, a professor who teaches "Business and Ethics" at NYU was asked (on the same program) what his students think of these financial crimes. "Up to 50% of the class have said either they know someone who's doing it or that they would do it themselves . . . 'everyone else is doing it, if I don't do it and other people are doing it I will be worse off.' "

Lamb expressed the opinion that "a lot of people have felt during the Reagan Administration that they are playing with the net down" —in effect, he said, anything goes, if one can get away with it, and one probably can. Since he started teaching in the late 1960s, what deteriorated was "not just ethics, but a sense of selfishness, just: 'I'm in it for me . . . I have to in effect look out for number one.' "

Formerly, he indicated, it was possible to convince students aspiring to be capitalists that they could combine ethics and exploitation, greed and good behavior. They could enter the business world with the illusion that their actions, while benefitting themselves, would be socially desirable. In real life, of course, they would soon be disabused of illusions, but would continue to pronounce them as truths to justify their own actions and those of their class.

But now the masks are off. Hundreds of thousands of youths seek instruction in how best to strive for maximum accumulation of wealth, by whatever means.

A portion of the interview:

> *Lesley Stahl:* Are you agonized by this? What is your feeling? You are in the middle of watching these young people come up, you teach ethics. . . .
>
> *Mr. Lamb:* A lot of us talked about this and worried about this. We have a case . . . where students take the part of members of the board of directors of the Upjohn Company, marketing a drug called Penalba that has killed people, over twenty-two people. And the students decide, almost universally, to keep the drug on the market and fight the FDA (Federal Drug Administration). We have been doing this case for a number of years; it's done in a number of other business schools. And the students not only decide to keep it on the market here, but after it's been banned here and illegal here, they decide to keep it on the market abroad and to sell off as much of it as they can elsewhere. So it's not simply Wall Street.
>
> *Ms. Stahl:* That's a shocking story.
>
> *Mr. Lamb:* It's shocking to us, too. This is not something that we wanted to find out . . . it's not something that is that easy to deal with when you have 80 or 90 percent of a class taking this attitude so that you realize you have a long way to go to try to get them to come to grips with ethical problems.[1]

The feral drive of capitalists for money, riding over every obstacle, killing their prey with no compunction, is not part of human nature. It is the nature of a system in extreme decay—a system whose rulers are unwilling to ban the most destructive "drug" of all time, the nuclear bomb.

Forms of Corruption

The corruption of modern capitalism takes many forms, legal and illegal.

- Outrageous salaries, bonuses and pensions, the luxurious expense-account living, stock options, etc., of the ruling owners and executives of U.S. industry and finance.
- Use of ever wider loopholes in tax laws and the outright

evasion of legally due taxes, putting more and more of the enormous tax burden on workers.

- Systematic bribery of government officials, at home and abroad, to obtain government contracts and favors, and to avoid compliance with safety regulations, sanitation norms, etc.
- Incredible overpricing of goods and services sold to governments, especially to the military and space sectors.
- Proliferation of all kinds of gambling, including the mass addictions—lotteries, numbers, sweepstakes, games of chance; racing, and the various forms of play available in the big-business casinos. Even more, there is the upsurge in financial gambling, in new forms as well as in traditional investment and short-term speculation.
- Corruption and outright criminality of high government officials, which reached an all-time peak in the United States during the 1980s.
- Employment of myriads of undocumented workers, under semislave conditions, who yield super-superprofits.
- Insidious explosion of narcotic drug distribution into a major industry, addicting tens of millions of victims.
- Spread of prostitution, including legalized prostitution in Nevada, and its general acceptance.
- Spread of pornography, crime and violence throughout the life of the population, especially in the large cities, fostered by the mass media: TV, the "gutter" press, movies, especially.
- Pervasive propaganda of the ruling sectors of the capitalist class to justify their preparations for a nuclear war, revealing a depth of moral decay never before known.

Corruption as an Economic Factor: Overall Scale

Capitalist economists have estimated the scale of the "underground economy" in their countries. Their statistics include the monetary sums of transactions for which there are no official reports, such as illegal dealings and legal activities kept secret to avoid taxes or to disinform competitors, labor unions and the general public. Carol Carson, editor of the U.S. Government's *Survey of Current Business,* has made an extensive compilation of such estimates. She listed types of underground economic activities, including:

- working "off the books" for cash, not reported to authorities;
- smuggling;

- illegal gambling;
- illegal trade in drugs, tobacco and alcohol;
- padding expense accounts and using office equipment for private purposes; and
- illegal prostitution.[2]

Tax evasion is a major motive for nonreporting income. Workers' income taxes are withheld from their paychecks, so their involvement in tax evasion is minor. The "underground economy" involves mainly capitalists, large and small; professionals, self-employed tradesmen and farmers; and criminals.

Carson presents the range of estimates available for each country. Table 7-1 shows the maximum estimate for each country.

TABLE 7-1. UNDERGROUND ECONOMY OF DEVELOPED CAPITALIST COUNTRIES PERCENT OF GROSS NATIONAL PRODUCT

Country	Percent	Country	Percent
United States	33	Australia	13
Italy	33	West Germany	12
Canada	22	France	10
Sweden	17	Netherlands	10
Norway	16	Austria	8
Japan	15	Spain	7
United Kingdom	15	Switzerland	4

SOURCE: *SCB*, May 1984, Chart 3 and Table 3, p. 33

For the United States, the middle range of estimates was 15–20% of gnp in 1979–80. Estimates consistent with these have appeared in such broadly circulated publications as *Business Week* and *U.S. News and World Report.*

Analyses made by the IRS and by academic researchers concur in finding that the relative size of the U.S. underground economy has been growing. A conservative calculation is that by the middle 1980s hidden incomes amounted to 20% of gnp. By 1985 the figure was some $800 billion, and it is rapidly approaching a *trillion* dollars a year.

At the start of 1987 the Italian government raised its official estimate of its gnp by 15% to take account, at least in part, of its underground economy. Note that in table 7-1 Italy shares first place with the United States in the scale of corruption.

Business Week characterized the underground economy as "Masking Growth, Distorting Policy, Undermining Government."[3]

Retired shipping magnate and right-wing activist J. Peter Grace pointed out that the underground economy, because of its scale and indeterminate size, contributes to inaccurate economic forecasts. Characteristically, Grace proposed a "solution" designed to further raise profits. It might appear that tax rates should be raised to make up for evasions. But no, said Grace, the opposite is true: if rates were reduced, incentives to cheat would be weakened.[4]

The Grace "logic" is far from unique. If all taxes on capitalists and corporations were eliminated, the amount of tax evasion would indeed be reduced. But there would be a mountainous upthrust of the tax burden on workers.

During the Reagan Administration, tax rates on corporations and the rich were radically slashed, cut more than in half for the wealthy. But instead of declining, tax cheating reached new heights. Moreover, through use of "deferred taxes" and other perfectly "legal" devices, corporate giants with huge profits avoid all taxes, and even receive rebates from the government.

Tax Evasion

A 1986 study of the annual reports of 250 leading corporations, which account for more than half the total corporate profits reported between 1982 and 1985, revealed that more than half of these companies not only avoided payment of any federal taxes in at least one of the four years but also shared $6.1 billion in tax rebates. Table 7-2 shows the biggest "corporate freeloaders," and the rebates they received between 1982 and 1985:

The class essence of the underground economy must be stressed. It is a means of adding to the exploitation and plundering of all workers by the largest capitalists and property owners. Table 7-3, showing government estimates of the different kinds of income that are not reported, confirms this point.

This does not take into account the untallied largesse capitalists receive, an amount that appears only as an expense deduction in corporation records—although a small measure is reflected as income of hotels, restaurants and various other providers of expense account goods and services. Nor does table 7-3 take into account the mammoth scale of illegal income, amounting to hundreds of billions of dollars annually.

The loss of revenues and the flagrant corruption that are inherent in the underground economy have certainly undermined the

TABLE 7-2. FEDERAL TAX REBATES TO TOP CORPORATIONS BETWEEN 1982 AND 1985

Company	Profit	Rebate	Tax Rate
	(in millions of dollars)		
AT&T	$24,898.0	$635.5	– 2.6%
DuPont	3,785.0	179.0	– 4.7%
Boeing	2,271.0	121.0	– 5.3%
General Dynamics	1,994.5	90.9	– 4.6%
Pepsico	1,921.1	89.3	– 4.6%
General Mills	1,215.7	78.7	– 6.5%
Transamerica Corp.	525.0	73.2	–13.9%
Texaco	1,587.0	68.0	– 4.3%
International Paper	581.0	59.8	–10.3%
Greyhound	338.9	53.7	–15.9%
IC Industries	561.2	53.7	– 9.6%
TOTALS	$39,678.4	$1,502.8	– 3.8%

SOURCE: "Citizens for Tax Justice" in *AFL-CIO News*, 7/19/86

public-service aspects of government activity. They have spurred deterioration of transport facilities and fostered unconscionable delays in completion of crucial public construction projects. But the underground economy has not "undermined" the dominant policies of capitalist state power: suppression of labor at home and the suppression of resistance to imperialist domination and plunder abroad. In fact, part of the capitalist corruption is the expenditure of vast sums to ensure that elected officials and their appointees toe the line, especially regarding domestic repressive policy and foreign wars.

TABLE 7-3. PERCENT OF INCOME NOT REPORTED VOLUNTARILY TO IRS, 1981

Category	% not reported	Category	% not reported
Wages and salaries	6.1%	Rents	62.8%
Dividends	16.3	Royalties	38.8
Interest	15.7	Pensions and annuities	13.1
Estate and trust income	25.8	Capital gains	40.6
Self-employment income	58.5	Miscellaneous	38.0

SOURCE: *SCB*, May 1984, Table 5, p. 34

Governmental underground activity also distorts the Federal Budget. A substantial part—amounting to $5–10 billion, according to various accounts—is never published. This includes financing the CIA, the National Security Agency, and other underground agencies of the U.S. Government. Of course, intelligence gathering is an accepted governmental activity. However, it has reached a monstrous scale in the United States and the "pure" intelligence-gathering segment is a diminishing aspect of it. Increasingly, "covert actions"—international terrorism, assassination of "unfriendly" political leaders, diversions, organization of counterrevolutionary coups, keeping tabs on "radical" groups and individuals, etc.—are the focus of these agencies.

In short, multibillions are spent for our government's criminal activities on a global scale. Yet this is but one aspect of the government corruption that permeates all levels and aspects of public life.

Government Corruption

Government corruption is built into the system of bourgeois democracy. The U.S. Constitution was written by a committee of plantation slave owners and merchant bankers, arranging for the division of power among themselves and for protection and enhancement of their property. From the beginning, the power to grant government contracts and to appoint officials fostered the exchange of mutual favors among ruling-class representatives in and out of government.

President Andrew Jackson (1829-38) introduced the "spoils system" for dividing the loot of office among appointed officials, and this practice continued thereafter. Scandals became more flagrant, involving larger stakes, during the epoch of imperialism. The scale and seriousness of corruption surpassed previous peaks in the latter part of the 20th century, with the overall weakening of capitalism, its permanent militarization, its strident anti-Communism.

Corruption at the highest level has become the norm. What would have been the first successful impeachment of a President for criminal actions was avoided by Richard Nixon only by his resignation in 1974, as the Senate was about to act. Nixon's domestic crisis became known as the Watergate scandal.

After Watergate, laws were passed, supposedly to reduce corruption. But in vain. A Democratic Party chairman in Lyndon Johnson's time recalled practices then, and the continuation in essence—or even expansion—of corrupt practices. It was disclosed in a *Wall Street Journal* account:

> LOOPHOLES ALLOW FLOOD OF CAMPAIGN GIVING BY BUSINESSES, FAT CATS: A DECADE AFTER WATERGATE, CURBS ALMOST DISAPPEAR.
>
> John White, former chairman of the Democratic Party, still remembers the wads of cash that used to swell the politicians' money belts in the

> bad old days before Watergate. During Lyndon Johnson's 1960 vice-presidential campaign, he reveals, "I thought Bobby Baker (LBJ's aide) was a big fat man with a potbelly until I saw him take off his coat. . . ."
>
> Today, the bulging money belts are gone from federal politics, but beyond that Mr. White doesn't see much difference. "There is more money, there may even be more abuses of money, than there were before," he said.[5]

Federal convictions of officials for public corruption went up from 142 in 1972 to 972 in 1983.[6] The increase, especially that part of it taking place during the Reagan Administration, cannot be attributed to an increase in vigilance on the part of the Justice Department.

Indeed the abuses are greater, the money flow richer. And a crucial factor is the militarization of the economy. Records show that the armament manufacturers give liberally to the candidates of both parties. The stakes of these companies in government business far exceeds that of any other group. Thus a large proportion of members of Congress—and even Presidents—have struck a bargain, perhaps unwritten and even unspoken, to look after the contracts of their military constituents and the military bases located in their districts.

No holds are barred to preserve the dominance of the capitalist class in power. The district system of representation discourages people from voting for minority parties; since their votes will not gain representation, they consider it futile to go to the polls. As a result, labor- farmer- and antimonoply-backed parties have never made major national headway on the U.S. political scene, even when they have had the support of millions of people. Thus, in excluding proportional representation in legislatures, U.S. electoral laws are much less democratic than those of most European states.

During the 1940s, under the pressure of progressive New Deal currents, a proportional representation system was adopted for the New York City Council. As a result, two Communists, Benjamin J. Davis, Jr. and Peter Cacchione, were elected. To prevent a recurrence, the proportional representation system was abandoned. Since World War II, election participation requirements have been tightened frequently, so that it is increasingly difficult—and in many states virtually impossible—for parties other than the two main capitalist parties even to get on the ballot.

Even more basic is the use by the Establishment of their wealth and their ownership of press, radio and television to monopolize the information voters get about candidates and their programs. By the

1980s, a serious campaign for membership in the House of Representatives cost hundreds of thousands of dollars; for the Senate, millions of dollars; and for the presidency, hundreds of millions.

In just six years, from 1978 to 1984, Congressional campaign funds of the Democrats and Republicans doubled; while presidential campaign outlays were at least 16 times the 1948 total.[7]

Senator Daniel Patrick Moynihan (D,NY), himself very much part of the Establishment, wrote:

> The primary system makes money the primary arbiter of political outcomes. There will continue to be much talk of limiting the influence of money in politics, and this will come mostly from people who have lots of it. (By my calculation, more than half the Senate is now made up of millionaires.) I doubt that much will happen, not least because we are beginning to sense the class advantage that campaign laws confer on the already rich.
>
> Nor is the interest in honest government served by allowing the Democratic Party in the city to lapse into desuetude save as an instrument of low-grade larceny that true buccaneers won't be bothered with and true citizens won't touch.[8]

The Reagan Administration: From its start, the Reagan Administration of the 1980s was a veritable cesspool of corruption. Reagan first achieved prominence during the McCarthy witchhunt as a stool pigeon against his fellow unionists in the Screen Actors Guild, and he accumulated his wealth as a cowboy actor. He first entered politics in California as the representative of the right wing of big business, with sleazy personalities as his close intimates and advisers. As President, Reagan and his administration brought with them an atmosphere of "anything goes" in capitalist-government relations, especially when the profitable transactions were connected with the enrichment of the military-industrial complex.

The tone of his administration was set by its sponsorship of the Tax Revision Act of 1981, which reduced taxes paid by millionaires and corporations by hundreds of billions yearly. Most administration officials, including Reagan himself, were direct beneficiaries of this legislation.

In 1982, when the Treasury Department wanted to reduce the avoidance of taxes permitted drug companies from their operations in Puerto Rico, Vice President Bush personally intervened to prevent that particular loophole being closed. It was revealed that Bush's largest personal stock holding was in Eli Lilly Drug Company.[9]

James G. Watt was forced to resign as Secretary of the Interior after giving away 32 million acres of government land to coal and lumber interests and trying to lease a billion offshore acres to oil companies.[10] CIA director William J. Casey used insider information in his daily stock and bond transactions, including the purchase of stock in companies with CIA contracts.[11] Using his government connections, one of Reagan's closest associates, Michael Deaver, amassed millions in fees from private clients. The General Accounting Office sent findings of his criminal actions to the Justice Department, run by Reagan's second closest crony, Ed Meese III. Meese, as expected, refused to prosecute. Meese himself was most notorious for his wholesale violation of civil rights laws and brazen use of his powerful office to promote racist discrimination all along the line.[12]

Cartoonist G. B. Trudeau ran—in "Doonesbury"—an update of "Reagan Appointees Charged with Legal or Ethical Misconduct . . . the definitive list of back-scratchers, till dippers, and conscience cutters, the unabridged 1986 'sleaze on parade.' "[13] The list totaled 44. Many were fired or forced to resign, but many retained high posts in the administration. And Trudeau left out quite a few, at that.

The scandal that upset the political applecart of Reagan and his gang combined corruption—manipulation of billions of dollars in secret armament deals—with criminal disregard for U.S. laws concerning foreign military and political adventurism: the "Irangate" affair. A White House cabal planned to profit from the Iran-Iraq conflict while, at the same time, supporting the Somoza "Contras" in their counterrevolution against the Nicaraguan people and government. U.S. intervention in that war was rejected by the U.S. Congress and opposed by a large majority of the American people. The network of lies with which the Reagan junta attempted to conceal these deals was exposed; the resulting brouhaha caused a major shakeup in the presidential team and a plunge in Reagan's credibility.

The capitalist class and its representatives in government are winners at the expense of working people, who are the taxpayers; trade unionists and peace lovers; and the victims of racial discrimination, unemployment, poverty, hunger and homelessness.

As a result of so-called reform legislation, most campaign gifts to candidates for federal office have come not from individual capitalists but through political action committees (PACs), through which the capitalists contribute not only their own funds but also those of their corporate bureaucracies.

Virtually every industry and professional group has its funded lobby to win votes for legislation and to secure administrative decisions designed to eliminate restrictions on monopolistic activities, on practices that endanger health and safety; they lobby for protection from foreign competition, for tax reductions, direct subsidies, government assistance for foreign expansion, for holding down or reducing workers' wages and benefits, for suppression of strikes, and other "services."

Except where there are effective, strong, mass-supported labor and antimonopoly political groups, most congressional candidates concentrate on the interests of their capitalist financiers—who provide access to the media as well as funds—more than they do to the welfare of the majority of their constituents.

In addition to payoffs for securing legislation and government edicts for their sponsors, officials are in a position to obtain valuable information for capitalists who seek profitable investment opportunities, areas of expansion, proposed government actions, knowledge of factors that will affect future trends in economic developments, etc. Thus capitalists are willing to pay large fees for meetings with well-placed government officials, members of Congress, etc. Fees of $2,000 per meeting to members of Congress are normal; what they are paid secretly in addition is of course not known. Professional arrangers charge from $5,000 to $10,000 per meeting, and a large Baltimore bank admitted to paying $20-$25,000 a year for two such sessions with government officials. Paul H. Fay, a major arranger, is estimated to make hundreds of thousands of dollars yearly.[14]

Another practice is to pay members of Congress considerable honoraria for giving lectures to business groups.

The Pentagon: Most Dangerous Pit of Corruption

In the first two years of the Reagan Administration, "honoraria" to Congressmen doubled, especially from armament manufacturers, from $2.2 million in 1980 to $4.5 million in 1982. Since the military budget went up by $51 billion in just those two years, it would appear that for every dollar spent in honoraria to Congressmen, the military contractors got back an additional $11,333 of business. Of course, the formal honoraria paid Congressmen were a fraction of the payments, bribes and entertainment lavished on officials and legislators. But with all allowances, one must recognize that the arms merchants have received tremendous payoffs—a thousand to one—on their "political investments."

New York Times commentator Kenneth Schlossberg reported:

> An old friend, a Congressman, recently lamented the way his colleagues were choosing their committee assignments: "All anybody wants is the defense subcommittee. You know why. The money, the contracts. You know what I've seen in the last four years? The receptions by the big defense contractors have gone up by 400 percent. And lavish! What spreads! Oyster bars!"[15]

Schlossberg himself is president of a public relations concern and a lobbyist.

But some congressmen were bought quite cheaply. Consider Representative Joseph Addabbo (D,NY). As chair of a defense subcommittee, he launched a campaign against Avco engines for military aircraft. He pointed out cost overruns and poor quality, and put pressure on the Pentagon to accept alternative lower cost bids from other suppliers. Presumably he could have gone back to the voters and boasted about how he saved money and got better defense.

But then Avco gave him its maximum campaign contribution—$5,000. Immediately Addabbo changed his opinion and used his position as chair of the subcommittee to get across a special provision negating consideration of competing bids. Avco got the $400 million contract by paying Congressional bribes totaling less than $100,000.[16]

One must also take into consideration the "take" of the generals, admirals, and other high-ranking officers of the armed forces. In addition to high salaries and rich living arrangements while in the armed forces, they have early retirement privileges with generous pensions. Upon retirement many have used their military knowledge and contacts to obtain lucrative employment in the bureaucracy of the military-contracting corporations.

Then there was the case of the Lehmans, John and Joseph, and Richard N. Perle. The latter had spent many years as a Senate aide specializing in aggressive military policy, especially in promoting billions of military aid to Israel. In 1980 Perle left the Capitol and joined the Lehmans' company, the Abingdon Corporation, which became a paid lobbyist for Israeli armaments firms and, later, for U.S. arms companies. When Reagan took office, he promptly appointed these hawks to high positions: John Lehman as Secretary of Defense; Joseph Lehman as deputy director of the Arms Control and Disarmament Agency; and Perle as Assistant Secretary of Defense. In office, they continued to receive fees from their clients, turning over the Abingdon company, technically, to Lehman's wife, Barbara, and a British Lord Chalfont.

Lehman was the notorious promoter of the 600-vessel navy; and

> Mr. Perle's influence in the Reagan Administration far exceeds that normally held by an Assistant Secretary of Defense. In the transition, he was able to place associates in important national security positions and, in the Defense Department, he has played a major role in influencing policies on arms control and trade with the Soviet Union.[17]

In short, stimulated not only by their ultraright ideology, but especially by financial rewards from the beneficiaries thereof, these men were extremely important in solidifying the anti-Soviet, anti-disarmament, and pro-Zionist policies of the 1980s.

Periodically, armament contractors are barred from getting new government contracts for varying periods as a penalty for overcharging or other contractual violations. Pentagon officials claim they have imposed hundreds of debarments to crack down on the flagrant fraud and waste. According to a detailed *Wall Street Journal* analysis, the debarments have had little significance: "penalized" companies continued to get new business until the ban, which takes months to be implemented, is circulated among the purchasing officials. And thereafter the company resumes under a different company name or by having the Pentagon officials ignore the debarment orders.[18]

Much of the armament production has been subcontracted. It's customary for the subcontracting company to have paid a "kickback" to the prime contractor executive who handed out the subcontract. Of course, this has ultimately been added onto the final cost paid by the government, magnified by the exorbitant markups the prime contractor has added to the prices of the subcontracted items. Officials of most major military contractors have been convicted of accepting kickbacks, but that has barely scratched the surface. Subcontractors who have refused to pay kickbacks got no business. Senator Carl Levin (D, Mich.) asserted: "There's massive corruption out there." He noted that even if a small percentage of military contracting was involved, " . . . you're talking about hundreds of millions of dollars in kickbacks."[19]

The doors for profiteering, always ajar, were opened wide in the 1980s. An Inspector General's report analyzed price changes in 15,000 spare parts for military aircraft engines between 1980 and 1982. The cost of more than 9,700 items increased more than 50%; of more than 4,000 items, six times or more; and the price of some went up more than 1000%. Slight rises in costs, or no increases, were very rare.

The report gave typical examples: payment of $17.59 for a standard three-inch steel bolt that had a list price of 67¢; and $57.52 for a small bushing originally priced at $2.83.[20]

In January 1986 the space shuttle *Challenger* exploded, killing the eight crew members. Later revelations exposed critical weaknesses in crucial parts and the failure of officials to correct them or to hold up the launch because of defective materials. This is relevant because the National Aeronautics and Space Agency is close to the Pentagon structurally and functionally, as more and more of NASA's programs are for the military.

The New York Times, after publishing detailed exposés, editorialized:

> The loss of NASA's Challenger shuttle was no accident, striking a well-run agency like a bolt from the blue. It sprang directly from 15 years of hidden mismanagement, waste and fraud. . . .
>
> . . . The agency's Congressional overseers who should have detected the rot preferred to curry favor. . . . And now Congress is about to compound the error by reinstating as head of NASA James Fletcher, a man who for seven years presided over its slide into decay. . . .
>
> Federal audits of NASA [revealed that the agency] purchased enormous amounts of equipment, but neglected to keep track of inventory or prevent widespread pilferage. Agency officials developed cozy relations with contractors, stifling competition and paying Pentagon prices for equipment. NASA was gouged $130 for $3 bolts, $159,000 for a $5,000 fan. The auditors have documented at least $3.5 billion of waste.

The auditors found that NASA, its budget limited, made up for some of the waste and fraud by cutting down on testing, eliminating at least $500 million. This led to "malfunctions, delays and cost overruns" and failure to assure quality, which contributed to the tragic accident and to the sequence of failed launchings that followed shortly thereafter.

But corresponding failures on the part of the Pentagon could have infinitely more catastrophic consequences—such as the unintentional explosion of a nuclear weapon.

Business Corruption

Bribes, payoffs, monopoly price-fixing, kickbacks on government and private contracts, and collaboration with criminals are all "normal" business operating procedures in the United States. There is nothing new in this except for the magnified scope of corruption, its increased media exposure, and its incitement of crime and militarism, with the attendant sinister impact on the population.

The American people have become aware of this but have not found an effective way to deal with it. According to Harris Survey public opinion polls, 55% in 1966 still had "a great deal of confidence" in those who ran major companies. In 1976, ten years later, this percentage had fallen to 16%.

A 1981 Gallup poll revealed that only 19% of the public considered business executives to have high or very high standards of honesty and ethics; another 19% felt that they have low or very low standards. More than twice as many considered building contractors, realtors, insurance and auto salespersons, and advertisers to have low or very low standards, as compared with those who credited such groups with high standards. This also applied to congressmen and to local and state officials.

Between 1976 and 1981, 14 of the 25 largest U.S. corporations were penalized or convicted, or pleaded no-contest to criminal charges.

Professor Amitai Etzioni wrote:

> Do recent reports of check-kiting (E.F. Hutton), overcharging on defense contracts (General Dynamics), failing to inform authorities of deaths to patients who took Oraflex (Eli Lilly) and employee deaths from cyanide poisoning (Film Recovery Systems) involve only a few rotten apples, or is the corporate core rotten?

His answer, in effect, is that it is indeed rotten. He found in 1985

> . . . that roughly two-thirds of our 500 largest corporations have been involved to some extent in illegal behavior over the last 10 years. 62% of the corporations were involved in one or more illegal incidents, 42% in two or more, and 15% in five or more. The episodes included, among others, price-fixing and overcharging, domestic and foreign bribes, fraud and deception and patent infringements. One might have expected the largest corporations, those that regard themselves as pillars of American society, to display greater caution. But the survey showed that the top 100 corporations were involved in more incidents (55 percent) than all the others combined.

> One reason for this sad state of affairs is that the companies have so little to fear. If and when they are caught, penalties are often puny compared to their total income: a $25,000 fine, for example, for a corporation whose annual revenue runs into billions. . . . The current political climate also encourages shady practices.[22]

Moreover, for even the most grievous crimes, with costs in human lives as well as money, few top corporate executives or controlling stockholders ever go to prison. Sometimes minor officials are sentenced, as proxies or stand-ins for the bosses who actually gave the orders. Even when they do serve time, those guilty of so-called white-collar crimes are generally sent to minimum security prisons where conditions are luxurious compared with those in penitentiaries, and inmates have comforts—including television, comfortable beds and private bathrooms, telephones, special food—and privileges, including the ability to communicate with their stockbrokers on investment business.[23]

Corruption in retail trade has become endemic. $525,000 of kickbacks from suppliers was found in the safe deposit box of a buyer of shoes for an Oklahoma retail chain. Journalist Hank Gilman commented:

> Until recently, many retailers thought such chicanery was a thing of the past, from a time when vendors curried favor by dazzling buyers with cash and lavish gifts. But industry officials say bribery is back with a vengeance, triggered by overseas buying trips, more competition among vendors and just plain greed.

Gilman continued:

> "It's pervasive, it's all over the place," says Herbert Robinson, a New York lawyer specializing in white-collar crime. "It's in the largest chains and in the smallest chains. Even the most pious ones."[24]

The ultimate losers are the retailers, whose profit can suffer, and the customers who often must pay higher prices. According to the story, bribes are highest on imported goods, up to 15% of the price, as compared with "the usual" 1-3% on U.S. goods.

Then there is the construction industry, involving as it does numerous official permits and regulations, many contracts and subcontracts. It is especially susceptible to corruption, and New York City provides a prime example.

Sidney H. Schanberg wrote:

> We nurture a belief in this country that government and powerful private institutions can right almost any wrong. But in the corrupt

> construction industry in New York—especially Manhattan, where billions of dollars are at stake—it is a fantasy, an illusion. The crooks are in charge and no one is willing to take them on.[25]

This has been true for a long time, the columnist added, and is periodically exposed by one or another investigative agency—but with no effective measures taken to change matters. Further, said Schanberg, "Construction corruption is billed to us."

Yes, he is right. It is all paid for by the working people of the city—in sky-high rents, deteriorated housing, homelessness, exclusion of minorities from decent construction jobs, probably the world's dirtiest and most run-down subway system, and in higher taxes to pay for public construction projects.

Wall Street Journal reporters found that because of corruption, construction costs run 25–35% higher than in any other U.S. city, with more than half the extra cost "created by organized crime and less-organized sabotage and inefficiency." The article detailed payments of "consultant fees" to crime family leaders and of inflated salaries—up to several hundred thousand dollars a year each—to the foremen they appoint. In conclusion: "The city's $2 billion-a-year construction industry is riddled with extortion, vandalism, bribery, bid-rigging, and inefficiency."

Historically, the gangsters were brought in by the employers to drive out the Communists and other progresive trade unionists during the McCarthyite witch-hunt. Now large-scale tribute to the gangsters is expedient; it is the payoff for permission to hire low-paid nonunion workers. It is ultimately covered as a business expense by the corporations, which pay sky-high rents for office space or hundreds of thousands of dollars to purchase an apartment for a visiting corporate manager.

This massive corruption required the collaboration of the New York City administration, including that of its five boroughs. The mayor of New York City during the 1980s, Edward Koch, was particularly notorious as a creature of the construction interests and of the criminal gangs connected with them. Borough presidents, political bosses, high officials—Koch's closest personal friends—almost all were found guilty of crimes, leading to a wave of arrests, convictions, suicides and resignations. For example, one of the far-reaching scandals involved contracts for parking meters, seemingly a minor matter. But the number of meters is inadequate and their use is restricted. To park a car legally in a Manhattan garage can cost $12 or more. If the car is parked on the street, it may be towed away and cost $75 to $100 to retrieve, or the motorist may be fined additionally for any infraction of a complex and often contradictory set of rules.

Financial Corruption

Wall Street has become, more than ever, an enormous gambling casino where the big banks and investment houses act as croupiers, raking in profits no matter which way the quotations turn.

The scale of strictly financial operations—banking, trading in securities, mortgages, international currency exchanges—exceeds many times the volume of purchases and sales of actual commodities. Furthermore, there is a sharp rise in the scale of still more abstract activities—dealings in "options," "futures," or "index numbers" of 500 stocks rather than the shares themselves.

Such activities are socially corrupt but are still governed by certain laws. However, as with other gambling operations, there are openings for illegal actions and for corruption in the legal sense on a scale compatible with the hundreds of billions of dollars of *daily transactions* in the financial marts of New York, London, Tokyo and Frankfurt.

Major conduits of corrupt activities are the offshore bank branches. At the end of 1985, U.S. banks held $142 billion of assets in "shell branches" in economically insignificant Caribbean Islands, mainly the Bahamas and the Cayman Islands.[27]

The World Almanac lists the main "industries" of the Bahamas—an independent member of the British Commonwealth—as tourism (70%), rum and drugs. Both the Bahamas and the British colony of Cayman Islands permit unbridled financial activities, with no rules, no taxes, no controls.[28]

Thus the banks of the United States, Britain and other countries have nominal branches there—often only holes in the wall or a post office box—where vast transactions are recorded and secret balances kept. Any capitalist who wants to avoid tax payments and to carry out illegal activities may use these shell institutions. (Others are in Panama, where the practice is less developed.)

The mention of drugs as an industry is not incidental. For these banks are the "safe havens" for the wealth of drug dealers and other criminals who flourish in the United States and other capitalist countries. Since most receipts of these "businesses" are in cash, they need banks that will handle the cash and place a credit from it in a secure and secret place, from which the funds can be withdrawn "legally" for any purpose.

One promoter, Robert Buchsbaum, sent out circulars to capitalists offering to set up a Caribbean shell bank for $19,500. He pays $1,000 a year in lieu of taxes to the island government, and $1,200 a year to a resident "manager." Mr. Buchsbaum reminds the prospective customer that U.S. law exempts banks from paying U.S. taxes on foreign profits. In these safe havens, there are neither taxes nor usury laws and, of course, there is complete secrecy. "One could make millions. There is so much money out there it is difficult to comprehend."[29]

A series of scandals broke in 1985 concerning a number of the largest banks in the United States over the "laundering"* of dubiously acquired cash for deposit in safe havens. The first case involved the Bank of Boston, long "a proud symbol of Yankee wealth." Apparently it favored depositing in Swiss banks rather than in Caribbean shells. Two years earlier, the Securities and Exchange Commission (SEC) had notified the Bank of Boston that it was violating the law, but the bank went blithely ahead. Finally the scale of the operation became so enormous that the government enforcement agency had to move. The Bank of Boston pleaded guilty to transferring $1.2 billion in cash over a period of several years without having reported it. Typically, although this was an admitted crime, no officer of the bank was imprisoned or otherwise punished. The bank was fined $500,000, a tiny fraction of the fees it received—doubtless running into the tens of millions—for handling the cash.

Moreover, the main change in operations resulting from the conviction was that beginning in October 1984 the Bank of Boston started reporting its large cash transactions.

What made the Bank of Boston case especially notable was that among its valued cash customers was the Angiulo crime family. The bank not only handled millions of its cash but put it on a special "exempt" list, so that reporting was not required. The Angiulos were put on trial for racketeering, including "murder, obstruction of justice, gambling and loan sharking."[30]

Soon thereafter, four major New York City banks—Chase Manhattan, Manufacturers Hanover, Irving Trust and Chemical—were similarly fined trivial amounts for thousands of overseas cash transactions running into billions of dollars, and the Treasury Department

*"Laundering" is any device for translating illegally obtained funds, usually in the form of cash, into "legitimate" bank accounts, the source of which cannot be traced.

announced that it was investigating possible similar infringements on the part of 140 more banks.[31]

The largest volume of transactions—7,877 totalling $3.9 billion—and the largest fine—$2.25 million—were attributed to the Crocker National Bank of San Francisco. This bank was heavily involved in laundering drug money coming into the United States as well as going out. The largest amount—$3.43 billion—came from six banks in Hong Kong, which is one of the world's largest money laundering centers, based on the Southeast Asian heroin trade. Other "dirty money" or narcotics money was, apparently, involved in the transactions through Crocker Bank branches in Mexican border towns.[32]

In a five-month period, E. F. Hutton, one of the large Wall Street brokerage houses, took $13 million in small bills delivered in suitcases or gym bags from a new client, Franco Della Torre, a principal in a $1.65 billion heroin case who was subsequently prosecuted. Hutton avoided obvious illegality by reporting the money, but then transferred it to Switzerland for the gangsters. Moreover, when federal authorities informed Hutton of their intentions, Hutton warned the gangsters, making the prosecution more difficult.[33]

According to crime specialists quoted by journalist Penny Lernoux, Florida is by far the number-one U.S. narcotics trading state, with a $10 billion annual business. This is readily laundered through Florida banks, which use special machines to estimate by weight the amount of money in bills of various denominations, and then charge 1-3% of the amount for their services.

All of these procedures are carried out with no serious efforts for concealment. A Senate committee estimated that 24 Florida banks have more than 3% of their deposits in the form of cashier's checks, the favored method of laundering "dirty" money.[34]

Insider Trading

U.S. law forbids principals in corporations from profiting from advance information about important developments before the news is made public. However, the stock of a company that will shortly report much higher profits almost always shoots up in advance of public reports, or declines when losses are about to be reported.

In actual economic life, the advance use of inside information is the normal mode of operation of top executives and directors of corporations. One of the main reasons for seeking such positions is to have access to information that can be used for making a personal profit. The law requires high corporation officers and directors to report to the SEC their purchases and sales of stock in their companies. These are published, with a certain time lag, and "outside" investors eagerly study them for clues for their own moves.

The boundary between what is considered normal and what is considered criminal is, at best, hazy. In most cases where a crime is alleged, it is because the scale of profiteering is excessive and/or because the profiteers are not among the top corporate officials, and are, so to speak, breaking into the exclusive privilege of the members of the unofficial club.

Exchange of information is the road to great wealth, and is the crucial activity of Wall Street operators and the firms for which they work. It is the key to stock trading from which the actual profits are made. With modern means of communication, access to information privately obtained is the decisive reason for location in New York City.

Highest profits are made when one has advance information about a takeover, since customarily the purchasers pay up to double the previous market price. Knowledge of what is pending is shared with the principals by the investment banking firms, law firms, etc., involved in the negotiations.

Under a headline "Wall Street Crime and Its Dividends," a *New York Times* report gave evidence of what had to be illicit use of inside information, such as the 33% runup of RCA Corporation stock in the four days preceding the announcement that it was to be taken over by General Electric.[35]

Financial operators are sometimes imprisoned for insider trading, though they may have carte blanche for many other unseemly and perhaps illegal activities. Between 1980 and early 1986 there were 46 criminal cases for insider trading violations in New York, of which 41 led to convictions or guilty pleas. Still, the really major operators, secure in the belief of their invulnerability, continued the normal routine at a time when this meant abnormal superprofits.

This was the mid-1980s, a time of hectic scrambling for multibillion-dollar mergers and corporate raids and takeovers. Profits in the billions were made by the major organizers of these monopolistic actions. This was quite legal. Lesser profits, in the tens and hundreds of millions, were made by those who traded on information about pending deals, and that was illegal. The scale of these actions became so colossal, and so widely known, that prosecution became inevitable. The first men arrested, seeking reduced sentences, ratted on their collaborators. Soon the scandal and arrests spread through the leading Wall Street firms, including Merrill Lynch, Goldman Sachs, Kidder Peabody (80% owned by General Electric), and Drexel Burnham.

As the net of financial arrests widened, so did the range of financial crimes. Embezzlement and recording of false transactions in plots to push the stocks of particular companies up or down were among the common practices found to abound. Perhaps the most widespread crime uncovered in the continuing investigations was the use of narcotics on a colossal scale as a means of payment for stocks, information or cash. Brokers supposed to be selling and buying stocks diverted their energies to buying and selling cocaine. And the market was there. It turned out that financial hotshots, "earning" a million dollars a year or more, would pay out $50,000-$100,000 for their personal supply of narcotics.

Thus the circle has been completed. The bankers handled finances for this enormous criminal business, and members of the financial community became major buyers, sellers and consumers. In the strange logic of American "justice," however, only the sellers, not the millionaire buyers, have been prosecuted.

Gone forever were the days when banking and securities business was conducted quietly—with dignity and strict adherence to convention covering the underlying exploitation, plunder and corruption that provided the material basis for finance. Instead there arose a hectic world in which the commercial and investment banks competed in the size of advertisements boasting of the many billion-dollar deals they had arranged, the monies paid to their top men, and their drive to reach the top in financial power and plunder. In this atmosphere of alliances made and broken, of fierce competitiveness within the country and internationally, the financial-industrial complex joined with the fiendish crime industry, and the corruption of the power centers plumbed new depths.

The Irangate scandals engulfing Reagan's Administration coincided with the scandals of Wall Street, which had created Reagan as a political factor and had put him and his henchmen in power. Both series of events are interconnected; both reflect and in turn deepen the severe crises—economic, political and moral—afflicting U.S. capitalism.

International Corruption

Corruption is rampant in developing countries with U.S.-supported dictatorships and in other governments without parliamentary systems. U.S. companies doing business in these countries have been accustomed to paying substantial bribes, which they get back many times over in contract overcharges, through superexploitation of workers, and procurement of agricultural and mineral products at low cost.

Where they have been successful, the anti-imperialist revolutions so bitterly opposed by Washington have largely wiped out the practice of bribery and multiple payment. In actuality, the goal of all the cant about restoring "freedom" through counterrevolutionary intervention has been to restore the corruption and the profits that go with it.

By all accounts, bribery and corruption have been most extensive in the countries where counterrevolutions or direct military interventions have placed reactionary dictatorships in power. And the rulers have shown no restraint in collecting bribes from their patrons. Loans and grants from the U.S. Government or U.S.-influenced international agencies have been one source from which the ruling cliques appropriate significant sums to add to their personal wealth. *The New York Times* reported:

> A letter to a Jakarta newspaper once detailed 73 steps requiring 63 payments to get one $4,000 shipment through customs. . . . The tax laws are so extraordinary that a BMW automobile costs $63,000 if all its taxes are paid. They rarely are; payoffs are cheaper.[36]

In the 1980s even the Reagan Administration found the cost of bribery in Indonesia too excessive and put pressure on its government to reduce it. The Sydney [Australia] *Morning Herald:* " . . . summarized the available information, much of it already known in Indonesia, about the business activities and possible worth—$2 billion to $3 billion, according to some estimates—of President Suharto and his family."[37]

By all accounts the record for corruption was held by Mobuto, the CIA-appointed boss of Zaire after the anti-imperialist leader, Lumumba, had been murdered on CIA orders. As a *Wall Street Journal* reporter put it: " . . . the brazenness of corruption in Zaire may set a world standard." Starting from the top, it spread through the official bureaucracy and army so that bribes were required for virtually every action of normal life. The reporting journalist had to pay a 17% bribe to the manager of the government-owned bank to cash a traveler's check.[38]

Mass revolt against the inordinately corrupt and murderous Haitian regime of Duvalier forced the U.S. military to rescue the dictator and his entourage, which led to an exposé of the gang's take at the expense of the Haitian people. The wealth of the Philippine dictator, Marcos, ran into the billions, all stolen from the Philippine Government's receipts. Not only did the Reagan Administration save his neck, it also obstructed attempts of the successor government to recover the properties.

Bribery has also been prevalent in the Middle Eastern oil countries. Ashland Oil claimed that it had to pay a $2 bribe per barrel in addition to the market price for its contracted oil from Abu Dhabi;[39] and Japanese companies paid $2.63 a barrel as an extra "commission" through a dummy company to Saudi Arabian sheiks for its oil.[40]

Not that bribery is unknown in the "advanced" countries of Western Europe! A report by the International Telephone and Telegraph Company (ITT) on its operations in Europe told of payoffs of 17–19% on sales in that area, in addition to $2,000 "grease payments" to various European government officials for "assistance in influencing the award of business." Charges of similar payments in Austria, Mexico and Nigeria were made by stockholders. Harry Wellington, dean of the Yale University Law School, who acted as an independent "review person" for the report, commented:

> There's no way American business abroad doesn't have to deal with local enterprises who act as agents. . . . You can't force them to comply with the Foreign Corrupt Practices Act. It may just be built into the normal process of doing business in a foreign country.[41]

In 1977 the U.S. Congress passed a law designed to prevent foreign bribery by U.S. corporations. It was never taken seriously, but company executives, fearing that compliance could be enforced at some later date, launched a major campaign in the 1980s for its repeal. The Reagan Administration gave full support to efforts of lobbyists representing 60 transnational corporations. A Democrat-sponsored foreign trade bill that would kill the bribery ban was considered in 1986. Already by 1983, the Justice Department had

> . . . quietly eliminated the multinational fraud branch, which once was reviewing hundreds of cases for possible prosecution. Now, only three prosecutors work full time on foreign payoff cases; five others are assigned part time. The department has only 14 cases open, and

no more than nine are considered to have any prospect of resulting in criminal charges.[42]

If any American capitalist has been imprisoned or been fined any substantial amount for overseas bribery, it has been kept out of the channels of public information.

The U.S. Government has committed huge sums to political and economic bribery in order to install and consolidate capitalist rule—subordinate to U.S. influence or domination—and to open markets and investment opportunities for U.S. corporations. Most important, historically, were the grants and loans advanced to West European governments after World War II, partly under the program known as the Marshall Plan—named after the wartime U.S. Army general who was Secretary of State at the time of the plan's inception. This program provided for the economic coordination of West European countries and their admission of investments by U.S.-owned companies on equal terms with their own.

U.S. "international affairs" outlays, consisting largely of West European aid programs, peaked at more than $6 billion in fiscal year 1949, in an amount equal to 15% of all federal expenditures and nearly 3% of the national income of the United States, a far higher proportion than has ever been reached since.[43]

TABLE 7-4. U.S. FOREIGN TRADE WITH AND AID TO WESTERN EUROPE 1946-1949 (*millions of dollars*)

Exports	$18,010
Imports	3,833
Net export balance	14,177
U.S. grants and loans	15,567

SOURCES: *Hist. Stat.*, p. 903, U 324, p. 906, U 342, p. 874, line 105

Similar bribes in the guise of foreign aid were paid to restore and retain in power the very same Japanese rulers and the financial groups that had launched aggressive war against the United States in 1941. Considerations of class solidarity against the Japanese working class and of a base to be used against the Soviet Union and China outweighed any consideration of revenge or compensation for damages sustained from Japanese agression.

During the second half of the 20th century, the U.S. government's international bribery and equipping of counterrevolutionary forces have been concentrated in the developing countries. Such payoffs were designated "foreign aid." They accelerated during the 1980s as anti-imperialist victories and counterrevolutionary attempts spread. By the mid-1980s such "foreign aid" approximated $15 billion yearly, about two-thirds of it labeled military "international security assistance" and one-third economic "international development and humanitarian assistance."

However, in addition to the billions going to U.S. armament manufacturers, and the small payments to puppet armies, many billions stuck to the fingers of the purchased dictators and leaders of counterrevolutionary bands. Israel, which received $3 billion in 1984—about one-third of its national income—headed the list. This funding paid for Israel's service as chief gendarme of imperialism in the Middle East, and has fostered its expansionist activities. About half as much went to Egypt to keep in power the group that capitulated politically to Israel. Large sums have also gone to Turkey to support anti-Soviet military bases and as a counterforce to progressive trends in Cyprus and Greece. Billions went to the Pakistani rulers to foster the war of intervention against Afghanistan and put pressure on nonaligned India.

The largest bribes in Latin America went to the rulers in El Salvador in exchange for their genocidal war against the people of their country. Increasing amounts went to the Somoza thugs and mercenaries who had been expelled from Nicaragua by that country's revolution, and to Honduran military and political figures who permitted their country to be transformed into a base, under U.S. military occupation, for the projected invasion of Nicaragua.

The massive corruption and bribery involved in the anti-Nicaraguan intervention were exposed together with the Irangate scandal of the Reagan Administration, and were a central feature of the crimes committed by the Reaganites. This exposé increased the already large majority of American people opposing intervention against Nicaragua and the number who actively supported Nicaraguan independence.

Decadence

Drugs: The most conspicuous symptom of decadence in modern capitalist society is the uncontrolled and escalating use of narcotic drugs, by more and more people and in more and more dangerous forms. The scale of the drug business is staggering. Because of its illegality, estimates vary widely. According to journalist Marcia

Chambers, "The nation's illegal drug traffic is a $90 billion-a-year industry, Federal and city officials say, and about half that trafficking takes place in New York City."[44]

It is claimed that a large part of the drugs enter the country through Florida, and retail drug business in that state is "conservatively estimated at $7 billion a year."[45] Florida's attorney general, Jim Smith, described it as "the biggest retail business in the state." To which journalist Jo Thomas commented:

> But the effects of this commerce can be seen and felt everywhere, in the glittering shops where one can buy a $5,000 hat, in the private clubs where one can buy a $600 bottle of wine, in middle-class neighborhoods where houses are leased for cash, paid five or six months in advance in $20 bills, no questions asked, and in the hospital intensive care ward . . .

where a little boy lies in a coma after being shot by a 15-year old quarreling over marijuana. . . .

Drugs account for a 49% rise in homicides in one year, according to a responsible official, Thomas added.[46]

A newspaper headline noted: "Level of Tolerance of Illegal Drugs Believed Rising Throughout U.S. Society," and studies showed that the majority of young people have used narcotic drugs and one-third use them more or less regularly.[47] Earlier the comparatively mild marijuana was the most popular drug in the United States but during the 1980s the use of cocaine became widespread:

> The huge profits to be found in cocaine trafficking are luring more and more middle-class and upper-income Americans to the cocaine trade, law enforcement officials say, and relatively few of them are being caught. The Drug Enforcement Administration estimates that $30 billion is spent annually on this drug in the United States

and officials told the journalist of a number of cases, such as the ". . . businessmen, physicians, lawyers and bank officials . . . among the leaders of a ring that smuggled into the country 3,748 pounds of cocaine confiscated in March in Florida in the largest cocaine seizure made in this country."[48]

About that time columnist Alexander Cockburn observed that cocaine sales alone were well ahead of the $20 billion spent on tobacco and more than the $27 billion spent on take-home alcoholic beverages. John De Lorean, facing failure of his car-making venture, turned to cocaine dealers, but was arrested and jailed. *Washington Post* columnist Kraft lamented:

> Tragically, in some areas, cocaine, not cars, is the growth industry. . . . The case of John De Lorean . . . is a reflection on an economy and a culture where creative business enterprise can fail and the soul-destroying corruption of drug addiction thrives.[49]

Many accounts emphasize that cocaine users are mainly capitalists and high-income professionals, and many of these become dealers in the drug. In the mid-1980s, a simpler form of cocaine pellets, called "crack," was introduced, and its use spread among the poor and in middle-income neighborhoods. The estimate was that in New York City there were several hundred "base houses," where customers could buy the poison in $10 or $20 vials, and pay $3 to rent a water pipe.

The U.S. Government, which made no serious effort to stop the spreading use of dangerous drugs in the United States, has been engaged in massive intervention in the affairs of other countries alleged to be the producers of the drugs.

During the spring of 1985, U.S. officials denounced corruption among Mexican bureaucrats for failing to stop the drug traffic in their country. A Mexican Embassy official, Leonardo Ffrench Iduarte, replied:

> It is deeply unfair and even ridiculous for certain officers of a country like the United States, who have been unable to solve their own internal drug trafficking problem despite almost unlimited resources, to ask a poor country like Mexico to solve not only its own problem but the United States' problem as well.[50]

As a matter of fact, the United States was responsible for starting the growing of opium poppies in a major Mexican producing area, Sinaloa province:

> Opium poppies have been grown in the mountains since World War II, when poor Mexican farmers were encouraged to produce them so morphine could be manufactured for use by American troops fighting in the war.[51]

CIA agents, U.S. military officers and mercenary armed forces of the United States have been exposed as important participants in the drug-running business. Such action was prominent in Laos during the Vietnam War; the "Contra" leaders of the U.S.-based Nicaraguan counterrevolutionaries and the U.S.-backed Afghan counterrevolutionaries operating out of Pakistan were exposed as important sellers of narcotic drugs on the U.S. and world markets.

More than 50% of the defendants prosecuted by the U.S. attorney in Miami in 1986 were charged with drug violations. However it was common for the defendants to claim that the drugs were a part of a "guns-for-drugs" program sponsored by the U.S. Government, whereby they supplied guns to the Somozists and in exchange were guaranteed immunity for bringing drugs into the United States.

Of course there's no way of knowing which of the defendants were telling the truth and which seized on a convenient hoped-for way out. In essence they claimed that on Washington's urging, they committed a crime against humanity and international law by helping to murder innocent civilians in Nicaragua in exchange for permission to commit a crime in the United States that would doom thousands of Americans to a horrible death. And the excuse has been effective, especially in Miami, where the many Cuban emigrés on the juries supported the Contras.

And how many of the prosecutors themselves have been involved?

"It is not unknown here for Federal agents to be involved in drug trafficking," Leon B. Kellner, U.S. attorney in Miami said.

> We have indicted and convicted agents of the Drug Enforcement Administration and of the Federal Bureau of Investigation and other public officials, in addition to officials of foreign governments. Unfortunately, the lure of drug money is very strong.[52]

Opulent Luxury: American capitalists have become brazen in flaunting a life-style of opulent luxury, with gross extravagances in food, alcohol, sex, private planes and yachts, and mansions scattered over the globe. A *New York Times* article noted " . . . Warmth is not the primary reason for owning [furs] . . . realization of a dream of luxury . . . " or "an investment . . . enduring fashion. . . . " is. Pictured is a $70,000 fur jacket at Bergdorf Goodman.[53]

Similarly, the "cultured" multimillionares accumulate paintings and other objets d'art, for which they spend millions—even tens of millions—per work by modern or classic masters. A Japanese was reputed to have purchased Van Gogh's "Sunflowers" for a record $39.9 million in 1987. And there are the orgiastic parties, inordinate expenditures for entertainment, jet trips abroad for lunch in Rome and dinner at Maxim's in Paris; fantastic vacations, and unending searches for "new experiences" that the media dramatize. One can almost hear the strains of Nero's violin!

Crime: One out of four U.S. households experienced a rape, robbery, assault, burglary or theft in 1986.[54] Workers were the main victims, and among them, a disproportionate share were Black. While scarcely measurable statistically, victimization by crime greatly reduces the overall standard of living, especially in comparison with most other developed countries where crime rates are far lower.

The drive toward crime is inherent in the financial piracy of capitalism, its drug culture, and the widening gap between the luxuries of the rich and the cruel poverty of the poor. As the drive gathers momentum, criminal gangs flourish despite dramatized arrests. The gangs are requisite in a system in decay—as strikebreakers to browbeat and threaten the security of workers, as mercenaries to man counterrevolutionary armies, to organize assassinations, to arrange anti-Soviet demonstrations and violence against diplomats, and to commit racist and anti-Semitic outrages.

John Gotti, the alleged boss of the Gambino mob, was jailed in 1986 pending trial on racketeering charges. He was expected to continue to manage the mob's business from jail and, according to law enforcement officials, it would be "relatively easy for someone like Mr. Gotti to send orders from jail." One official said, "As a boss, it's his job to make decisions. And he can do that from prison as long as it's short term."

> While at the Manhattan Correctional Center, Mr. Gotti can make unlimited calls from pay telephones, see his lawyer regularly, send out uncensored letters and have three one-hour visits a week. Each visit can be by as many as three adults and three children.[55]

And then there is the incitation to crime, violence and perversion by the mass media, especially movies and television. There has been an influx of films that glorify murder, violence, aggression, and chauvinism as well as the blatent inundation of sexist and pornographic material. Small children have been exposed to war toys, and the new folk heros have been amoral supermen.

These trends have tied in with another feature of the decay of U.S. capitalist society—the spread of life-destroying policies and ideologies. For example, the U.S. Department of Agriculture has multiplied its spending—at the rate of $20 billion a year by the mid-1980s—for the destruction of crops and livestock that were judged to be surplus. The objective was to keep up and increase prices while forcing smaller farmers out of business. A new low in immorality was reached in 1986 with the decision to pay farmers $1.8 billion to slaughter 2.8 million dairy cattle to reduce the supply of milk—at a time when millions of American children needed more milk, aside from the hundreds of millions in other countries who were starving.

The U.S. prison facilities are terribly overcrowded, and new ones have not been built fast enough to match the growing prison population. As of 1986, at least 3 million people were imprisoned, or on probation or parole with restrictions on their freedom of movement and action.

Between 1979 and 1985 the number had increased 82%. *By 1985 three out of every 100 adult males were in jails or prisons, or on probation or parole;* 35% of the prisoners were Black, roughly three times their proportion in the population. *This means that one out of every ten Black males was deprived of freedom.* Surely this is a significant cause of the breakup of Afro-American families, of the burdens borne by so many working Black mothers. Some arrests of Black and other racially oppressed peoples may be the result of people driven to petty crime by hunger. Much more important factors have been the gross discrimination in their treatment by police and the courts, the racist brutality of so many police, the frequent police murders of Black victims and the frame-up executions on false charges.

Literally tens of millions of people are handicapped throughout life by having an arrest record; 12 million individuals were arrested in a typical recent year.

In addition to those imprisoned, 1.7 million people were sent to mental hospitals in 1981, and more than 600,000 juveniles—average age 15—were taken into custody and placed in "halfway houses" and similar institutions, often veritable schools of crime.

In 1984 there were approximately 12 million recorded crimes in the United States, or one for every 20 people. Thus the average person had a 5% chance of being a crime victim during the year, with the danger much higher in large cities. The rate of homicides and other major crimes is several times higher in the United States than in any other developed country.

In 1982 there were more than 22,000 homicide victims, including 283 killings by police. Of course, many of these were inevitable results of confrontations with armed criminals, but others were expressions of the police violence that is widespread in the United States. A highly publicized case was the killing of an elderly Black woman in her N.Y. City apartment by white policemen in 1984. In general Black people are especially victimized by criminals, white and Black. Thus Black people were 42% of all homicide victims in 1982.

Similarly, Blacks are much more likely to be punished and their punishment is more severe. Between 1930 and 1984, 2,068 Blacks were executed, as compared with 1,760 whites. About 9 out of 10 men executed for rape were Black. Faked charges of rape against Blacks, often by prostitutes, have been common. To some extent legal lynchings have replaced illegal lynchings by the Ku Klux Klan and other racist gangs, although some of these, unfortunately, continue. Reference to executions is important because, after a period of five years during which the death penalty was removed by virtue of higher court decisions, the executions have been resumed and by the end of 1984, 1,405 persons were under a death sentence: 601 were Black, Native American Indian or Asian (585 Black).[56]

Poverty and unemployment contribute to crime. The number of crimes increases in years of depression and diminishes in recovery years. But the overall corruption, decay and oppression characteristic of the society are the dominant causes in all stages of the business cycle.

At the same time, the United States provides a haven for criminals from all over the world, just so long as their crimes were politically motivated and against the people of their own countries. They are classified as "political refugees" in the United States, formally or informally.

The Soviet Union has charged that the United States, in violation of international agreements, refused to send back to the USSR 10,000 war criminals, murderers of hundreds of thousands during World War II who have been given asylum here.[57]

Since the late 1940s the United States has become the main haven for counterrevolutionaries from all countries where anti-imperialist national liberation struggles have been successful. They brought with them their rabid right-wing ideology, providing an important reserve for reaction, for the neofascist tendencies dormant in U.S. society that reemerged during the Reagan Administration.

It must not be forgotten that the U.S. Government has been guilty of serious crimes against humanity. Without going too far back into history, there were the dropping of atomic bombs on Japanese cities, and the genocidal warfare against the Indochinese peoples, with victims in the millions. The U.S. Government has backed countries with murderous dictators, and instigated aggressions against anti-imperialist regimes around the world. The U.S. has also been the decisive political support base for apartheid in South Africa.

8. Monopoly

The essence of monopoly power is complex, many-sided. It is much greater than can be reflected in any set of statistics. It is industrial and commercial; it is financial; it is political. However, as of 1983 fewer than one-tenth of one percent of manufacturing corporations held 61% of all manufacturing assets, while less than one percent of commercial banks held 57% of the total deposits.[1] In a typical area there is only one company that supplies electric power, one company that supplies local telephone service, and one company that supplies local transportation facilities.

Such concentration of capital, which increases yearly, stresses the fact that U.S. and world capitalism is *monopoly capitalism.* The old textbook version of free competition among many independent producers, and the politicians' boasts of "free enterprise" have no basis in reality.

Background

Government-sponsored monopolies played an important part in the early development of capitalism. The British East India Company was granted a monopoly of the Indian tea trade, trade with China and the transport of goods to England from East Asia. Similar government-sponsored monopolies—Dutch, Spanish, Portuguese and others, as well as British—plundered Africa and the Americas, thereby accumulating much of the capital used to build European industry.

In the 19th and early 20th centuries, U.S. Government grants to railroads were made possible by the extermination of Indian tribes. Other monopolies came with the conquest, formal colonization or occupation of Hawaii, the Philippines, Cuba and Central America.

However, these early monopolies in the 18th and most of the 19th century were exceptions in the general structure of capitalism. The victory of capitalism over fuedalism and its rapid growth stimulated competition among the many enterprises in industry and trade that had grown up in both Europe and the United States. The concept of free competition as "fair" became a doctrine of capitalist ideology, and to a considerable extent it is still held up as the ideal—despite the fact that monopoly domination of the economy has long been evident.

The very process of capitalist competition fostered the merging, or centralization, of capital into larger and larger combinations. It was obvious that there were many advantages to large-scale production as compared with small-scale operations—the advantage of having tens of thousands of workers producing automobiles in a series of integrated assembly lines, with modern automated equipment, over workers producing cars one at a time with hand tools. Production efficiency, marketing, and political influence combined in turn to enable the larger and stronger aggregations of capital to swallow up the smaller.

Marx, writing in the 1860s, noted the process of concentration and foresaw its culmination in monopoly capitalism, which would set the stage for its transformation into socialism. He wrote:

> One capitalist always kills many. Hand in hand with this centralisation, or this expropriation of many capitalists by few, develop, on an ever-extending scale, the cooperative form of the labour-process, the conscious technical application of science, the methodical cultivation of the soil, the transformation of the instruments of labour into instruments of labour only usable in common, the economising of all means of production by their use as the means of production of combined, socialised labour, the entanglement of all peoples in the net of the world-market, and with this the international character of the capitalist regime. Along with the constantly diminishing number of the magnates of capital, who usurp and monopolise all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organised by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is

> burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated.[2]

Capitalist ideologists boast that capitalism still survives in Western Europe and the United States, the most developed areas and hence presumably the first to be socialized. This proves, they assert, that Marx was wrong. They deliberately ignore the fact that since the Russian Revolution of 1917, "the knell of capitalist private property" has indeed sounded, and such property has been replaced by socialist public property and socialist societies in at least a dozen countries, while many more are in various stages of transition to socialism. It should be noted, in addition, that while industry was less developed in Czarist Russia than in Western Europe or the United States, it was to an exceptional degree concentrated in relatively few enterprises, monopolies ripe for socialization.

The timing and location of successful socialist revolutions are determined not so much by differences in the extent of monopolization of industry and the resultant contradictions, as by the degree and effectiveness of organization of the rival classes of workers and capitalists, and the consequent outcome of struggles between them. On the basis of the democratic desires of the population and the internal balance of forces, socialism would certainly have been victorious in a number of West European, Latin American and other countries if not for the military intervention of the United States. The retention of scores of U.S. bases around the world is in great part precisely for the purpose of preventing such social transformations.

By the start of the 20th century, the Rockefellers had their oil monopoly, the Morgans had formed the steel trust, and similar combines emerged in cement, copper, meat-packing, and the chemical and other industries. At about the same time, monopolies became dominant in European industry and finance. In the United States, exposés appeared in the works of Gustavus Myers, Ida Tarbell, Charles Edward Russell, Lincoln Steffens, et al., arousing indignation and stimulating political opposition by millions. In Europe, works by J. A. Hobson (England), Th. Vogelstein (Germany), Rudolf Hilferding (Austria) and others—some of them followers of Marx and advocates of a socialist solution—appeared. Lenin's *Imperialism,* based on exhaustive research but condensed into a 128-page popular outline, gave a rounded picture of monopoly capitalism in all its aspects, domestic and international. Marx's *Capital* and Lenin's *Imperialism* together provide the necessary foundation for understanding, studying and interpreting the rapidly changing 20th-century monopoly capitalism, the final stage of capitalism.

Anti-Monopoly Movements

The railroad, oil, iron and steel, farm equipment and other monopolies aroused widespread resistance among those they expropriated and impoverished—the small capitalists and farmers. Weaker capitalists driven to the wall by strong-arm methods, and farmers on the brink of foreclosure as a result of soaring railroad rates, mortgage payments, and equipment costs, regarded monopolies as violating the basic principles of Jeffersonian democracy, the right of every man to land, liberty and the pursuit of happiness through capitalist enterprise.

Antitrust literature was widely circulated and antimonopoly concepts became strong political issues. The Sherman Act of 1890 condemned "conspiracies in restraint of trade" and other monopolistic practices, and similar laws were passed in at least 24 states.

In 1911, one important antitrust suit ended with the dissolution of the Standard Oil trust. However, the dissolved components remained, for the most part, under effective common control. Three segments—the Standard Oil companies of New Jersey (Exxon), New York (Mobil), and California (Chevron)—became dominant in the international oil cartel, the "Seven Sisters."

Among later antimonopoly legislation were the Clayton Act of 1914 and the establishment of the Federal Trade Commission in 1915—to administer laws "designed to foster the successful operation of the American economic system of free competitive enterprise... establish boundaries between forbidden and permitted types of competitive behavior."

Reacting to the power of financial monopolies, Congress had also established the Federal Reserve System, headed by a board with "fair representation of financial, agricultural, industrial, and commercial interests, and the geographical divisions of the country."

All these and later laws never did more than impede the further monopolization of the economy—industrial and financial. With the centers of executive and judicial government power in the hands of the monopolies' representatives, effective enforcement of the antitrust laws was systematically sabotaged. Indeed, the Sherman Act has been used at least as much against labor unions—as "conspiracies in restraint of trade"—as against the monopolies supposed to be its targets.

The mass suffering during the early 1930s aroused hostility against the giant banks, which were directly responsible for millions of foreclosures against homes and farms, for business bankruptcies and the failures of smaller banks. Endless hearings were held, exposing the machinations of Wall Street. J. P. Morgan, Jr., was verbally pilloried. Congress passed the Glass-Steagall Act, which required the formal separation of commercial and investment banking. But today, half a century later, the concentration of financial power and its ramifications into broader fields of activity are much greater than before Glass-Steagall.

Monopolies in railroads, and later in utilities and telecommunications, led to the formation of federal and state regulatory commissions, supposedly to protect the public against plunder. In actual fact, for the most part the commissions perform an opposite function, since they are dominated by representatives of the regulated monopolies.

In some areas, notably in Minnesota, North Dakota and some northwestern states, antimonopoly forces—based on farmers in alliance with workers—became especially powerful, won control of state governments, and set up cooperatives that to some extent competed with the cartels. However, the role of the cooperatives was necessarily limited: they could not overcome the effects of the monopolized national financial and industrial markets.

Antimonopoly political parties gained substantial support nationally in the 1880s (Populist Party), and in the early decades of the 20th century (Progressive Party in Wisconsin, Farmer-Labor Party in Minnesota, and the Non-Partisan League in North Dakota), with similar movements in a number of other states; these were powerful enough to send representatives to Congress and wield influence in state governments. Subsequent antimonopoly parties that achieved prominence—like the Progressive Party of Henry Wallace in 1948 and the Peace and Freedom Party of California—have been oriented toward the labor and antiwar movements rather than to small business and farmers.

Indeed, in the 20th century, the working class became the most important antimonopoly force. Many labor organizations and the political parties based on the working class, while supporting traditional antimonopoly demands, increasingly focused on labor's claims against monopoly. The more advanced advocated the next logical step, projected by Marx much earlier—the nationalization of monopolized industry as the socialized property of the entire people.

Antimonopoly literature continues to circulate widely, and local skirmishes against monopolies go on. But by and large the centralization of capital and the formation of bigger and more powerful monopolies have accelerated with relatively little legal interference.

While little has been done to curb monopolies, throughout the decades many thousands of government officials, corporate executives, lawyers and judges have been involved, and billions of dollars have been spent, in preparing, arguing and resolving antitrust cases brought by the Justice Department, which is charged with enforcing antitrust laws. These cases, typically, have dragged on for many years, even a decade and more, and ended with decisions that basically have preserved the status quo. Generally they have served as a political showcase for the supposedly democratic process of curbing monopoly.

In some instances, however, the cases masked battles for position among competing monopolies. Thus, in the 1970s antitrust suits were brought against two of the three largest monopolies in the United States: International Business Machines (IBM) and American Telephone and Telegraph (AT&T). In both these cases, relatively small rivals wanted to improve their own share of the potential market and to weaken the giants.

With IBM, the challengers failed: IBM was, incredibly, exonerated of monopolistic practices! It followed this decision with a ruthless offensive against its smaller rivals, driving many of them to the wall. Its business expanded and its profits soared. The price of its stock more than doubled. IBM clearly emerged as the number-one supermonopoly of world capitalism.

In the case of AT&T, the overwhelming majority of the population—who have to depend on telephone service and resent AT&T's gouging—buttressed the case of local telephone rivals against the communications giant. And, reflecting that balance, the decision forced the division of AT&T into one national and seven regional companies, giving more openings to competitors. But far from reducing monopoly gouging, the reorganization was used as an excuse to increase charges to consumers. The net effect was not a reduction in monopoly but a redivision of potential profits among monopoly corporations.

Growth of Monopoly in the 20th Century

In the early part of the 20th century, competition continued to prevail in many sections of the U.S. economy. Then the merger boom of the 1920s strengthened monopoly, and the process was further boosted during the crisis of the 1930s when a record number of banks and industrial and commercial enterprises went bankrupt. Federal banking authorities hastened this trend, forcing thousands of smaller banks to close by giving special support to the giant banks, although in reality, many of these small banks were still solvent. Between 1929 and 1933, the number of banks in the U.S. declined by 42%.[3]

Through the Reconstruction Finance Corporation (RFC), loans were given to the more powerful and politically influential corporations. This enabled them to survive the crisis and to buy up control of weaker firms or to purchase their properties at bankruptcy auctions.

The National Recovery Act of 1933 (NRA) established industry codes. These were actually legalized cartel agreements for regulating production and raising prices in order to restore profit rates. While such government-sponsored industrial cartels were abandoned after a few years, they have continued to this day in many sections of agriculture.

In general, during the period between World War I and World War II, the power and scope of monopolies was extended through:

- vertical integration—the gathering together in a single corporate shell of raw-material enterprises, intermediate processing and final-product plants;
- supplanting small retail enterprises with corporate chains; and
- consolidation of financial/industrial groups. The Morgan, Rockefeller and other groups each achieved a large degree of control over a whole network of financial and industrial corporations—scores of them in some cases. They were able, to some extent, to coordinate the actions of an entire complex, as a supermonopoly.

Capitalists of the major imperialist powers arranged the formation of international cartels and monopolies by giant corporations. The world's raw materials—oil, metals and tropical agricultural products—were divided among them on the basis of foreign investments in colonies and semicolonies. (A semicolony is a nominally independent country under the thumb of a major capitalist country.) Thus the "banana republics" of Central America were militarily and politically controlled by the U.S. Government, the United Fruit Corporation and the National City Bank.

More and more, private monopolies were regulated by, assisted by and to a considerable extent merged with the controlling capitalist government. The process was and remains most perfected in Japan, where the Zaibatsu groups, centered around a major trading company and a bank, operate as closely knit entities, and government-sponsored cartels regulate interrelationships.

World War II, with its shortages of materials and government allocation of supplies, combined with property destruction in many lands, furthered the growth of monopoly. After the war the U.S. Government, occupying West Germany and Japan, imposed the general principles of U.S. antimonopoly legislation. But in practice only token steps were taken. For example, the division of I.G.Farben into three companies—notorious for providing poison gas for Hitler's death camps—had even less significance than the earlier breakup of the Standard Oil trust into a number of companies. And in Japan, the Zaibatsu groups were nominally broken up, but the most powerful of them were soon reconstituted and much strengthened. Since then the "Big Six" of old Zaibatsu groups, supplemented by new industrial giants partly merged with them, have largely run the Japanese economy and government.

Increasing Monopoly Since World War II

Statistical data illustrate major features of the rise of monopoly power, but fall short of conveying the full extent of the growth. Thus the increased concentration of capital in industry and in banking are significant in themselves. But the impact resulting from the tightened knots between financial and industrial groups adds a new dimension to monopoly power, over and beyond that suggested by statistics. And the merging of government and big business has resulted in the further qualitative advance of monopoly.

However, the process is contradictory. On the one hand monopoly power is more effective and more profitable for the principal stockholders who hold the major corporate power. On the other hand the process generates conflicts, serious imbalances and instability, undermining the capitalist system as a whole.

The following data should be considered with these qualifications in mind:

Manufacturing: In 1947 the 200 largest manufacturing companies accounted for 30% of the value added by manufacture. In 1977 the 200 largest accounted for 44% of the total value added.[4]

TABLE 8-1. PROPORTION OF SHIPMENTS BY FIVE LARGEST COMPANIES, 1977

Industry	Percent	Industry	Percent
Motor Vehicles	93	Light Bulbs	90
Breakfast Cereal	89	Turbines, Generators	86
Primary Aluminum	76	Chocolate, Cocoa	73
Photo Equipment, Supplies	72	Brewing	64
Roasted Coffee	61		

SOURCE: *U.S. News & World Report* 8/24/81, from U.S. Census of Manufactures 1977

Table 8-1 lists industries in which, by 1977, the five largest corporations accounted for more than 60% of the shipments.

For some reason the list omits computers, where IBM then held more than 60% of the business.

Agriculture: The number of farms declined from 6.9 million in 1935 to 2.2 million in 1982.[5] Between 1913 and 1982 wholesale prices paid for farm products increased about six times, while retail food prices increased nearly ten times. Thus the farmer's share of the consumer's food dollar declined from 47% in 1913 to 27% in 1983.[6]

Meanwhile, the independent "family farmers"—operating as commercial capitalists and long considered the political backbone of capitalist conservatism in the United States—were fast vanishing from the scene. By 1985 their number was estimated at between 500,000 and 600,000. Successful commercial agriculture was dominated by thousands of corporate farms, while 1.5 million small farmers were mainly workers supplementing their wage earnings with small-scale, largely subsistence, agriculture.

The surviving commercial family farmers fell into a deepening financial crisis as the structural crisis of capitalism intensified in the 1980s. Farm debts and interest charges rose as inflation and interest rates peaked. With the decline in world markets for U.S. farm products and the consequent drop in prices, many farmers were unable to meet payments on their loans, and the sharp drop in the market value of their land reduced the security underlying their debts.

In effect, U.S. farmers were subject to the same type of "price scissors" as producers in developing countries, and the higher Government support payments were insufficient to balance their losses. Moreover, the crisis driving thousands of farmers off the land affected more and more of the agricultural credit banks that had loaned money to them. In self-defense, surviving farmers began to organize, as their parents had in the 1930s.

Banks: The number of U.S. banks peaked at more than 30,000 in

1921. By 1983 the number of independent banks or bank holding companies was down to 12,000,[7] but the major banks had established many branches, so that by then there were 56,000 bank branches. Interstate banking became more common as one state legislature after another removed restrictive barriers.[8]

As of December 1984, the 10 largest U.S.-chartered commercial banks held 35% of the total assets of all such banks, while the 100 largest held 75% of the total assets.[9] The main money-center banks, especially in New York, dominate thousands of smaller banks through correspondent relationships whereby they allocate investments, major loans, etc., among the smaller, largely dependent institutions.

During the 1980s, failure of many weaker banks led to greater concentration. By 1985-86, about 1,000 banks were listed as "problem banks" by the Federal Deposit Insurance Corporation.[10]

Retail Trade: Multiunit retail store chains with 11 or more units accounted for 18.2% of total retail store sales in 1951, rising to 35.4% in 1983.[11]

Rival companies compete, but along with the competition they agree to raise prices to consumers simultaneously. The impact of effective monopoly is illustrated in everyday life when the chain-store shopper finds shelf space for many different items limited to the products of one company—or to two companies that charge the same price.

An example is the basic commodity bread. Grain is the main cost item in the making of bread, which requires relatively little blue-collar labor. In the 35 years from 1947 to 1982, the average price paid farmers for their grain went up about 50%, while the average retail price of bread increased about 300% in the United States.

How major bread producers agree on pricing, formally or informally, is not publicly known. But it is a fact that almost every year the price of bread goes up by two to three cents a pound, regardless of fluctuations in the price of grain. The two factors seem wholly unrelated—the raw material content of a loaf of bread amounted to perhaps five cents in the early 1980s, while the retail price of a loaf ranged between 50¢ and more than $1.00, depending on the quality, and the efficacy of advertising.

Of course the inflated surplus value thus generated is divided many ways, with a significant amount going to a wasteful, essentially parasitic, distribution system and large amounts siphoned off as expenses by the top executives. The decisive fact is that the bread industry reaps a very high rate of gross profit.

Or, take cornflakes:

> Kellogg has moved to the forefront in industry pricing strategy. Content in the past to follow the competition's annual price increases, Kellogg surprised the industry in 1985 by instituting hikes at nine-month intervals. Competitors now follow Kellogg's lead and, thanks to strong marketing support, volume has not suffered.[12]

While cutting its labor force 20%, Kellogg's profits doubled and its stock market price quadrupled between 1982 and 1986.

The gains of monopolies from price-fixing and price hikes, while mainly at the expense of workers as consumers, are also at the expense of nonmonopoly sectors of capital. Many thousands of farmers, corner grocers and independent contractors are wiped out each year as an inevitable accompaniment to the high rate of corporate profit.

Merger and Acquisition Boom of the 1980s

Under the blatant big business administration of Reagan, antitrust activity virtually ground to a halt. There was a marked acceleration in the growth of monopoly power, with the green light given by the government and ineffectual political resistance.

U.S. News & World Report noted:

> The recent surge of corporate takeovers promises to be just the first phase of a new consolidation campaign among U.S. companies.
>
> As merger experts see it, the business landscape will become increasingly dominated by fewer and bigger firms during the 1980s, with industrial giants pushing hard to expand existing markets and enter new ones. . . .
>
> Some see the current corporate buying sprees as a testing of the waters, brought on by signals from the Reagan administration that antitrust enforcement will be relaxed. Assistant Atty. Gen. William Baxter has repeatedly stated that the government will not challenge vertical mergers—those involving a manufacturer and one of his suppliers—or conglomerate mergers by firms with no overlapping markets.[13]

Mergers on an unprecedented scale became common, with payments of as much as $5–10 billion to the stockholders of the company taken over. Giant concerns that once dominated entire industries were bought by still more powerful combines. Anaconda and Kennecott, the two largest copper companies, were merged into Atlantic Richfield and Standard Oil (Ohio), respectively, while multibillion-dollar oil companies—Marathon and Conoco—were absorbed by U.S. Steel and Du Pont, respectively.

The merger of Bendix into Allied Corporation followed a four-sided battle, in which two of the participants, Bendix and Martin Marietta, tried to take over each other, while United Technologies, the munitions-dominated conglomerate, tried to take over the other three.

Battles for control in such situations can be bitter, involving intensive advertising campaigns, court cases and appeals for government intervention. The conflict between Pennzoil and Texaco for control of the Getty oil interests was won by Texaco, which paid $10 billion for the takeover. However, this was a Pyrrhic victory, as Pennzoil won an $11 billion verdict in a lawsuit arising out of the struggle—in one phase of a prolonged legal battle between the two. Still, most mergers that build conglomerates are arranged relatively amicably, with higher profits for all the principals on both sides.

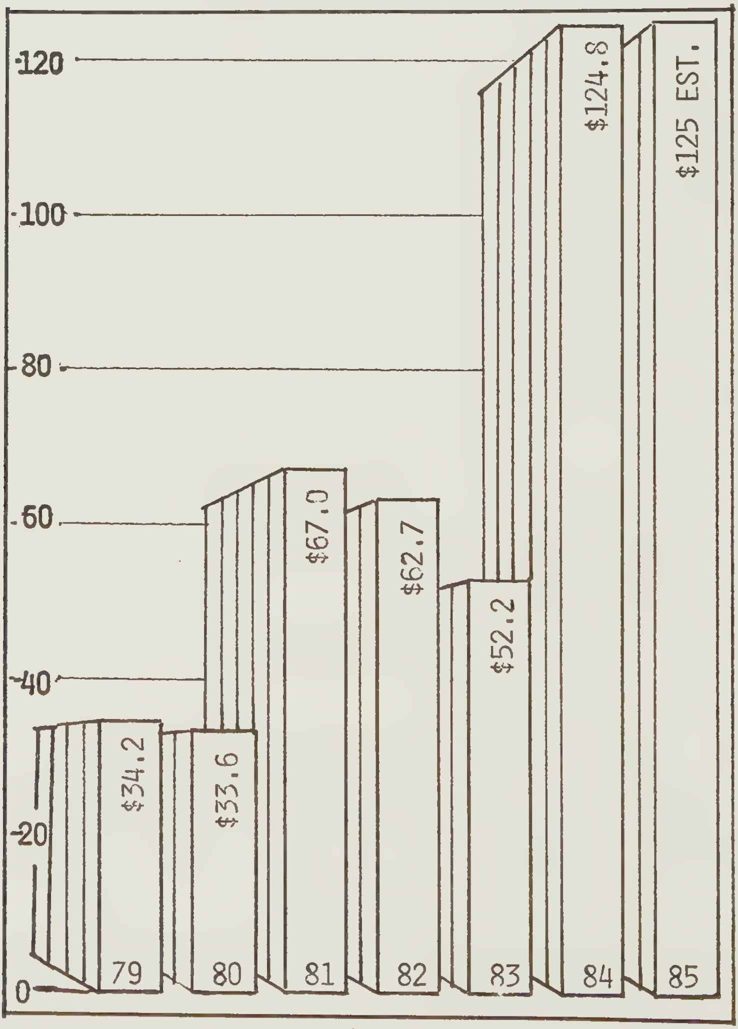
The New York Times charted the growth of mergers and acquisitions from $34 billion a year in 1979–80 to $125 billion a year in 1984–85 (see chart 8-1). And in 1985 Leonard Silk, the leading financial writer of *The New York Times*, discussed "The Peril Behind the Takeover Boom":

> The biggest wave of corporate acquisitions and buyouts in American history is beginning to cause widespread alarm. The merger mania has sent stock prices to levels no one ever envisioned for 1985. But in the process, American business has gone heavily into debt to pay for its multi-billion dollar takeovers. And this boom in corporate debt, particularly with its use of high-yielding, less-than-investment grade "junk bonds," is bringing warnings even from those involved in financing the megadeals.
>
> "I'm worried about what this leveraging up will do," said Thomas S. Johnson, president of the Chemical Bank, which despite Mr. Johnson's concern participates in takeover lending. "I'm worried that the aggregate of all these things, including leveraged buy-outs, is simply a perverse result of greed and not a logical, rational thing. I don't know how all this debt will be serviced."
>
> The situation has so troubled Paul A. Volcker, chairman of the Federal Reserve Board, that he now wants to restrict the use of junk bonds, a step that would thwart many highly-leveraged takeovers.
>
> "We spend our days issuing debt and retiring equity, both in record volumes," said Mr. Volcker, "and then we spend our evenings raising each other's eyebrows with gossip about signs of stress in the financial system."

> Mr. Volcker's position, however, has raised a cry from free-market proponents, led by the Reagan White House.[14]

Two years later, with the 1987 stock market crash, the warnings were validated and the President's Pollyanna reassurances discredited.

CHART 8-1. VALUE OF MERGERS AND ACQUISITIONS COMPLETED ANNUALLY, 1979–1985 BILLIONS OF DOLLARS



SOURCE: *New York Times*, 12/29/85

Supply and Demand

Traditional economics gives great emphasis to the law of supply and demand, basically a simple law, reasonable and easy to understand: The higher the price of a commodity, the greater the number that will be offered for sale, and the fewer the purchasers who will be willing or able to buy. And vice versa: as the price declines, less goods will be made available and more buyers will appear. The price tends to settle at a level balancing supply and demand, so that all the offered goods are bought, and no purchaser has to go without.

As noted in chapter 1, generations of economists have devoted great effort to elaborating the law of supply and demand, to working out mathematical formulas, to projecting supply and demand curves, to determining at what point the curves would intersect.

The law assumes a large number of buyers and sellers, each operating independently and each having access to a single market. It goes back to the period of early capitalism, to small-scale commodity production, when barter was still important and even cash transactions amounted to exchanges between different commodity producers: farmers, craftsmen, small capitalists and merchants. Farmers' markets, fairs, etc., were still very important in comparison with centralized retail shops. The number of sellers was not radically smaller than the number of buyers.

The law also assumes that there is reasonable flexibility of production. In former times, if the price of a given farm product went up, land was available for a farmer to grow more of it; if the price of a manufactured item went up, the factory owner could readily buy a few more machines and hire a few more workers to increase his production. Reductions were accomplished just as easily.

These conditions were consistent with long-term stability in prices, aside from temporary sharp declines in times of economic crisis, and temporary even sharper increases in times of war-imposed shortages and excess demand. Thus, charts of prices in the United States show a level in 1900 not much different from that 125 years earlier, in 1775.

By 1900, the conditions giving rise to the smooth operation of the law of supply and demand, and to long-term price stability, had changed and were in process of radical alteration. The age of monopoly had already arrived and was rapidly becoming dominant.

By now there is little left of free competition and of bargaining between sellers and small-scale buyers. Generally effective price floors are set by giant manufacturers and by various government farm price-support regulations. True, people with cars can compare grocery prices at two or three supermarkets, but the variations are within a very narrow range—hardly worth the expenditure in time and gasoline. And in any case, prices are determined by corporate headquarters far away.

The majority of buyers are wage and salary workers and their families. They have nothing to sell but their labor power, generally in an entirely different market than the stores from which they buy goods and the utilities from which they receive monthly bills. Moreover, they have little flexibility in what they buy, if they adhere to social norms conditioned by mass advertising.

Demand for commodities of mass consumption, therefore, is predictable to a great extent. And for necessities, demand does not fluctuate very much with price. Economists say there is a low "elasticity of demand."

At the same time, the available quantity of most commodities is controlled by very few suppliers or, often, by only one. In most cases, the suppliers are huge corporations. When one company is the sole supplier, it has a monopoly; but even when there are several companies, the result is often the same. By formal agreement or by prearranged signals, the suppliers agree when to raise prices and by how much—and on their division of the market.

Economists like to use the word "oligopoly" to denote that there are several suppliers. But since any distinction is more technical than real, the term monopoly will be used here whenever it is apparent that the suppliers can jointly arrange to control supply and prices.

However, monopoly never wholly *eliminates* competition. Competition continues in various forms:

1. Among large firms in a particular industry. This is usually competition to obtain a larger share of the market, through advertising, product improvement, etc., rather than price. The cigarette industry provides an almost classical example: the major firms compete feverishly through advertising and by providing the market with several different brands, and other means. Yet year after year all cigarette prices are increased, most standard brands cost the same, and the profits of the tobacco companies keep going up, in boom or depression.

Thus, according to tabulations by an investment advisory firm, the net profits of the leading tobacco and distilling companies—the two activities often go together—doubled between the boom year 1978 and the crisis year 1982. This despite official warnings about the health hazards associated with cigarettes and the 10% drop in their use since 1973. According to *Value Line,* a "major reason" for the profits is the ability of the companies to raise prices, year after year, faster than the average increase in consumer prices. Obviously this could not have been managed without agreement, formal or informal, among the major producers that none of them would start a "price war."[15]

At the same time, competition for a share of the market, by other means, remains intense. Thus, between 1972 and 1982, the market share of Philip Morris Corporation increased from 20% to 33%, while that of American Brands decreased from 16% to 9%.[16] So the profits of American Brands increased "only" more than three times over the decade, while Philip Morris's profits increased more than six times.

2. By "small" firms struggling for a niche in the market with new products, specialized items or bargain prices. An example is the competition offered by the small telephone company MCI to the telephone giant, American Telephone and Telegraph. By and large, however, it has been other companies rather than individual consumers that have gained from the competition among telephone companies.

3. By producers of competing products. While monopoly pricing prevailed in both steel and aluminum, competition between the corporations producing the two metals was intense. For example, soaring fuel prices put a premium on lower weight and caused automobile companies to substitute much aluminum for steel, while the prices of both metals continued to increase.

Similarly, drug companies compete in marketing new drugs. But this is mainly on the basis of the alleged relative curative powers of various remedies, while profit margins on all drugs remain excessive and profits of most drug companies soar.

4. In international relations. In some cases, international cartels regulate prices and/or production of particular commodities. But in other cases, international competition interferes with the operation of domestic monopolies. A notable example is the competition between foreign, especially Japanese, automobiles and those of the Big Three U.S. companies, which together formed one of the most powerful industrial monopolies in the United States. Yet in the end there was a renewed monopoly division of markets and profits, reflecting the changed balance of forces. Through informal government-sponsored quotas, imports of Japanese cars into the United States were limited, with the Japanese cartel of auto makers apportioning the quota among themselves. Because imported Japanese cars did not meet the demand for them, the Japanese companies councentrated on producing the more expensive models and raised prices considerably. Thereupon, of course, U.S. companies raised their prices, although not as much as the Japanese.

The European Economic Community (EEC or Common Market) is the largest-scale international cartel system established since World War II, an extreme example of international government-sponsored monopoly arrangements. All monopoly situations are affected by government regulations—various restraints as well as assistance and even direct participation.

Particular cartel and price control arrangements of monopoly corporations change or are abandoned, while others become operative and are strengthened. U.S. Steel's "price leadership" in the United States was effectively destroyed by the advent of substantial Japanese and other foreign competition and by the reduced overall market for steel. The "Seven Sisters" oil cartel was disrupted by the national liberation struggles in developing countries, which led to nationalization of oil in many of them and to the establishment of OPEC (Organization of Petroleum Exporting Countries), a cartel-like arrangement by governments in Asia, Africa and Latin America that now own or have established effective control over their own crude oil. By the mid-1980s, OPEC was seriously weakened by growing production in developed capitalist countries and by the stagnation of the capitalist world oil market.

Thus the growth of monopolies does not end price fluctuations or assure continuous success for every corporation, nor does it end the overall anarchy and instability of capitalism. Nor do monopolies end the operation of the law of supply and demand; they subject it to modifications—to their own advantage—by applying the law of maximum profit. On the whole, pricing practices contribute to strengthening the most powerful monopolies and their relative position in the economies of world capitalism.

Monopoly Pricing for Maximum Profit

In a competitive environment with many buyers and sellers, the price tends to settle at that level where demand and supply balance, so that all producers who are able to make a profit at that price supply all they can, while all buyers who are able to pay that price buy what they need. Under those conditions, some higher-cost producers have a narrow profit margin, and the average profit margin is moderate.

When a single seller has a monopoly, and there are many potential buyers, the law of supply and demand changes. The higher the price, the fewer the buyers—but the higher the profit margin. The monopoly sets its level of output and price so that the total profit is maximized. Inevitably this will be at a lower level of production and a higher price than under conditions of competition. Total profits go way up, production goes down, fewer buyers are able to afford the commodity, and those who can afford it have to pay more for it. Supply and demand are still in balance but are no longer the prime factors determining the levels of price and production. Now supply and demand, along with price and production, become subordinate to the monopoly-engendered *law of maximum profits.*

A hypothetical example is that of a bread manufacturer who dominates the market for ordinary white bread in a specific city. Assume it costs the company 20¢ a loaf to produce the bread, including the cost of wheat and other ingredients, of labor, transportation, and expenses of handling and storage. If the company's economists determine the number of loaves per day that would be sold at different prices, they might come up with the following tabulation:

Price per Loaf	*Profit Margin*	*Loaves sold per day*	*Total profit daily*
30¢	10¢	1,000,000	$100,000
40¢	20¢	900,000	180,000
45¢	25¢	800,000	200,000
50¢	30¢	600,000	180,000

With a base price of 30¢—which, let us assume, is what people are accustomed to pay—the company would sell a million loaves daily, pretty much the whole potential market. With a profit of 10¢ a loaf, the company would clear $100,000 a day. If the price were increased to 40¢ a loaf, or by one-third, people would use bread more carefully, would waste less, and some would eat one slice of toast instead of two for breakfast. But on the whole, the sale fall-off would not be great—only 10%. And despite the one-third increase in price, 900,000 loaves a day would be sold, with a profit margin of 20¢ a loaf, twice as much as before, for a total profit of $180,000 per day.

Now assume the price were increased another 5¢, to 45¢ a loaf. Sales would go down nearly as fast as the price went up; people would not only economize more, but would substitute more potatoes or noodles or rice for bread. Some would figure that, at 45¢ for white bread, they could get one of the special Italian breads or a Jewish rye for only an additional 15¢. And many poor people would simply go without bread. So that for the nickel increase in the price—half as much as the former rise—sales would drop by another 100,000 loaves a day, to 800,000. The percentage decline in sales would almost equal the percentage increase in price. But since the producer's costs remain the same, profit margins would still increase faster, from 20¢ to 25¢ a loaf, or by 25%. As a result, total profit on 45¢ loaves would still be higher than on 40¢ loaves, but not by very much—up to $200,000 per day.

But that would be the limit. An increase of another 5¢, to 50¢ a loaf, would result in a sharp drop in sales of white bread. Many people would buy flour and bake their own bread. Altogether, sales would fall from 800,000 per day to 600,000, which would more than offset the increase in the profit margin from 25¢ a loaf to 30¢. So total daily profit would fall back to $180,000 daily.

For maximum profit, therefore, the company would set the price at 45¢ a loaf. Of course, in practice, this would not happen overnight. It would take some years—but not very many—for the price to go up from 30¢ to 45¢. It would go from 30¢ to perhaps 33¢, then to 37¢ and so on, until the maximum profit price of 45¢ was reached. And by then all other conditions will have changed. Because the company's suppliers will have increased their prices, production costs will have gone up a few cents. The price of all other commodities will also have risen more or less in line with that of bread, and people will have gotten some increase in wages in partial compensation. The 45¢ is no longer so outrageous, in comparison with other prices. So consumers begin to increase their consumption of bread somewhat, even at 45¢ a loaf.

And now the process starts all over. Stimulated by higher costs and higher demand, the company will start a new round of price increases, seeking the new, and higher, level of top profits.

Some of the social consequences of this are pretty obvious. People purchase less than they consider adequate and normal, and there is a certain decline in living standards. The bread factory operates below capacity, workers are laid off and unemployment increases. The consumption of grain to make bread declines, and so do farmers' incomes.

But the bakery company's profits go up and up.

For monopolies, a reduction in the cost of commodities they buy is comparable in importance to an increase in the price of commodities they sell. The most dramatic example is the decline in the farm parity ratio—the ratio of prices received by farmers to prices paid by them, mainly for products and services provided by large corporations. With an index number of 100 in the pre-World War I years 1910–1914, it was down to 76 by 1965 and 56 by 1983.[17] These are official Department of Agriculture statistics. Labor Department figures show, as well, how the processors of farm products widen their margins between purchase and selling prices, while prices of final products—which farmers, among others, buy—go up still faster. Between 1948, the first post-World War II peak cyclical year, and 1984, producer prices of farm products increased 118%; of processed foods and feeds, 199%; and of industrial products, 320%.[18]

Monopoly and Inflation

A special feature of monopolization is the diminution of competitive restraints on the price increases that result from the operation of the law of maximum profits. Related forces, connected with the general crisis of capitalism and its structural crises, speed up the rate of price increases and give them a distinct inflationary character.

With government deficits nearly universal among capitalist countries, the excess of government spending over tax receipts is covered, directly or indirectly, by the issuance of money in excess of the amount required to circulate goods that are produced. As the power of monopoly and the size of government deficits rise, the rate of inflation tends to accelerate. Periodically this process is tempered, but never stopped, by the effects of crises during which the effective demand for goods is reduced and prices of raw materials are cut.

Runaway inflation—with prices doubling, tripling and more—has become a permanent feature of life in many developing countries, which maintain expensive bureaucracies and armed forces without an offsetting tax system. This is further complicated by the drain from these countries of real resources by the TNCs and banks. More advanced capitalist countries are also afflicted with inflationary problems when they are involved in major wars or, as in the case of Israel, in ongoing large-scale military operations against neighbors.

A rising price trend, aside from temporary wartime inflationary periods, became evident in the United States with the advent of monopoly capitalism.

After the relative stability of the first 125 years of U.S. history, prices started to go up, slowly at first, in the 20th century. After the World War I surge, there was a decline, but only part of the way back to prewar levels. It took the deep crisis of the 1930s to drive down prices of *basic commodities* to the pre-World War I level—if only temporarily. However, consumer prices *as a whole,* as well as prices of manufactured goods generally, remained well above the prewar level. In European countries, hard hit by damage and financial losses resulting from the war, currency devaluations kept prices far above the prewar levels.

Prices again soared during World War II. But after that war, instead of prices declining when limited wartime controls were revoked, they continued up and have been rising ever since.

At the start of World War II in 1940, the U.S. consumer price index was 40% higher than at the beginning of World War I, 26 years earlier. But by 1984 the cpi was seven and a half times higher than in 1940 and more than ten times higher than in 1914. Moreover, the 1970s recorded the fastest 10-year rise in prices in U.S. history, 113%. The rate of price increase slowed in the 1980s, partly because of the leap in the exchange value of the dollar and partly as a result of the serious economic crisis of the early 1980s and the continued sluggish capitalist world economy. However, prices continued to rise year after year, and at a pace considered alarming in earlier historical periods. In addition, there were ever-present fears that the maximum inflation rates of the 1970s would recur.

Table 8-2 shows the trend of U.S. prices since 1914.

TABLE 8-2. CONSUMER PRICE INDEX, UNITED STATES SELECTED YEARS, 1914-1985: 1914 = 100

Year	CPI	Increase Over Previous 10 Years	Year	CPI	Increase Over Previous 10 Years
1914	100		1970	387	30%
1940	140		1980	823	113%
1950	240	71%	1985	1074	99%
1960	297	23%			

SOURCES: *Hist. Stat.,* E-135, p. 211; *EROP 1985,* Table B-52, p. 291; Current Releases (Indexes converted from a 1967 base.)

Radical fluctuations in oil prices played an important part in the acceleration of inflation and in its later slowing down. But, for the long run, oil prices are not the decisive factor. In any case, the long-term trend is upward for accelerating inflation.

Under conditions of monopoly-induced inflation, price increases continue to raise monopoly profits—at the expense of workers as consumers. Between 1913 and 1984, the producer price index for finished goods increased eight times, while the cpi increased 10.5 times. The real difference is more marked when one considers the devices by which the Bureau of Labor Statistics understates the rise in living costs.

The situation is similar in other industrialized capitalist countries and is far, far worse in many of the developing nations, where prices may double or more several times in a year. Moreover, the accelerating rise in the developed capitalist areas suggests that they, too, may not be immune to runaway inflation.

Inflation, tending to worsen from decade to decade, debilitates the entire capitalist economy and is a potent factor in the absolute reduction in workers' living standards and, in developing countries, in the condition of peasants.

Opponents of monopoly in capitalist countries may limit inflation through struggle. But the basic inflationary character of advanced monopoly capitalism cannot be cured, and the only remedy will be the substitution of a socialist planned economy.

Monopolies and Labor

The stepped-up rate of exploitation of labor in the epoch of monopoly capitalism (Chapter 2) has in part been due to the special advantages big business enjoys in the class struggle.

- The size and huge financial reserves of a large corporation enable it to sustain prolonged strikes by workers at some, or in rare cases even all of its plants, while workers are soon driven to destitution, loss of homes and hunger.
- When forced to grant wage increases, companies more than compensate by raising prices, which ultimately take away from workers the wage gain, and more.
- With financial reserves to install the most advanced equipment and technology, employers are able to raise labor productivity and reduce the level of employment and wages.
- With enterprises scattered all over the country and, in the case of transnationals, all over the capitalist world, corporations can readily shift production from higher-wage areas to lower-wage areas,

causing large-scale unemployment at plants where workers succeed in winning better pay.

• The operation of the law of maximum profits leads to below-capacity production, with a growing reserve army of unemployed workers, thus not only reducing the real income of the working class directly but also indirectly by depressing the wages of employed workers who fear replacement by the jobless.

• With their strong political influence, the monopolies are able to force changes in the tax structure, so that the taxes they pay are reduced, and the taxes paid by workers are increased. Special advantage is taken of the independent taxation systems of the separate states. Thus large companies decide where to locate plants only after receiving bids from competing state governments, choosing the lowest tax rate; increasingly, they also get offers of direct subsidies from the state government as a "reward" for locating there. Naturally, the workers of the state that "wins" this competition make up for the company's low taxes and subsidies by paying higher taxes.

These advantages of monopoly can be overcome to the extent that:

• Workers form a unified trade union movement embracing the large majority of the working class, and with mutual support between workers in different industries.

• Workers form the core of a powerful independent political party, operating with a consistent anti-monopoly strategy and militant action tactics.

• Workers develop mutual cooperation internationally.

Conglomerates

The proliferation of conglomerates formed by industrial giants represents a new and significant stage in the development of monopoly capitalism.

Traditionally, monopolies—both "horizontal" and "vertical"—expanded within a broad grouping of roughly homogeneous products. That is, the most powerful manufacturer of a given product might expand "horizontally" by gobbling up weaker rivals, and "vertically" by buying up raw material sources, parts fabrication plants, and wholesale and retail distribution facilities. But the corporation's final products would remain in the same category: electrical equipment, or automotive products, or chemicals, or textiles, as the case might be.

After World War II, corporations increasingly expanded beyond those limits. The formation of *conglomerate* corporations became important by the 1960s and decisive in the 1970s. By the 1980s most large, financially secure industrial corporations had become conglomerates.

Consider the Allied Corporation, formerly the Allied Chemical Corporation, a leading manufacturer of chemicals. By 1982 it had enterprises in five main groups of industries: chemicals, fibers and plastics, oil and gas, electrical and electronic goods, and health and scientific products. In 1982 it acquired the Bendix Corporation, a major producer of automotive products and aircraft components, as well as machine tools, and a substantial military contractor. Allied Corporation also took over a company involved in genetic engineering and engaged in developing laser products.[19]

Conglomerates sell companies too, trading with one another like hagglers at a street market—but with stakes in the hundreds of millions, and billions, of dollars.

Forbes magazine's cover (March 23, 1987) shows a sharp-toothed monster fish, with the General Electric (GE) logo on its flanks, about to consume a small, frightened goldfish. The caption: "What will 'General Eclectic' eat next?" And *Business Week* had this to say about GE in its article entitled: "General Electric is Stalking Big Game Again":

> Perhaps most important, the RCA purchase shows how the old-line machinery maker is becoming a well-oiled dealmaking machine, too. Since Welch became chairman in 1981, GE has sold 232 businesses or product lines and bought 338 others, closed some 30 plants and opened 4 major ones, spent $14 billion on plant and equipment, and cut its jobs by 132,000 or 25%.[20]

Conglomerating, General Electric establishes monopoly power in many more places. The company reports: "With respect to manufacturing operations, it is believed that, in general, the Company has a leadership position (i.e., number one or two), in most major markets served."[21]

Xerox Corporation, the pioneer in copying machines, depends more and more on the insurance company it acquired for reported net profits. At the same time, it sold its disc drive business for a $65 million loss in 1984 and its six publishing companies for a $200 million profit in 1985, bringing about a 64% rise in the stock market price of its shares.[22]

In no way can conglomerates be regarded as a structural advance —in the organizational-administrative-engineering sense of, for example, vertical integration of related enterprises. *Rather, conglomerates represent a stage in the decay, in the deepening social inefficiency and structural crisis of capitalism.* In a socialist America their components would have to be restructured for rational economic planning.

Conglomerates do not merge and coordinate the procurement of raw materials, production operations and distribution of final products. Often their major enterprises are managed as autonomous "profit centers," with directives from "headquarters"—mainly concerning the extent, direction and financing of expansion, the appointment of top executives, and verification of profits.

The aggressive moguls in top control will buy any company in any industry that they think offers prospects of a sufficient rate of profit and "cash flow"—and especially growth possibilities. The limits of expansion are determined only by the amount of capital they control or to which they have access by borrowing and/or stock flotations.

In fact, the initial conglomeration of several separate corporate entities may result in a lower overall rate of gross profit on the "watered" total capital of the conglomerate, as compared with the average rate of gross profit of the several components. That is because to obtain control the promoters need additional money capital to pay off the former bosses with "golden parachutes." Also, they may pay far more than the "book value"—or actual invested capital—of acquired components of the conglomerate. This overpayment often appears in the conglomerate's accounts under the misleading category "good will."

The prime motive for establishing a conglomerate is the prospect for multiplied profits of control. A conglomerate's executives go to great lengths, and even take significant financial risks, in order to reap the enormous profits from what had been a number of separate corporations.

A number of conglomerates were set up by capitalists who did not have adequate financial backing and had to borrow heavily. This led to their downfall in the first economic crisis or recession that came along. But conglomerates that were organized carefully, with a strong financial base and powerful banking connections, obtained advantages that offered the possibility of a long-run rise in the rate of gross profit —even on the watered total capital and even on the residual share going to the outside stockholders. These advantages included:

- Concentration of production in the most profitable industrial areas. As a matter of policy, enterprises that do not achieve a target rate of profit are shut down. That can be done much more easily by a conglomerate owning literally thousands of different factories, shops, and other establishments than by a corporation having limited, and interrelated, units, the loss of any one of which would seriously hamper operations.

- The inclusion in the conglomerate of a financial company to provide credit and "cash flow" for the overall operation. In the case of an insurance company, for example, cash premiums are collected and available for current use, while the reserves placed on the books against future claims remain only potential obligations.
- Most important of all, the ability of the conglomerate to exploit its workers, to gain points in the class struggle. Workers in enterprise after enterprise can be impelled to accept cuts in real wages and inferior working conditions on the threat of losing their jobs. To the extent that workers are organized, they are split among several unions, without arrangements for coordinated action, and are separated not only by wide occupational differences, but by countrywide, even global, dispersal.

The conglomerate form has been an important factor enabling bosses to end industrywide bargaining with unions in steel and other key industries. In general, conglomerates have contributed greatly to the ability of monopoly capital to hike the rate of surplus value and the rate of gross profit—to the detriment of real wages of U.S. workers.

Most of the $125 billion per year of mergers shown in Chart 8-1 were of the conglomerate type. Increasingly, conglomerates include within the same corporate shell major financial as well as industrial and trading components. Increasingly, they include a unit with an important stake in the arms race. The trend and scale of their transnational operations tend to increase.

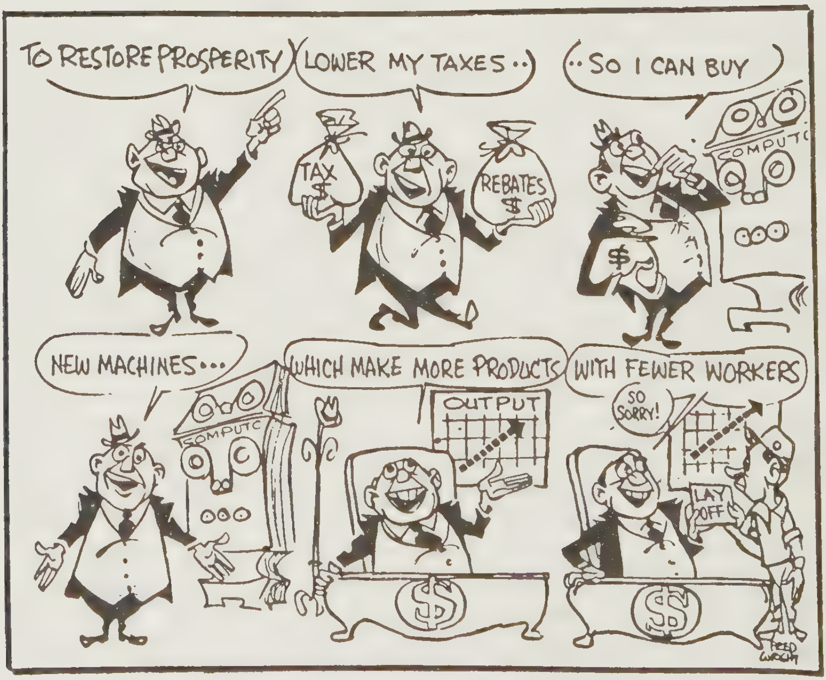
All in all, conglomeration increases the parasitism and corruption of U.S. monopoly capitalism, as well as the overall anarchy that goes along with concentrated financial control. It also fosters increasing corporate debt ratios, which contribute to financial instability, high interest rates and inflation. The process also enhances in some respects the power of the big commercial and investment banks, which are intimately involved in the formation of most conglomerates.

But in other ways conglomeration undermines the power of the banks. Giant conglomerates, starting from an industrial base and establishing major financial sectors, compete with banks as money lenders. With their own financial-industrial structures, they disrupt the historically evolved banking-industrial complexes, loosen their interlocking ties, and weaken U.S. finance in international competition with its European and Japanese rivals.

Ford, the number-two U.S. auto manufacturer, has bought up and expanded its First Nationwide Bank, has put kiosks in supermarkets and aims to spread its presence all across the land. Comments *Fortune:*

> By the decade's end commercial and investment banking could be dominated by manufacturing stalwarts rarely identified with the money game, such as General Electric and Ford. At home and abroad large many-faceted institutions will be battling conglomerates based in Tokyo and London.[23]

While this exaggerates the short-term potential, the long-term threat to "traditional" financial institutions is real.



9. Financial Rulers of America

The concentration of economic power, characteristic of monopoly capital, finds its most advanced expression in the concentration of financial power and, of particular note, in the merging of industrial and financial monopolies. Those at the peak of this structure of finance capital are the oligarchs who control the economic life of the country.

The most profitable corporations are industrial, and the multi-billion-dollar tycoons generally own industrial property. But much of the surplus value generated in industry by industrial workers filters through the financial system and is distributed thereby to the ultimate capitalist beneficiaries, with the financial intermediaries tending to extract in the process increasing shares of the total.

Credit—the accumulation of savings and their loan to capitalists—has been a major factor in the growth of production throughout the history of capitalism. In this century, the epoch of imperialism, the role of financial intermediaries has burgeoned. More and more of their operations are to fund parasitic activities—a wide range of essentially nonproductive projects, including speculative ventures—and the proliferating bureaucracies of imperialist governments with their huge military structures.

The financial apparatus has become more and more complex. In addition to standard commercial banks, mutual savings banks and Federal Reserve banks, there are investment and merchant banks, stock brokerage houses, insurance companies and investment companies. More and more industrial conglomerates have their own financial subsidiaries. Banks have become chains, branching out across state lines and international boundaries. Transnational banks, operating around the globe, are the largest and most important. The transnational money-center banks of New York, London, Tokyo and Frankfurt are more than ever the hubs of economic power in the capitalist world.

U.S. financial institutions now hold and control about half the shares of major U.S. corporations. The richest capitalists collect only part of their revenue directly; a major part is held for their accounts by the financial holding companies, banks and insurance companies in which they have a large or decisive ownership interest. In addition, the financial companies have set up "mutual funds" to mobilize for investment the savings of small capitalists and the petty bourgeoisie.

The banks, in addition to supplying credit on a mounting scale, have become coordinators and managers of the major share of the surplus value accumulated by the capitalist class. So those who own and control the major banks have the power and opportunity to garner much personal wealth. One need cite only, among the best known examples—the Rockefellers and Chase Manhattan; the Mellons and the Mellon Bank; the du Ponts and Wilmington Trust.

Sociologist G. William Domhoff, noting that there is a concentration of the super-rich, the members of social registers, among bank directors, explains that it is because the banks are trust representatives for a large amount of corporate stock.

> [W]e believe that the major banks are the glue of the economic system; as can be seen by studies of corporate interlocks, they have ties with every important business in the country. Bankers are the most important carriers of information and opinion from one sector of the business establishment to another . . . [1]

This has been part of a global phenomenon of capitalism.

In all the major capitalist countries, the concentration of ownership in industry and banking was accompanied by the banks' rising stake in industry—the merging interests of the top tycoons of industry and finance—to the point where large groups of corporations, many of them monopolies, were virtually under common control. This phenomenon was given the name "finance capital" by the Austrian Marxist R. Hilferding. The individuals in control of these groups were referred to as the "financial oligarchy" by the French writer E. Letailleur (Lysis).

Synthesizing the works of contemporary European researchers and putting them into a more comprehensive framework, Lenin in 1916 described as one of the central features of modern capitalism: "The merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital' of a 'financial oligarchy.' "[2]

Lenin wrote that the banks have been transformed from "modest intermediaries" into

> powerful monopolies having at their command almost the whole of the money capital of all the capitalists and small business men and also a large part of the means of production and of the sources of raw materials of the given country and of a number of countries.[3]

and he also said:

> Finance capital, concentrated in a few hands and exercising a virtual monopoly, exacts enormous and ever-increasing profits from the floating of companies, issue of stock, state loans, etc., tightens the grip of the oligarchies and levies tribute upon the whole of society for the benefit of the monopolists.[4]

In the United States, writers like Ida Tarbell and Lincoln Steffens, known as muckrakers, exposed the antisocial activities of particular monopolies, their devices for destroying competitors, their exploitation and suppression of workers, their buying of politicians.

Antimonopoly struggles have often focused on banks as the obvious source of disasters that afflict farmers and workers as well as small businessmen. During the 1930s, when millions of U.S. farmers and workers were evicted from their farms and homes, the "Farm Holiday" and mass urban movements to save homes were major factors in the struggles that led to partial remedial legislation under the New Deal.

Again, in the crisis of the 1980s, high interest rates resulted in scores of bankruptcies of small and medium business enterprises, repossession of workers' cars and the loss of farms and homes. In general, during crises the power of the big banks is greatly enhanced at the expense of workers, farmers and those capitalists without strong financial resources or connections. In the United States, during the crisis of the early 1980s in particular, when net profits of enterprise of industrial corporations declined, profits of banks increased—partly at the expense of industrial corporations.

Repeatedly congressional committees have conducted hearings and published reports exposing monopolistic practices of the large banks. The reports are valuable as sources of information, but the congressional committees never succeeded in affecting—much less effecting—government policies to reduce the monopoly power of finance capital. Even more, the political power of finance capital gave its representatives a large degree of control over the very agencies supposed to regulate the banks and enforce antimonopoly measures.

Thus, while antimonopoly laws and regulations hampered particular activities of the banks, they could only temporarily slow the growing domination of finance capital, which reached an unprecedented peak by the 1980s.

The pioneering attempt at a detailed analysis of the structure of American big business, with its financial and industrial ties, was made by John Moody, a chronicler—rather than a critic—of the trusts. Moody, who was the founder of the standard investors' manual, *Moody's Industrials,* wrote:

> Therefore, viewed as a whole, we find the dominating influences in the Trusts to be made up of an intricate network of large and small groups of capitalists . . . all being appendages to or parts of the greater groups, which are themselves dependent on and allied with the two mammoth or Rockefeller and Morgan groups. These two mammoth groups jointly . . . constitute the heart of the business and commercial life of the nation, the others all being the arteries which permeate in a thousand ways our whole national life, making their influence felt in every home and hamlet, yet all connected with and dependent on this great central source, the influence and policy of which dominates them all.[5]

Moody accurately identified the two most powerful financial groups, which for a long period played—and continue to play—a crucial role in the affairs of the most important corporations and in political matters, up to and including the choice of Presidents of the United States. Concerning them, Lenin said:

> In America are not nine, but *two* big banks, those of the billionaires Rockefeller and Morgan, which control a capital of eleven billion marks. . . . Among the few banks which remain at the head of all capitalist economy as a result of the process of concentration, there is naturally to be observed an increasingly marked tendency towards monopolist agreements, towards a *bank trust.*[6]

Lenin gave examples showing how this concentration of control involved aiming for tremendous rates of profit, citing, as one instance, the profits made on the issuance of industrial securities in Germany in the period 1895-1900, ranging from a "low" of 36.1% to a high of 67.7%, with an annual average rate for the six years of 55.2% per year.[7]

Gustavus Myers, in his *History of the Great American Fortunes,* completed in 1909, examined the rise of other major financial-industrial interests. He made an important contribution, showing the link between the rise of great capitalist fortunes in the earlier stages of U.S. capitalism and their merger into the complexes of financial and industrial power in the monopoly stage. He showed that the process of concentration, leading to increasing differentiation between the super-rich and the poverty-stricken masses, was an inevitable result of the capitalist system. At the same time he stressed the thievery, brutality and corruption engaged in by most of the founders of the great fortunes in their drive to wealth and power.

Despite the power of the Morgan and Rockefeller groups at the turn of the century, and the influence of the financial oligarchy, the big trusts did not yet control the largest part of U.S. economic life, which was still managed by small capitalists, traders and farmers.

There were similar power structures in Western Europe and Japan. Four banks in France and six in Germany expanded vastly as they swallowed up weaker banks and gained controlling positions throughout the economy, through loans, issuance of stocks and bonds, and ownership of stocks in corporations. By 1903 the six major German banks, together, had 1,040 seats on boards of directors and supervisory boards of industrial companies, including chairmen of boards.[8]

The huge financial-industrial groups in the United States, Germany, France, etc., lacked the formal legal structure of the corporations they encompassed, and the closeness of their relationships within particular groups varied. In some cases, control of a particular corporation was divided between two or more finance-capital groups. The lack of formal structure facilitated secrecy and flexibility of operations, as well as the extraction of vast profits through financial manipulations. At the same time, it accentuated the anarchy and instability of capitalism.

In Japan the structures of finance capital emerged full blown, so to speak, out of the feudal class that assigned business roles to its representatives. These built up banking, trading and, later, industrial enterprises under common ownership. The "Big Six" mentioned in chapter 8 are Mitsubishi, Mitsui, Sumitomo, Fuyo, Sanwa and Dai-Ichi Kangyo.[9]

With the development of modern industry such groups emerged as extremely powerful centers of the Japanese economy, with a formal structure and tight control far beyond that of the finance-capital centers of the European and North American countries. The tight structure of these groups, and their collaboration through the Japanese Government, had much to do with the rapid growth of the Japanese economy and the financial-industrial power of Japanese imperialism.

Japanese capitalists were able by these means to *partially* overcome the anarchy of capitalist production, to guarantee a high rate of investment and thereby economic growth, and to reduce the impact on Japan—as compared with other capitalist countries—of economic crises.

In the Japanese *Zaibatsu* manner, the South Korean financial-industrial capitalists were grouped in all-dominating *chaebol*—brutal dictatorships that rapidly gained in economic power to become major factors in the capitalist world economy.

At the same time, both Japan and South Korea remain under large-scale U.S. military occupation; the island of Okinawa is a military colony of the Pentagon, as is all South Korea, where 45,000 U.S. troops are an addition to the 600,000-man South Korean army under the direct control of a U.S. general.

Expansion of U.S. Finance Capital After World War I

World War I gave the U.S. economy a boost, and the global influence of U.S. monopoly capital multiplied. The direct involvement of the dominant financial groups became more comprehensive as the role of small business and agriculture declined. At the same time, the entire financial structure became more complex as additional centers of power emerged to challenge the Morgan and Rockefeller groups.

Several authoritative studies have analyzed the financial oligarchy.

Marxist researcher Anna Rochester made a detailed examination of the expanded scope of three major financial-industrial groups: Morgan, Rockefeller and Mellon; and she examined some other, lesser groupings.[10]

Economists of a New Deal agency, the National Resources Committee, identified eight major groups and estimated the assets under the control of each. According to this study, the eight groups controlled 62% of the assets of the 250 decisive corporations in the United States at that time.[11]

When I analyzed the financial structure in the 1950s, I also identified eight major groups, including six named by the National Resources Committee, but taking account of the relative decline of two of those and the increased importance of others. Reflecting the geographical dispersion of financial power, four of the eight groups were centered west of the northeastern seaboard.[12]

The Soviet scholar S. Menshikov, in a more detailed analysis, identified eight New York financial groups and 18 regional groups, several of which, however, were based on the northeastern seaboard and closely connected with the New York groups.[13]

The Oligarchy

It is important to stress that the banks, exercising far-flung financial power and control in a seemingly impersonal way, actually represent very wealthy individuals and families who own controlling blocks of shares. The same applies to the giant industrial corporations, intimately connected with the financial corporations. The few thousand families at the summit of the ruling class tie together groupings of corporations through a network of interlocking stock ownerships and directorates, with banks usually at the center.

Members of these families, acting in their own name or through their corporations, dominate political life. Through such organizations as the Business Roundtable, they exert the main right-wing and reactionary pressure on all branches of government and on elections. Among them are organizers of the Far Right, striving to push the country toward fascism and raising the danger of nuclear war to an extreme pitch.

John S. Saloma III lists leading families of the Far Right, including Bechtel, Coors, Lilly, Olin, Pew, Smith Richardson and Mellon Scaife.* The Bechtels, owners of the largest U.S. construction combine and leading force in the California financial-industrial complex, became the leading sponsor of right-wing President Ronald Reagan. Their executives, Shultz and Weinberger, occupied the two main cabinet posts, State and Defense, along with other Bechtel men in important positions.

The Coors Brewing Company was boycotted by American labor for its extreme anti-union policies. The Mellon group (oil and banking) was for long one of the most powerful segments of the financial oligarchy, although its position weakened in the 1970s and 1980s.

**The Nation*, 1/14/84

The Banks

The power of the banks—supplemented by the related insurance companies—over industrial and commercial life derives from a combination of functions:

1) ***Supply of credit, short and long term.*** Capitalist enterprise, historically and even more so today, requires credit. The entrepreneur who relies solely on his own capital cannot achieve the scale of operations necessary to compete effectively with his rivals. Expand or go broke—take over other companies or be taken over by them—is an elementary law of the capitalist jungle.

Bank credit not only permits expansion of operations, but promises a more-than-proportionate increase in the rate of profit on the entrepreneur's capital: the rate of interest is generally smaller than the gross rate of profit—historically a minor fraction.

Thus by borrowing, the industrial capitalist obtains leverage to raise his effective rate of profit. The leverage of the banker is far greater. Typically, banks obtain deposits of 20 times their capital. Suppose the bank pays an average of 5% interest on its deposits—including both interest-free demand deposits, savings and time deposits—and obtains 10% on its loans and investments. Then its effective rate of gross profit on the bankers' investment is "leveraged" up to 100%. For example:

	Amount	*Rate of Interest or Profit*	*Amount of Interest or Profit*
Total loans and investments	$2,000,000	10%	$200,000
Total deposits	2,000,000	5%	100,000
Equity capital	100,000	100%	100,000

This does not take into account the substantial other sources of modern banking income from fees for financial services, currency and security transactions, trust services and investment banking. Nor does it take into account the banks' operating expenses, which, to an exceptional extent, include the hidden profits taken by the control group. These bankers, who are paid exorbitant salaries for their executive services, also can obtain large loans at well below market rates and are able to take advantage of their inside knowledge of operations of many industrial firms to reap huge profits through personal security transactions.

Thus the reported net income after taxes of the bank might well be "only" in the 15–25% range as a percent of capital, while the gross profits are several times that.

In return for supplying credit, the banks obtain detailed information concerning the business of the borrower and access to all material developments. For major long-term credit, through bond issues, the banks dictate "indentures"—documents running into hundreds of pages—that place far-reaching conditions on the operations of the borrowing company.

Naturally a bank with a wide range of borrowers among major corporations amasses an intimate knowledge of what is going on in the economy of the country—and the capitalist world—far earlier than the directors of any one industrial company can. The information is qualitatively superior and broader in scope than that collected by related government agencies.

While short-term credits on a moderate scale are advanced generally by individual banks, large-scale and long-term bonds are provided by syndicates of banks. The power is centered in the "lead bank," which organizes the syndicate and maintains the closest connections with the borrowing firms. This is a special source of power for the large "money-center banks" mainly in New York.

2) ***Ownership and control of stocks*** is part of the investment and trust functions of the banks.

Investment Banking: Investment banking is the mobilization of capital for the formation, expansion and merger of corporations. This includes the accumulation of the vast sums needed by corporate giants; it involves handling investments of wealthy clients and has been broadened to take on pension funds, university funds and other funds that represent the collective holdings of groups of capitalists and, in some cases, their workers through unions.

These sources make up the trust funds, running into hundreds of billions of dollars, handled by the major banks and some other financial institutions. These funds are then used for investment and provide part of the funding needed for new issues of bonds and stocks. The investment banking function also involves selling to broad circles the bond and stock issues of corporations and debt issues of governments.

When the great industrial trusts were set up, several individual, privately owned companies in a given industry—such as steel—were joined to form large corporations. Bonds and stocks, representing shares of ownership in the new enterprises, were sold to many investors.

Stocks and bonds (securities) are still sold in order to secure funds to expand existing properties; and securities are traded and sold, and money is borrowed in mergers of existing companies.

Today most industry is carried on by "public" corporations, that is, companies with many stockholders, published accounting records, and shares traded on recognized exchanges or on the "over-the-counter" market.

Investment bankers arrange the transactions by which capital is raised and exchanged. They coordinate and lead in selling new stocks and bonds through brokerage houses and borrowing funds required through banking syndicates. They also organize shifts in the control of corporations through the private sale of a huge block of stock from one group to another.

Investment bankers simultaneously act as brokers and take on many banking and other financial functions: lending money to purchasers of stocks (margin accounts); various forms of accepting deposits of investors; placing substantial amounts of capital in "hedging" operations to put a "floor" under the price of a new issue of securities.

Historically the most powerful investment bankers in the United States were commercial bankers, such as J. P. Morgan and Company, the First National City Bank, and the banks of the Rockefeller, Mellon and major Boston families. Their varied activities gave them maximum profit opportunities and access to corporate control, and provided them with the most detailed information about the affairs of companies and wealthy individuals. They knew when a weaker company was ripe for takeover and they could find potential acquisitions for covetous corporations or multimillionaires with capital reserves; they were able to determine the when and the how of merger terms.

For decades the House of Morgan was the decisive leader. It arranged the series of mergers and the stock and bond issues that culminated in the formation of the U.S. Steel trust. Other key firms engaged in specialized financial operations that, through mergers and expansions, became financial conglomerates dealing in stocks, bonds, commodities, precious metals, currencies, etc. They combined "wholesale" and "retail" financial activities. The underwriting of a large new issue of stocks or bonds is an example of financial "wholesaling"; the sale of a small number of shares to an individual investor is considered "retailing." The popular protest song "The Banks Are Made of Marble" reflected the focusing of the people's anger on Wall Street in the 1930s, considered responsible for shutting down factories, for causing the unemployment of one-third of all workers, for the bankruptcy of millions of stock market debacle. In four years, 10,000 weaker banks were forced to close their doors, with losses of $10 billion to depositors—an amount equal to one-fifth of a year's total personal income.

The dominant banks gobbled up what was left of the bankrupt institutions, took over the foreclosed homes and idle factories. J. P. Morgan II was publicly attacked on the witness stand by a Congressional investigating committee, which exposed many profiteering devices used by the banking houses to dupe the public.

Resultant reform legislation—inadequate as it was—included the establishment of the Federal Deposit Insurance Corporation (FDIC) to save future small and medium depositors from losses when banks closed; the Securities and Exchange Commission (SEC) to limit fraudulent stock-jobbing; and the Glass-Steagall Act, which required the separation of most investment banking from commercial banking. This legislation compelled J. P. Morgan & Co., the National City Bank and other big banks to dispose of most investment banking operations. They continued to handle government bonds and notes.

In practice the House of Morgan retained a close tie with its virtual affiliate, Morgan, Stanley & Co., established to handle its investment banking business. Similarly, the First Boston Company took over the investment banking interests of the Rockefellers, the Mellons and, partially, the Boston bankers.

Regulations requiring competitive bidding for issuance of utility and railroad securities weakened the cartel arrangements among the investment banking houses. While essentially minor, the reforms somewhat strengthened the relative position of the leading "independent" investment banking/brokerage houses.

In the late 1970s and early 1980s the six most prestigious investment banking firms were: Morgan Stanley; Salomon Brothers; Merrill Lynch; Goldman Sachs; First Boston; Lehman Brothers Kuhn Loeb.

As the scale of financial operations multiplied, more capital was needed to gain a ranking position in investment banking. A wave of mergers led to the great expansion of the surviving large investment banking houses, and some were swallowed up by other financial companies with more capital. Thus Lehman Brothers, which earlier had absorbed Kuhn Loeb, was itself—along with a number of other investment banking and brokerage houses—taken over by American Express, the financial conglomerate noted for its "prestige" consumer credit cards. Prudential Insurance Co. took over Bache & Co., tremendously increasing the financial resources of that house. Industrial and commercial monopoly corporations took over other major investment banking firms—Sears Roebuck absorbed Dillon Read; General Electric bought Kidder Peabody.

Investment banking retained some characteristics of the financial piracy of the earlier period of trust formation. Most of the firms were partnerships, but in the 1980s more and more of them "went public" through sale of stock to investors. Huge potential profits were at stake. The leading partners in the unincorporated firms and the top executives in the incorporated firms draw exceptionally large profit shares, in the case of partnerships, or salaries running into millions yearly and exceeding corresponding remuneration paid by most commercial banking and industrial corporations.

Merchant Banking: The dominant banks emphasize their merchant banking activities. "Merchant Banking—Worldwide" is a favorite slogan. As practiced, the scope is almost limitless in the sphere of wholesale finance. It includes any profit-making function: obtaining, correlating and analyzing information; mobilizing and moving vast amounts of capital; organizing, handling and recording the domestic and international transfer of money in its various forms; dealing in or arranging deals in the many bond, stock, commodity, futures and options markets.

Merchant banking also involves traditional investment activities such as arranging for raising capital through new issues of stocks and bonds, but on a much larger scale. Merchant bankers specialize in promoting mergers, takeovers, international condominiums of bankers and industrialists. These complex deals result in repeated rearrangements of the corporate structure, in the patterns of ownership and control.

When the big trusts in steel, oil, etc. were formed, the bankers reaped gains by securing key posts in the monopolies that pioneered in the concentration of capital. These enterprises controlled markets necessary to raise prices; they had the funds for research and development.

Currently merchant banking has little clear structure or direction. These banks arrange deals involving billions by manipulating stocks or by arranging financing for corporate takeovers by aggressive and powerful capitalists. Anything—if the profits are high enough.

Merchant banking also involves short-term trading activities, unbelievably vast in scale, as illustrated in table 9-1.

Table 9-1 data refer only to New York transactions in what is an

TABLE 9-1. Scale of U.S. Trading in Specified Financial Transactions, 1985

Market	Daily Trading Volume (*Billions*)	Annual Trading Volume (*Trillions*)
Foreign Exchange	$ 40	$10
U.S. Govt. Agency Securities	87	22
Commodity Futures	86	21
Money Market Instruments	20	5
Total of above	$233	$58

SOURCE: Citicorp, *Banking on Investment (Banking!)*, 1986, p. 61.

increasingly multinational market, and one that is growing rapidly in scale. The foreign exchange market is the most international in character.

A year after the 1985 statistics were released, the volume of international trade in currencies was estimated at $200 billion daily, with the three largest markets being London—$90 billion; New York—$50 billion; and Tokyo—$48 billion. About 90% of the trading was among banks and other currency dealers, while only 10% was related to financing trade or investment. But the 90% wasn't sheer gambling among themselves. The major players, for the most part, all made money—at the expense of the 10% of "outsiders" and smaller banks forced to engage in currency dealings. One of the largest players, Barclays Bank of London, multiplied its scale of trading more than 25 times in the last 10 years.

The banks intensify and profit from the volatility in currency exchange rates, especially since 1972 with the collapse of the dollar-based system of fixed exchange rates. Because of the scale of transactions in this anarchic market, attempts of central banks to exert a major influence on the shifts in currency rates, and to stabilize them, have been failures.[14]

This is an important feature of the structural crisis of world capitalism (see chapter 16).

The total amount of the transactions shown in table 9-1 is staggering. The $58 trillion shown is 30 times the volume of world trade in all goods, and compares with $1.25 trillion in cash transactions (amount of money actually changing hands) during a year. It equals 15 times the U.S. gross national product (gnp).

This trading goes on 24 hours a day, worldwide. The big banks and investment banking firms handle transactions for themselves and their customers amounting to several times their total assets each day. The activity of the London market is on a scale comparable to that of

New York. Tokyo is fast catching up, while being perhaps the largest single buyer of U.S. Government securities.

Salomon Brothers was the leading trader in U.S. Government securities in the mid-1980s, holding $30 billion worth in its own account. The continuous, split-second trading requires operators with youthful energy and money-making ambition. The firm's Tokyo office trading was headed by Bernard Ward, 27 years old:

> Mr. Ward, a 6-foot 6, 230 pound rugby player, gets impatient in quiet markets. A feverish worker who has been known to jump up and down on his desk during rallies shouting "Bond Fever" he sometimes puts in 20-hour days to feed information to London and New York.[15]

There are other types of transactions, comparably large in volume, not covered in table 9-1. Knowledgeable financial journalist Martin Mayer estimated the overall global volume of transactions at $800 billion a day, or $200 trillion a year. He illustrated:

> "People ask me what I do at Morgan," said James T. Byrne, a square-shouldered, youthful vice-president in that bank's operations department. "I tell them that every day between two and four in the afternoon, I move a billion dollars a minute. They sort of change the subject."[16]

Along with these highly sophisticated operations on a trillion-dollar scale, there is the meaner, cruder robbery of small bank depositors. Such a depositor banks the checks received for work or as returns on investments. The bank begins the next day to collect interest on that money, but the depositor is not credited with interest for up to two weeks, depending on arbitrary rules established by the banks for the formal "clearance" of the deposits.

But the paper transactions, with no basis in productive activity, are not just astronomical numbers to astound the public. They represent manipulations from which the giant banks derive hundreds of millions in profits, as they are at the hub of activity and have the knowledge to profit from changes in prices of securities and currencies.

It is one thing to marvel at the scale and speed of transactions, but the use to which they are put is appalling. Modern monopoly capitalism misuses the tremendous potential unleashed by the scientific-technological revolution, the computerization and instant global communications systems, primarily for what are essentially parasitic activities. The financial diversion of science and technology to non-productive ends is second in scale only to their military misuse.

Here we must consider the role of futures, or options. Briefly, an option gives the purchaser the right to buy or sell a commodity or stock at a specific price, or to exchange currency at a specific rate, on a given future date. In commodity trading, the options serve to protect the trader—e.g., the dealer in wheat—from changes (in the price of wheat and, in the case of international transactions, changes in currency exchange rates) between the time he buys and the time he expects to sell the commodity.

However, the most spectacular growth in the futures and options market has been in stocks, far, far removed from the real world of production and trade in goods. Whole pages in newspapers list buy and sell option prices for stocks of different companies. Most attention is focused on futures in the combination of prices of leading corporations—for example the Standard and Poors 100 index.

When there is a significant discrepancy between the futures index price and the going market price of stocks, the computers spot it instantly. Then by pushing buttons, the investment companies can simultaneously sell stocks in the corporations—say the S & P 100—and buy futures in the index of their combined prices, or vice versa. These manipulations involve capital of tens of millions of dollars in order to garner a profit over and above the transaction cost. But for the giant financial combines, it is usually a "sure thing" for skimming millions in profits from the underlying trade in securities. While for the smaller operators and individual speculators, the futures market is no better than betting on numbers in a gambling casino. In the long run, their losses must balance the profits of the major players.

Such activity intensifies the instability in financial markets. Imagine the havoc when a dozen major financial companies simultaneously dump large volumes of shares of the 100 largest industrial corporations on the market! That was a potent factor in the New York stock market crash of October 1987, when even major players could not get the prices they expected for the stocks they sold. Smaller brokerage houses failed and individual speculators dealing in futures on 10% margin (putting up 10% of the capital involved) were wiped out.

Frenetic activity on the stock, bond and related markets in major centers, and even in a number of developing countries, is a conspicuous feature of the parasitism of capitalist finance as the system decays.

But there is yet another aspect. When a number of the most powerful financial groups simultaneously buy or sell stocks in the leading corporations of U.S. capital, they are, in effect, expressing an opinion on the course of the economy as a whole. Willy nilly, their actions have worldwide repercussions. If the market price of the shares of the 100 companies declines sharply, it is a signal to corporations to pull in their horns, to cut new investments, to lay off employees. In short, there is interaction between the stock market cycle and the business cycle. Increasing instability in the stock, currency and commodity exchanges leads to increasing instability in economic life—and the working class pays the main price.

Alfred Brittain III was chairman of Bankers Trust New York Corporation in the early 1980s. A business journalist wrote:

> . . . Brittain's strategy for continued growth is to move BT toward the style of the large merchant bank that lends money, manages money, trades and above all acts as investment banker for the customer. And he intends to continue concentrating on the top end of the domestic and multinational corporate market.[17]

The article explains how Bankers Trust had already attained a position of leadership in these fields, and how the bank was striving to increase its leading role as banker to many of the 2,000 most important multinationals, including those headquartered abroad. Of these, Bankers Trust reported: " . . . it now has 211 lead relationships, a gain of 61% in two years; and 686 principal relationships, a 58% increase in two years." In all of its publicity, Bankers Trust calls itself a merchant bank, to emphasize this aspect of its activities. The cover blurb of its 1984 Annual Report avers:

> Merchant banking is a new response to the challenges of world finance today. That response has been unusually effective, as measured not only by Bankers Trust's financial performance in 1984 but by the judgement of professionals who follow the banking world.

Citicorp commented:

> The Capital Markets Group was formed in mid-1982 to maximize Citicorp's participation in the some $15 trillion world capital markets, not by adding more loans but by providing the specialized services that make the flow of funds from suppliers to users easier.[18]

Stockholders, Managers and Finance Capitalists

Formal control of a corporation is vested in its stockholders and exercised at annual stockholders' meetings, where the voting is by number of shares. That is, a holder of 10,000 shares has 10,000 votes; a holder of 1 share has 1 vote. This ensures the effective control of a corporation by a relative handful of large stockholders. But large corporations each have tens or even hundreds of thousands of stockholders. Most of the country's largest corporations have more stockholders than workers.

That does not mean that there are more shareholders than workers in the United States. A worker is employed by only one company; a shareholder, typically, owns stock in a number of companies and is counted in the annual reports of each. In total, according to the very liberal estimates of the New York Stock Exchange, there were 32 million stock owners in 1981, about one-third the number of hired workers and employees.[19]

Nor does this mean that there are even one-third as many capitalists as workers! The vast majority of the 32 million stockholders own only a few shares, received through employee stock-ownership schemes, or by investing a few thousand dollars of savings in mutual funds, investment trusts, or money market funds in the form of shares. For 90% or more of stock owners, their dividends amount to an insignificant fraction of their total income, which is derived from wages, salaries, pensions, etc.

However the existence of millions of small stock owners has provided American capitalists with a valuable ideological weapon. In the 1950s there was a major propaganda campaign about this "Peoples Capitalism." While the specific campaign was fairly soon discredited, the impact on the ideology of millions of employees, better-paid workers, farmers and small businessmen remained quite significant. It enabled big capital to win political support from a substantial section of the population, whose objective overall interests are opposed to those of big capital.

In practice, very few stockholders—rarely more than twenty, and usually six or less—among them own a majority, or a sufficient minority, of the stock of a particular corporation to exercise effective control. The domination of the large stockholders becomes clear when, at meetings, small holders present motions on issues of corporate policy that have not been approved by the controlling group. These motions, even if they have wide popular support, rarely get more than a few percent of the votes.

The main practical function of stockholders' meetings is to select a board of directors, generally following a list preset by the controlling group. The board of directors has formal control of the corporation between stockholders' meetings, which means virtually always. Moreover, the board of directors chooses the top company officials, the day-to-day operating chiefs of the corporation: the chairman of the board, usually designated "chief executive officer"; and the president, usually called the chief operating officer.

Very roughly, the chairman may be concerned with such strategic problems as what products to make, where to locate plants, what mergers to get involved in, what attitude to take toward proposed cartel arrangements or toward government legislation. The president may be involved with cost control, verifying the profitability of units of the corporation, dealing with suppliers, labor unions, etc.

These officials are generally men with a capitalist family background. They may be major stockholders in the corporation, or they may be professional business managers who have risen from lesser executive posts after having proved their skill at corporate politics, driving a hard bargain, increasing exploitation of labor, influencing government officials, etc. More often than not, in very large corporations, they have only a token shareholding in the corporation. But they speak for the company. They are ostensibly in charge.

This separation of management from ownership is still far from universal, even in big business. Still, in the majority of the 100 largest U.S. corporations, the officers' and directors' combined stockholdings fall short of 1%–3% of the outstanding stock.

As this separation of management from ownership became common in the 1920s, the theory evolved of *management control* of industry. Its main proponent was lawyer and capitalist A. A. Berle, who counterposed to Lenin's theory of a financial oligarchy the proposition that most U.S. industrial corporations are dominated by their managers, because of their operational power and the supposed absence of concentrated stockholdings.

Berle divided corporations into those that were ownership controlled and those that were management controlled, finding most of them in the latter category.[20]

Generalizing this line, right-wing philosopher James Burnham wrote *The Managerial Revolution* (1941), hailing the new class of managers, engineers, etc., as creating a vibrant society that would feed the masses and keep them under control, while becoming strong and prevailing internationally against Communism. This neofascist ideology was viewed by the capitalist class as an antidote to Marxism-Leninism, which had gained many adherents during the 1930s, and as a diversion from recognition of monopoly capital as responsible for exploitation, racism and wars.

The theorists of management control cultivated the belief that stockholdings were so scattered that no individual or group of stockholders could effectively dominate. And this belief was plausible in a period of increasing social unrest—especially the great economic crisis of the 1930s—because the tycoons of industry preferred to "keep their heads down," and the secrecy of stockholdings enabled them to withhold their identity from public view.

But financial reform legislation, step by step, "opened the books" on stockholdings. Studies in depth were made by economists hired by congressional committees, by populist writers such as Ferdinand Lundberg and Matthew Josephson, and by Marxists. There were also dramatic struggles for corporate control, in which the ultimate weakness of hired managers and the decisive power of large stockholders became evident. These factors combined to undermine the theory of management control.

Especially important was the conclusive evidence, which came to light after World War II, that a few financial institutions held the controlling shares of most large corporations. This completely demolished the idea that self-perpetuating managers could run the show without regard to ownership. Berle was compelled to alter his view. He wrote of

> . . . the emergence of a new concentrated power countervailing that of corporate managements . . . in the hands of institutional investors. . . . In recent years, stock has become more and more concentrated in the hands of institutional investors. Among the most powerful are the trust departments of big banks. . . . About fifteen or twenty of the big banks through their trust departments could today mobilize voting control of a very large percentage of American industry. . . . The current estimate—it frightens me—is that by 1970 institutional investors will hold *one-third* of the stock of corporations listed on the New York Stock Exchange. That adds up to working control.[21]

By 1980 remnants of the theory of management control appeared only in the papers of some academic economists who studiously avoided any contact with reality.

However, high-ranking executives of corporations should not be considered mere hired hands of the controlling stockholders. In varying degrees, they are admitted into the elite group, granted part of the profits of control. And most of them, in fact, do hail from families in the upper ranks of the capitalist class. But the battles for control of specific corporations, which may involve managers as well as "outside" directors and large stockholders, do not represent any kind of management-ownership conflict, as the managers in such situations are representatives of a major ownership group.

When the chips are down, the subordinate role of the managers becomes evident. Thus, when a corporation's profits decline without reasons that satisfy the controlling stockholders—be they individuals and/or banks—the "chairman" and "chief executives" are replaced. These managers, however, cannot be considered to be disposed of unceremoniously because, unlike laid-off workers, they are given large bounties on departure, as well as pension rights far more generous than received by any worker.

Postwar Power of Banks and Finance Capital

World War II, with the upsurge in the federal debt and money supply, greatly strengthened the relative and absolute power and wealth of the banks. The emergence of the United States as the only great capitalist power that was unscathed and enriched from the war made its banks the most sought-after providers of credit worldwide, and the U.S. dollar the strongest and most desirable currency. A 1968 congressional report found:

> Statistically, the growth of the importance of financial institutions in our economy has been a continuous one since the turn of the century. From 1900 to the mid-1950s the total assets and liabilities of financial institutions increased almost 40 times from approximately $14 billion to $545 billion. During the same period the assets and liabilities of nonfinancial corporations increased only about 18 times.

Noting that 64% of the trust department investments were in stocks, the report commented: "Not only are financial institutions dominating the availability of both debt and equity capital for the American economy, but they have also become the dominant force in the securities market."[22]

The financial institutions came to dominate trading on the New York Stock Exchange. In addition to the billions of new money pouring into their trust departments, available for fresh investment, they frequently shifted capital funds among corporations, seeking to take advantage of the changing profit trends of individual companies and industries. At the same time, there was continually the covert large-scale accumulation of stocks in particular companies by institutions and groups of wealthy capitalists seeking to obtain control or to set the stage for a merger with another company under their control.

The institutions' share of trade on the New York Stock Exchange went up from 27% in the 1950s to 65% in 1980. Their share of stockholdings went up from 4% in 1900 to 46% in 1981 (see chart 9-1).

Interlocking ownership among the biggest banks is far-reaching: in 1987 financial institutions held 63.5% of the outstanding shares of the money-center banks.[23] On broad policy questions—such as establishment of a single "prime" rate of interest, a united front against developing and socialist countries, and positions on financial legislation—the major banks operate as a cartel. But at the same time they compete against one another for the highest profits and the broadest positions of control.

As a matter of fact, the competition among commercial and investment bankers has become blatant. No longer are there quiet, dignified banking houses. Instead, the newspapers are filled with full-page bank advertisements, each boasting of how many deals it has made, how many billions of transactions it carried out, etc., and how much to the advantage of a company it would be to let this specific bank handle its financial needs.

Concentration of Stockholdings

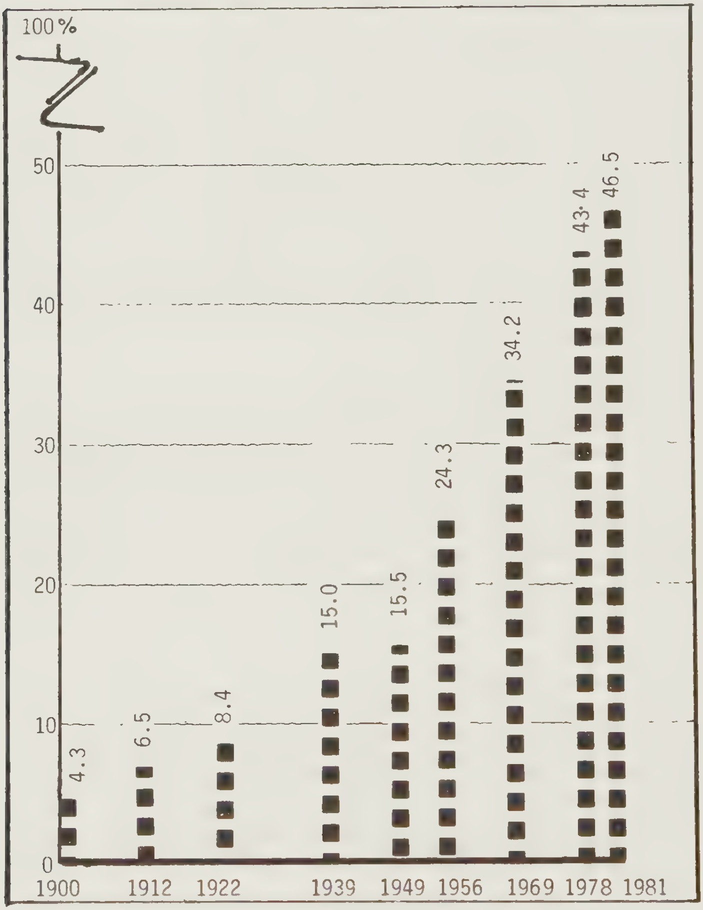
The fact that about 2,000 institutions hold more than 40% of outstanding common stock would tell little about the control of corporations if that stock were distributed more or less evenly among the 2,000. But that, of course, is far from the case. Control is decisively concentrated in a relatively small number of large stockholders, almost all being banks and other financial institutions.

Table 9-2 gives the statistics for the end of 1981.

It is generally considered that control of 5–10% of the stock of a corporation is sufficient to ensure decisive power. The data in table 9-2 thus indicate that usually a few of the largest financial institutions, together with related large family holdings, effectively dominate the affairs of most major corporations.

A 1980 Congressional study of 100 large corporations found that the top six institutional investors in each, on average, controlled 14% of the stock, with additional concentration among one or two of the six largest. The report disclosed the fact that 15 large institutions

CHART 9-1. Financial Institutions' Stockholdings as a Percent of Total Outstanding, 1900–1981



Sources:

Raymond W. Goldsmith, *Financial Intermediaries in the American Economy since 1900*, NBER, 1958, Appendix Table A 15, p. 382; and Hist. Stat., Vol. I, p. 253, Cols. 402-403.

1956: Securities and Exchange Commission, in U.S. Senate Committee on Government Affairs, *Voting Rights in Major Corporations*, 1978, page 594.

1969, 1978: Estimates of Donald E. Farrar, in Securities and Exchange Commission Capital Paper #5, *Commercial Bank Trust Departments and Concentration of Power*, 1981.

1981: Stockholdings of 300 largest institutional investors, published in *Institutional Investor*, August 1982; extension to remaining institutional investors based on author's estimate that their holdings amounted to 24% of the total.

TABLE 9-2. DISTRIBUTION OF STOCKHOLDINGS AMONG LARGE INSTITUTIONAL INVESTORS BY SIZE OF HOLDING, DECEMBER 31, 1981

	(1) Value in *$ billions*	(2) % of all institutional holdings	(3) % of all outstanding stock
Largest 5 stockholders	54	9.1%	4.2%
Largest 25 stockholders	168	28.3	13.2
Largest 100 stockholders	359	59.0	28.2
Largest 300 investors	450	76.1	35.3
All institutional investors	592	100.0	46.5

SOURCES:
(1) *Institutional Investor,* August 1982; for total, see source note for Table 9-1
(2) Calculated form (1).
(3) Stock outstanding = $1,274 billion, on estimate that market value of stocks on New York Stock Exchange equals 90% of total value of shares of companies of significant size (*Stat. Abst.,* 1986, No. 861, p. 509)

were among the top six holders very often, and in addition had extensive interlocking directorates among the 100 companies.[24]

Earlier studies also showed that the major New York banks were in most of the top control spots. Thus a handful of banks, supported by certain insurance companies and investment firms, acted as a supermonopoly or supercartel exercising a significant degree of domination over the U.S. economy through their control of leading corporations. As with all cartels, this did not eliminate rivalry or changes in power relationships among them.

During the economic crisis of 1974–75 the Rockefeller bank, Chase Manhattan, suffered a sharp decline in its profits and lost a significant part of its trust holdings. The Morgan bank emerged with a distinct leadership in this field, with a heightened reputation as the most powerful, reliable bank of U.S. big business (see table 9-3).

The Senate study commented:

> Morgan Guaranty Trust Co. of New York towers above all other investors. Morgan Guaranty is among the top five identified stockvoters in almost half (56) of the corporations. It is stockvoter No. 1 in almost one-fourth (27) of the corporations.

In addition, Morgan was among the five largest stockholders in two-thirds of the corporations, with a total market value of a quarter of a trillion dollars—more than one-fourth of the value of all corporations in the country. This obviously meant that its influence, when its many interconnections were considered, was far-reaching, well beyond those companies. This was a truly impressive power position. At the same time, nonetheless, the Rockefeller, Boston and other groups remained important.

TABLE 9-3. RANK OF THE 25 FINANCIAL INSTITUTIONS THAT WERE LEADING STOCKHOLDERS IN SIX OR MORE OF THE 122 CORPORATIONS SAMPLED IN 1976

Name of Institution	Number of Companies in which the institution is	
	Among top 5 stockvoters	No. 1 voter
Morgan Guaranty Trust Co.*	56	27
Citibank	25	7
TIAA-CREF (1)	24	2
Capital Research & Management Co.	19	2
Prudential Insurance Co.	18	4
Dreyfus Corp.	17	4
National Bank of Detroit	17	5
Kirby Family Group—Alleghany Corp.	16	4
BankAmerica Corp.	15	1
Fidelity Management & Ampersand Research	13	2
Manufacturers Hanover Trust Co.	12	1
Bankers Trust Co.	11	0
First National Bank of Chicago	11	2
Lord Abbett & Co.	11	2
Equitable Life Assurance Society	10	2
First National Bank of Boston	10	0
Harris Trust and Savings Bank	10	2
Chase Manhattan Corp.	8	3
Continental Illinois Bank & Trust	8	3
Marlennan Corp. (2)	7	0
Massachusetts Financial Services Inc.	7	2
California Employees Retirement System	6	1
State Farm Mutual Insurance Co.	6	1
Wellington Management Co.	6	1
United States Trust Co. of New York	6	0

*Morgan Guaranty Trust Co. is the Morgan subsidiary that handles trust funds and, in many listings and analyses, is referred to, interchangeably, with J.P.Morgan and Co.
(1) Teachers Insurance & Annuity Association-College Retirement Equities Fund
(2) Marsh & McLennan Companies Inc.
SOURCE: U.S. Senate, Committee On Governmental Affairs, *Voting Rights in Major Corporations*, Jan., 1978, pp. 258, 263-292

All in all, while the Morgan group had the leading position in the 1980s, it was within a complex of finance capital in which no single firm could dictate. Moreover, its very leadership made it vulnerable to losses in a deep financial crisis, as occurred during the 1930s.

The structural crisis of the 1970s and 1980s resulted in rapid changes in the financial world's structure and distribution of power.

While the overall power of the banks and other financial institutions mounted, there was a growing diversity in their structure, and changes in the relations between different types of financial establishments and giant industrial corporations. Through the issuance of "commercial paper," the industrial corporations could borrow directly from one another or from pension funds without going through banks.

Groups of capitalists, using "junk bonds" and aggressive stock market tactics, conducted raids for control of large corporations and sometimes succeeded, building minor financial-industrial empires of their own. Many industrial corporations established or bought their own financial subsidiaries.

These changes, taken in their totality, reflected the growing contradictions and instability of U.S. and world capitalism, a weakening and breaking up of old structures, but—with it all—the heightened power of the financial oligarchy along with the changes in its composition and functions.

Deregulation

The restrictions on and controls over financial activities enacted during the New Deal period were gradually diminished as the financial oligarchy tightened its grip on the governmental apparatus during the post-World War II period. This process was accelerated during the far-right Reagan Administration.

In particular, the Glass-Steagall Act, requiring the separation of commercial and investment banking, was made essentially impotent.

Charles S. Sanford, president of Bankers Trust, said in a 1984 speech:

> The fact is that Glass-Steagall has become obsolete. In the years since its passage, an elaborate regulatory structure has been created which deals effectively with the problems the Act was intended to avert.... As the world moves rapidly toward one unified capital market—bridging national boundaries and types of financial instruments—it has become meaningless to make theoretical distinctions between commercial banking and investment banking as separate businesses.
>
> Repealing the Glass-Steagall Act would be no revolution at all, but merely would allow the entry of banks into the last remaining corner of the securities markets where they are not currently active....
>
> It is logical and probably inevitable because it reflects reality.[25]

Citicorp boasted that it and other banks were eligible to participate in all but 5% of the new securities issues, and in all but 3% of the securities trading in the United States, and were even less restricted in other capitalist countries.[26]

Hans H. Angermueller, in charge of legal and external affairs and one of the three vice-chairmen of Citicorp, told of the corporation's successes and objectives in combatting antimonopoly and other legal restraints on activities in the United States and abroad:

> We believe that our international presence, our experience, and our people position us to shape, rather than to be shaped by, our environment. The record supports that belief. In the same way, we believe that *we can shape, rather than be shaped by,* [my emphasis—VP] the legal and regulatory constraints which are imposed on us and which many inside and outside our industry assume to be a necessary part of banking. In the last two years we have done a good deal to free ourselves from the business restrictions which were considered traditional in the banking business.

He went on to note successes in expanding to nationwide banking, and getting permission to deal in such nonfinancial activities as "data processing and telecommunications business."[27]

Angermueller boasted of Citicorp's progress in perfecting its political operations, its practical exercise of state monopoly capitalism:

> Every day we learn how to work more effectively with political leaders, legislators, regulators, trade associations, competitor banks, and the media in spreading the deregulation gospel. We have established effective local contacts, both here and abroad, with legislators and regulators. We have organized employees in grassroots contact programs. We have broadened employee participation in our political contribution programs. And, as the record indicates, we have made significant progress.
>
> We see the future even more optimistically. As you know, homogenization is occurring in the financial services industry. Security firms, insurance companies, and retailers are all getting into our business. That's okay with us, but we think it also entitles us to aspire to get into their businesses.[28]

The loosening of controls hastened the movement of industrial corporations into the financial field and tended to break down the boundaries between finance and industry. This was also spurred by the reduced opportunities in the United States for industrial growth. For the "Big Three" auto companies, it is their major financial subsidiaries that sometimes make more profits than their manufacturing segments.

GE boasted that its subsidiary, General Electric Credit Corporation, was the nation's largest diversified finance company, with net assets of $20 billion. It specialized in "leveraged buyouts," financing 48 such operations in 1985; its Venture Capital Corporation held direct investments in 54 companies at year-end; it claimed to be the only nonbank among the top lenders to business firms; its profits from financial activities nearly tripled between 1981 and 1985 and, along with its growing military business, were tending to completely change the character of its operations.[29]

New York, the Financial Capital

The center of financial power of U.S. capitalism throughout its industrial history and especially in the epoch of imperialism has been New York. Since the 1940s, its aim has been to be also the dominant financial center for the entire capitalist world.

Around the turn of the 20th century, the great money-center banks emerged in New York, along with the headquarters of the corporations that obtained monopoly power in railroads, electric power, steel, oil, copper, etc. The most powerful capitalists gravitated to New York as the fulcrum from which to make deals, to manage and finance their enterprises. U.S. international trade and investment originated, for the most part, in New York. Lesser financial centers arose along the Eastern seaboard and in the Midwest, especially Chicago.

The share of New York State banks in *ordinary* commercial banking activities declined. Their share in total bank assets went down from 25.8% in 1948 to 17.5% in 1982.[30] This change reflected the dispersion of the population and the rise in retail banking, for individuals and small businesses. The New York banks remained decisively the "bankers' banks," which organized the bankers' lending syndicates, handled their security accounts, and managed the enormous volume of transactions on the stock, bond and international money markets.

In 1982 New York City "bank clearings" came to three-fourths of the total for all principal cities, even larger than the 50–60% share of New York banks from the 1880s through the 1930s.[31]

In June 1983, debits to demand deposits* at all insured U.S. banks were at an annual rate of $114 *trillion* (million million), including $51 trillion at major New York City banks. The feverish activity of New York banks was indicated by a turnover rate of deposits of 1,563.6 times per year. In effect, every dollar on deposit was taken out and put back again six times every working day![32]

The New York Stock Exchange has continued to dominate securities transactions in the capitalist world, but it is increasingly challenged by Tokyo. Large investment houses and wealthy individuals trade on various exchanges as stocks of more and more of the transnational corporations are listed on several international exchanges. As coordination of the exchange operations increased, the goal of 24-hour trading was approaching, when an investor could buy or sell stock at any time of the day or night at one or another of the world's stock exchanges.

The laws of "classical" capitalist economics state that producers or sellers of a particular commodity tend to cluster in a small area, advantageously located with respect to markets, supplies, labor, etc. Those straying from the center tend to have to pay more for supplies, lose access to customers, lack market information, etc.

This applies especially to financial markets, where ability to mobilize huge sums of money quickly is needed and where information is the most valuable "raw material" in arranging deals. Person-to-person contact is vital, supplemented by but not reduced by telephonic and even video communication.

Many economists, taken in by statistical indicators of decentralization, wrote of the demise of New York's financial leadership. However, this approach was definitely disproven in the 1980s, when the severe cyclical crisis combined with the deepening structural-financial crisis. The main challenges came from the banks of Chicago, California and Texas. But, lacking the breadth of the New York banks, they suffered acute losses from the crises of the "Rust Bowl," "Farm Belt," and "Oil Belt." Chicago's First Continental Bank had to be bailed out from complete bankruptcy by the U.S. government. By 1986, California's Bank of America, once the largest bank in the world, was sustaining huge losses and was threatened with demise unless it accepted investment bankers' offers to buy it out. The Texas banks were also floundering in bad debts.

At the same time, New York emerged as the center for organizing interstate monopoly-capitalist measures in an attempt to contain the

*Debits to demand deposits consist of checks written or cash drawn on the deposits.

financial crisis of developing countries. And New York's role as a safe haven for capitalism rocketed as revolutionary forces erupted in many parts of the world.

Business Week headlined a feature: "THE NEW YORK COLOSSUS—its surge to world financial supremacy makes it the capital of 'capital.'" And the article began:

> It is the source of half the world's capital. It is the hub of a sophisticated network of communications. . . . New York City has become the world's financial colossus, the beneficiary of one of the greatest shifts of financial power in modern history.
>
> Bouyed by the tremendous momentum of the booming U.S. economy and aided by the dominance of the dollar, New York City is exercising an amazing centripetal pull on money—and money managers—around the globe. . . . It has taken the crown away from London and ended 300 years of European dominance of world financial markets.
>
> . . . The surge to supremacy of New York's financial institutions puts in place the final building block of America's economic dominance. The industrial and commercial center of gravity of the world shifted from Europe long ago. But until only a few years ago, the U.S. lagged behind London in international finance.[33]

Actually *Business Week*'s discovery was belated, since New York's global financial leadership goes back to the 1920s and reached its peak in the mid-century decades. Now, not only is New York's leadership challenged by rival financial centers in Tokyo, Frankfurt, London and Hong Kong, but there is increasing mutual penetration and collaboration. Simultaneously, though, the very fact of internationalization of finance expands the role of New York as the single most important center. Its position within the United States, primarily, and internationally to some extent, was enhanced in the 1980s as a result of the feverish acceleration of financial activity, and the deepening instability of world capitalist economy, not least in the financial sphere.

Reflecting the resurgence of New York as financial capital, its population, which had been declining, turned upward in the 1980s and led all U.S. cities in absolute population growth between 1982 and 1984 according to Census estimates. By far the greatest rise was in the borough of Manhattan where Wall Street is located.

New York's shift—from a center of light manufacturing and international trade to the capitalist world finance center—has had a disastrous effect on the social and economic conditions of a large part of the population, a general worsening for all but the wealthy and the United Nations diplomats.

The cost of housing in Manhattan, most convenient for work, has soared far beyond the reach of the working class as their apartments have been replaced by luxury condominiums. Transportation from the other boroughs—Brooklyn, Queens, Staten Island and the Bronx—has deteriorated seriously, at least doubling the time required to get to work, along with multiplied fares. The quality of public school education and access to affordable health services have also markedly deteriorated.

Upper income groups, who walk or drive to work or use taxis or commuter trains from their suburban residences, control city finances and have no desire to spend major sums on decent, modern transit facilities or on moderate-cost mass housing. Half or more of New York's population consists of Afro-Americans and Hispanics, and the jobs most accessible to them have been service jobs in the most menial, low-paid occupations in the orbits of finance, restaurants, etc.

A *New York Times* article lead was: "New York's Recovery Brings City of Haves and Have Nots." And the text described "abundant" signs of recovery, "with restaurants, movie houses, hotels, financial institutions, the real-estate industry and small businesses showing income running ahead of last year's."[34]

But at the same time:

> The number of people getting welfare is about 40,000 higher than the figure a year ago, with the total near 930,000 in a city of 7.1 million.
>
> More people than at any time since the Depression are said to be hungry and homeless, and about one of every four New Yorkers is below the Federal poverty level. The high school dropout rate is near 40 percent.[35]

According to the article, the local Commissioner of Labor Statistics cited Charles Dickens's contrast between conditions of capitalists and workers in early 19th-century England as applicable. The journalist Michael Goodwin noted " . . . the widely accepted belief that New York is two separate and unequal cities—one for the haves, largely whites, and one for the have-nots, largely nonwhites."[36] There was a general feeling that the gap was growing.

The New York City government boasted a half-billion-dollar budget surplus, but it is doubtful whether any major city in an industrialized country has a worse transportation system—road and rail. Despite a multibillion-dollar capital appropriation, the subway situation is expected to worsen. Officials

> . . . expect a level of service interruptions that will appall riders already accustomed to pacing crowded platforms and peering down empty tracks.
>
> For more than a decade, the subways have been a system in radical decline—with antiquated tracks, flawed rolling stock, water seepage in tunnels, a sharply rising crime rate, vandalism . . . filthy and noisy stations and trains, misguided financial and management priorities. . . .[37]

New Challenges

The key role of New York as a financial center reflected the continued leadership of U.S. capitalism in economic, political and military might. But other financial centers were growing more rapidly than New York. In 1970, the giant U.S. banks held one-third of the deposits of the 500 largest banks of world capitalism, while by 1984 their share was reduced to one-sixth.[38]

Particularly strong in this as in other respects was the Japanese challenge. By the end of 1986, the very largest commercial and investment banks were Japanese-owned. In the spring of 1987, for the first time in history, the market valuation of shares on the Tokyo stock exchange exceeded the corresponding figure for the New York stock exchange; while the market value of the less important Osaka stock exchange's issues exceeded the corresponding figure for the London stock exchange.[39] True, prices on the Tokyo stock exchange were especially inflated, reflecting the huge volume of Japanese savings with no productive outlet, bidding up the price of shares. Still, with the internationalization of stock trading, it indicated the expectation of the world's multimillionaires that Japan's rapid gains in relative position would continue.

Especially notable was the fact that financial companies accounted for 30% of the valuation of all stocks on the Tokyo exchange, compared to 12% for similar stocks on the New York Stock Exchange. A single Japanese bank, Sumitomo, had a market valuation of $56 billion, 7 times that of the Morgan bank, which led the U.S. banks in this respect and more than the combined valuation of the 15 leading U.S. banks.[40]

Shakiness of Financial Power

The concentration of power, and the vast scale and complexity of operations of the financial center make it vulnerable to capitalist crises. This results from the glaring contradictions generated by their activities and by the overall anarchy of international world finance, which in the last analysis overrides the seemingly tight controls of domestic and international financial cartels. Thus the investment banking houses, accustomed to huge profits from trading in the bond markets, lost billions in the spring of 1987 when bond prices declined instead of increasing as they had expected.

The major New York banks, for so long enjoying superprofits from "Third World" countries, lost the most as more and more of the debtor nations partially or totally stopped paying interest and made demands for a reduction in the amount due.

A major cyclical crisis would endanger the solvency of the largest U.S. banks, already weakened by the international debt crisis. It would diminish their power even if they were saved from bankruptcy by the U.S. government. Even so, the ultimate power of the financial oligarchs would remain until united mass actions of workers and other progressive forces compel the nationalization of the banks and other major financial institutions, under democratic control.

10. State Monopoly Capitalism

Previous chapters analyzed the growth of monopoly in size and complexity, the merging of financial and industrial capital to form a financial oligarchy, and the rise of monstrous conglomerates and transnationals that go beyond the bounds of rational structural relationships.

An additional stage in the process of monopolization has been the integration of private monopolies with the government, forming the intricate system of state monopoly capitalism. Although this involves federal administrative functions, it focuses especially on the increasing involvement of government in the economic life of the country.

A still further dimension has grown rapidly since World War II: the internationalization of state monopoly capitalism. A whole series of inter-governmental financial agencies, closely collaborating with the privately owned transnational banks, play a major and increasing role in the economic operations of world capitalism.

The ideology of capitalism emphasizes "free" enterprise and the spirit of entrepreneurship, and it deplores "government interference with business" and "bureaucrats and burdensome paperwork." Propaganda aims to glamorize capitalists, to portray them to the public as venturesome champions who make the wheels of industry turn and provide new and better products for society, as independent competitors in the arena where the fittest survive.

Of course this image is mere propaganda. In the great majority of cases, today's multimillionaires inherited the basis, at least, of their fortunes, and the most successful of them multiplied their wealth through luck, financial skill, ruthlessness and all sorts of knavery. Moreover, the majority of very rich people are owners of stocks and bonds of corporations in whose activities they have little or no participation.

As for independence from government, every major capitalist depends on the government, strives for its assistance, places his representatives within it, and involves the government apparatus in his corporate affairs.

Big capitalists characterize as government "interference" the limited government regulations—won through struggles of millions of workers—that in any degree restrain big capitalists from excessive profiteering at the expense of employees, farmers, consumers, minority groups, etc. Also objected to as government "interference" are official actions that favor rival capitalists.

There are many forms of involvement of government in industry, the whole complex becoming an increasingly intimate personal, institutional and organizational merging of big business and government. The main forms of state monopoly capitalism are:

- government expenditures for goods and services;
- government and mixed government-and-private enterprises;
- government research and development for industry and agriculture;
- government subsidies to particular industries or companies;
- government measures to moderate the business cycle, stimulate economic growth, and keep within bounds inflation, indebtedness and other negative factors;
- government financial assistance to monopoly capital, including subsidies in various forms and emergency assistance to avert threatened financial catastrophe;
- government actions to increase the rate of exploitation—directly by holding wages down and by limiting and suppressing strikes, indirectly by shifting the tax burden from capital to labor;
- government statutes and other measures to facilitate the expansion of U.S. corporate property abroad and to protect those properties, as well as to gain foreign markets for U.S. corporations;
- government economic warfare against socialist countries and countries with advanced national liberation policies;
- government mobilization for war, and for postwar reconstruction and adjustments; and
- multinational state-monopoly-capitalist institutions and activities.

Merger of Big Business and Government

The U.S. Government, like those of other imperialist powers, is a government of the direct representatives of monopolies and financial oligarchs. There is not, fundamentally, a relationship between two independent forces—government and business—but a merging of the government apparatus with the ownership and managerial apparatus of big business to advance the joint interests of the ruling class and the particular interests of its most powerful sectors.

This merger does not take place without conflict. For one thing, there are rival interests within monopoly capital on many issues, and the government representatives of one group support that group against the specific interests of its rivals. Also, to a limited extent, representatives of the capitalist class are appointed by the administration in power to positions where they can further policies that are deemed to be in the overall interests of the class, even though such policies may be in contradiction to the specific, short-term interests of some major group of monopoly capital.

The government apparatus—executives and bureaucracy—has its own institutional identity, which has a degree of independence from the capitalists who are the ultimate masters. Thus the apparatus is subject to pressure from workers, farmers, senior citizens, women, Blacks, Hispanics, antiwar organizations, right-wing extremists, and other groups as well as from special groups of capitalists. For example, when legislation protecting workers and other sections of the population from unlimited monopoly plunder is won after long and bitter struggles, the government apparatus is required to enforce these statutes, however half-heartedly in many cases.

The degree of government independence is nonetheless limited. It is subject to the biennial election of members of Congress and the quadrennial presidential elections. Usually the most powerful capitalist groups, with their control of the media and with vast sums to finance election campaigns, can manipulate the defeat of congressmen whom they find particularly objectionable, and can usually see to it that presidents who prove to be weak, or defiant of capitalist interests, are not reelected. The tripartite system of control—executive, legislative and judicial—provides the capitalist class with a procedure of "checks and balances" whereby it is possible for its members to prevent or rectify government actions contrary to their advantage.

Lenin described the process of development of state monopoly capitalism in economic relations and in the political structure of the bourgeois parliamentary democracies of Western Europe in considerable detail, and summed up:

> Imperialism—the era of bank capital, the era of gigantic capitalist monopolies, of the development of monopoly capitalism into state-monopoly capitalism—has clearly shown an extraordinary strengthening of the "state machine," and an unprecedented growth of its bureaucratic and military apparatus in connection with the intensification of repressive measures against the proletariat both in the monarchical and in the freest, republican countries.[1]

Ralph Nader, in his introduction to the book, *Reagan's Ruling Class,* wrote:

> This is, unabashedly, a government of the wealthy. Its top six members—President Reagan, Vice-President George Bush, Attorney General William French Smith, Secretary of Defense Caspar Weinberger, Secretary of State Alexander Haig, and Secretary of Treasury Donald Regan are all multimillionaires.[2]

And as detailed analysis shows, these and other key personnel of Reagan's Administration—as of almost all of its predecessors in this century—have been direct representatives of or closely connected with the decisive centers of financial-industrial power in Wall Street and, more recently, in some of the newer centers of great monopoly power, notably California.

This is especially true of foreign policy, where the main areas of expansion of monopoly capital are involved, and where their main international alliances are formed and international rivalries have to be fought out.

The Council on Foreign Relations is the main private organization dealing with international relations. Most appointments to top posts are made from members of this and other elite groups. The State Department, CIA, and related agencies are manned to considerable depth with multimillionaires and their most trusted business and ideological aides.

In the United States, elective offices are divided between representatives of two capitalist parties, Republican and Democratic. There are differences in the identity of the main groups that usually support Republicans and those that mainly support Democrats, but these differences are not essential on the main questions. The majority of the most powerful magnates *prefer* to support the Republicans, who are the most reactionary in domestic policy, but enough of them will shift to the Democrats when such a shift is considered desirable. Frequent shifts between the two parties are necessary because the policies and actions of the administrations—of whichever party—bring about mass disillusionment among the voters, who had been deluded by demagogic promises of campaigners.

In West European imperialist countries and Japan, political parties based on the working class have a substantial role in electoral politics, and some of them have headed governments. However, many of these are Social-Democratic parties, and while they use anticapitalist rhetoric, their aim is to reform capitalism and not to replace it. Upon election to office, such parties do not replace the capitalist and military bureaucracy. Communist parties also are important in elections in many of these countries, sometimes with considerable representation in parliaments. However, even when the Communist parties have the largest number of voters, they are barred by coalitions of the other parties from taking office and threatening the very basis of capitalist rule.

For a considerable period since the 1950s, the main organizations of the working class in the United States, the trade unions, did not play a major role in political life. Their activity increased considerably in the 1980s. Unions have given more support to the Democrats than to the Republicans, but without significant participation in the organizational structure of the parties or in the formulation of policy or selection of candidates.

There has never been a member of a trade union elected President,* and very few have been elected to Congress.

During the 1980s U.S. trade unions, organizations of the Afro-American and Hispanic peoples, peace organizations and other peoples organizations moved, still tentatively, toward political action independent of the two capitalist parties. The potential existed for the uniting of these groups into a major antimonopoly party that could be more effective and longer-lasting than past U.S. progressive parties and coalitions.

*President Ronald Reagan had been a member of a trade union, the Screen Actors Guild. He made his political start as a political informer and provocateur within the union for the major capitalists of California.

Government Expenditures for Goods and Services

State monopoly capitalism, which developed rapidly out of the weaknesses and crises afflicting monopoly capitalism, was much less developed in the United States in the 1920s than in Western Europe. The relative stability of capitalism in the United States was due to the fact that it had suffered no World War I damage, as well as that there was not a strong organized working class—not to speak of a strong working-class revolutionary party.

In Europe, on the other hand, the combined effects of World War I devastation and the Russian Revolution led to revolutionary or near-revolutionary situations in Germany and some other countries. Serious economic losses were suffered in all the belligerent countries, and the roots of capitalism were shaky in newly established states and in the nations that lost territory as a result of the war. International state monopoly capitalism carried out vigorous economic, political and military measures to preserve capitalism in the countries most affected by the war, and in the vain attempt to restore it in Russia.

It was the severe economic crisis of the 1930s, followed by World War II, that more fully and directly involved the United States in the deepening general crisis of capitalism.

Roughly reflecting the growth of state monopoly capitalism, total government expenditures—federal, state and local—increased in the United States from 10% of gnp in 1929 to 35.2% in 1985, a 3.5 times multiplication in the relative importance of government outlays.*

Within the total, state and local government outlays consist largely of routine, historically evolved functions—police, schools, roads, etc.—which do not involve high-level interaction of big business and government to the same extent, and with such critical policy significance, as do a large proportion of federal expenditures. Still, state monopoly capitalism operates on a state and local level also, as a means of increasing the exploitation of labor, providing various subsidies, favors and the like to the most powerful capitalists in the area.

Chart 10-1 shows the rising share of federal expenditures as a percentage of gnp. The sharp increase from 2.5% in 1929 to 10% in the 1930s reflected the economic mobilization of the state to deal with the Great Depression. After the extraordinary wartime surge in

*Technically comparable with gnp are the figures on government "expenditures for goods and services," which increased from 8.5% of gnp in 1929 to 20.4% of gnp in 1985. However, the more complete totals of government expenditures give a more realistic picture of their actual relative importance in the whole economy.

spending, the upward trend was resumed until by 1985 federal expenditures reached 25% of gnp, ten times the 1929 share.

This was especially ironic in that President Reagan, during this speedup of state monopoly capitalism, had made a major campaign issue of reducing the role of government and specifically its share in the gnp, of "taking the government out of business" and "giving free rein to private enterprise." This propaganda had a dual purpose: to assure the capitalists that the administration would best look after their interests by reducing their taxes and government restrictions on their activities; and, on the other hand, to demagogically attempt to convince workers that they too would get tax relief and increased employment opportunities, to be provided by an invigorated capitalism.

Oh yes, the promise to the capitalists was kept. Their taxes were cut and outlays to their advantage were increased. At the same time, federal government expenditures for social services, which cannot be regarded as a measure of state monopoly capitalism and which were won through workers' struggles—such as social security, health care, pensions and unemployment insurance benefits—were ruthlessly cut wherever possible.

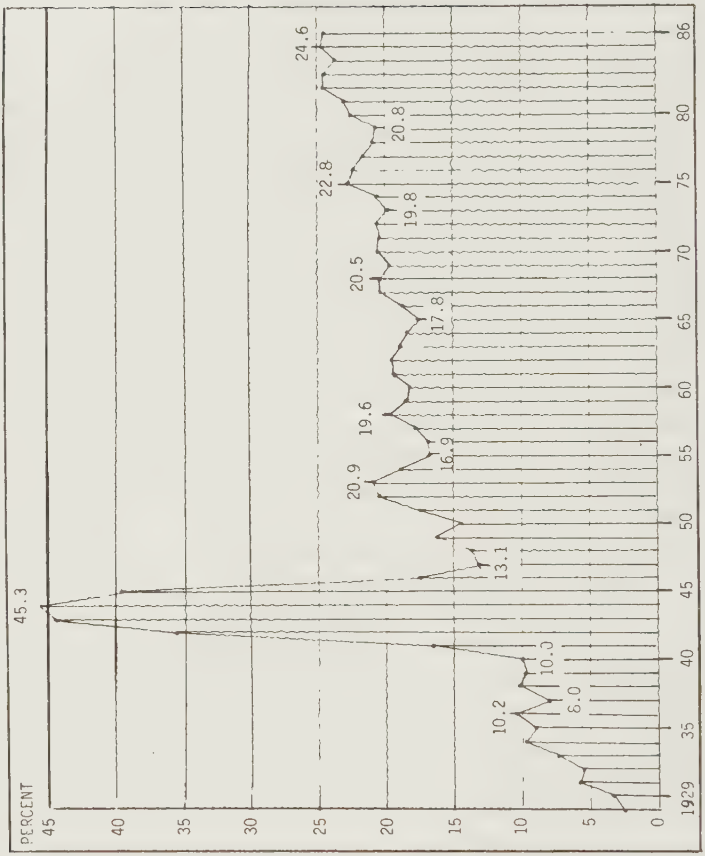
The Reagan Administration's spending was most marked by the upsurge in military orders to the munitions manufacturers; the rise in interest payments to the bankers and others holding government securities; the limitations on and government stockpiling of farm products—with corresponding subsidies to farm and food monopolies.

In fiscal year 1980, expenditures for military and related purposes and for interest paid to bankers and other holders of government securities amounted to 4% more than net outlays that were partly for people's needs and benefit. But Reagan's budget for FY 1987 called for military-related and interest payments of up to 221% of social expenditures. In "real" terms, military-related and interest expenditures were scheduled to increase 59% over the seven years, while people's benefit outlays were scheduled to be reduced 25%.[3]

Government Property and Mixed Government-and-Private Enterprises

Government Property: Certain types of property have traditionally been owned by capitalist governments and in some cases pre-capitalist ones, long before the epoch of modern monopoly capitalism—public

CHART 10-1. FEDERAL GOVERNMENT EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT 1929–1986



SOURCES: See Reference Note 10.16

roads, military installations and equipment, and post offices, for example.

A unique feature of U.S. development was the connived theft from Native Americans of vast areas of public lands, with their prodigious natural wealth, when capitalism was established as the dominant socioeconomic system. There had been no earlier distribution of land among feudal lords—except in the antebellum South, where the slavocracy had feudal-like characteristics.

Although some land was made available to adventurous colonizers

—through the Homestead Act, etc.—it was sales, on the cheap, and leases or outright gifts of national land that figured prominently in the rise of great American fortunes in railroads, forest products, large-scale agriculture, oil and other minerals.

Land grants to the railroads, extending over a 50-year period in the 19th century, totaled 131 million acreas, or 7% of the coterminous land area of the United States (excluding Alaska and Hawaii). Only a minute fraction of that was actually needed for railroad purposes; the overwhelming bulk enriched the owners of the railroad companies, ensconcing them among the leading financiers in that period of emerging groups of monopoly capitalism.[4]

Peaking at 1.2 billion acres in 1850, public lands still equaled 730 million acres, one-third of the area of the United States, in 1980. In the modern era of state monopoly capitalism, the leasing and sale of federal lands and off-shore water areas to corporations has become a big business. Main beneficiaries have been oil, and then timber, companies. Sales and leases yielded the federal government $11.3 billion in 1981.[5]

Also important has been the privatization of national parklands, reducing areas for rest and recreation and destroying natural resources and scenic beauty.

Productive Enterprises. In this century there has been a trend toward government ownership of enterprises requiring huge capital investment, most of them providing commodities or services needed by businesses in all lines. Industrial consumers are spared the capital investment and also receive the commodities or services at low prices, which amount to subsidies.

Such public enterprises are less developed in the United States than in other capitalist countries, essentially because of the greater size and power of the U.S. monopolies and because of the strong "private enterprise" and "keep-government-out-of-business" ideology promulgated by U.S. capitalism.

Government industrial ownership in the United States is primarily in electric power, railroads and military production facilities.

Since about 1960, a little more than 20% of U.S. electric power production has been publicly owned. About half of this is federally owned, largely the great power dams of the Tennessee Valley, the Rocky Mountains and the Far West. The other half consists mainly of municipally owned and cooperative electric power enterprises. These are concentrated in some Midwestern farm states and in the Far West, where the organized antimonopoly struggles of the farmers and workers forced the formation of these power plants.

However, such enterprises can be transformed with changes in the political balance in the country—an example is the Tennessee Valley Authority. The TVA was set up primarily to provide inexpensive electricity to millions of farms, workers, etc., who previously could not afford the service or were being charged exorbitant prices by private monopolies. But now the TVA has, to a large extent, been converted into a company that provides cheap electricity to big business corporations while charging higher rates to individual consumers.

As the profitability of railroads declined under pressure of competition from trucks, buses and aircraft, a substantial portion of the country's rail network was abandoned: intercity railroad passenger traffic was reduced to a minimum and railroad freight traffic fell off significantly. A few of the stronger railroad corporations survived through mergers; others formed semigovernmental combines—Conrail for freight; Amtrak for passengers. For similar reasons, many urban transit systems were taken over by municipalities or state and private corporations, heavily subsidized by federal and local governments.

In the military category, the U.S. Government maintains naval shipyards; sizeable enterprises for the development and final assembly of nuclear weapons, for processing their explosive materials, and for treatment of their waste products; and a multitude of army bases with their extensive repair and maintenance shops. Again, state-monopoly methods of operation prevail, with most of the federally owned facilities contracted out to private companies for operation. In addition, the federal government has purchased and placed at the disposal of private munitions makers large quantities of machinery and equipment to be used in making war materials.

Government-owned military production facilities are thus a merging of state and private capital for the profit of the arms manufacturers. This collaboration firms the alliance between monopoly capital's weapons producers and the Pentagon, whose retiring officers take lucrative executive positions in their corporations. These companies tend to make abnormally high rates of profit, thanks to the use of some generous government-provided capital equipment and structures, for which they do not pay.

By far the largest government enterprises were those of the secret Manhattan Project of World War II to develop the atomic bomb. Major government enterprises have remained ever since, to prepare for nuclear war together with the leading parts of the widespread privately owned armament industry. As of the mid-1980s, government establishments employing 90,000 workers were producing over a thousand nuclear bombs a year—each *year* enough for total devastation.

After World War II, the space industry was also developed as a government enterprise, and has become increasingly militarized in its content and control. Here also, corporate contractors carry out actual operations.

Aside from industrial and transport enterprises, government-owned or government-and-private central banks, such as the Federal Reserve System, are characteristic of major capitalist countries.

Demands for Nationalization

Not to be confused with state-monopoly enterprises are the demands of progressive and revolutionary antimonopoly coalitions. They call for nationalization of specific basic industries in order to end monopoly domination and convert the enterprises to the service of workers, with guarantees of proper working conditions and adequate wages, and with democratic control by workers' representatives.

These goals are especially relevant in periods of economic and political crisis. And in revolutionary times they become demands for nationalization of all large-scale monopoly enterprises so as to provide the material foundation for building a socialist society.

Demands for nationalization have won substantial concessions in a number of West European countries, under the influence of Communist and Social-Democratic political parties and their working-class supporters. Significant sectors and major industrial enterprises have been nationalized in France, England, Italy and other countries. In France most banks and major heavy industry firms have been under government ownership. However, nationalization does not automatically end the struggle for control nor guarantee that workers will be protected against monopolies. In some countries the nationalized sectors have to a considerable extent lost their progressive democratic character and have been converted into state monopoly capitalist units. This was true in France during the tenure of the Social Democrat Mitterand, who broke with his onetime Communist allies. He appointed managers who laid off masses of workers in large state-owned industrial enterprises and shut down plants and mines during the world capitalist cyclical and structural crises of the 1980s.

In the United States, enterprises that passed into public ownership have remained under effective big business control and, using their monopoly position, have given poor service and charged exorbitant prices to cnsumers. This has applied in particular to some public transit corporations.

In addition, publicly owned enterprises, regardless of their actual merits or demerits, are subjected to negative propaganda by the capitalist media in order to build opposition to public ownership.

In the reactionary political climate of the 1980s, the administration adopted the term "privatization" to denote turning government enterprises over to monopoly capital. Under the new conditions, establishments that had been nationalized because they were no longer sufficiently profitable for private corporations could be returned to capitalists on terms that would guarantee them high profit rates. The railroads were a prime example. Even the postal service was step by step turned into a system of private ownership and profit.

Of critical importance has been the transfer to private capital of virtually the entire civilian nuclear power industry, first developed under government ownership. During the 1980s, the remaining federally owned nuclear power plants, the TVA, were deactivated and designated for privatization. Similarly, the civilian space program was being turned over in its entirety to private corporations.

Following the ideological and political lead of the United States, the British and French governments transferred to private corporations many of the banks and basic industrial enterprises that earlier had been nationalized as concessions to the workers.

Government Research and Development for Industry and Agriculture

In modern industry, with the constant changes in commodities and in methods of production, extensive and expensive research and development (R&D) is essential to maintain the competitive position of a corporation or a nation—in the economic field and, of course, in military affairs. This has become vital in the period of scientific-technological revolution and of intensified competition between the two social systems: socialism and capitalism.

The number of scientists and engineers engaged in R&D in the United States went up from 158,000 in 1950 to 744,000 in 1984.[6] Expenditures for R&D increased in about the same proportion, if adjusted to allow for inflation. Federal funds for R&D reached $47 billion in 1984, about three-fourths of that for military purposes.[7]

The most rapid growth in R&D was during the 1950s and early 1960s when the significance of the scientific-technological advances were recognized, when the bitter cold-war rivalry of the United States directed against the USSR was spurred by Soviet scientific successes not anticipated by U.S. political and military leaders—its production of the atom bomb and its pioneering development of earth-orbiting vehicles.

Zooming federal R&D outlays have been roughly matched by private industry—with lesser amounts from nonprofit institutions. But the bulk of the federal funds have been turned over to private corporations, universities and "think tanks" on contract.

Virtually all of the federally supplied money that went to private companies was for military uses. But the profitability to the companies carried over to their civilian production as well. In 1982 one-fourth of all industrial R&D spending was by aircraft and missile companies, and it accounted for 18% of their sales. Obviously the aircraft companies' R&D for military craft had major spillover value for their civilian plane development and helped, perhaps decisively, in the continued predominance of the U.S. companies in the world civil aircraft market.[8]

In addition, much of the federally funded R&D spending by universities and associated research institutions swells the profits of private corporations, since as large financial contributors to the universities, these corporations are in favored positions to learn of scientific developments and to buy patent rights, where relevant. Also, they hire R&D specialists who train at the very universities funded in large part by the federal R&D program. And there is also the factor of exchanges of personnel among the major corporations and the federal agencies that manage R&D funds.

The acceleration of government R&D efforts tapered off somewhat during the 1970s, but rapidly gathered momentum in the 1980s with the renewal of the cold war atmosphere and the attempts of the U.S. Government to achieve first-strike military supremacy.

Emergency Assistance to Monopolies

During the cyclical crisis of the 1930s the entire banking system was threatened with bankruptcy. The federal government provided capital to the largest banks to assure their survival, while forcing thousands of the smaller institutions to perish and become targets for acquisition by the monopoly banks.

During the structural crisis of the 1970s and 1980s a number of corporate giants—sectors of industry monopolies—were threatened with bankruptcy. Federal agencies in collaboration with private capital saved Chrysler, the auto manufacturer; Lockheed, the armament concern; and a number of major banks. In return for their "assistance" in these transactions, suppliers of the private capital obtained control of the fortified corporations. At the same time weaker concerns, not connected with the dominant circles of finance capital, were permitted to go bankrupt—sometimes pushed into it.

Assistance to Capital in the Class Struggle with Labor

The government's most valuable aid to big business has been its imposition of restrictions on the right to strike: laws that forbid strikes in many government enterprises and in particular industries; use of court injunctions and of police actions to prevent picketing; provision of thugs to beat up workers; and, in sharp conflicts, use of armed forces. As for economic reprisals against strikers, they are barred from receiving unemployment insurance and are evicted from their homes for nonpayment of rent or mortgages, among other devices.

Regulations limiting wage increases are also used to help raise the rate of exploitation of labor. These measures are invoked in periods of relatively full employment, as in war situations, or in severe inflationary upsurges, as in the early 1970s.

Government Economic Regulation

There is a considerable body of government regulations aimed at protecting purchasers from harmful products, and the environment from pollution or destruction from industrial activity, etc. Much of this has been won as a result of long struggles by labor, environmentalists, health protection agencies, etc. But evasion by capitalist enterprises is widespread, and when reactionary administrations are in power, laws are not enforced, or are weakened or repealed in the interest of business profits.

Other steps within the framework of state monopoly capitalism are aimed at assisting capital. They fall into two broad categories—

although there is considerable overlapping between the two: (a) regulations to assist specific industries or groups of industries with their domestic activities and in their rivalry with foreign capitalists; and (b) regulations to influence the overall performance of the economy [analyzed mainly in chapter 15]:

Protective Tariffs and Other Foreign Trade Regulations–the United States: Since as far back as the onset of competitive capitalism, the imposition of customs duties high enough to discourage imports has been one form of government regulation of the economy, designed to protect the development and survival of specific domestic industries. During the period of basic industrialization in America, roughly from 1840 to 1890, the great bulk of imports had to pay duties as high as 40–50% of the value of the commodities.

High tariff rates continued thereafter, but as U.S. corporations produced more and more items abroad, or imported foreign raw materials, the applicable range of high tariffs was reduced. By the 1920s, about two-thirds of all imports were duty free. There was a temporary sharp rise in U.S. tariffs during the 1930–33 economic crisis, which deepened considerably the crisis of world capitalism.

After World War II, with U.S. capitalists emerging well ahead of their rivals in technology, labor productivity and access to materials, the United States sharply reduced remaining tariff rates in exchange for concessions by other governments: approval for U.S. corporate investments and acceptance of U.S. exports.

But in time, as rival foreign corporations gained ground against U.S. companies, the use of duties to hamper imports increased in the 1970s and 1980s, although tariff rates generally remained far lower than prior to World War II. The major exception remained the discriminatory, prohibitive tariffs assessed against imports from socialist countries, as part of the U.S. economic warfare invoked against these nations.

At the same time, foreign trade has been increasingly regulated by other means characteristic of the age of state monopoly capitalism. Most important have been the import quotas allotted to various supplier countries, either unilaterally by the U.S. government or as part of international agreements. In some cases, imports have been held down by arbitrary inspection requirements. These have been used, for example, to restrain imports of various food products from Mexico and other Latin American countries. The real motive has been the pressure of U.S. food companies to restrain competition.

At the end of World War II, an international organization for the multinational negotiations of trade relations and restrictions among capitalist countries was established—the General Agreement on Tariffs and Trade (GATT). Through this and other arrangements, state-capitalist regulation of trade became international in scope to some extent.

European Economic Community (*EEC*). Outside of the United States, attempts were made by groups of capitalist countries to internationalize their economic life. The most important, the EEC, included six, and later ten, West European countries. Two more entered in the mid-1980s. During the 1960s the EEC succeeded in substantially reducing national economic boundaries among its members. Commodities, capital and people flowed freely among them, spurring their overall economic growth. However, the organization could not repeal the laws and contradictions of capitalist economic development—especially the law of uneven development—and the contradictions that cause cyclical crises of overproduction.

These imbalances emerged with increasing force during the 1970s and worsened in the 1980s. The major capitalist crisis of 1973–75, and even more that of 1979–83, forced each country to protect "its own" capitalists from foreign import competition, even from their EEC partners in the "common market." The weaker members, such as Italy and France, could no longer afford to leave their boundaries wide open to penetration by their more powerful associates, notably West Germany.

By the early 1980s, the barriers to trade and investment among EEC members were scarcely less severe than those against outside countries. Trade among the members, which had enjoyed strong absolute and relative gains, began to suffer relative declines.

Latin America: Other, more modest, regional groupings included the 11-member Latin American Free Trade Association (LAFTA) and the five-member Central American common market. They had little influence on the issue of changing the unbalanced foreign trade and payments patterns of the member nations, which are dependent on and plundered by the corporations and banks of the industrialized capitalist countries.

Other Groups: The developed capitalist countries set up a special organization in an attempt to coordinate their economic policies, the Organization for Economic Cooperation and Development (OECD). In essence, its function was to set "rules" of "fair trade" designed to put bounds on the cutthroat competition in international trade between the monopolies of the member countries. Bitter disputes arose, however, over alleged violations of these rules, especially as world markets slackened in the latter part of the 1980s. The OECD was more effective in coordinating the interests of world imperialism against developing countries. For example, it agreed on minimum rates of interest for export credits, designed to insure that competition between the countries' monopolies would not reduce the profits of their respective banks from the usurious interest they charged the developing countries that were purchasing capital goods.

The United States used the OECD and the other organizations to pressure its allies to join its all-out economic warfare against the Soviet Union and other socialist countries. A special organization for this purpose, COCOM (Coordinating Committee), established secret embargo lists and other restrictions; these restrictions, however, often were violated by countries whose capitalists were engaged in profitable trade with socialist countries.

Ironically, the Reagan Administration, the most ardent and vocal advocate of "free enterprise" and opponent of "government intervention," exerted pressure for these and other measures of international capitalist regulation. With the decline in the relative position of U.S. imperialism, in 1986 the Government sought "a permanent means of regulating the world economy to try to avert such disruptions as the rise of the dollar and the consequences for American jobs and trade." In addition to regulation, or even fixing, of international exchange rates, the Reaganites wanted the major imperialist powers to "set mutually agreed-upon goals for other gauges of economic well-being, such as their growth, employment, inflation, interest rates, budget deficits and trade imbalances." This "new approach is a top economic goal of President Reagan's second term."[9]

"Free Trade" Vanishes

The position of traditional manufacturing industries, including basic heavy industries in the United States and Western Europe, deteriorated rapidly in the 1980s. Their domestic and export markets were increasingly penetrated by Japanese rivals and by supplies from newly industrializing countries, a process hastened by the continuing export of capital and establishment of plants in these developing countries by the U.S.- and West European-owned transnationals.

To stem, or at least slow, the deterioration of U.S.-based manufacturing, the government imposed various limits and quotas on imports of designated products. Sometimes the quotas were set on items, sometimes on specific supplier countries. Foremost among the quota limitations were those for automobiles from Japan, textiles from China, and specialty steels from several sources. Generally quotas were imposed as an upshot of bargaining between the governments and corporations involved. This amounted, in effect, to international, state monopoly capitalist regulation of trade in manufactures.

Imposition of limitations on steel imports speeded the rate of price increases of steel and of products made of steel, both domestic and imported. But while temporarily stemming the deterioration of activity in particular industries, the restrictions could not stop the overall losses due to the continuing decline in the competitiveness of U.S. manufactures.

Indeed, the rise in imports of basic commodities and articles of mass consumption was accompanied by dramatic increases in imports of machine tools, construction equipment, etc. As controls and limitations over imports were extended, major capitalist governments more and more subsidized exports. The United States provided subsidies and guaranteed export credits through the Export-Import (ExIm) Bank and the Foreign Financing Bank, the latter specializing in exports of military equipment. Outstanding loans under these programs totaled $63 billion by 1984.[10]

Overriding other factors causing losses to U.S. companies in foreign trade was the cumulative effect of decades of export of capital by these corporations themselves. So that by the late 1970s and the 1980s, they had transferred much of their production to other countries, especially for markets formerly supplied by exports from their U.S. plants (see chapter 14).

As the competitive losses of U.S. exporters increased, Washington initiated a program of massive subsidies or grants, at taxpayers' expense, to enable U.S. corporations to win major export contracts while maintaining their "traditional" very high profit margins on sales to developing countries.

General Motors, the world's largest auto manufacturer, was offered a $10 million ExIm Bank grant for a $20 million sale of locomotives to Malaysia, in competition with bids from British, French and Japanese firms. General Electric, number one in electric equipment, was offered a $9.8 million grant on a proposed $30 million gas turbine sale to India in competition with French and British firms.

The scale of farm export subsidies increased very rapidly in both the United States and in Western Europe. Agricultural exports have been heavily subsidized by low-interest loans and by sale at below-market prices of government surplus farm commodities. As a result of the capitalist world economic crisis of the early 1980s and its negative impact on farmers, government programs to prop up farmers' finances have soared; the subsidized production has increased; and the commercial markets for farm produce in developing countries have dwindled.

In both the United States and Western Europe, governments have devoted special efforts and resources to shore up the farmers, who are regarded as vital political supporters for capitalism. Despite all such efforts, however, the economic situation of most farmers has continued to deteriorate, their number has decreased, and dissatisfaction among those who remain has intensified.

Conflicts over agricultural subsidies have been among the most serious chronic issues among the EEC countries, and between them and the United States. Moreover, the conflicts intensify as the imbalances and contradictions arising out of the agricultural subsidies become more intractable.

Financial Regulations

Banks and other financial institutions are subject to a considerable number of regulations. The major financial regulatory agency in the United States is the Federal Reserve System, consisting of a Washington-based Board of Governors and 12 regional banks. It requires reserves on deposit from commercial banks and supplies short-term credits to banks. By its trading in government securities, it largely determines the amount of money in circulation; and by regulating changes in the money supply, it attempts to stabilize economic activity.

Structurally, the Federal Reserve System epitomizes the merging of state and private monopolies. Its directors are partly appointed by the President and partly chosen by the regional banks. While it is the chief financial agency of the United States Government, it is self-financing through its member banks, its accounts are not included in the U.S. budget, and its decisions are independent of presidential or congressional control—although the decisions are, of course, subject to their influence.

Banks, the financial cornerstones of monopoly capital, are at the center of the crises that afflict capitalist economy. With the centralization of financial power in the epoch of imperialism, any financial crisis could threaten to collapse the entire financial structure and paralyze the economy. Indeed, that is what happened, essentially, for several months during the very depth of the Great Crisis of 1929–33.

A number of financial regulatory agencies were established in response to the crisis conditions of the 1930s. The Federal Savings & Loan Insurance Corporation (FSLIC) and Federal Deposit Insurance Corporation (FDIC) were set up to insure personal deposits in banks. Other agencies provided reserve facilities for mortgage banking institutions, regulated the stock and commodity markets, etc. These agencies were designed to:

- maximize profits of leading banks by facilitating the cartel-like imposition of interest rates, commissions and other charges;
- provide an orderly division of markets among various types of financial corporations; and
- avoid financial panics by minimizing and containing the effects of defaults.

Popular pressure resulted in the establishment of a number of institutions and functions that provided some protection to the public from the most predatory actions of financial monopolies. However, this aspect has dwindled with the antisocial offensive of big business. Moreover, the "deregulation" drive of the 1980's administration led to a breakdown even of many features meant to stabilize financial activities for the benefit of the monopolies themselves.

In the case of banks, the main deregulating trends were:

- permission for commercial banks to engage in stock brokerage, under certain limitations;
- raising or eliminating ceilings on interest rates banks could pay on time deposits;
- step-by-step removal of barriers on banks carrying on activities and setting up branches across state lines.
- exhaustion of reserves of FSLIC due to mounting failures of savings banks.

Regarding stock exchange functions, fixed commissions were abolished, opening the way for discount brokerage houses and commercial banks to engage in furious competition. The underlying calculation behind "deregulation" was that the most powerful monopoly corporations would come out on top, use "deregulation" as a means of absorbing weaker rivals, and hence strengthen their overall monopoly power.

Basically, the intent has not been to put an end to state monopoly structures and regulation of economic activities but rather to liquidate forms of regulation that, in whole or in part, were established in response to antimonopoly pressures; to modernize the forms of regulation to fit the current needs of big capital.

Of course, monopoly corporations have made major blunders in their calculations. Thus, the airline companies won their campaign for deregulation of fares, resulting in a totally unexpected, far-reaching fare war that, combined with loss of business in the economic crisis of the early 1980s, plunged virtually all airlines into red ink. The strengthened position of the most powerful lines, as a result of absorption of the routes of bankrupt competitors, might not compensate their owners for several years of losses.

Major capitalist countries have central banking systems analogous to, although differing in detail from, the Federal Reserve System.

Financial institutions established at the Bretton Woods Conference of 1944 have become major forces of international state monopoly capitalism. These are the World Bank (International Bank for Reconstruction and Development) and the International Monetary Fund (IMF). The charter of these institutions called upon them to serve primarily as a means of coordinating the mobilization of capital of the developed capitalist countries to assist the economic advance of the less developed, "Third World" countries. The World Bank makes long-term loans; the IMF gives shorter-term credits to provide immediate financial relief and to assist countries with balance-of-payments difficulties.

However, both institutions have become instruments of imperialism for promoting its political aims in the "Third World" and for advancing the interests of financial and industrial monopolies in the developing countries. While almost all capitalist countries and some socialist countries are members, these institutions are controlled by the dominant powers, as voting is according to the capital supplied. The United States alone has a veto power over many actions.

Many development loans are to countries whose policies, domestic and international, are obedient to imperialist tenets. The IMF has become the key agency for collecting the usurious interest on loans to the developing countries by the big banks of the United States and other banking centers, and it has been largely responsible for the imposition of the austerity programs that have been part of the loan packages.

Taxation

As the role of the federal government increased, so did the share of surplus value collected by the government in the form of taxes. Insofar as taxes are collected from workers, they are, in effect, an addition to the surplus value taken directly from the labor of the workers by their employers. Insofar as they are collected from capitalists and their corporations, they represent a reduction in the share of surplus value that can be appropriated by the capitalist class in various forms. With federal outlays in the 1980s approaching 25% of the gross national product, and receipts 20%, resulting in huge deficits, the distribution of this great tax burden has become an important arena of class struggle, and of struggle among different sections of the capitalist class.

The working class scored some gains in that struggle during the New Deal period and its immediate aftermath, but beginning in the 1960s, the tide turned decisively.

An important indirect means of increasing the exploitation of labor is through imposition of a regressive tax system—that is, one in which the main burden is placed on lower-income people. Historically, the federal tax system was regressive, with tariffs—equivalent to sales taxes in their impact—the most important source of revenue. However, for as long as federal taxation was not onerous and imports were not a major factor in mass consumption, this was not a major problem.

Throughout the history of capitalism, people have urged adoption of the principle of a progressive tax system—taxation according to ability to pay—through a graduated income tax. Workers with low or moderate incomes would be exempted, and rates would rise as incomes went up. In 1776 Adam Smith, in *The Wealth of Nations,* advocated a progressive tax system, as did Marx and Engels in *The Communist Manifesto* in 1848. Noncommunists made the same demand.

In the United States the battle for a progressive income tax has a long tradition. A temporary income tax was enacted to help finance World War I, and in the New Deal period of the 1930s, a progressive income tax was introduced as the main source of federal revenue. Moreover, rates were set so that most workers were excluded.

During World War II, however, even though taxes on the rich and the corporations were raised, applicability was also extended to include lower incomes and income taxes were withheld from workers' paychecks. In the following decades, the effective income tax rates on workers were increased and, in addition, the social security taxes being deducted from their pay were rising.

Meanwhile, the effective rates on corporations and the rich were gradually reduced. From a peak of 90% the top rate for individuals was lowered to 70% by 1980 and, dramatically, to 28% by 1988. Moreover, widening loopholes made the effective rate on the capitalists much lower. Corporation tax rates were also decreased, from peaks of more than 50% (aside from wartime) to 34% by 1988. And again, loopholes made the effective rate much lower.

In 1947, 51% of federal income taxes were withheld from workers' paychecks. By 1986, 75% of income taxes were withheld from workers' pay. Corporation income taxes declined from 25% of federal revenues in 1947 to 8% in 1986.[11]

The state and local tax systems also placed the main burden on workers. The Tax Foundation calculated that in 1986 the "Tax Bite from 8-Hour Pay of Average U.S. Worker is 2 Hours, 39 Minutes."[12]

Since more of that went to benefit capitalists than workers, it had the effect of increasing the rate of exploitation of labor by transferring from wages to surplus value part of the payment for time worked.

Regulation of Agriculture

The United States has a complex and generally expanding set of regulations governing prices and production of agricultural products and their primary processing. The essential features of these regulations, mainly enforced through the U.S. Department of Agriculture, are (a) to hold down production, through some form of allocation among producers or through destruction of specified portions of their output; and (b) to raise prices, through state purchases at minimum prices, and taxes and subsidies of various types. Such programs apply to all the principal grains, fibers, vegetables, fruits and dairy products.

Regulations are generally set in consultations between government officials and representatives of the largest producers or processors of a given product.

Three examples are especially relevant:

- The Reagan Administration, in a desperate effort to force up prices of grains, instituted the PIK (payment in kind) program, under which grain farmers were encouraged to idle half their crop land. In return they received grain free of charge, from government stockpiles, at taxpayer expense.

• Over an 18-month period in 1986–87, one million cows and 600,000 young dairy cattle were scheduled for slaughter under an Agriculture Department program to reduce milk production by 12 billion pounds—driving 14,000 farmers out of business in the process.

• In California, under government authorization, small groups of leading fruit processors—grapes for raisins, peaches, etc.—determined the extent of destruction each year. For example, in a typical year one-third to one-half of the peaches were removed from the trees and destroyed.

These measures succeeded in raising the prices that consumers pay for food and the profits that food processors reap, while reducing the share received by farmers and the price parity ratio of the prices they get to the prices they pay. Thus despite short-run gains, in the long run the crop reduction programs do not work. The weeding out of smaller, financially weaker farmers has accelerated, and in the United States, more than in most countries, agriculture has been transformed into corporate business.

It is morally criminal to have mass destruction of food in a country where millions go hungry and tens of millions are malnourished because they lack sufficient funds to provide a balanced diet. It is reprehensible, also, to withhold this food from the hundreds of millions of hungry people in developing countries, especially when the U.S. government has advanced billions of dollars in "foreign aid" to the ruling circles of these nations.

Some agricultural regulations, as is true of other government measures, were prompted by antimonopoly and working-class mass movements—e.g., food and drug inspections to guard against harmful products. However, these have also sometimes been diverted to pro-monopoly use. One corporation may lobby for approval of its new drug while using its influence to prevent approval of rivals' products. Barriers against imports of agricultural produce—from Mexico and other countries, have been justified by arbitary claims of unsanitary standards of purity. Other import bans make no sense. For example, Canada grows no oranges, and imports them from the United States. However, if travelers buy U.S. oranges in Canada and try to bring them back into the United States for consumption, they will have them confiscated and burned at the border by U.S. customs agents.*

*This happened to us. We had two oranges—Sunkist from California and so stamped—in our packed lunch. The U.S. customs agent who confiscated them said that at that one point he had garnered and burned hundreds a day. And that was at a minor crossing point in North Dakota!

Curtailment of Regulations for People's Welfare

The Occupational Safety and Health Administration, OSHA, was set up in response to demands by the U.S. trade union movement to check the terrible toll of deaths and injuries in U.S. manufacturing, construction and transport industries. However, implementation of its duties has depended on the political tenor of the administration in power. With the weakening of trade union influence in Washington during the 1970s and 1980s, OSHA protection seriously dwindled.

Similarly, the Wages and Hours Division of the Labor Department was immobilized. This agency was formed to ensure adherence to minimum wage standards by employers. Particularly overt has been the wrecking of effective action by the Equal Employment Opportunities Commission, the Civil Rights Commission, and other government agencies supposed to carry out the intent of civil rights laws by prohibiting discrimination and segregation, and by promoting equality through affirmative action.

This whole range of regulatory activity, however, is basically outside the scope of state monopoly capitalism. For the most part, it is imposed on monopoly capitalism by mass struggle, and as long as government bureaucracies remain under monopoly control, enforcement of these regulations will be limited, at best. Hence the special relevance of the concept of *democratic control*—the struggle for labor and people's control of all sectors of government most directly affecting their vital interests.

Regulations for War Mobilization and Military Production

During World War I, and even more during World War II, the capitalist combatants engaged in partial planning of the entire economy and instituted far-reaching controls in order to muster their maximum potential for warfare. Allocation of materials and labor, fixing of prices and wages, imposition of high tax rates, and restrictions in production of civilian goods were all carried out to an extent undreamed of by capitalists and their governments. In peacetime they would certainly have resisted such measures as "socialistic."

The United States also imposed partial war mobilization regulatory measures during the Korean War and, to a lesser extent, in the Vietnam War.

The fact that such steps are necessary to effectively mobilize the population and resources of a country for a major modern war is proof of the basic superiority, the greater efficiency, of a planned socialist economy over a capitalist economy under modern conditions. Yet it must be understood that, whether carried out in Hitler's fascist Germany or in Roosevelt's New Deal United States, such measures fell far short of a genuine socialist mobilization of resources and planning of economic life.

Under conditions of capitalist state power, even in a war situation, the regulatory measures were geared to maintain and enhance the class interests of capital in general, and monopoly capital in particular. Thus supplies were allocated and prices and wages were set to ensure high and rising profits for monopoly capital, even though this inevitably diverted from the most effective concentration of resources for winning the war.

In the United States, full mobilization for war production in the 1940s was delayed for a considerable period, until the financial terms demanded by the armament manufacturers and their suppliers were met. This entailed significant risk during the early period of Japanese and German offensives. Racist barriers prevented the most efficient mobilization of the labor force and hampered maximum output. The most powerful and best-connected monopolies were able to arrange for military orders for armaments, supplies of various kinds and spare parts, far beyond the real military needs and, in some cases, at prices many times the cost of production. Above all, there was never a full mobilization of the capital of the millionaires and their corporations.

The superiority of real socialist planning over the partial wartime planning of monopoly capitalism can be seen in a comparison of the results of the USSR and of Germany in World War II. Hitler Germany had at its disposal not only the far superior industrial base of Germany itself, but also that of virtually all continental Europe under its occupation west of the Soviet Union. The Soviet Union lost a substantial part of its industrial and agricultural base in the early months of the war, and yet, by 1943 the USSR was outproducing Germany in war materials and supplies, and by 1945 far outproducing it.

Regulations of the armaments economy are also important in peacetime, nowhere more so than in the United States. Contract awards to corporations under the mushrooming military budget are supposedly regulated to limit profit margins, but the legal limits have been hoisted and in practice they are largely ignored.

Rivalry for military prime contracts is intense. However, the Pentagon does distribute the booty widely enough to assure the profitable survival of all the main sources. Subcontracts are spread among tens of thousands of allied, satellite and subsidiary companies. And the government "hawks" strive to mobilize all of the employers and their workers to support the huge arms budget and an aggressive foreign policy.

Moreover, the Pentagon has achieved a large degree of control over foreign trade policy. Through the middle 1980s it had veto power over the licensing of exports of a wide variety of advanced manufactures, especially machinery, with particular reference to "high-tech" products.

The main objective was to conduct economic warfare against the Soviet Union—but also against the other socialist countries—by denying it access to petroleum equipment, computers and other equipment and supplies that might enable faster economic growth. Formerly the reason given was that the banned items were militarily useful. Since most of the barred products had no conceivable military use, however, the real reason—impeding economic progress—was openly expressed.

In fact, barriers to trade with the socialist countries more and more interfered with sales to other capitalist countries, because the Pentagon imposed stiff licensing requirements on them in order to prevent reexport to the USSR. These maneuvers contributed significantly to the rise of the U.S. trade deficit, and especially to the weakening of its markets for products in which it had traditionally led, advanced machinery and equipment. In an attempt to rectify this imbalance, capitalists have demanded that control over exports be shifted from the Pentagon to the Commerce Department. Such a shift would modify, but would not end, the impedance of U.S. foreign trade on behalf of the aggressive military plans of U.S. imperialism.

Foreign Aid

The "foreign aid" activities of the U.S. Government have been the most important form of state monopoly capitalism in the international arena since World War II. The objective of this "aid" has not been to help hungry people survive or to help backward countries to develop. Any such benefits have been strictly derivatives of the main purposes, which have been political, economic and military. While many billions of taxpayers' money have been spent for "foreign aid," wherever practical these funds have been used as "investments" of the U.S. Government to enhance the profits of U.S. transnational corporations. These programs were decisive in creating the conditions that made possible the 50-times increase in foreign investments and 100-times rise in income on foreign investments of U.S. companies in the 40 years after World War II. Thus it was the taxes paid by the American people for "foreign aid" that yielded the corporations their exorbitant rates of return.

U.S. "foreign aid" reached its peak, relative to the overall U.S. economy, in 1946. The total of $5.710 billion equaled 3.2% of the national income, paid for more than one-third of all U.S. exports, and equaled about one-half of all nonmilitary expenditures for goods and services by federal, state and local governments combined. "Foreign aid" remained high, exceeding 2% of the national income, for a decade after World War II and for most of that period exceeded all net domestic transfer payments, including social security, welfare, aid to the disabled, etc.—except for veterans' benefits.[13]

The largest amount, $6 billion, went to Britain, which had suffered substantial but comparatively light damage in the war. France was next, followed by the three Axis powers—West Germany, Italy and Japan. Each received billions. By contrast, the USSR, which had sustained the most destruction and had been the most effective ally, received less than $0.5 billion, mainly emergency food shipments. And in return it had to repay the United States for Lend Lease military aid, unlike other recipients. Moreover, in contravention of the Yalta Agreements, the United States and Britain prevented the payment of $20 billion in reparations from West Germany to the Soviet Union and other Eastern European countries.

In all West European countries the political purpose was the prime motivation for the aid: to thwart the popular trend toward socialization of the economy. This was accomplished by providing for goods lacking during the war and by buying off political and union leaders so as to dampen working-class militancy and strengthen right-wing forces. The Marshall Plan was complemented by military measures: occupation of the liberated countries by U.S. and British forces; the organization and installation in power of reactionary military forces; and, where necessary—as in Belgium and Greece—direct military intervention by British or U.S. troops.

Replacing in power the same forces in West Germany that had backed Hitler—including some leaders of the nazi regime—was particularly sinister. The seeds of fascism, replanted in the Federal Republic, have still not been rooted out.

Similar purposes were served by U.S. "foreign aid" in Japan, South Korea and Taiwan.

Thus, aside from the long-term political and military goals—epitomized by the organization of NATO, the military alliance formed to carry out the future imperialist assault on world socialism—the "foreign aid" programs for the first decade after World War II concentrated on installing and maintaining capitalism in Western Europe and Japan and in the Far Eastern areas liberated by U.S. troops from Japanese occupation.

In the 1960s and thereafter, with capitalism stabilized for the time being in Western Europe and Japan, the emphasis of U.S. "foreign aid" shifted to the developing countries. Militant anticolonial struggles were toppling the old regimes and threatening to complete the national liberation process and establish anti-imperialist governments aiming to bypass capitalism and prepare for the transition to socialism.

In the 1960s much "aid" was diverted to Vietnam, where billions were spent to build up the puppet South Vietnamese army, which assisted the Pentagon's genocidal 10-year unsuccessful war of conquest. But the largest amounts were spent to put in power—and to retain in power—fascist regimes wherever possible, in Africa, Asia and Latin America. When such a dictatorship was overthrown, as Somoza in Nicaragua, U.S. policy shifted virtually overnight from "aid" to warfare, both economic and by military puppets.

By the 1970s, far and away the largest recipient of U.S. "aid," mainly overtly military, was Israel, which had become the closest ally of the United States in the Middle East and Africa.

U.S. big business derived substantial profits from supplying the commodities paid for by the "foreign aid" billions. But the most important bonanza was the open door obtained for U.S. transnationals.

Under the Marshall Plan and under the many aid agreements with developing countries, "national treatment" was guaranteed for U.S. capital. That is, U.S. capitalists were granted the same terms for operating in the host country as were its own national capitalists. Considering the fact that for a decade after 1945, U.S. capital was incomparably stronger than that of any of its rivals, financially and technologically, the stage was set for the tremendous surge of U.S. foreign investments. This U.S. penetration was a major feature of postwar international economic life, and it converted the United States into a country that drained vast quantities of property income from other lands.

Another factor in the economic consideration of U.S. "aid" was the disposal of agricultural surpluses when and where considered politically expedient. Much of that aid, presented as "gifts," was not quite so cost-free to the recipients. For example, large quantities of surplus farm products were sent as aid to India, whose hungry millions certainly needed the food. But India was required to have the food shipped on U.S.-owned and -registered merchant ships, which charged several times the normal shipping rates, forcing India to pay a significant fraction of the market price for the grain—which also might not have been of the highest quality.

Further, substantial and increasing proportions of the "aid" have consisted not of free grants but of loans, which may be on terms only slightly less onerous than commercial loans. During the period 1970–81, 33% of the economic aid and 44% of military aid were in the form of loans that had to be repaid with interest. In that period also, 41% of all U.S. "foreign aid" was overtly military, which means that it was harmful, not helpful, to the peoples of the countries that were "aided."[14]

State Monopoly Capitalism vs. Socialism

The increasing role of government in the economic life of the country is often referred to deprecatingly as "creeping socialism." It is true that Lenin, in his classic study of monopoly capitalism, wrote of the "socialization of production":

> When a big enterprise assumes gigantic proportions, and, on the basis of an exact computation of mass data, organises according to plan the supply of primary raw materials to the extent of two-thirds, or three-fourths, of all that is necessary for tens of millions of people; when the raw materials are transported in a systematic and organised manner to the most suitable places of production, sometimes situated hundreds or thousands of miles from each other; when a single centre directs all the consecutive stages of processing the material right up to the manufacture of numerous varieties of finished articles; when these products are distributed according to a single plan among tens and hundreds of millions of consumers (the marketing of oil in America and Germany by the American oil trust)—then it becomes evident that we have socialisation of production . . . ; that private economic and private property relations constitute a shell which no longer fits its contents. . . . [15]

In conditions of modern monopoly capitalism, when the capitalist governments have, in effect, helped giant corporations to form a supermonopoly, this characterization is even more valid. But Lenin made clear his disagreement with those who thought that this socialization of production under monopoly capitalism would automatically be transformed into socialism. On the contrary, he wrote that as long as the "shell" of private property was not removed, the capitalist system would decay, its anarchy could not be overcome, harmony between production and consumption could not be achieved.

State monopoly capitalism, whose primary aim is the retention and strengthening of the "shell" of private property relations, is thereby *preventing* socialism, is moving in the opposite direction. Its aim is to regulate for the benefit of monopoly capital, against labor. Socialism is based on labor's ownership and regulation of the means of production, for the benefit of all, in order to create the basis for maximum planned production and consumption, rather than anarchy. Socialism's socialization of production achieves harmony between production and consumption rather than sharpening conflicts between them, and eliminates the fundamental class conflicts over distribution of the goods and income produced.

" I know it isn't much, but my boss lets me peek at his Wall St. Investor's Tip Sheet..."

11. The Superstructure: Trade and Services

Essential social relations in the process of producing commodities—mainly in manufacturing—have been analyzed. But there is also economic activity outside the production of commodities. In the broadest sense, economic life may be divided into two categories: (a) material production and (b) trade and services.

Material production includes agriculture, mining, construction, manufacture, transportation and public utilities. Transport of goods is an essential part of the process of production. So are public utilities, including communication, even though electrons flowing through a telephone wire cannot be seen or weighed. And electricity, although invisible, is as clearly a physical commodity as coal or oil. Also included as part of the process of production are such enterprises as government-owned rail and transit lines and the postal service.

The trade and services category includes wholesale and retail trade; finance, insurance and real estate; services, from barber shops to classrooms to doctors' offices; and general government operations.

There is considerable overlapping in these groupings, with some economic activities that might be considered in either the production or the service sphere. For example, a personal taxi ride is a personal service, not part of the production process of transportation. But by and large the listed categories provide a reasonable approximation of the division between production and services, and an indication of their relative importance. The outstanding change during the 20th century has been from an economy in which most workers were producing material goods to one in which a substantial majority are engaged in trade and services.

Opinions differ concerning the boundary between production of goods and services. U.S. official statistics take a narrow view of goods production, excluding transportation and utilities. Socialist country statisticians use a broader definition.

From the viewpoint of Marxism the division is between spheres where new values are created (mainly material production) and spheres where the values are made available for personal consumption (many services). A clear example: food products are grown on a farm and processed in a meat packing, canning or bread making factory—all sectors of material production. The processed food is then served in a restaurant, which is a service enterprise, making available to the ultimate consumers the values created by the farmer, canner, baker and meat packer. As indicated in chapter 1, under modern conditions some service workers produce value and surplus value. Also, under modern conditions, many services are supplied to business enterprises, rather than to personal consumers.

If industrial and agricultural production comprise the base of the economy, trade and services constitute the superstructure. This does not mean that services are inferior. A very large part of the service sector is necessary for improved living conditions: educational and medical establishments, well-staffed and equipped supermarkets, national parks and other vacation and recreation facilities, for example. On the other hand, many of the service categories under capitalism are mainly parasitic: advertising, all sorts of financial enterprises, many-layered trading networks, and bloated government and corporate bureaucracies. And these have been increasing in relative and absolute importance during a period when big business has been reducing the availability of education, health and other necessary services to the masses of the people.

A large and growing service sector consists of the communications media: television, video, radio, books, newspapers and periodicals, motion pictures, etc. They are important sources of information, education and entertainment. However, their content is overwhelmingly formed, and malformed, to serve as ideological propaganda for monopoly capital and against the workers and the minority peoples; for U.S. imperialism and against the national liberation movements of the world, and especially against the Soviet Union and other socialist countries.

Today large-scale services more and more take on the characteristics of industrially produced commodities. For example, the modern automated supermarket is more akin to an industrial enterprise than to the one-man corner grocery of the past. The categories of Marx, who viewed life as it was in the middle of the 19th century, cannot automatically be applied today. In his time, the service sector was little developed and consisted primarily of individual personal services, mainly carried out by household servants. Today services are, for the most part, large scale.

Still, it is the production base that provides the necessities of life. This fact becomes most clear when a country is engaged in a major war and much of the superstructure is reduced. All efforts are concentrated on producing the physical necessities for living and war-making. This was true to a considerable extent even for the United States, whose territory was not involved and which suffered only minor losses in two world wars. It was much more valid for the European participants and Japan in those wars.

It is misleading to deprecate the rising share of services in the economy as an intrinsically negative, anti-labor phenomenon. At the same time, it is equally misleading to extol the "shift to a service economy," as many apologists for capitalism do. The development of this trend is an inevitable feature of scientific and technological progress, of the rising productivity of labor, of the growing complexity of life. But its social impact depends on the prevailing class relations. Under capitalism, it is an indicator mainly of rising living standards for the capitalist class and to some extent for workers who, by virtue of having won trade unions and organized political struggles, can afford to purchase some services, and who have won other services, free of charge, from the governments. Whereas under socialism the rising share of services is an index of rising living standards for the population generally.

But under capitalism, in practice, the uptrend of the service industries does have negative connotations. It is in these industries that workers are paid least and are most cruelly exploited, and where racism is most pronounced. And among the "services" are to be found the most parasitic, socially harmful offshoots of capitalist economy, including gambling establishments, prostitution, and the narcotics "industry." Also in this category are the repressive instruments of the state, including, in the United States, the FBI, the CIA and the local police forces, agencies that concentrate their attentions on the poorest, most exploited and racially oppressed sections of the population, as well as on the militant anti-monopoly groups.

Furthermore, during the last quarter of the 20th century, the "shift to a service economy" has, in some respects, gone beyond the relative to generate an absolute, seemingly permanent decline and decay of large sections of basic industry and the material fixed capital of society, especially the public infrastructure that is so vital for modern life.

At the start of the century, 72% of all workers were producing goods, 28% services. By 1985, the proportions were largely reversed, with 35% producing goods, and 65% services.

TABLE 11-1. WAGE AND SALARY WORKERS EMPLOYED IN GOODS PRODUCTION AND IN SERVICES 1900 AND 1985 (*thousands*)

Category of Worker	Year	
	1900	1985
Goods Production	13,234	35,238
Services	5,244	64,573
Total	18,478	99,811
Percent Goods Production Workers of Total	71.6%	35.3%

SOURCES: *Hist. Stat.*, Vol. I, p. 137, Series 127-141.
BLS: E&E, March 1986, Table B-2, pp. 44–54.

Table 11-2 shows the change in employment of workers in each of the major categories within goods production and services.

Bear in mind that the *decline shown for agriculture concerns only wage and salary workers.* The decline in the number of self-employed farmers was much sharper. The multiplication of employment in each broad service group was several times more than that in each goods production group, except for government enterprises, for which the figures have a wide margin of error. Still, aside from agriculture, employment in goods production increased approximately in line with the 3.13 times increase in population. The very slow rise in mining employment was mainly due to the shift to the import of so many minerals.

Among the groups, the most rapid rise was in finance (includes insurance and real estate), which zoomed 19 times in employment. This reflects the increasing domination of finance capital in the economic life of the country, and is also symptomatic of the increasingly parasitic character of capitalism.

The data show, in general, that during the first half of the period covered, both goods production and services rose, with services growing faster. In the second period, jobs in services went up even faster while employment of production workers in the principal industrial sectors stagnated and, in the 1980s, went into a long decline.

TABLE 11-2. WORKERS EMPLOYED IN MAJOR INDUSTRIAL AND SERVICE GROUPS, 1900 AND 1985, AND PERCENT 1985 OF 1900 (*thousands*)

Group	Year 1900	Year 1985	Percent 1985 of 1900
Goods Production			
Agriculture	3,300	2,111	64
Mining	637	969	152
Construction	1,147	4,662	406
Manufacturing	5,468	19,426	355
Utilities & Transport	2,282	5,300	232
Govt. Enterprises	200	1,385	692
TOTAL	13,234	35,238	266
Services			
Trade	2,502	23,194	927
Finance	308	5,924	1923
Services	1,740	21,930	1260
General Government	894	14,910	1668
TOTAL	5,244	64,573	1231
GRAND TOTAL	18,478	99,811	540

SOURCES: Same as for Table 11-1. 1900 figures for agriculture and for government enterprises partly estimated by author.

The proportion of workers in goods production understates the importance of this sector. That is because there are a good many part-time workers in the trade and service spheres, wage rates are less, the degree of capitalization is less, and there are more small, low-profit enterprises.

In 1985, between 41% and 51% of the economy was attributable to production of goods. (The wide range is a result of inconsistencies in official gnp statistics*) Six years earlier, the proportion ranged between 45% and 55%, indicating the ongoing downtrend in the relative importance of goods production.[1]

Comparison of United States and Other Countries

The shift in emphasis from production of goods to provision of services has been common to all capitalist countries. Table 11-3

*The higher figures represent the share of goods and structures in gnp; the lower figures the share of the goods production sectors in the domestic part of gnp.

shows the percentage of gross domestic product remaining in goods production as of 1980 for the most developed capitalist countries.

TABLE 11-3. PERCENTAGE OF GROSS DOMESTIC PRODUCT IN GOODS PRODUCTION, 1980

Country	Percent	Country	Percent
Denmark	37*	Australia	50
Sweden	41	Austria	50
Canada	42	Greece	50
Netherlands	43**	Spain**	50
United Kingdom	44	Japan	54
United States	44***	Italy	55
France	46	West Germany	56
Belgium	48		

*1977
**1978
***1979
SOURCE: UN statistics reported in *Stat. Abst.*, 1984, No. 1510, pp. 866-867

The United States—and Great Britain—with 44%, are among the lowest percentages listed. Japan, Italy and West Germany are highest, with goods production accounting for 54-56% of gross domestic product. These three have made great gains in economic power compared with the United States and Britain, which could indicate that a strong industrial base has been a significant factor in their development. Likewise, a weakening of that base, along with the overdevelopment of certain service sectors, has contributed to the loss of ground by the United States, Britain and France in the economic competition between them and their former foes.

The service sector has been much less developed in socialist countries, in part by choice and in part through necessity. In their different social system, they do not need huge financial, advertising, etc., industries, nor the superfluity of salesmen that exists under capitalism. They aim to reduce parasitic government bureaucracies. But basically, since they were launched in the wake of wars and revolutions, the socialist countries have had to concentrate on first providing and then raising the basic material living standards for workers and peasants, as well as on developing the broad industrial base needed to produce not only these requirements but also the materiel to defend themselves against hostile powers.

With full employment—no unemployed to draw on for peripheral activities—the less essential industries have not developed as much as in capitalist countries. This applies particularly to retail and wholesale trade and to a variety of personal services. Undoubtedly, increases in these sectors improve consumer product-related living standards. At the same time, however, socialist countries devote relatively more labor and facilities to medical and health services, education, and cultural and recreational centers than do most capitalist nations.

Using comparable classifications, about 90 million workers were employed in goods production in the USSR in 1982 compared with 40 million in the service sector. That is, 69% of those employed, including collective farmers, were engaged in production of goods.[4] Available data for the German Democratic Republic and Czechoslovakia indicate roughly similar distribution.

By the 1980s, the economic development of the socialist countries had reached a stage where priority improvement of the service sector was possible and desirable. Emphasis has been on providing a wide range of personal, repair and household services, and on improving the trading network. Soviet policy adopted in 1985 called for a turn in this direction, based largely on cooperative and individual rather than on state-owned enterprises.

Parasitism

In chapter 6 the growth of the corporate bureaucracy was discussed as a factor in the distribution of the profits of control. It has another aspect: a parastic encumbrance on the economy. The rapid growth of parasitism has been a prominent feature of the postwar era in the United States.

In 1909, employees other than production employees were 18.1% of total manufacturing employment. Forty years later, in 1948, the proportion was about the same, 17.1%. But by 1985 it had nearly doubled, to 32.0%. The number of production workers remained at the 1948 level, but the number of other employees had increased 2.3 times.[5]

Can this be attributed to technical progress, to the substitution of engineers and scientists, record keepers and specialized equipment operators for production workers? Hardly likely, at least not to such a dramatic extent. First, technical progress was quite substantial in the 1909–1948 period, which saw no overall change in proportion. Second, technical progress has increased labor productivity in the clerical, drafting and engineering occupations as much as or more than in productive operations—considering that up to the mid-1980s computers were mainly applied in these white-collar areas.

Furthermore, the increase in the proportion of nonproduction workers has been as rapid, relatively, in industries where research and technical development have not been of decisive importance as in those where they play a major part. Thus, while the proportion of nonproduction workers to total employees nearly doubled in the machinery industries between 1947 and 1982—industries where technological advance was very important—it tripled in tobacco products and virtually doubled in stone clay and glass products, not outstanding examples of technical-scientific innovation.[6]

Data (supplied in chapter 6) make it clear that the prime factor in the increase in nonproduction workers has been the rise in those covered under the rubric "selling, general, and administrative"—the plethora of salesmen and ad writers, and the many-layered corporate bureaucracy.

Among service sectors, the fastest growth has been in those serving capital; the rise in those serving the public has been, in most cases, moderate. Between 1958 and 1985, the total number of workers and employees in the trade, finance and service sectors went up 167%. But within that, the climb in the financial group was 181%. The increase in retail trade, serving the public, was 136%, but that figure exaggerates the amount of retail service provided, because of the prevalence of part-time work in retail trade. The number of hours worked by nonsupervisory personnel in retail trade rose only 67%.

Within the broad financial sphere, the fastest gain was in the most parasitic section—the stock exchange, commodity markets, brokers and dealers—where the number of employees expanded 279%. Employment in the personal services category went up only 28%, while in business services it jumped 579%, followed closely by jobs in legal services—also mainly for the benefit of capital—which increased 436%. Employment in accounting and auditing also rose sharply.

The only people-oriented group with a more than average rise in employment was in private health services, which showed a 359% rise, partly offset by a slow increase in government hospital employment.[7]

Private educational personnel went up 123%, and government educational employment, 166%—a significant amount although below the overall average for services. However, there is an example of the diversion of funds from actual services to bureaucratic ends here: in public elementary and high schools, the share of the total expenditures going for teachers' salaries declined from 51% of the total in 1960 to 40% of the total in 1980.[8] Table 11-4 highlights the bureaucratization of the educational system.

TABLE 11-4. Personnel of Public Elementary & Secondary Schools Rate of Increase, 1920–1980, by Category

Category	Percent 1980 of 1920
Number of pupils	237%
Number of teachers	326
Number of other "instructional staff"*	1037
Number of principals	779

*non-teachers: the educational bureaucracy. The 1920 figure for this category was estimated, in part, by comparison with more complete data for later years.

SOURCES: *Hist. Stat.*, H-492-497, pp. 373-74, H-520-530, pp. 375-76; *Stat. Abst.*, 1984, Table 228, p. 147; Table 235, p. 151

It is the people, most of whom are workers, who pay for the bloated bureaucracy, in high prices as well as in taxes.

Using figures compiled by the U.S. Department of Agriculture, a Manufacturers Hanover Trust Company report observed that as of 1983, 73.2% of what people paid for food, in restaurants or at retail stores, went for "marketing," and only 26.8% went to the farmers and farm workers who were the basic food producers. The share of marketing had increased from 62.8% in the ten years since 1973, with a corresponding drop from 37.2% in the farmers' and farm workers' share.

Of course, included in "marketing" are some legitimate production expenses, such as the labor of food manufacturing workers. However, while employment in food distribution increased:

> . . . the number of production workers employed in manufacturing of food products slipped in 1983 for the fourth year in a row, falling to one of the lowest levels in more than 35 years. This has occurred as a consequence of the implementation of more efficient processing, distributing and packaging techniques. But despite sharply improved productivity in this area over the past decade, most workers were forced to accept lower wages and cuts in benefits in order to avert further layoffs and plant shutdowns.[9]

III

12. Militarization of the Economy

Military force, an integral component of capitalist rule, has become decisive in the epoch of imperialism. And there is a complex interrelationship between military force, economic power, geographic military-political expansionism, and the export of capital.

Massive industrial strength, at the highest technical level, provides the material base for effective military power. That power, with its complex interrelationships, permits domination of economically and militarily weak countries—directly or by means of threats. And this, in turn, prepares the ground for foreign investments, which provide vital materials and cheap labor to the capitalist investors, still further inflating their profits and inspiring them to further expansion.

The relative economic and military strength of the imperialist powers are also major factors in determining geographical spheres of influence and profitable foreign investments. When far-flung nations were outright colonies, the corporations of the ruling power had a complete, or nearly complete, monopoly. But with their independence, the former colonies partly or totally ended the monopoly privileges of the erstwhile colonizers, enabling other capitalist powers to compete for market and investment opportunities.

During the first half of the 20th century, different dynamics of economic growth, which gave rise to disparities in the strength of individual capitalist countries and their foreign investment holdings, were settled by imperialist wars—two world wars. Since then, such rivalries have not led to armed conflict between the industrialized capitalist states, because of the extreme imbalance in military power between the United States and its economic rivals, and because the alliance of imperialist powers against socialism and the national liberation movements has overshadowed rivalries among them.

Wars, and Preparation for War, Since World War II

Since World War II the prime source of tension in the world has been the determination of the strongest capitalist powers, especially the United States, to prevent the spread of socialism and, if possible, to stamp it out. Continued economic domination of foreign holdings—resources and investments—depends on capitalist control. Corporate manipulators fear that the examples of successful socialist development pose a threat to their profits by inspiring peoples of countries that are victims of capitalism to rebel. The United States and its allies thus strive to prevent the national liberation of former colonies and semicolonies and, where more advanced and independent regimes have been established, to reimpose subservient dictatorships, buttressed by U.S. or allied military bases.

Unlike earlier historical periods, however, modern imperialist wars of conquest have not always been victorious. Prolonged, bitter armed struggles have led to independence in some colonies in Africa and Asia. The military and economic power of the aggressors was offset by the new high level of political leadership and mass unity in the colonies and semicolonies; by the progressive goals of the national liberation groups; by assistance from socialist countries; and by the support of anti-imperialist movements in the invading countries. More than a dozen developing countries have established socialist-oriented regimes and maintained them against interventions, which have often been made by puppet armies or armies of lesser imperialist states, notably South Africa and Israel. In a number of cases, U.S. imperialism has led successful counterrevolutions, and has installed vicious despots who have been responsible for the murder of countless citizens—as in Guatemala, Zaire and Chile.

The most dramatic defeat for imperialism was the victory of the Vietnamese people over France and then over the vast U.S. land, air and sea forces. The ability of the Democratic People's Republic of Korea (North Korea) to withstand the savage U.S. destruction and to retain its independence is another example of capitalist failure.

The United States is by far the most militarized capitalist power and is most involved in wars or preparation for wars—wars of conquest and wars against socialism, with the goals increasingly commingled as the successful anti-imperialist actions in developing countries usually result in a socialist trend, a requisite for overcoming the consequences of centuries of plunder they have undergone.

The White House/Pentagon/CIA axis is firmly convinced that the United States must have a dominant military presence everywhere—whether there is a "threat" of socialism, an active national liberation movement, a possibility of nationalization of industries, or not. In some cases, "military advisors" are sent to keep a country in order, but their numbers may be expanded to become an effective military force, as in Honduras. During the 1980s new rationales were advanced to justify military occupation—antinarcotic campaigns and antiterrorist actions. Played down is the fact that the United States provides the largest market for narcotics and that, in a number of cases, the CIA has organized narcotics production for political purposes. Similarly ignored is the role of the CIA and U.S. armed forces as the most culpable offenders in the use of terrorist methods.

Governments that force the removal of U.S. military bases, such as Libya and Ethiopia, are treated as enemies, and politicians who promise to close down such bases are subjected to tremendous pressure to renege on their word.

Exorbitant funds have been allocated to prepare for wars by U.S. armed forces or by proxy counterrevolutionary forces under U.S. command. Preparations include stockpiling armaments, training troops, patrolling the world's oceans with the world's largest navy, and maintaining military bases in scores of foreign countries. U.S. bases completely surround the USSR, and military installations have been obtained even in China.

A Brookings Institution report counted 215 incidents of U.S. bullying between 1945 and 1975.[1] And this count excluded the covert actions of the CIA, which were essentially military in character, and outright invasions as in North Korea and Vietnam. There was a critical U.S.-USSR confrontation during the "Cuban Missile Crisis" of 1962 when U.S. forces attempted an invasion of Cuba and, when repulsed at Playa Giron, threatened to drop atomic bombs.

During the mid-1980s the United States was involved in proxy wars against Nicaragua, Angola, Ethiopia, Kampuchea and Afghanistan, which had won independence through armed struggle. U.S. armed forces invaded Grenada, and everywhere the United States made overt threats, accompanied by demonstrative fleet actions and air overflights.

The "Irangate" scandal of 1986–87 revealed that, starting with the President, the U.S. power elite, who had long ignored international law and withdrawn the United States from the World Court, also ignored the U.S. Constitution and laws. Presidential appointees abetted illegal, covert terrorist acts by the military in an attempt to conquer Nicaragua and to take over the Persian Gulf. Assassination of government leaders and repeated outrages have been standard practice.

The number of *civilians* slaughtered by U.S. armed forces or by governments imposed by U.S. military and financial might since 1946 has already run into the millions. The destruction of property has been in the hundreds of billions of dollars.

Preparation for Nuclear War

The decisive portion of U.S. military spending has been to prepare for a nuclear war to destroy the Soviet Union. This objective has been clearly expressed in the rhetoric of political leaders and in formal policy statements. The goal is one-sided: the USSR has never threatened to attack the United States or any of its allies—the capitalist powers of Western Europe, Japan and Canada, principally—either with conventional or nuclear forces. The USSR has, in fact, repeatedly called for abolition of all nuclear weapons and mutual reduction of conventional forces.

The main concentration of capitalist military forces, poised for assault on the socialist countries, is in Western Europe. The justification is that it is necessary to "deter" a Soviet invasion, a current version of the Cold War myth claiming that only U.S. and British forces and the atomic bomb prevented USSR troops from "overrunning" Western Europe in 1945–46.

It is important to deal with this calumny. For decades the myth of Soviet expansionism was given credence by American liberals and even progressives who recognized and rebutted official propaganda bolstering U.S. interventions around the world. Even during the 1980s, when the U.S. peace movement vigorously opposed Washington's policy of U.S.-USSR confrontation, many supporters of peace with the USSR have continued to accept the premise of Soviet hostility and aggressiveness.

Soviet policy, from the formation of the USSR, has been opposed to the export of revolution and opposed to military aggression. Its military strategy has been to defend its own territory and that of other socialist countries with which it is allied. Repeated Soviet proposals to withdraw its troops from East European socialist countries if there is simultaneous withdrawal of U.S. military forces from Western Europe have been turned down by Washington.

Washington has refused to pledge nonuse of nuclear weapons, to refrain from militarizing outer space. This stand has escalated the arms race beyond any rational bounds, as the Soviet Union has been forced to meet U.S. advances, one after the other, as they have been developed. The militarization of the U.S. economy soared during most of the 1980s.

However, this course has met more and more resistance—in the United States and globally—as it has become recognized that a nuclear war would be an unmitigated disaster. Movements demanding the destruction of nuclear weapons and a turn to peaceful and constructive relations with the USSR strengthened, especially when it became clearer that the policies of the Soviet Union were for peace.

In fact, rising world pressure caused U.S. President Reagan, despite his anti-Communist extremism, to concede publicly the need for the abolition of nuclear arms. A political situation has emerged that could lead to the intitiation of a process of nuclear disamament before the end of the 1980s, which could pick up momentum in the final decade of the century and actually lead to a radical reduction in the nuclear war danger by the year 2000.

The fabrication of the Soviet threat is used to camouflage the real reasons for the continued presence of hundreds of thousands of heavily armed U.S. and British troops: the preparation for an assault on the USSR and to ensure the preservation of capitalism in Western Europe regardless of the will of the peoples.

Jeffry Richelson, professor of government at American University, not considered an opponent of U.S. foreign policy, expounded on the latter motive:

> In Western Europe the United States also saw a Soviet threat—not so much of an invasion but of "subversion." The war had left Western Europe in ruins and with few resources to stage a recovery.... Further, the Communist parties and trade unions in France and Italy had significant support, in part due to their wartime opposition to fascist rule. U.S. policymakers were fearful of a peaceful takeover in Western Europe that would produce an entire continent under Soviet domination.
>
> To try to forestall such an outcome, the United States adopted both overt and covert measures. Covert measures involved the funding of French non-Communist trade unions and the Italian Christian Democratic Party....

Overt measures mentioned by Richelson featured the Marshall Plan:

> The objective of the plan was to prevent the catastrophic economic situation from being employed by Communist forces to their political advantage as well as to create an international economic environment favorable to capitalism.[2]

The aims of the most powerful capitalists and militarists were bluntly expressed in a World War II speech to the Investment Bankers Association by Virgil Jordan, then president of the National Industrial Conference Board:

> Whatever the outcome of the war, America has embarked on a career of imperialism in world affairs and in every other aspect of her life. . . . At best, England will become a junior partner in a new Anglo-Saxon imperialism, in which the economic resources and the military and naval strength of the United States will be the center of gravity.[3]

And President Franklin D. Roosevelt in 1943 directed the Lend-Lease Administration:

> In order to enable you to arrange for lend-lease aid to the Government of Saudi Arabia, I hereby find that the defense of Saudi Arabia is vital to the defense of the United States.[4]

The decisive role of the USSR in crushing Hitler Germany and the decisive defeat of Japan's main armies by Soviet forces in August 1945 made it clear that the Soviet Union was a formidable obstacle to achievement of the expansionist goals of U.S. imperialism. In particular it was obvious that the United States would not be able to defeat the USSR in conventional warfare.

Thus the atom bomb, which had been developed with tremendous effort, came to be considered the means whereby it would be possible to take over the Hitlerite goal of destroying Communism. Already at the Potsdam negotiations, when President Truman received word of the successful atom bomb tests, he intensified his antiSoviet positions. The savage bombings of Hiroshima and Nagasaki were totally unnecessary for ending the war against already defeated Japan. It was an action intended as a demonstration of power against the Soviet Union.

Use of the atom bomb was opposed on military and moral grounds by General Dwight D. Eisenhower and by the chief of staff, Admiral William D. Leahy, who wrote:

> It is my opinion that the use of this barbarous weapon at Hiroshima and Nagasaki was of no material assistance in our war against Japan.

> ... My own feeling is that in being the first to use it, we had adopted an ethical standard common to the barbarians of the Dark Ages.[5]

A conflicting evaluation of the blast concluded:

> Truman, Byrnes, and virtually all the president's principal advisers on the bomb project were in agreement. The consensus of opinion among all those involved in integrating the revolutionary new force into American foreign policy was that the bomb promised to be, if not a total solution and the basis for a Pax Americana, at least a means for dealing with many of the problems of the postwar world.[6]

Truman's Secretary of State, James F. Byrnes, urged the United States to make extreme demands of the USSR and to "use measures of last resort" to compel it to comply.

A specific objective of the U.S. political rulers was to use the threat of the atomic bomb to force the Soviet Union to yield its influence on Eastern Europe—in other words, to restore capitalist power to those countries liberated by the Soviet armed forces.

But attempts to gain decisive political victories by waving the atom bomb were frustrated. The Soviet Union refused to be bluffed and, in a short time, developed its own nuclear weapons to end Washington's monopoly. As Gar Alperovicz put it: "Byrnes's policy failed miserably. ... He left office complaining the Russians 'don't scare' "; but he "continued to believe the atomic bomb would ultimately give the United States sufficient power to accomplish" its anti-Soviet objectives.[7]

Collier's magazine, a then mass-circulation journal, devoted an entire issue in 1951 to a fictional account of a nuclear war to destroy the Soviet Union. On the pretext of Soviet intervention following an uprising in Yugoslavia, according to the magazine scenario the United States and allies declared war on the USSR: " ... Saturation bombing of USSR begins." By 1955, the account elaborated, the United States would have won the war, destroyed the Soviet state, and occupied and divided the country, installing its own puppet regimes.

More than a score of leading U.S. Establishment journalists, commentators and novelists, and a Senator and a top trade union leader contributed to this journalistic fantasy, which reflected—with fictional embellishment—the actual war plans of the U.S. military and the White House.[8]

Robert C. Aldridge, an aeronautical engineer for the Lockheed Company, learned firsthand of the U.S. military's plans for an unprovoked first nuclear strike against the USSR. Leaving the company, he devoted himself to researching and writing on this subject. In 1983 he wrote:

> By the mid-1950s the Strategic Air Command (SAC) was again preparing for a first strike against the Soviet Union with the result that "virtually all of Russia would be nothing but a smoking, radiating ruin at the end of two hours." This planning was revealed in two recently declassified top secret reports.

He further wrote:

> ... President Kennedy told reporters in March 1962: "Khrushchev must not be certain that, where our vital interest are threatened, the United States will not strike first."[9]

Aldridge learned from his own experience at Lockheed that the development of MRVs (multiple warheads on rockets), intended to be secret, was for the purpose of regaining a sufficient superiority over the USSR to launch a first strike. He revealed that in 1980 President Carter adopted an updated version—Presidential Directive No. 59 (PD-59)—which aimed to:

> Determine the nuclear strategy that would eliminate the USSR as a functioning national entity.
>
> Investigate promoting separatism by destroying areas in the USSR which support the present Soviet government.
>
> Identify the targets which would "paralyze, disrupt and dismember" the Soviet government by annihilating the ruling group.
>
> These don't sound like objectives for a defensive strategy; or even for a limited nuclear war. They sound more like international assassination plots gone nuclear.[10]

By the 1980s, with the multiplication and technical improvement of nuclear weapons and their means of delivery, scientific opinion in all countries agreed that a nuclear war threatened a "nuclear winter" that would annihilate the human race and most other life on earth. But the Reagan Administration became still more blatant in its threats of a first strike, especially after the USSR formally pledged not to be the first to use nuclear weapons.

Robert Scheer wrote:

> In 1981, Defense Secretary Caspar Weinberger told the House Budget Committee that the Reagan Administration would expand the U.S. capability "for deterring or *prosecuting* [Scheer's italics] a global war with the Soviet Union. . . ."

In May 1982, a United Press International report by Helen Thomas stated:

> "A senior White House official said Reagan approved an eight-page national security document that 'undertakes a campaign aimed at internal reform in the Soviet Union and shrinkage of the Soviet empire.' He affirmed that it could be called a 'full-court' press against the Soviet Union.
>
> "This remarkable statement reflects the views of Reagan's Soviet expert, Pipes, who had said that 'Soviet leaders would have to choose between peacefully changing their Communist system . . . or going to war' "

Sheer continued, quoting a *New York Times* story that appeared shortly thereafter which reported the adoption of a new Defense Department plan for a protracted nuclear war against the Soviet Union: "American nuclear forces 'must prevail and be able to force the Soviet Union to seek earliest termination of hostilities on terms favorable to the United States.' " The plan called for "decapitation" of the "Soviet political leadership" and "specified that 'space would have to be exploited for American military needs.' "[11]

This significant exposé of the military objectives of Washington's space program gave the lie to Reagan's 1983 claims that the Strategic Defense Initiative was "defensive" in nature, revealing that Star Wars was the more valid nomenclature.

In their fanatic dreamworld, the atomaniacs think they could survive the holocaust they would unleash. Scheer quotes an extreme expression of this by one T. K. Jones, Reagan's deputy Undersecretary of Defense for research and engineering, who told him: "The United States could fully recover from an all-out nuclear war with the Soviet Union in just two to four years. . . . If there are enough shovels to go around, everybody's going to make it."[12]

This strategy has met a rising tide of mass public opposition in the United States and all other countries, aided by growing worldwide recognition of the far-reaching Soviet peace and disarmament initiatives. But until the militarists are evicted from office and peaceful coexistence with socialism is achieved, the danger of nuclear annihilation will remain.

These basic political facts underlying U.S. militarism must be understood as well as an analysis of the economics of militarism.

The economic impact of militarism has become increasingly important as its relative scale has expanded and become a permanent and major feature of the economy of the United States and many other countries. Further, a bitter ideological battle continues over the impact of militarism on the economy: whether huge military budgets are "good for the economy" and provide well-paying jobs; or, on the other hand, whether militarization is economically harmful.

True, the economic factor is trivial in comparison with the ultimate issue posed by the nuclear war danger—to be or not to be. But political reality does not recognize such absolutes, and the economic issues are important and must be examined.

The impact of militarization during the two world wars was incomparably greater than in wars with less developed countries. Of course, there were great mobilizations of manpower and resources in earlier historical periods—such as during the U.S. Civil War and the European Napoleonic Wars. But analysis here is restricted to the capitalist/imperialist era.

Scale of Militarization

The important British economist John Hobson wrote:

> . . . Imperialism makes for war and for militarism, and has brought a great and limitless increase of expenditure of national resources upon armaments. It has impaired the independence of every nation which has yielded to its false glamour. . . . [13]

His tabulation showed that the major European powers doubled military spending between 1869–70 and 1897–98, considerably faster than their growth in overall production during those decades. During the first decade of the 20th century, Britain, France and Germany were spending about 3% of their gross national product (gnp) on the military.[14]

Direct military spending accounted for about 40% of the British federal budget in the years before World War I.[15] The United States, building its overseas empire later than the European powers, lagged in militarization as well. In its first 150 years, prior to World War II, the USA spent a relatively small proportion of its resources on the military and maintained a small peacetime standing army. Even so, because its overall economic strength was greater than that of any other country, by the 1920s the absolute level of its military spending was the world's highest.

After World War II, there was a radical policy change. The share of U.S. resources going for military purposes was multiplied many times and outpaced all other major capitalist countries in the share of overall production so used. In absolute amount, U.S. military spending has consistently exceeded the combined total of all other capitalist powers. Virtually all of these nations are military allies of the United States, mainly in NATO.[16]

TABLE 12-1. MILITARY EXPENDITURES AND ARMED FORCES, UNITED STATES AND PRINCIPAL ALLIES, 1982 (*in constant (1981) dollars*)

Country	Military Spending			Number of Armed Forces	
	Total (*billions*)	Per Capita (*dollars*)	Percent of GNP	Thousands	Per 1,000 of Population
United States	$185	$798	6.4%	2,108	9.1
United Kingdom	26	461	5.1	322	5.8
France	24	444	4.2	485	8.9
West Germany	23	372	3.4	480	7.8
Japan	11	96	1.0	241	2.0
Italy	9	163	2.6	391	6.9

SOURCE: *Stat. Abst.*, 1985, Nos. 1513, 1514, pp. 866, 867

Table 12-1 shows per capita U.S. military spending substantially higher than that of any of its allies, as well as higher as a percentage of gnp. However, partly under pressure from the U.S. Government, by the 1980s the United Kingdom and France had raised the share of their gnp going for military purposes above average prewar peacetime percentages.

The U.S. military budget normally ranged between 0.5% and 1% of gnp, except in time of war; it approached 20% of gnp in the Civil War and World War I, and 40% of gnp in World War II. Since then, it has ranged between 4% and 10% of gnp except during the Korean War, when it rose somewhat above that range. During the 1980s the military budget was about 6–7% of gnp but was more than 10% of gnp if related items—such as interest on the federal debt, "foreign aid," and veterans' pensions—were included.

The United States has become a highly militarized country. Historically the federal budget has always been heavily weighted with military spending, but prior to the 1930s the federal budget was a minor economic factor, with state and local expenditures being twice as large. Since World War II there has been a reversal, with federal outlays roughly double the combined total of all state and local governments. During the period 1970–1985, direct military outlays were about 25–30% of all federal expenditures—40–50% if related items were included.

Yet even these figures understate the importance of the military in federal spending. A large and generally increasing proportion of federal spending consists of strictly *financial transfers;* interest payments, aid to state and local governments, and subsidies are paid for from general tax receipts; and social insurance benefits come from the corresponding trust fund. Federal government *activities* are summarized under the classification "purchases of goods and services." During the postwar period, "national defense" spending has accounted for about 75% of all expenditures for goods and services—that is, three-fourths of the actual activity of the federal government.[17]

The actual weighting of Washington's activities indicates that a *fourth or less is spent on behalf of the domestic interests of monopoly capital and public needs; the bulk, at least three quarters, goes to extend and protect the international interests of monopoly capital.*

Accelerated U.S. Militarization in the 1980s

Between 1980 and 1987 direct military spending rose from $143 billion to $295 billion, or 106%, while "real military spending, adjusted for higher prices, went up 65%.[18] This was a faster pace of increase than occurred during the Vietnam War.

As the peace movement grew in strength and disarmament negotiations became more active and promising, substantial cuts in military outlays and reconversion of military facilities to civilian use were called for by trade unions, peace organizations and progressive political groups. But Congress, which has nominal powers to control the federal purse, exercised this power feebly. Publicized "cuts" in the military budget were, in fact, no more than the usual whittling away at extravagant demands the Pentagon includes specifically for bargaining purposes.

Moreover, nominal congressional cuts were limited to "authorizations" for awarding contracts; they hardly slowed the actual increase in appropriations to the military, and did nothing to curb the use of huge reserves of stockpiled funds.

Business Week noted early in 1987:

> After the longest and largest peacetime buildup in U.S. history, business will slacken for the $300 billion defense industry this year—but with the inertia of an M-1 tank . . . because the Pentagon can supple-

> ment [reduced procurement authorizations] by drawing against some $290 billion in funds left over from prior years, its purchases should fall less than 2% in real terms. Indeed . . . most defense contractors could be spared any real belt-tightening until at least 1989.[19]

In actuality, "real" military spending continued to go up at a 6% annual rate in 1987.

Procurement

The decisive parts of the military budget are the funds spent for procurement of weapons and for development of new weapons. These categories are most sensitive to political changes, most clearly reflect the direction of U.S. foreign policy aims. Other items, such as pay to the armed forces and maintenance, are relatively stable, except during wartime.

In real terms, adjusting for price changes, the Reagan Administration went well beyond the Korean and Vietnam War peaks in weapons procurement, and it quadrupled the Korean War level of research, development, test and evaluation. Table 12-2 shows these important data.

TABLE 12-2. REAL PROCUREMENT AND R & D SPENDING, U.S. DEFENSE DEPARTMENT SELECTED YEARS AND PERIODS, 1953–1986 (*millions of 1982 dollars*)

Year or Period	Procurement	R & D
1953 Korean War Peak	61,244	7,504
1956–1960 Average	42,604	9,138
1961–65 Average	41,505	18,619
1968 Vietnam War Peak	58,758	19,550
1974–78 Average	26,758	14,670
1980	33,863	15,317
1986	66,827	28,915

SOURCES: Spending: *Budget of the United States*, various issues
Prices: *EROP, 1986*, Table B-3, p. 257. Commerce Dept. release BEA-87-102; implicit price deflator used. Statistics are for fiscal years, currently ending in September.

This table indicates that the United States, by the mid-1980s, *had established the main components of a war economy in a time of formal peace.*

Certain particulars should be noted. In the mid-1970s, under the influence of the short-lived policy of detente, military procurement in real terms was more than halved from the Vietnam War level. However, by the end of the decade it was rising again, and in the Reagan years it reached the highest point since World War II.

During this period there was a qualitative change in weapons procurement. During the Korean and Vietnam wars the largest part was for conventional war. However, since then increasingly the focus has been on procurement of more and more nuclear warheads and their delivery vehicles—missiles, submarines, surface vessels and bombers.

Research and Development

World War II gave impetus to the scientific and technological revolution already under way. During that conflict and for decades thereafter, the military was the dominant factor in U.S. R&D activity. Millions of civilians were killed, maimed and critically wounded when the United States used atom bombs, fire bombs, napalm, agent orange, cluster bombs, etc.—some experimentally—on Japan, Korea, Vietnam and other targets.

In 1945-46, approximately 10% of U.S. electricity production was diverted to generating the needed isotope of uranium for atomic bomb manufacture. And the definite boost in R&D spending in the 1961-65 period was stimulated by the USSR's successful Sputnik launch in 1957 and the launch of the first man in space, Yuri Gagarin, in 1961. These peaceful accomplishments, because of their potential military application, appalled U.S. leaders, demolishing their faith in U.S. overwhelming technological superiority over the USSR.

The acquisition by the United States of an astronomical number of more deadly weapons did not prevent the USSR from achieving strategic equality. For its self-preservation, the Soviet Union has had to expend huge sums and resources to match the U.S. arsenal. However, it has never used nuclear or any other horror weapons, nor has it ever engaged in mass bombing of civilian areas.

So the U.S. drive to regain strategic superiority meant developing better and more effective weapons, new means of warfare that would knock out Soviet defenses and its ability to strike back, thus setting the stage for a first nuclear strike to destroy the USSR. And not only have the scientific-technological resources of the USA and the USSR been strained; all the NATO and Warsaw Pact powers have also been involved.

Seymour Melman cited a 1967 estimate by the Organization of Economic Cooperation and Development (OECD) that 63% of U.S. R&D activity was for military purposes. After the Vietnam War, civilian R&D developed more rapidly for a time, but during the 1980s the frenetic thrust has been an attempt to break through on many fronts, all military, with the emphasis mainly on Star Wars. According to the minimal estimate of the National Science Foundation, the military accounted for 40% of all U.S. R&D in the mid-1980s.[20]

Preparation for nuclear aggression is dramatized by the scale of the facilities producing plutonium and nuclear warheads, which dwarf in size the Manhattan Project of World War II. *The New York Times* editorialized:

> The Reagan Administration . . . doubled production of nuclear warheads since 1980, mostly for new weapons. . . . Nuclear warhead production is a huge industrial enterprise with 90,000 employees and assets worth $25 billion. The 18 major sites in its assembly line stretch from Hanford, Wash., to Savannah River, S.C.. . . .
>
> The Department of Energy's major task is to oversee the plutonium complex, to which it devotes two-thirds of its budget. . . . The department . . . is hiring a new contractor, Westinghouse, to run the whole Hanford plant.[21]

The editorial points out that the Department of Energy received $7.5 billion in 1986 for its military activities.

Characteristically, *The New York Times* was not criticizing the size and purpose of the bomb production, but the poor health and safety conditions in the plant and the dangers to the environment. Judging from the evidence presented in this and other sources, the in-plant environmental hazards are far worse than in civilian nuclear power plants. Public concern about conditions in plants producing nuclear bombs has been muted, however, presumably because of fear of being called "unpatriotic." But the dangers cited in the editorial, serious as they are, must be considered infinitesimal compared to the devastation that could result from the use of the bombs produced. In addition to the overkill stockpile already set for launch, the administration projected production of 16,000 more nuclear warheads between 1983 and 1988, including thousands of a new and presumably more accurate, more lethal design.[22]

While more deadly armaments were being developed, civilian R&D was also accelerating and advancing. This scientific work went on, in part, independent of the military effort. The USSR planned, financed and organized training of scientific and technical personnel, scientific progress, R&D for the advancement of industry, education, health and living standards. Particularly noteworthy were the Soviet's pioneering efforts in space R&D for peaceful purposes—the progress made put the Soviet Union, along with the United States, in a position of world leadership. The USSR from the start urged agreement that space be used exclusively for peaceful purposes.

In the United States and other capitalist countries, giant corporations with vast financial resources created R&D sectors to develop new products and processes—to further their market shares and profits, of course. At the same time—when the dominant U.S. political and economic forces recognized the progress of Soviet science—U.S. forces were mobilized to meet this challenge in civilian as well as military fields.

There is undoubtedly some feedback of military research to the civilian economy, important in particular cases and profitable for specific companies. Melman argues, with some evidence, that this feedback is small. Undoubtedly the balance has been in the other direction, with a net diversion and misappropriation of R&D from civilian to military ends.

In a period of intensified international trade competition, where technical advantage is crucial, rival capitalist countries focusing primarily on nonmilitary research have realized a substantial advantage. According to U.S. Government estimates, West Germany, the United Kingdom and Japan spent about the same proportion of their gnp as the United States—2.6%—on research and development.[23] Obviously that gave them a significant lead in the extent of their R&D on products for the civilian market. According to the same U.S. data, the USSR spent a considerably higher percentage, 3.7%, of its gnp on R&D, but as long as it is forced into military competition with the United States, it is also constrained to devote a significant proportion of R&D to military ends.

Admittedly, improved product quality has played a significant part in Japanese and West German trade gains against the United States. Moreover, the loss to the civilians of the United States from the slowdown of progress in medical science, transport and energy efficiency, plus many other aspects of life, has been substantial.

Military-Industrial-Financial Complex

The sinister role of munitions manufacturers became a major factor in 20th century monopoly capitalism. Workers and all peace-loving people feared, denounced and opposed the "merchants of death."

The military-industrial complex—the operative economic and political alliance of the armament profiteers, their generals and admirals and political representatives—gained notoriety in World War I. It was Krupp, Flick, I. G. Farben and their bankers who were the financiers of the Hitler fascist-militarist dictatorship, whose aggressions and atrocities culminated in World War II.

Out of that war an even larger, more powerful and dangerous group emerged in the United States. The profiteering by the 1980s exceeded that during the war, when a much larger proportion of the national income had been devoted to military purposes. At that time controls were much tighter, and there were heavy excess profits taxes. But by the mid-'80s, most armament firms were paying little or no profits taxes whatsoever.

There have been strong ties between the Pentagon and the munitions companies. Each year there has been a two-way flow of thousands of personnel between the higher ranks of the Pentagon bureaucracy and the corporate executive posts of the armament contractors. Generals and lesser officers, retiring after only 20 years of service, have moved into lucrative munitions company posts or set up "consultantships" to arrange armament contracts for fee-paying corporations—all while collecting large "retirement" pensions. Most of the crucial cabinet members and White House functionaries in the Reagan Administration were former military officers, who on leaving the administration moved on to the corporate world—usually to concerns having substantial military business.

The New York Times editorialized under the headline "Close the Pentagon's Revolving Door":

> The Pentagon auditor charged with keeping things honest at a Boeing plant retires. The next day he goes to work for Boeing.
>
> The test director of the Maverick missile retires. In a week, he's on the job at Hughes Aircraft, manufacturer of the Maverick. . . .
>
> It's called the "revolving door," and its most worrisome feature is the cozy passage it creates from the Pentagon to contractors.

Another *New York Times* editorial noted:

> ... the extravagant weapons-buying spree kicked off in 1981 led to a crescendo of abuses....
>
> The cause of these dysfunctions is an iron triangle of the services' weapons-buying bureaucracies, defense contractors and Congress. The Air Force Systems Command has 26,000 people with nothing to do but supervise the design of weapons. When they design a coffeepot, it costs $7,622. When they design a fighter like the F-15, it costs $43 million and is just as overdesigned and overpriced.
>
> For defense contractors, the greater the overdesign and change orders, the higher the profit. Why don't the services protest such abuse? Because their members can retire at 40 and go to work for a defense contractor ... a fifth of Defense Department personnel who leave to work for contractors even continue working on the same project....

The Pentagon has 150,000 "acquisition officers," the people who do the actual buying, deciding what to purchase and what prices to pay. For the most part they occupy an enviable position—being both sellers and buyers for "their" companies. Their only limitation is the amount of money each is awarded from the vast Pentagon grab bag. Naturally, the best procedure, from their real employer's viewpoint, is to pay as much as possible per item, providing the most profit out of the specified dollar amount of purchases.[24]

Superprofits of Armament Companies

Over the ten-year period 1975–1984 the median rate of profit on equity capital of the 500 largest industrial corporations was 18.65%. The 500 corporations include 17 aerospace companies, which do mainly military business, and for them the median rate of profit was 26.76% per year. Cumulating such profits over ten years, an investor would multiply his wealth 11 times. And even more dramatic was the inflated price of shares on the stock exchange, compared with the lows of the 1973–75 period, when long-term prospects for munitions makers seemed less advantageous because of the promise of peace opened up by the detente of the early 1970s. Table 12-3 shows the key profit figures for the six leading munitions manufacturing corporations.

These refer only to the after-tax profits on equity capital. Far higher, and especially so in the case of munitions companies, have been the profits of control. Parts of the profits of control have been revealed in the scandals concerning overcharging, false billing, etc., which skyrocketed in scale and frequency during the 1980s.

TABLE 12-3. PROFIT RATES AND MULTIPLICATION OF INVESTMENT, MUNITIONS COMPANIES 1974-1984

Company	Av. Annual % Return to Investors 1975-1984	# Times Investment Multiplied 1974-1984	# Times Stock Price Multiplied, Low Point to December 1985
Lockheed	43.41	37	51
Boeing	36.85	23	29
General Dynamics	35.10	20	24
McDonnell-Douglas	27.24	11	9
Rockwell International	26.27	10	8
United Technologies	21.10	7	8

SOURCES: *Fortune*, 12/8/85; *Value Line*; *New York Times*, various issues.

The "Star Wars" program initiated in 1983 has not only been the most dangerous to world peace but the biggest source of profiteering, relatively, of any military program, because the wide-open research and experimental character of the contracts made it difficult to evaluate charges. Starting with a $1 billion appropriation in 1984, the amount was scheduled to rise to $7.3 billion in 1989. And this represented only the preliminary stages of what *Time* magazine called "The Star Wars Sweepstakes," explaining:

> The Administration calls the program Strategic Defense Initiative, the press has dubbed it Star Wars, and the hundreds of companies and universities competing to work on the project could easily rename it Star Bucks. Experts estimate that (it) . . . could ultimately cost anywhere from $400 billion to $1.2 trillion. It would thus become the biggest bonanza ever for American business and educational institutions.[25]

There is increasing overlapping between the dominant munitions firms and industrial monopolies as a whole. With the upsurge of military business and its incredible profitability, more and more corporations have been striving to make Pentagon business an important share of their conglomerations. As of the mid-1980s, half of the 100 largest industrial and transport companies were among the 100 largest Pentagon contractors; *while 23 of the top 25 armament contractors were among the 100 largest industrial concerns.*[26]

Among the 100 largest arms merchants were the foremost corporations manufacturing heavy electrical equipment, electronics, computers, metals, chemicals, petroleum, and even tobacco products and broadcasting. General Electric, already the fourth largest armament contractor, merged with RCA (National Broadcasting Company), 20th largest, in a $6 billion takeover that raised the resulting monopoly closer to the top in military business.

All these companies, with hundreds of millions and billions of Pentagon business, can throw their weight on the side of larger military budgets, even if with less emphasis than the specialized armament firms. Especially valuable are the R&D contracts. The $645 million R&D contracts granted General Electric in fiscal 1983 could have had great value in promoting the improvement and salability of its civilian airplane engines, as well as engines for the military planes. IBM's nearly $300 million Pentagon R&D contracts doubtless helped it strengthen its decisive lead in the world computer market.[27]

The integration of the munitions makers with the financial oligarchy has had even more impact. During the detente period of the 1970s, Lockheed Corporation was threatened with bankruptcy because the volume of profitable military business was insufficient to overcome its huge losses in the sale of civil aircraft. It was bailed out by the money-center banks, which thereby obtained a controlling interest in the company. Whereupon Lockheed virtually abandoned the civilian side of its business and has increasingly prospered, along with its banker backers, in U.S. and foreign military markets.

A more precise description would be *military-industrial-financial complex.* As of early 1985, financial and related institutions held approximately 75% of the shares of Lockheed, 60% of Boeing, 55% of General Dynamics, 80% of McDonnell Douglas, and 55% of Rockwell International and of United Technologies. These proportions were higher than the average for institutional holdings of large corporation stocks, which run most frequently between 40% and 50%.[28] Some of these holdings were direct ownership by investment trusts; more were in trust accounts held by banks. But in either case they represented effective control. Thus the banks derived substantial profits from acting as bankers for the munitions concerns.

Additional financial stakes from militarism include interest on the soaring national debt resulting from accelerated militarization of the economy, and the inordinate profits from foreign loans accruing from the expansion of U.S. capital behind the warships, guns, planes, bombs and occupation forces of the U.S. military and its selected puppet armies.

The munitions companies have had a direct interest in U.S. foreign policy, which has imposed and supported reactionary dictatorships and governments that have engaged in military intervention against neighbors—such as Israel, Turkey and Pakistan. These policies have provided splendid profit margins for the armament firms—with a large part of the sales financed by U.S. taxpayers under "foreign aid" programs. Foreign military sales by U.S. corporations under government-approved agreements exceeded $20 billion in 1982 and remained very large thereafter.[29]

The international arms market has zoomed, largely as a result of regional conflicts generated, directly or indirectly, by the imperialist powers. U.S. companies are in sharp competition with West European, Japanese, Israeli and other arms merchants for this business, and U.S. ambassadors and their staffs act as their sales agents.

In his first year in office, President Reagan declared that arms sales would be used as a tool of U.S. foreign policy. In 1985 the administration declared that no U.S. Government approval was needed for arms sales to allied countries, and in 1987 Secretary of State Schultz directed embassies to become, in effect, sales adjuncts of U.S. armament companies:

> Posts hereafter should treat representatives of U.S. firms selling arms with the same courtesies as other U.S. businessmen, and may supply basic business information and services to them.[30]

This was while critical disarmament talks with the USSR were going on, as well as nonproliferation discussions with many countries!

Altogether, an important proportion of the major U.S. industrial and financial corporations have had a large profit stake in the inflated and expanding military budget. And added to these prime contractors are literally tens of thousands of subcontractors, many of whom have found that military orders have provided the difference between profitability and bankruptcy. This business has been carried on in every state, and in almost all congressional districts, and there has been competition between states and smaller areas over the placement of contracts and subcontracts. So thousands of capitalists have been ready to finance the election of members of Congress who have shown willingness to assist them in obtaining Pentagon business. Naturally members of Congress so elected, aware of their debt to such sponsors and wanting military contracts awarded "their way", have been under great pressure to support higher military budgets and the aggressive foreign policy of the Pentagon. Thus it is possible to understand the power behind the drive for foreign and military policies that cannot be justified on "rational' or "humane" grounds—indeed, policies that are utterly irresponsible, a risk to all of humanity.

Economics of Militarization

Militarization and wars have far-reaching economic effects aside from wartime destruction, death and long-lasting suffering. There is also the diversion to the military of resources needed to supply civilian goods and services. This is the decisive negative economic consequence of militarization.

However, there are offsetting benefits for the capitalists. In war or peace, sections of the capitalist class profit from armament orders. In periods of war or preparation for war—when public opinion can be directed against an actual or alleged enemy—chauvinism is stimulated in order to weaken and divide the working class and to mobilize sections of the middle classes, especially, against workers fighting to defend their living standards.

In an actual war situation, when a country's full manpower and industrial resources are mobilized, monopoly capital as a whole profits greatly. The marketing limitations that hamper capital in peacetime are temporarily suspended; inflated prices increase superprofits. When a belligerent country is not invaded and is thus spared physical damage, war stimulates a major expansion and modernization of industry, and speeds up technological progress as a byproduct of all-out efforts to develop superior weapons. The United States, uniquely, was in that situation in two world wars; it suffered minimal physical damage and its human casualties, though sizable, were comparatively light. Its involvement in both wars was late, its companies profited from the sale of arms to allies that were being bombed and/or invaded.

Sales of armaments, food and other goods to belligerents in World War I converted the United States from a debtor to a creditor nation. In World War II, the U.S. financial establishment cornered 70% of the world's gold reserves, and for a considerable period the dollar took over from gold as the main world monetary standard.

In World War I, output of producer durable goods increased 70% between 1913 and 1918. Also, reflecting the increase in mass purchasing power due to wartime employment and overtime, production of consumer durable goods increased 30%.

In World War II, mobilization of industrial potential was more complete and the index of industrial production soared 118% between 1939 and 1944.[31] In addition to the construction of vast new facilities for providing armaments and other war-related items, production of many existing commodities was increased well beyond previously estimated capacities.

In addition to the industrial installations for nuclear bomb production, the basis was laid for the computer, radar and other electronic industries that have become major economic factors. The United States obtained a big lead in these new fields thanks to its favored location outside the war zones, its vast material reserves, and the large numbers of scientific and technical specialists, available, including both Americans and refugees from Hitler.

The United States welcomed the Nazi war scientists, who would take a leading part in the U.S. space program and other military areas. Further, a persistent campaign was launched, and continues to this day, to lure scientific and technical personnel from the USSR and other socialist countries, many of them to participate directly in preparing military advances directed against their home countries. A U.S. officer complained that 2,000 Pentagon workers from socialist countries were a potential security risk to the United States—forgetting for the moment that they were brought here in order to damage the security of their own countries.

For more than four decades the U.S. economy has been in a historically unprecedented situation—a prolonged period of high militarization without a major war. The economic impact of such a situation is quite different from that of an all-out war. Social scientists have exhaustively examined the economic impact of this state of affairs, asking whether, on balance, it is "good" or "bad" for the economy. The actual data must be analyzed, but first it is necessary to say that these authorities *have been asking the wrong question.* The determining question must be: *Who benefits and who loses?*

Labor Loses

The top-heavy military budget has been promoted, in the main, by the dominant sections of the capitalist class, which have profited enormously from it, even those with little direct military business. The workers and farmers have lost substantially—in political influence as the rightward swing in power squelched the impact of organized labor on Washington's decisions, and in an absolute decline in living standards as their share of the values produced dropped. They have suffered a curtailment of hard-won social benefits, rising racism, and a widening gap between capitalist "haves" and working-class "have nots."

The militarization of the economy and the foreign policy accompanying it have been major, if not the most important, factors enabling capital to make gains at the expense of labor.

This is how the post-World War II period was described by Barry Bluestone and Bennett Harrison, who did not condemn the anti-Soviet policies but did recognize their use against the U.S. working class:

> The Cold War with the Soviet Union had begun, and fears of Russian expansion abroad and subversion at home were easily fanned under the pretense of fighting communism. The militant wings of the largest industrial unions were purged, under the pressure of a nationwide anti-communist movement whose most visible spokespersons were Senator Joseph McCarthy and then Congressman Richard Nixon. Beginning in the key defense plants, strikes were soon broken throughout the country, loyalty oaths were introduced to screen out supposed radicals. . . .[32]

Protective labor legislation was circumvented, while antilabor legislation, such as "right-to-work" laws, was enacted. The purged labor unions, whose leaders were regarded as "safe" by corporate bureaucrats and who were supportive of U.S. preparations for anti-Soviet warfare, were seriously weakened.

The militarized economy, directly and indirectly, accelerated the undermining of major branches of basic industry and led to shifts in industrial relocation, foreign and domestic, that were harmful to American labor.

The decisive military leadership of the United States among capitalist powers fostered the unprecedented export of capital by U.S. industrial firms, and led to the imposition of puppet governments that would keep wages low and profits high in the countries where the investments were made.

In the United States, the South and the Southwest were the main locations of military bases and munitions plants. The military lobby was crucial in securing "right-to-work" laws and in sustaining racial discrimination. Inevitably this weakened workers in standing up for their rights and their needs. The full impact was moderated during the Korean and Vietnam Wars, with their economic stimulus. As labor opposition to the Vietnam War grew, the Johnson Administration granted social concessions—the "Great Society"—in an attempt to blunt that opposition. The brief period of "detente" in the early 1970s also dampened the influence of anti-Communism. But by the mid-1970s, the moderating influences were lost and an accelerating direct offensive began against the working class.

Offsetting factors were building up, promising the ultimate defeat of the capitalist offensive and the military and foreign policies that were central to its successes as new generations of workers saw how the export of capital was taking away their jobs.

Claims that big armaments budgets were "good for" the economy, despite their evasion of the class purposes and meanings of supposed benefits, must be analyzed.

To begin with, military labor—including production of munitions—is nonproductive labor. It is using part of the surplus value created by productive labor for nonproductive purposes and, when used, for destructive purposes.

Adam Smith wrote:

> The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive laborers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people.[33]

And the same reasoning applies to the materials of war used by the armed forces. The munitions, to use Smith's concept, also "produce nothing for which an equal quantity of service can afterwards be procured," although Smith did not actually mention munitions in this context.

However, because of the decay of capitalism and its inability under most conditions to utilize all its productive forces, the actual production of munitions is not physically at the expense of civilian output, nor is the employment of men in the armed forces necessarily at the expense of their productive employment. In too many cases, they would simply be unemployed if not in the armed forces, a circumstance that explains the large numbers of Black enlistees.

However, in financial terms, military spending has always been a diversion, a diversion of surplus value that might otherwise have been used for productive investment, for consumption by the capitalist class, or for concessions to the working class—in the latter case being transformed from surplus value to wages.

War and Militarism as Economic Stimuli

The classic capitalist claim of the "merits" of military spending—and its overt anti-Sovietism—was expressed by *U.S. News & World Report* in May 1950:

> Government planners figure they have found the magic formula for almost endless good times. They are now beginning to wonder if there may not be something to perpetual motion after all, . . . *Cold War* is the catalyst. Cold war is an automatic pump primer. Turn a spigot, and the public clamors for more arms spending. Turn another, the clamor ceases. Truman confidence, cockiness, is based on this "Truman formula." *Truman era* of good times, President is told, can run much beyond 1952. *Cold war demands,* if fully exploited, are almost limitless.[34]

But this "formula" has had the same limitations as other versions of Keynesian economic stimulation through deficit government spending. It has not prevented cyclical crises and depressions. It has been inflationary. And it has had negative long-term economic and social effects. It has used for military purposes funds and resources that could otherwise have been used for constructive investment—government and private—and for social spending to improve mass living standards.

Actually, at the time that article was written, the United States had gone through much of its first cold war economic cycle. Billions authorized by the Marshall Plan, plus a renewal of armaments production, plus the speeded-up accumulation of atomic bombs, didn't bring industrial production up to its wartime peak level in the first postwar cyclical recovery of 1947–48. Nor did it prevent the rather steep cyclical crisis downturn of 1949.

However, a few weeks after the May 26, 1950, issue of *U.S. News & World Report* appeared, President Truman "turned the spigot" wide open by launching the Korean War, which stimulated the economic boom. The next really major upturn was during the Vietnam War period in the 1960s, involving U.S. armed forces and expenditure of war materiel over a considerably longer period than the Korean War.

Aside from the two actual war periods, the four decades since 1946 have failed to reveal a consistent correlation between fluctuations in military spending and economic trends. The correlation was definitely negative during the Reagan Administration, which sponsored the most sustained and rapid peacetime increase in military spending in U.S. history. Over the relevant cycle, from 1979 to 1986, the average rate of growth in "real" gnp was a meager 2.0%.[35] And the buildup was punctuated by the most severe cyclical crisis since the 1930s, plus the ripening of another one.

Claims of economic benefits from higher military spending have consisted of undocumented assertions by interested parties. Thus President Reagan, electioneering in Ohio in 1982,

> "... warned that support for the nuclear freeze could hurt the local economy because it would mean cancelling the B-1B bomber, which is partly manufactured in that area."[36]

Secretary of Defense Caspar Weinberger claimed

> ... that military spending is a better way to stimulate the economy than transfer payments. He has also asserted that cutting the military budget during a recession will cost the economy 35,000 jobs per billion dollars of reductions.[37]

As if to emphasize the dubious character of such allegations, they were made at the depths of the deepest postwar cyclical crisis, after nearly two years of practicing what Reagan and Weinberger had preached: sharply rising military spending with corresponding cuts in civilian spending.

True, the rapid increases in military procurement stimulated capital goods-type industries, contributing to the recovery from that crisis. In 1986 new orders for "defense capital goods," as defined in government statistics, amounted to about 25% of all capital goods orders, approximating the ratio of the Vietnam War and considerably higher than the 16% share in the 1970s.[38]

The statistics understated the military share by excluding small contractors and orders of civilian-type machinery by the armament makers. Considering these factors, in 1986 the military accounted directly or indirectly for about one-third of all orders of capital goods-type products and, by extension, for the basic industry materials that go into their manufacture. But to exercise a net economic stimulus, the business must steadily increase. Once a decline or even a leveling off sets in, the negative effects predominate. Capital goods producers depend increasingly on military business, with its higher rates of profit. For civilian business, they face increasingly effective competition from foreign producers.

Serious social scientists have shown that the impact of rising military spending has been negative during the cold war period, even according to the official criteria of economic growth rate—increase in employment, rate of growth of gnp, inflation, etc. Seymour Melman, Marion Anderson, Robert W. De Grasse, Jr., using different specific methods of analysis, have come to essentially the same conclusions.

In general, these authorities have combined the overall measures of "success" used by the capitalists with socially significant measures that are, in fact, rejected by the capitalists.

Melman approached the issues largely from an engineering viewpoint. In a number of works, he substantiated his thesis that very little military R&D has had application to civilian life. At the same time, he has correlated high and rising armament expenditures with a deteriorating equipment base of U.S. industry. He wrote:

> The age of this industrial equipment (drills, lathes, etc.) marks the United States' machine tool stock as the oldest among all major industrial nations. . . . This deterioration at the base of the industrial system certifies to the continuous debilitating and depleting effect that the military use of capital and research and development talent has had on American industry.[39]

To dramatize his point, Melman, writing in 1969-70, noted that each month of the Vietnam War could have **a**) financed the complete training of over 100,000 scientists; and **b**) paid the annual food bill for ending hunger among 10 million Americans. **c**) The annual cost of the Vietnam War could finance a 100% increase in the social security benefits paid to 20 million Americans.[40]

Of course the ending of the Vietnam War did not lead to such improvements. Indeed, the Vietnam War and the defeat of U.S. imperialism was followed by a big business and reactionary offensive against U.S. workers, which resulted in lower real wages, rising racial differentials and unemployment—a deterioration of the infrastructure. The Vietnam War accelerated the U.S. loss of position in world trade.

American capitalists aggressively aimed to offset their losses at the expense of U.S. labor, which was without sufficient organization or political consciousness to withstand the antilabor attack. And the antilabor attack was intrinsically connected with U.S. anti-Sovietism.

The effect of military spending on employment has received much attention. In the past, the argument that "defense spending" creates jobs has been used to win the support of some workers, especially those whose jobs in part or in whole derived from military orders, for the foreign policies of Washington.

But the jobs resulting from military spending are far fewer than is implied by its supporters. Private industry employment derived from Pentagon business in 1986 was estimated at 1.6 million by civilian government agencies, and at 3.1 million by the Pentagon itself. Even the high figure represents only 3% of the total employed population, a very small result from the enormous expenditure involved.

In the 1980s the need to counter the negative economic impact of militarism was increasingly understood by U.S. workers and important sections of the trade union leadership. In particular, the International Association of Machinists (IAM), one of the large unions in heavy industry, with a goodly percentage of its workers in armament factories, concluded that its members on the whole were losers rather than gainers from military spending. The union also opposed excessive military outlays for economic, social and political reasons.

A study prepared for the IAM in the late 1970s concluded:

> This study has found that far fewer Machinists Union members are employed in military production than has been reported. For at least a decade, it has been assumed that from 25% to 35% of the total IAM dues paying membership has been employed in military and military related work. That would mean roughly 185,000 to 260,000 IAM members working in military production. This report finds that only 12.9% of the total IAM membership—88,000 members—are engaged in military work.
>
> A finding of even greater significance is that in 30 states, many of them recipients of major military contracts, IAM members suffer a net loss of job opportunities when military spending is high. This is because the number of IAM jobs foregone in civilian goods and services because of tax monies going to the military exceeds the number of jobs generated by military contracts.
>
> A Pentagon budget of $124 billion costs the Machinists over 118,000 civilian jobs. When the 88,000 jobs generated by this level of military spending are subtracted, the net job loss to the union is 30,000 jobs a year.[41]

This report, and others, established that dollars spent for civilian purposes provide more jobs by far than do the same number of dollars spent for military purposes. The Council on Economic Priorities, a research group, prepared a detailed report for the IAM and for the Coalition for a New Foreign and Military Policy, a peace organization, on the negative economics of militarism. It concluded:

> The economic consequences of buying more weaponry will be substantial. Jobs . . . investment, and economic growth will be sacrificed. Technological progress will be distorted. And social programs aimed at decreasing human suffering will be cut. . . . Expanded military spending will not help solve our unemployment problem. . . . Social costs will also be high.[42]

This report presented substantial evidence that the United States was losing ground to competitors in civilian activity because of its excessive allocation of capital and research to the military, creating regional problems within the United States, etc.

Significant changes in military spending would, of course result in changes in employment:

• If armament spending were reduced, *and there were no other changes in government spending or taxation, unemployment would temporarily increase.* BUT

• if the reduction was of significant magnitude, especially as part of agreements lowering the war danger, the political climate would be conducive for conversion of military to civilian production and for implementation of government programs evolved to provide more and better jobs; and that would mean an increase in employment.

• Short of a major war, increases in military spending in a period of reaction and antilabor offensive usually result in a net drop in employment relative to the growth of the labor force.

• In the final analysis, the trend in both military spending and employment depends on the strength and influence of labor and peace forces. To be effective, criticism of the economic effects of military spending must evaluate the political assumptions and the capitalist class approach toward "balancing" military and civilian consumption. De Grasse exemplifies this contradiction:

> The U.S. surely can afford to pay whatever it costs to provide for its security. At the same time, like all countries, America must set limits on military and non-military forms of current consumption. The reason, simply, is to assure that we have enough left to invest in our economic future.[43]

De Grasse goes on to charge that Reagan's buildup goes too far, with serious "net costs" to the economy. But he tacitly accepts the validity of Reagan's claim that the military expenditures are for the security of the United States.

Since the economic motivations for the military budget are closely interrelated with the military-political goals of world domination, they counter general welfare goals. The purpose of militarization is not to improve the economy "in general," but to provide profits and power for the capitalist class, especially for the dominant financial-industrial-militarist-transnational groups. Similarly, the chauvinistic fervor of propaganda disseminated by the White House and the media is designed to inculcate a willingness on the part of the masses to accept "austerity" and "sacrifices" in order to provide for the "vital interests" of the United States.

As shown in chapters 3 and 4, the period of the Cold War has been one of an exceptional rise in the rate of labor exploitation and in the rates of gross profit and net profit on capital. This is the decisive criterion for big business, and for capitalists it demonstrates the value of a militarized, aggressive, anti-Communist foreign policy.

A striking indication of this contradiction between general economic measures and the objectives of big capital came to the fore during the 1980s. In Reagan's first six years in office, the economy, in terms of gnp and employment growth, in terms of unemployment and other overall measures, turned in one of the worst records of the postwar period, along with the surge of the military budget. But at the same time there was a bacchanalia of surging prices on the stock exchange, in a rough way reflecting the soaring rate of profit of monopoly capital and its satisfaction with the right-wing direction of government policies.

Militarization and Anti-Soviet Economic Warfare

An important feature of U.S. and overall capitalist foreign policy, dating back to the first days of the founding of the Soviet Union, has been economic warfare against the first socialist state. This policy has been continuous, sometimes in conjunction with military assault—as, immediately following World War I, during the invasion of the young Soviet Republic by the forces of 14 countries, including those of the United States. This attack was accompanied and followed by a physical blockade, which for a time virtually prevented trade between the hard-pressed Soviet regime and the outside world.

The most effective aspect of the U.S. economic warfare against the USSR has been the forced diversion of major resources to the military to match Washington's preparations for aggression.

Within the U.S. bureaucracy, the Pentagon has consistently been the main advocate of a tough line against trade with socialist countries. Its position is used by right-wing politicians as an argument in favor of an expanding military budget. Thus President Reagan urged the expansion of the scale and scope of U.S. military spending so that the Soviet Union could not keep up with it and would be forced to "cry uncle."

The magazine *Newsweek* put it:

> To Star Warriors like Edward Teller, it almost doesn't matter whether the technology performs exactly as advertised. Because the Soviets

> would have to respond, he argues, Star Wars would have a devastating impact on the Soviet economy and defense establishment. "Forcing them to reduce the burn phase will obsolete all their weapons and force them into very costly expenditure," he says.[44]

However, *Newsweek* recognized, along with growing sections of the U.S. public, the boomerang effect of such military-economic warfare, and commented: "But in the hall of mirrors that is the arms race, the United States might find itself in the same predicament."

In this particular case, General Secretary Mikhail Gorbachev, while strenuously opposing the Star Wars program, insisted that if necessary the Soviet Union could match the U.S. military effort—and more speedily, at a fraction of the cost.

The absurdity of the attempt to cripple the USSR economically through military spending has been established by the entire postwar experience. The Soviet Union has not only gained substantially on the United States in relative economic and technical economic status, but has achieved full strategic military equality with the United States at the same time.

There is further discussion of trade between socialist and capitalist countries in chapter 18.

Summary: Negative Effects of Militarization

Along with the militarized economy of the United States—and in part as specific results of its class objectives—have been these consequences:

1. A slowdown of scientific and technical progress for social uses, because R&D expenditures have been concentrated on military ends.
2. A curtailment of government spending for social benefits because of the competition of the military for funds.
3. A reduction in net capital investment, relative to other countries, because of the larger share of capital goods going for military purposes.
4. The inflationary effect of the higher interest rates resulting from budget deficits caused by high and rising military spending.
5. A relative and, in many cases, absolute decline in domestic industrial production because U.S. firms shifted output to their foreign plants in countries where U.S. military power has provided protection from people's liberation struggles.

6. A geographical shift in economic activity as a result of the concentration of military production and bases in certain areas and because of the varied industrial composition of military production.

7. The temporary weakening of labor in relation to capital aggressiveness, contributing to the relative, and later absolute, deterioration in the overall economic and social conditions of the working class.

8. The increase in racial discrimination, resulting from the pressures of rising unemployment and the chauvinism associated with imperialist expansionism.

9. A decline in the relative position of the United States in the world economy, including in the relative power of U.S. financial and industrial monopolies.

" It's top secret... All we know is how much profit we clear on the cost over-run..."

13. U.S. Power in the World Economy Imperialism I: World Trade

By the end of the 19th century the main industrialized capitalist countries featured the emergence and linkage of large-scale industrial and financial monopolies, under control of a financial oligarchy and with close ties between the state and big business. Simultaneously there were related developments in international economic life:

- Virtually the whole of Asia, Africa and Latin America became direct colonies or unofficial dependencies—semicolonies—of the industrialized powers.
- Foreign investments, most profitably in the colonies and semicolonies, became the most important and lucrative form of international economic life—for the owners of capital.

In this advanced, monopolized stage of capitalism, the looting of these countries by the bankers and by the corporate owners of the raw materials, railroads and factories reached a scale many times that which Marx had described a half century earlier. Wealthy capitalists, bureaucrats, coupon-clipping idlers and militarists were able to luxuriate not only at the expense of workers in their own countries but even more by cruelly exploiting the multitudes of peoples living in the "Third World."

The international aspects of these interrelationships became known as *imperialism*. Vivid descriptions of imperialism were written by the British economist, J. A. Hobson; by the Austrian Marxist, Rudolf Hilferding; and by the American, Parker T. Moon who, however, excluded largely his "own" American trusts and generals from his indictment.

Lenin's Definition of Imperialism

It was the Russian Marxist and revolutionary Lenin whose analysis synthesized the national and international features of modern imperialism into a consistent whole. His short work, *Imperialism,* written in 1916, has fully stood the test of time and has become the authentic successor to Marx's *Capital.* It is the scientifically correct analysis of capitalist economy in its most advanced and final stage, during which it is being replaced, country by country, by socialism.

Lenin defined five "basic features" of imperialism:

> (1) the concentration of production and capital has developed to such a high stage that it has created monopolies that play a decisive role in economic life;
> (2) the merging of bank capital with industrial capital, and the creation, on the basis of this "finance capital," of a financial oligarchy;
> (3) the export of capital as distinguished from the export of commodities acquires exceptional importance;
> (4) the formation of international monopolist capitalist associations that share the world among themselves, and
> (5) the territorial division of the whole world among the biggest capitalist powers is completed.

In *Imperialism* and in his 800+ page *Notebooks on Imperialism,* Lenin provided detailed documentation for his theoretical construct and analysis.[1]

The first two features—the concentration of production and capital, and the merger of financial and industrial capital—are analyzed here in chapters 8 through 12. The third feature, the export of capital, will be dealt with in chapter 14 and the fourth, the formation of international monopolies, in this chapter. The fifth, the territorial division of the world among the capitalist powers, requires a major modification since Lenin's time for one-third of the world's peoples, through revolutionary struggles, have liberated themselves from capitalism and imperialism and have built, or are striving to build, socialism. Others, still functioning within the capitalist world and under imperialist military and political influence, have obtained varying degrees of independence. But the economic and political domination of most of the Third World by imperialism remains a reality, manifest not only in the military bases, occupation forces and advisers, but also in spheres of economic and political influence, and in financial plunder. U.S. imperialism has held the strongest positions, but has been increasingly challenged in economic influence by Japan and other rivals.

It follows that imperialism has tried to compensate for its losses by intensifying the exploitation of the people and resources still under its domination. The consequences have been tragic for the hundreds of millions of victims as extreme imbalances, contradictions and crises in capitalist world economies have ensued. Further, imperialism, led by the United States, intervenes to prevent countries from breaking away from its domination, and to restore its rule where people have succeeded in achieving independence. Such interventions since 1946 have resulted in full-scale and partial wars costing the lives of many millions of people.

Some place names, company names and tactics have changed, but otherwise the 1935 confession of Smedley D. Butler, a major general in the U.S. Marine Corps, remains fully applicable to today's activities of the CIA and U.S. armed forces:

> I spent thirty-three years and four months in active service as a member of our country's most agile military force—the Marine Corps. I served in all commissioned ranks from second lieutenant to major-general. And during that period I spent most of my time being a high-class muscle man for Big Business, for Wall Street, and for the bankers. In short, I was a racketeer for capitalism. . . .
>
> Thus, I helped make Mexico and especially Tampico safe for American oil interests in 1914. I helped make Haiti and Cuba a decent place for the National City Bank to collect revenues in. . . . I helped purify Nicaragua for the international banking house of Brown Brothers in 1909–1912. I brought light to the Dominican Republic for American sugar interests in 1916. I helped make Honduras "right" for American fruit companies in 1903. In China in 1927 I helped see to it that Standard Oil went its way unmolested.[2]

There should have been a change for the better since the time of General Butler. Since the 1950s most former colonies have won independence. Many former semicolonies in Latin America have been less clearly subordinate to their powerful northern neighbor. The United Nations supposedly brought the world into a new era, wherein developed countries accepted responsibility for helping the less developed to catch up, to eliminate their age-old mass poverty and hunger.

Most industrialized states formally accepted the United Nations' Economic and Social Bill of Rights spelling out that commitment, and governments have advanced billions in "aid" to that end. That aid, however, has been a fraction of the amount the exploiters have taken out in profits from investments and from unequal pricing practices.

Overall, the shocking result is that the relative impoverishment of the developing countries has worsened, according to data compiled by the OECD, a body dominated by developed capitalist countries. Table 13-1 compares per capita incomes of the United States and Canada with those of Latin America; of Western Europe with Africa; and of Japan with Asia. In each case, the "northern" developed countries are the main investment and trading plunderers of the corresponding "southern" developing countries.

TABLE 13-1. RATIO OF PER CAPITA INCOMES, DEVELOPED TO DEVELOPING CAPITALIST COUNTRIES, FOR THREE MAIN NORTH-SOUTH DIVISIONS 1960 AND 1984

Division	Number of times "North" to "South" per capita income	
	1960	1984
USA & Canada to Latin America	5.6	5.8
Western Europe to Africa	7.5	11.4
Japan to Asia	11.0	19.1

SOURCE: OECD, as published in *BW,* Feb. 9, 1987.

The most rapid rate of growth in per capita income has been in Asia—in Japan and in the developing Asian countries. But according to the OECD, at the current rate of progress it would take the Asian developing countries *more than two centuries to catch up* to the general level of per capita income in the developed capitalist countries, which, as a whole was 14 times that of the developing countries in 1984—the same as 24 years earlier.

This chapter will deal with the main features of international trade among capitalist countries; between developed capitalist and developing capitalist countries; and between capitalist and socialist countries.

Fundamental Principles of Capitalist International Trade

International trade has been an important feature of economic life for thousands of years, but under capitalism its scale increased immeasurably, not only in absolute amount but relative to total economic activity.

Adam Smith wrote:

> Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive power, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society. These great and important services foreign trade is continually occupied in performing, to all the different countries between which it is carried on. They all derive great benefit from it. . . . [3]

Of course this is an idealized version, which does not take into account the distortions resulting from colonial plunder, wars, customs barriers, etc. Yet it provided a general understanding of why trade flourished as transportation and communication between countries improved.

Later, in the early 19th century, David Ricardo advanced the theory of *comparative advantage.* His concept was that trade need not be limited to exchanges of one another's surpluses, but consisted of exchanges of goods for which the two parties had respective productive advantages. A simple current example: Brazil, because of climatic conditions, has an advantage over the United States in the production of coffee; the United States, with its highly advanced technology, has an advantage in the production of computers.

Ricardo gave a hypothetical example involving England and Portugal, wherein England supplied all Portugal's cloth and Portugal supplied all England's wine. In his example, Portugal produced both cloth and wine more efficiently than England, but its advantage in wine was more marked than in cloth.[4]

Capitalist industrial and commercial development got a big boost when the strongest European capitalist powers accumulated large stockpiles of gold and silver, which were universally accepted as media of exchange. This wealth was garnered not as a result of productive skill but because of the superiority of guns and bullets over earlier methods of destruction and subjugation.

On the extensive tropical and semitropical lands of the Western Hemisphere, Europeans established large-scale agriculture to produce crops not grown in Europe. Labor was provided by slaves, mainly Africans kidnapped by military expeditions. Especially large slave-based economies developed in the southern United States, in Brazil and on some of the Caribbean islands. Slave traders and slave owners, who made up part of the ruling class of the newly independent United States of America, were the leading captors, traders and exploiters of slaves. And even after the formal abolition of slavery—in Brazil, the United States, etc.—sharecropping and other semislave systems of repressing and superexploiting African labor continued for generations.

Much of Asia, Africa and Latin America became colonies or semicolonies of European countries and of the United States.

Throughout the history of capitalism and up to the present, the law of comparative advantage has remained the general guiding principle of international trade, under socialism as well as under capitalism. However, under capitalism, from its inception there have been gross violations of this law: in trade between the advanced industrialized capitalist countries—the imperialist powers—and the developing countries, arising from the systematic plunder of the weaker countries by the stronger; in rivalries between capitalists of different countries and intervention on their behalf by their respective governments; and in wars that break off relations between hostile states. Nevertheless, the principle of comparative advantage has largely prevailed in trade among the countries of Europe and North America—and later, Japan. It is relevant, however, to analyze the contradictions, some temporary, some lasting.

Contradictions Hampering the Development of International Trade

The Napoleonic Wars, the U.S. War of Independence and its Civil War, the Franco-Prussian War, World Wars I and II, and various lesser conflicts resulted in critical interference with international trade by military invasion, naval blockade and embargoes. World War I and, especially, World War II caused enormous destruction of industrial plant, housing facilities and transport, as well as human life—all of which seriously set back international trade. Since 1917, capitalist economic warfare against socialist states has also curtailed international commerce.

In addition, growing rivalry among the monopoly capitalists, which had come to the fore by the turn of the 20th century, led to the imposition of very high protective tariffs, customs barriers, and other government-imposed limits on imports, along with government subsidies of the exports of each nation's monopolies. The United States, starting diversified industrialization later than Britain and some other European countries, resorted to protective tariffs to spur its "infant industries," and these tariffs were raised to extreme peaks in 1930, by which time the United States was already far and away the world's leading industrial power.

Trade has also been hampered and partially interrupted by the financial crises of world capitalism. Notable examples were: the post–World War I reparations debt crisis, the Great Crisis of the 1930s, the overwhelming concentration of financial reserves in the United States at the end of World War II, the debt crisis of the developing countries in the 1980s, and the record trade deficit of the United States.

Factors Promoting the Expansion of World Trade

The potential for international trade is almost limitless. Without the negative factors that arise from the contradictions of capitalism and the belligerence and plundering of imperialism, trade relations would skyrocket, not only in absolute amount but also relative to the volume of world production. Among the many factors that make for the escalation of international trade, especially in the last half of the 20th century, are:

- the development of fast, reliable and effective international carriers, as well as of refrigeration, liquefaction of gases, and other technical means that permit worldwide transport of products formerly restricted to a limited area;
- the accelerated improvement in communications, up to instant commercial contact over the entire globe, creating the potential for a unified world market;
- the major evolutions in science and technology, bringing about constant advances in the range of commodities available and in the demands for these commodities on a world scale. Computerization facilitates rapid calculation of comparative costs, important for discovering the most advantageous trade opportunities.
- Elaboration of flexible monetary and credit arrangements, which provide enhanced liquidity for the consummation of trade deals, plus

the ready flow of capital to finance production of goods at the most favorable locations.

- Rapid development of trade among the socialist community of nations that emerged after World War II. This trade is conducted on the basis of equal rights; there is no plunder of the weak by the strong. but rather a principle of equalizing the economic level of the fraternal countries through assistance to the less developed by the most advanced, by the use of planned specialization of production within particular countries of the socialist community, and by implementation of long-term plans for the stable growth of international trade on bilateral and multilateral bases.
- Improvement of international trade between socialist and capitalist countries.

Over most of the past century, there has been an unstable balance between the economic laws and government stimuli promoting world trade, on the one hand, and the contradictions and the government and cartel actions restricting world trade, on the other, so that the growth of world trade roughly paralleled the growth of world production. However, since the 1960s, the factors making for faster trade growth have become clearly dominant, and the volume of U.S. world trade shot up at a historically high rate. See table 13-2.

TABLE 13-2. U.S. PRODUCTION AND FOREIGN TRADE ANNUAL RATES OF INCREASE SELECTED PERIODS, 1879–1985

Period	Real Gross National Product	Volume of Foreign Trade		
		Total	Exports	Imports
1879–1913	4.213%	3.611%	3.305%	3.960%
1913–1963	2.908	2.997	2.976	3.018
1963–1979	3.388	7.364	6.675	7.993
1979–1985	1.935	3.058	0.691	4.825
1879–1985	3.342	3.875	3.501	4.160

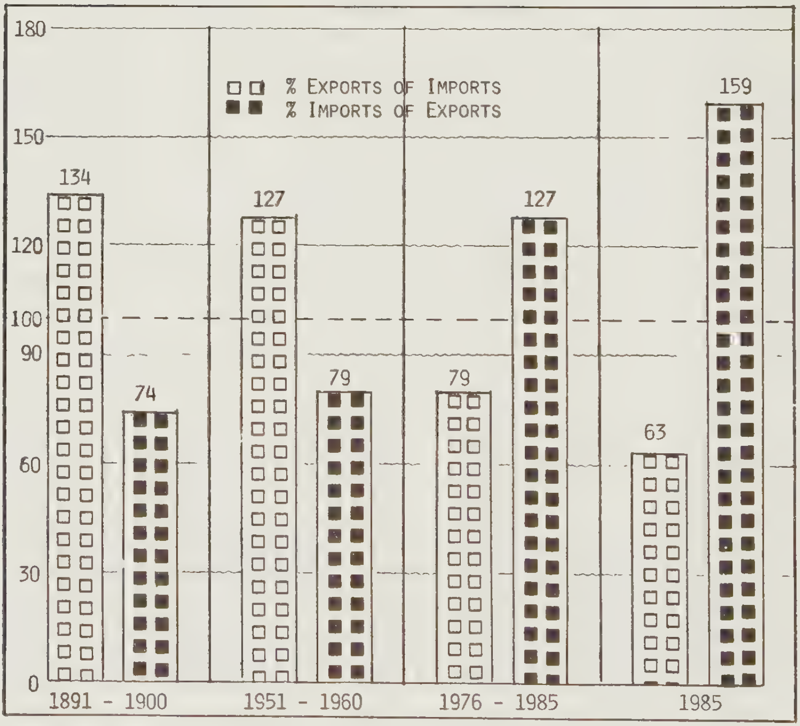
SOURCES: Foreign Trade Volume: *Hist. Stat.*, Vol. II, Series U225, 237; *EROP, 1986*, Table B-20, p. 275. *SCB*, Sept., 1986, Table 4.2, p. 13; separate indexes for exports and imports in constant dollars combined on bases of 1963 = 100.
Real Gross National Product: *Hist. Stat.*, Vol. I, Col. F-3, p. 224; *SCB*, Sept., 1986, Table 2, p. 66; figure for 1879 interpolated from decade averages 1869–78 and 1879–88.

Over the half century 1913–1963 the foreign trade growth roughly balanced production growth. But from 1963–1979, foreign trade grew more than twice as fast as the increase in production. During this period, while both exports and imports zoomed, imports rose substantially faster.

Since 1979, with the tendency toward economic stagnation, growth of both production and foreign trade slowed, but foreign trade growth continued to edge out production growth by a slight margin. However, outstanding during this period was the sharp imbalance between growth rates of exports and imports. The imports increased at about seven times the rate of exports, which practically stagnated. As a result, the United States shifted from net exporter to net importer, as illustrated in chart 13-1.

In 1986, U.S. imports—at a record $370 billion—exceeded by 80% its exports of $205 billion.[5] That difference of $165 billion unbalanced the entire capitalist world economy.

CHART 13-1. BALANCE OF U.S. MERCHANDISE TRADE IN SELECTED PERIODS 1891-1985



Japan and West Germany, among other countries, had correspondingly huge export surpluses. Moreover, these imbalances in trade were not due to transient factors, such as fluctuations in currency exchange rates. They had been built into the system of capitalist world international economic relations. The Japanese economy *required* the great trade surplus, while the U.S. economy could not escape the huge trade deficit. Such imbalances were previously unknown as lasting peacetime phenomena, and they have far-reaching financial repercussions.

In the United States, the trade deficit contributed to the deterioration of manufacturing, at the cost of millions of jobs. However, the export surpluses of Japan, West Germany, etc., could not prevent deterioration of their manufacturing industries also. In finance and manufacturing, these were overriding features of the structural crisis of world capitalism (see chapter 16).

U.N. statistics confirm similar priority of foreign trade growth over production growth for the entire capitalist world since World War II. The Soviet economist V. V. Rymalov compared growth rates of industrial production and international trade of the capitalist world for the century 1881–1981 (table 13-3).

TABLE 13-3. Annual Growth Rate in Industrial Production and International Trade, Capitalist World Selected Periods, 1881–1981

Period	Average Annual Percent Increase	
	Industrial Production	International Trade
1881–1913	3.8%	2.6%
1913–1948	1.4	0.4
1948–1960	4.8	6.5
1960–1973	6.1	8.2
1973–1981	1.9	3.5

SOURCE: V. V. Rymalov, *The World Capitalist Economy*, Moscow, 1982, p. 60.

Rymalov's calculations show that the increase in production and trade slowed after 1973, but that trade continued to grow more rapidly than production. However, a more serious disruption of international trade erupted in the 1980s, the causes of which will be examined below.

Reasons for Acceleration of Foreign Trade

What specific factors accounted for the accelerated growth of U.S. and capitalist world trade in the 1960s and 1970s? A dominant factor was the absence of major wars involving several or all of the major powers. Despite such horrors as the U.S. aggressions in Korea and Vietnam, and other colonial-type wars waged by the imperialist powers, this was essentially a period of mainly peaceful development following reconstruction after World War II. Under these conditions, international trade not only benefited from scientific and technical progress, but was also able to make up for the lag during the half century of world wars and deep economic crisis.

Additional specific factors operative during the 1960s and 1970s included:

a) Detente. Capitalist trade with the USSR and other socialist countries opened up, and for West European countries, there was a rapid growth in this area. On a world scale, the trend was fostered by the expansion of trade among the socialist countries.

b) The breakup of the world colonial system, enabling the former colonies to become factors in world trade. Even more important was the drive by the developing countries for economic independence and industrialization. The most dramatic example was the success of OPEC in nationalizing oil and multiplying its price. This coincided with a rapid rise in the requirements of major capitalist countries for imported oil. As a result, the purchasing power of OPEC countries for commodities on world markets was multiplied many times.

c) The accelerated export of industrial and financial capital both by giant U.S. corporations and, later, those of Western Europe and Japan. This stimulated much more international trade in commodities: equipment exported along with capital, and intranational transactions between the various branches of transnational corporations.

d) The rapid expansion of loans by imperialist banks to Latin American and other developing countries, especially during the 1970s. But while the process went on, the debtor countries increased their imports rapidly, using the credits, and stepped up their exports of goods manufactured in their newly established industrial plants. On the whole, the share of the "Third World" in international trade increased significantly during this period.

e) The trend toward free trade and capital flow among the capitalist powers.

Contradictions Erupt in the 1980s

The factors that led to the burgeoning international trade in the third quarter of the 20th century involved major contradictions, resulting in a sharp curtailment of growth in the 1980s. The prolonged capitalist world economic crisis of the early 1980s brought these contradictions to a head. In addition, and important, were the rapidly increasing militarism and aggressiveness of U.S. imperialism and the compliance of most of its allies, which undermined the generally peaceful atmosphere that had contributed significantly to the growth of trade. These conditions had the following specific impacts:

- To pay the costs of the bloated military budget, U.S. capital launched a major offensive against the U.S. working class, who suffered serious losses in real wages. Reductions were also put over in Britain and other major capitalist nations. In virtually all these countries, unemployment climbed to the highest levels since the 1930s—and in some cases, even higher. This undermined mass purchasing power and therefore the market for imported as well as domestic goods.
- U.S. imperialism's attempt to destroy detente, its intensified economic warfare against the USSR and other socialist countries, and its pressure—partially successful—on West European countries and Japan to slow or stop their trade with socialist states, all led to a relative stagnation of "East-West" trade.
- The debt crisis of developing countries had a severe negative impact on both production and international trade involving debtor countries and their capitalist trading partners.
- With the overall weakening of the capitalist world economy during the structural crisis, rivalry for markets intensified among the developed capitalist countries. More and more use was made of protectionist measures, import duties, quota limitations, special sanitary codes and a variety of bureaucratic obstacles to bar imports of rivals. At the same time, export subsidies to overcome these obstacles were increased. The workers of the capitalist countries bore the ultimate burden of both—through higher prices on imports, and through taxes to pay for the subsidies.

Especially sharp conflicts erupted between the major West European countries and the United States, whom the EEC members accused of violating GATT fair-trading principles and of violating their sovereign rights.

Under NATO, the United States did, indeed, dominate Western Europe politically and militarily. With the changing balance of world forces, however, the West European countries could no longer permit this domination to extend, in most respects, to economic matters.

Similarly Japan, although under U.S. military occupation and collaborating with U.S. anti-Soviet policies, increased its aggressive penetration of U.S. markets. At the same time it maintained an internal regime and well-organized monopoly groups that consistently hampered U.S. attempts to penetrate the Japanese market. This led to conflicts that slowed the growth of trade between Japan and the United States. Conflicts between Japan and Western Europe also sharpened.

According to calculations of the Institute of International Economics, in 1955 about $500 million of U.S. imports were subject to special protection, over and above normal tariffs. By 1985, imports worth $80 billion, or 22% of all imports, were so affected. The cost to U.S. consumers was estimated at $65 billion. And still the restrictions failed to stem the soaring total of imports into the United States.[6]

By 1987, protectionist measures, quotas and a whole gamut of restrictions led to involved relationships; conflicts with Canada, Western Europe and other trading partners reached the stage where each protectionist measure by one side was countered by an offsetting measure by the other side.

Factors Underlying the Serious U.S. Trade Deficit in the 1980s

The political and economic rulers of the United States—the undisputed capitalist leader—did not foresee that their erstwhile rivals could recover sufficiently after World War II to be significant challengers. They gave huge sums in grants and loans to the other imperialist powers, including their recent enemies, to help them rebuild their industrial strength enough to prevent socialist revolutions. They also sold advanced processes for royalties; Japan, deemed to be no threat, led in the purchase of technology.

Over the decades it became evident that the economic revival of other capitalist powers went far beyond the limits expected by Washington and Wall Street. Certainly there were warnings. Herman Kahn, head of the CIA-connected Hudson Institute, publicized his findings on the threat of Japanese economic supremacy. But U.S. companies lacked the unity, and the U.S. government lacked both the determination and a practical program to maintain the U.S. relative economic lead.

Meanwhile objective factors stemming from the power of U.S. capital, undermined the U.S. position. Monopoly capital in West Germany, Britain, France, Japan and Italy was not content merely to regain prewar production levels with U.S. Marshall Plan aid. Corporations put their surplus profits—from exploiting their own workers—into rapid expansion, modernization and diversification of their industrial base, and in rebuilding overseas trade and investments. Moreover, the United States, with the largest population and highest per capita income among developed capitalist countries, was a prime target for the export of goods. Old trading ties were reestablished in Africa, the Middle East and the Far East, areas where U.S. corporations had less experience and contacts as traders.

The decisive concentration of U.S. capitalists was not on export of goods, but on export of capital, which promised a much higher rate of profit. U.S. imperialism focused on blasting open all capitalist areas for establishment of industrial, mining, financial and trading enterprises by U.S. corporations. U.S. expansionists acted in accord with Lenin's finding that "the export of capital as distinguished from the export of commodities acquires exceptional importance" (see chapter 14).

But the very success of U.S. capital fundamentally undermined the U.S. foreign trade position. Major U.S. corporations built vast foreign manufacturing empires, far surpassing the early postwar predictions and programs of U.S. political and economic leaders. Employing 7 million workers and reaching sales of a trillion dollars a year by the late 1970s, the foreign stakes of U.S. capital exceeded the overall industrial might of a number of major capitalist countries.

U.S. corporations supplied their foreign markets much more profitably from their foreign properties. Such sales exceeded exports from the United States by roughly five times. Also, part of the production of the foreign plants was sent back to the United States, replacing goods formerly made in U.S. plants, which were shut down.

Moreover, the operations of the overseas establishments contributed little to the U.S. balance of payments, since only a small fraction of the surplus value was repatriated. The bulk was either reinvested or used abroad in various forms of the profits of control, taxes paid to host governments, bribes paid to officials and generals, etc.

Thus the exceptional success of U.S. monopolies in building up their overseas investments, while bringing superprofits to the corporations involved and to their controlling stockholders, was harmful to the national economic interests of the United States.

As if to emphasize this point, *The New York Times* headlined an article by two college professors: "Business Holds Its Own as America Slips."[7] The article included a table that clearly illustrates the position:

TABLE 13-4. SHARE OF THE UNITED STATES AND OF U.S.-OWNED TRANSNATIONALS IN WORLD EXPORTS

Year	Exports from U.S.	Exports by U.S.-Owned Transnationals		
		Total	from U.S. plants	from foreign plants
1957	22.7%	n.a.	n.a.	6.0%
1966	17.5	17.7	9.5	8.2
1977	13.3	17.6	7.9	9.7
1982	14.3	17.7	8.0	9.7
1983	13.9	17.7	7.7	10.0

SOURCE: National Bureau of Economic Research (NBER)

The U.S. share in world exports of manufactured goods dropped from 23% in 1957 to 14% in 1983. But the share of U.S.-owned TNCs remained stable at close to 18%. However, their exports from their foreign properties went up from 6% of the world total to 10% of the world total, which means that their exports from the United States declined from 12% of the world total to 8% of the world total.*

Other factors contributed to the deteriorating U.S. balance of trade:

• Reduced technological superiority of U.S. manufactures, which had surged ahead during the two world wars. In more and more cases, foreign companies produced goods of higher quality and, in some cases, more advanced than those of U.S. companies. And, in a chauvinistic attitude toward international competitiveness, U.S. corporate managers assumed that U.S. products were the best long after that had ceased to be the case. While half of all U.S. research and development was devoted to military ends, its rivals concentrated on civilian goods.

By the late 1980s, U.S. manufacturers of automobiles, electronic components, and other products began a serious effort to regain qualitative equality or superiority where it had been lost. But the negative trends could not be reversed overnight.

• In the 1946–1970 period, U.S. corporations reaped higher rates of profit than their potential overseas rivals (see chapter 5). Much of

*While the table does not give a figure for the overall share of U.S.-owned TNCs in world export of manufactured goods in 1953, it is assumed that this share was at least as much as the 17.7% shown for most later years.

this bonanza was squirreled away and distributed through the profits of control (see chapter 6). Prices of U.S. goods were raised sufficiently to realize these high rates of profit, making it easier for Japanese, West European and other rivals—operating with lower rates of profit and, especially, lower profits of control—to undersell them on the world, and even the U.S., markets. Long after U.S. corporations began to reduce employment of production workers, they maintained and even increased their corporate bureaucracies; it was not until 1985 that this sector started to be axed.

• Economic warfare against the USSR and other socialist countries further damaged the foreign trade situation, and thereby the overall economic condition, and especially the lot of the U.S. working class. This economic warfare has clearly led to the loss of markets to rival capitalist countries. True, it has also been costly to the people of socialist countries, but has not been able to prevent their making substantial gains (see chapter 18).

In the years immediately after 1945, the West European and Japanese capitalists obeyed Washington's orders and their trade with socialist countries was insignificant. But as they gained economic strength and independence, their trade with the socialist nations gradually expanded until, by the 1980s, it was a major and well-established factor in world trade and finance. In 1985 exports of the West European capitalist countries to the USSR and its European socialist allies came to $30 billion, as against $3 billion from the United States. The "Third World" capitalist-oriented countries of Asia, Africa and Latin America sold $20 billion worth of goods to the European socialist countries, and also bought substantial quantities of goods from them.[8]

The legislative basis for U.S. economic warfare against the socialist countries is the Export Administration Act. The European Economic Community (EEC) made this assessment of the U.S. law in 1987:

> . . . which authorized the U.S. Government to exercise extraterritorial jurisdiction for reasons of national security and foreign policy. This law, designed to prevent U.S. high technology products from falling into the hands of the Eastern bloc countries through export and reexport, is unacceptable to the Community for reasons of sovereignty."[9]

The pressures to defy this violation of their sovereignty were rising within these countries in their own economic interest. Other aspects of U.S.-Soviet trade relations are analyzed in chapter 18.

Shifts in the relative value of currencies affect the balance of trade among capitalist countries. In the early 1980s, when the ratio of the U.S. dollar to West European and Japanese currencies was high, the negative changes in the U.S. trade balance escalated rapidly. But over the years, even when the exchange rate of the dollar was much lower, the United States generally lost ground in its trade balance.

The U.S. trade deficits and, in the other direction, the vast surpluses of Japan, plus other gross imbalances in international trade, are another factor in the deepening structural crisis of world capitalism.

The Cartel System

With a few monopolies dominating production in major industries within each of the leading capitalist countries, and working out systems for dividing up their domestic markets so as to avoid price competition, it was only "natural" that this practice was extended to form international trade cartels to divide world and regional markets in particular industries.

These cartels were effective in raising profits of their members, and raising prices to consumers—in member countries and throughout the world—and especially in extracting superprofits from the colonies and semicolonies where the majority of the world's people live. Cartels were established to reflect the balance of forces among their members at a given time. When the balance changed, either the terms of the agreement changed or the cartel broke up. U.S. laws, such as the Webb-Pomerene Act of 1918, and rulings of regulatory agencies facilitated the formation of cartels.

> One of the first international cartels was organized as early as 1896 by Mellon's Aluminum Corporation of America together with the Swiss-German aluminum trust. Between the two world wars the leading United States corporations participated in international chemical, oil, steel, sulphur, copper, electrical equipment, zinc, potash, nitrate, aluminum, and armaments cartels, among others.[10]

World War II disrupted many cartels by weakening members that were combatants, and the U.S. monopolies preferred to "go it alone," aiming for world market domination. Those cartels that continued and were reestablished—e.g., copper and zinc—later lost their effectiveness with the decline of world demand for their products. This trend was compounded by the structural crisis and the slow economic growth of world capitalism in the 1970s and 1980s, and by nationalization in some developing countries.

The most powerful and profitable cartel of the mid-20th century was the "Seven Sisters" petroleum cartel of U.S., British and Dutch oil companies, with the Rockefeller-Standard Oil group having the largest share. This cartel got most of its oil from Asia, South America and Africa—with the Middle East—the world's largest oil reserves—its primary source (see chapter 16).

The Cartel System Under New Conditions–State-Private Monopolies

In the face of the overall weakening of capitalism, and the growth of opposition forces, monopoly capital turned to stronger measures to maintain and extend its positions and profits, going beyond agreements between individual companies. The new structures that arose were cartels between capitalist governments, in association with their major monopolies. The International Wheat Agreement was an example, and there were similar arrangements for other basic commodities flowing in international trade. With the deepening structural crisis of capitalism, some of these arrangements became ineffective. However, regional groupings with a much broader scope, such as the EEC, have become more important.

In 1987 the right-wing governments of the United States and Canada negotiated an agreement calling for virtual economic union between the two countries. If ratified, it would increase the dependency of Canada on its neighbor, which is economically many times larger. It has therefore been resisted by progressive forces in Canada.

A specially important role is played by state-private cartel arrangements involving the two most powerful imperialist rivals—the United States and Japan.

A prime example is the U.S.-Japanese automobile cartel. Year after year Japanese cars were winning larger shares of the U.S. market. Finally, under pressure of the U.S. companies, the Japanese agreed to accept a quota, which, however, permitted them to gradually increase the total number of cars imported into the United States. By 1986 the Japanese quota was 2.3 million passenger cars, over one-fourth of the U.S. market. In turn, the Japanese manufacturers agreed on how to divide the quota among themselves, with the Japanese government helping to make the arrangement. There is no evidence that the U.S. "big three" formally divided up the remaining market.

However, the result of the quota system was that the Japanese companies reduced their export to the United States of lower priced cars and sharply raised the prices of all cars exported. Rather than use this opportunity to cut prices to help regain their market share from the Japanese, the U.S. companies raised the prices of their cars, since they now had a protected share of the market. According to a Brookings Institution study, the result was to raise the average retail price of a car by $2,500 or, roughly, 25%.

Like all cartel arrangements, this one proved unstable, and it wobbled more rapidly than many. Under protection of cartelized high prices, South Korean auto manufacturers and others began to push exports to the United States. Further, the Japanese companies, while staying within quota limits, set up assembly plants in the United States, intending to bring the engines and most of the parts from their Japanese factories outside of the quotas.

The U.S. companies, attempting to maintain their full share of the cartel, established joint companies with the Japanese in some of these plants.

The "Price Scissors"

The price system is used by the TNCs as a major means of plundering developing countries. Typical examples as of the period 1986–87 were:

TABLE 13-5. EXAMPLES OF PRICE PLUNDERING OF DEVELOPING COUNTRIES

Commodity	Price Paid to Developing Country for its Export	Wholesale Price U.S.	Retail Price U.S.
Sugar (per pound)	5¢	14¢ (cane) 18¢ (beet)	35–40¢
Bananas (per pound)	7¢	13¢	39–49¢

SOURCES: UN *MBS,* Nov., 1986, Table 59, p. 198 ff; *Stat. Abst.,* 1986, Table 1163, p. 664.

These figures are approximate averages, as they fluctuate from month to month. In short, the wholesale price in the United States is several times that paid producers in the exporting country, and the retail price to consumers is several times more than that.

It was on such price spreads that the United Fruit Company, W. R. Grace & Company, and the American Sugar Refining Company made their great fortunes. And they have continued, even though some of the companies were absorbed into much larger conglomerates.

The U.S. Government actively participates in organizing and widening these spreads. In the case of sugar, the "world price" is kept down by rigid quotas limiting imports into the United States, while U.S. producers are guaranteed a price several times higher than the world price and are given subsidies, at taxpayers expense, in addition. One objective is to increase production of this largely tropical crop in the United States and to reduce the need for imports. After the Cuban revolution, the United States banned all imports of sugar from that country and ostentatiously increased the quotas for other suppliers, to reward them for not conducting anti-imperialist revolutions. However, over the years, both the prices paid these countries and their quotas have been gradually reduced. A particularly sharp blow was struck in 1987 when the United States enforced a 50% reduction in the already lowered quotas for sugar. West European countries have followed similar practices of subsidizing domestic production of beet sugar and other substitutes for commodities formerly imported from less developed countries.

Meanwhile, prices of finished goods exported from the United States and other developed capitalist countries to the Third World were high and rising.

In effect, the working people of the developing countries are forced to work two hours in order to pay for an imported commodity requiring one hour of equivalent labor to make. So long as this continues, decisive steps to overcome underdevelopment and extreme poverty are difficult, especially under conditions of capitalist social structure in the developing countries.

The disparity between the high prices of goods sold to developing countries and the prices paid to them for their goods is often referred to as the "price scissors." The ratio of export to import prices is referred to as "the terms of trade." A narrowing of the price scissors means an improved terms of trade.

In certain periods, the scissors are widened; at other times, narrowed. Long-term historical comparisons are inconclusive because, during the period of colonialism and the virtual colonization of Central American and Caribbean countries by the United States, monopoly corporations owned the mines and plantations and simply took the commodities produced without payment of a price to any owner in the producing country. The equivalent of a price would be the sum of wages paid to labor, taxes paid to local governments, and other local expenses, for which records are not available.

Reasonably good records, mainly compiled by the United Nations, are available. Between 1950 and 1970 the price scissors, on the whole, widened. Between 1970 and 1986, the situation was more complex. For a small minority of countries, with perhaps one-fifth the population of all developing countries within the capitalist orbit, there was a marked improvement in the terms of trade, up until the early 1980s. These were the oil exporting countries, which succeeded, through OPEC, in multiplying the price of oil many times. For them, the price scissors narrowed, and it was essentially closed altogether for the large producers on the Arabian peninsula. Beginning in 1981, when the price of oil turned down, terms of trade became less favorable, and sharply deteriorated in 1986 when the price of petroleum went down to a fraction of its peak.

For the great majority of non–oil producing developing countries, this was a period of radical deterioration in the terms of trade, or widening of the price scissors. According to estimates of Pablo-Paul Kuczynski, an expert of the First Boston Corporation, the terms of trade worsened against Latin America by 40% in the late 1970s and early 1980s.[11]

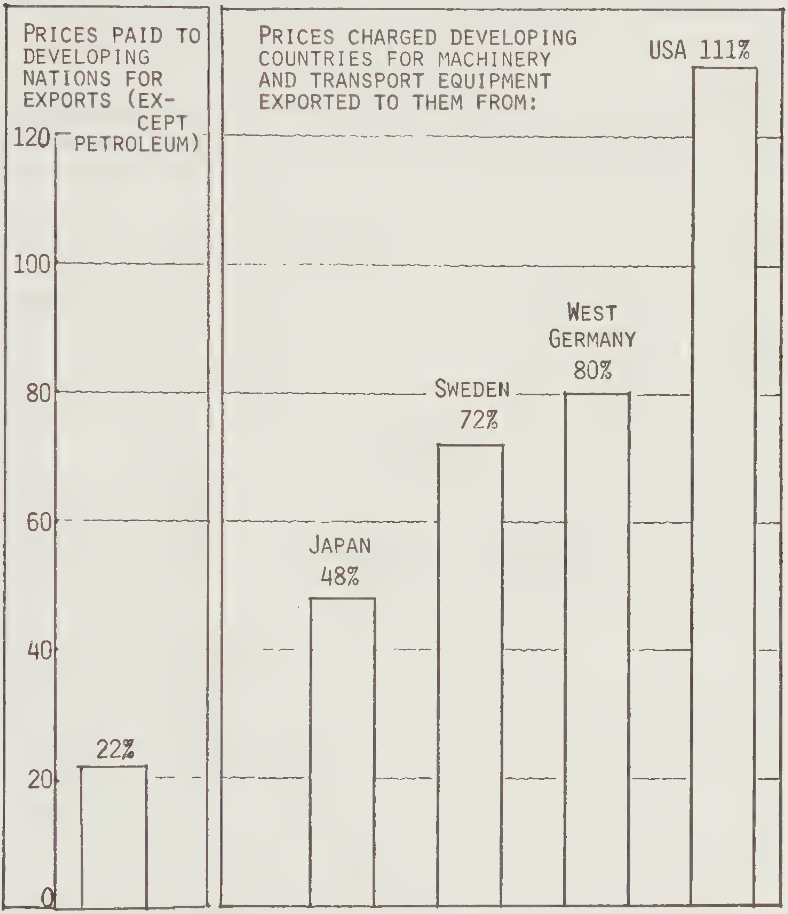
Between 1974 and the first quarter of 1986, export prices paid to developing countries for primary commodities other than petroleum increased 21%; while export prices they paid for machinery and transport equipment from the developed capitalist countries went up 84%. A simple calculation highlights the significance of this contrast: developing countries had to pay 52% more in 1986 than in 1974, in terms of their own production, to purchase the same amount of capital goods from a developed capitalist country (chart 13-2).

It is significant that the U.S. TNCs were the most flagrant profiteers from this widening price scissors. Their export prices for machinery and transport equipment rose 111% compared with West German increases of 80%, Swedish of 72% and Japanese of 48%.[12]

The 111% price hike of U.S. TNCs meant that in order to buy U.S. goods, developing countries had to provide 74% more of their goods per unit purchased than in 1974. The extreme U.S. profiteering goes far to explain why the U.S. producers have lost so much of their foreign markets, and why Japan has been the most conspicuous gainer.

The contrasting price trends applied across the board, to almost

CHART 13-2. HOW THE PRICE SCISSORS WIDENS PERCENTAGE INCREASE IN PRICES, 1974 TO 1ST QUARTER 1986



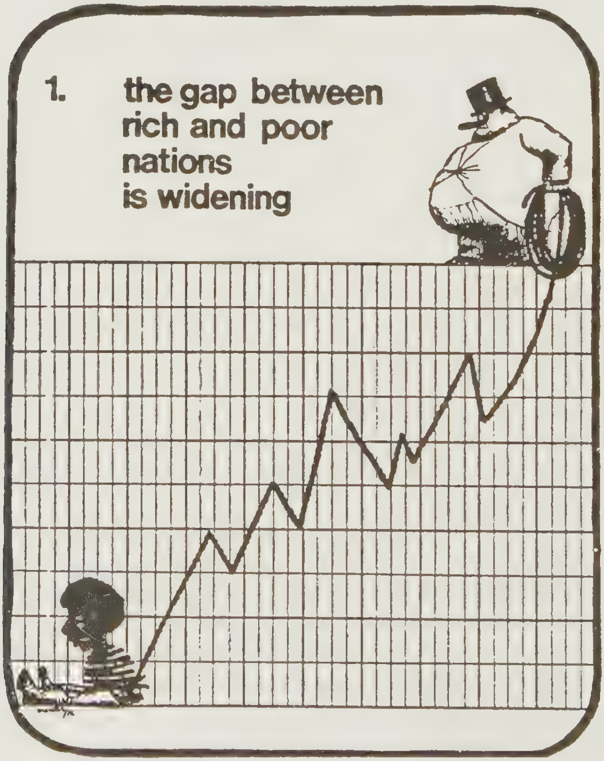
SOURCE: United Nations statistics

all commodities other than petroleum. For the petroleum-importing developing countries, however, the situation was aggravated during most of this period by the inflated price they had to pay for oil.

The sharp drop in the price of petroleum in 1986 eliminated the difference between the price scissors against most of the oil-producing developing countries and the nonproducing developing countries. The index of prices of all primary commodities exported from developing countries, including oil, was only 11% above the 1974 level;

while the index, excluding oil, was 7% above the 1974 mark.[13]

Attempts of developing countries to close the price scissors and to get full value for their exports are an important feature of the anti-imperialist struggle. Cooperative action on the part of these countries is essential for success: OPEC has been one of the more successful examples. It has been referred to in capitalist publications as a cartel, and while some of its tactics—limiting supply on the market—are similar to those of cartels, there is an essential difference. Cartels of the oil companies operated to plunder the countries where the oil deposits were located; the OPEC cooperative functions to end the plunder. In some respects this is analogous to the relationship between trade unions and monopoly employers. Unions are referred to as "labor monopolies," but their essential function is antimonopoly—he protection of workers.



14. Imperialism II: Export of Capital

U.S. Presidents, Secretaries of State and Secretaries of Defense speak of areas of U.S. "vital interests." By their definition, these areas extend to virtually all parts of the world—where capitalism has prevailed or where they have had hopes of restoring it.

These "vital interests" have military-strategic as well as material aspects. Materially, they include access to raw materials and trade. But the most important, dynamic "vital interests" of U.S. imperialism are the foreign investments of U.S.-owned TNCs throughout the capitalist world: the most profitable U.S. corporate economic interests during the 20th century.

Foreign investments did not start in this century, nor with the United States alone. In general, the most rapidly growing feature of capitalist economic life in the epoch of modern imperialism—starting roughly in the last quarter of the 19th century—has been the export of capital and the profits therefrom.

The first great surge of capital exports was in the decades before World War I, when the banks and industries of the European capitalist powers cashed in on their colonies and areas of semi-colonial control. Additional markets for capital investment were offered then by some independent capitalist countries, most notably the United States, and also some European countries—for example, Russia.

On the eve of World War I, Britain had become a rentier state. Revenues from abroad constituted a very substantial part of the national income and a decisive portion of the income of the top circles of the ruling class.

In his pioneering study, *Imperialism,* J.A. Hobson cited some of the incomplete statistics on foreign investments that were available at the beginning of the 20th century, and he commented:

> ... we cannot fail to recognize that in dealing with these foreign investments we are facing the most important factor in the economics of Imperialism. ... two facts are evident. First, that the income derived as interest upon foreign investments enormously exceeded that derived as profits upon ordinary export and import trade. Secondly, that while our foreign and colonial trade ... were growing but slowly, the share of our import values representing income from foreign investments was growing very rapidly.

Noting that the profits to be derived from ordinary foreign trade could hardly justify

> ... the enormous costs and risks of the new Imperialism. ... it is quite otherwise with the investor.
>
> It is not too much to say that the modern foreign policy of Great Britain has been primarily a struggle for profitable markets of investment. To a larger extent every year Great Britain has been becoming a nation living upon tribute from abroad, and the classes who enjoy this tribute have had an ever-increasing incentive to employ the public policy, the public purse, and the public force to extend the field of their private investments, and to safeguard and improve their existing investments. This is, perhaps, the most important fact in modern politics, and the obscurity in which it is wrapped has constituted the gravest danger to our State.
>
> What was true of Great Britain was true likewise of France, Germany, the United States, and of all countries in which modern capitalism had placed large surplus savings in the hands of a plutocracy or of a thrifty middle class. ... [1]

Hobson showed how, in the epoch of monopoly capital and finance capital—of the great banking monopolies—the main arena for huge financial investments was the colonial empire obtained by forcible invasion and conquest, along with semicolonial dependencies. Far more profits were drained out of these countries in the form of interest, primarily, than were derived from trade in their commodities.

The expansion of foreign investments was temporarily halted or slowed by world upheavals: World War I, the Russian Revolution, the Great Crisis of the 1930s, World War II and its immediate aftermath. These events triggered radical shifts in the balance of power among the imperialist states, with the United States emerging decisively in front.

Since World War II there has been a renewed upsurge of foreign investments. Whereas prior to World War I, Britain accounted for roughly half of all foreign investments and profits therefrom, the United States gained substantially between World Wars I and II, and has taken over, broadly speaking, the position of preeminence since World War II.

Imperialism, wrote Lenin, is associated with a tendency to stagnation and decay, notably to parasitism connected with foreign investments.

> Further, imperialism is an immense accumulation of money capital in a few countries. Hence the extraordinary growth of a class, or rather, of a stratum of rentiers, i.e. people who live by "clipping coupons," who take no part in any enterprise whatever, whose profession is idleness. The export of capital, one of the most essential economic bases of imperialism, still more completely isolates the rentiers from production and sets the seal of parasitism on the whole country that lives by exploiting the labour of several overseas countries and colonies.

Lenin stressed that it is this, rather than trading income, which explains

> . . . the aggressive imperialism of Great Britain . . .
>
> The income of the rentiers is *five times greater* than the income obtained from the foreign trade of the biggest "trading" country in the world! This is the essence of imperialism and imperialist parasitism.[2]

What about the United States today?!!! As will be shown, the same ratio applies.

According to calculations that the Dresdner Bank published in 1930, the foreign investments of Britain amounted to 18% of its national wealth, and those of other European countries ranged from 12% to 20% (in the case of the Netherlands) of their respective national wealth.[3]

Obviously, the share of property income provided by foreign investments exceeded those percentages, and the overseas sources provided the bulk of the revenue of the top ruling circles of Britain, Holland, etc.

Out of these huge superprofits, the dominant capitalists were able to make small concessions to a section of the working class, thereby creating the basis for opportunism, for the support of capitalism and its wars by those workers.

Hobson wrote of

> . . . the gigantic peril of a Western parasitism, a group of advanced industrial nations, whose upper classes drew vast tribute from Asia and Africa, with which they supported great tame masses of retainers, no longer engaged in the staple industries of agriculture and manu-

> facture, but kept in the performance of personal or minor industrial services under the control of a new financial aristocracy. Let those who would scout such a theory as undeserving of consideration examine the economic and social condition of districts in Southern England to-day which are already reduced to this condition. . . . [4]

The same might be said today of even larger areas in Connecticut, Westchester County (NY), and Northern New Jersey, as well as of vacation developments in the South and Southwest. However, Lenin always considered that this process would never be permitted to reach the suggested ultimate state: "We must not . . . lose sight of the forces which counteract imperialism in general, and opportunism in particular . . . which naturally, the social-liberal Hobson is unable to perceive."[5]

If we look at foreign investments in monetary terms, they have multiplied about 50 times since 1913. However, this expansion can be attributed partly to the manifold depreciation of currencies. And the remaining "real" escalation has to be compared with the still greater increase in the scale of production in the past 75 years.

The fact is that, historically, the eve of World War I was the apex of imperialism's expansion in terms both of the relative scale of foreign investments and of geographic area of control.

By the end of World War II, total private foreign investments were actually smaller than in 1913, in current dollars; a fraction of the 1913 amount in constant dollars. Since then foreign investments expanded rapidly, both absolutely and relative to production. Their economic and social importance, their scale, has again been great, of the same order of magnitude as at the pre–World War I apex.

The forms of foreign investment have changed in importance:

- In the period since World War I, and especially after World War II, direct investments by giant oil, manufacturing and banking corporations became the leading form of capital export, substantially exceeding in scale and profitability the value of loans secured by bonds. The corporations located their factories, oil wells and plantations in foreign countries and directly exploited the workers there.
- In the final quarter of the 20th century, as resistance to foreign ownership of productive enterprises strengthened in the "Third World," bank loans at crippling interest rates became a major form of international investment. For a period, the income from these loans exceeded the total plunder from all other forms. International bank lending was

closely connected with the huge network of foreign branches established by the U.S., British, Japanese and other imperialist banks.

• There were important changes in the geographic location of foreign investments. Direct investment in manufacturing and oil production spread to many countries previously outside the range of major capitalist economic involvement. On the other hand, the socialist revolutions—from East Germany to China—removed vast areas from imperialist penetration. Subsequently the socialist revolutions in Cuba, Indochina and, in part, in several African and other Asian countries, removed or substantially reduced the scope of capitalist foreign investments. In a number of Latin American countries, anti-imperialist struggles culminated in the nationalization of major foreign properties—most notably oil and mineral investments, once the leading edge of industrial foreign holdings. Liberation struggles that swept Africa and Asia also reduced direct colonization to a relatively small fringe and reduced the freedom of transnational plunderers.

Britain's dominant position as a capital exporter and profiteer from foreign investments was based on its 19th-century industrial leadership and its military—especially naval—superiority. However, after 1890 there was a shift of industrial power. Britain still had vast colonies and foreign investments while Germany had small colonies and much smaller foreign investments. But, Lenin wrote: "... the development of productive forces in Germany ... has been incomparably more rapid during this period than in Britain—not to speak of France and Russia."

In 1892 Britain produced more pig iron than Germany, but by 1912 Germany produced nearly twice as much as Britain. Lenin asked:

> ... what means other than war could there be *under capitalism* to overcome the disparity between the development of productive forces and the accumulation of capital on the one side, and the division of colonies and spheres of influence for finance capital on the other?[6]

After 1920, even greater disparities arose, and to try to "correct" them, Hitler's Germany, Tojo's Japan and Mussolini's Italy launched World War II, in addition taking on the monumental task of trying to restore all the Soviet Union to imperialist rule.

In the present period, conflicts among the imperialist powers, severe as they are, have been nonmilitary (although it is important not to overlook the pressures exercised by the U.S. military). Foreign bases are maintained worldwide, however, and military actions in many developing countries have been used frequently by the United States in attempts to retain or restore the domination of its banks and industries.

Foreign investments have remained crucial to the expansion of the monopoly giants of finance and industry. Their yield is extremely important to the top U.S. capitalists, and the U.S. drive to increase the export of capital is as fierce as that of any other capitalist country, past or present. It is a prime ingredient of foreign policy. But the obstacles to continued expansion are becoming more evident and the most powerful and decisive obstruction has been the mounting resistance of the peoples of the world to imperialist plunder.

Growth of U.S. Foreign Investments.

U.S. capitalists were late starters in building foreign empires and in making foreign investments. Through most of the 19th century U.S. colonization was internal, and the rapid flow of capital westward appeared as domestic investment. Foreign capital from Britain and other European countries played its part in that expansion, mainly in the form of loans used in the construction of railroads and other major U.S. enterprises. After the Civil War, about 15% of the receipts from U.S. commodity exports went to pay income on foreign investments in the United States.

But by the 1890s the United States had caught up to Britain in industrial power and was far ahead in population and agriculture. It had the wherewithal for a military buildup and it struck out to obtain a share of the colonial empire in the war against Spain—the weakest of the colonial powers—and against the Philippines, Cuba and Puerto Rico, establishing a significant colonial and neocolonial empire.

U.S. foreign investments increased rapidly, but by 1914 they were still smaller than European investments in the United States. World War I changed that. In order to pay for U.S. war materials, Britain and France were forced to turn over part of their foreign investments—shares in an African gold mine, for example; foreign holdings of Germany and its allies were seized outright. U.S. loans to the warring powers brought in large interest revenues. But especially, since it was not involved directly until late in the war and escaped any war damage, the United States gained in industrial and financial power. By 1929-30, the United States was practically on a par with Britain as a holder of and profiteer from foreign investments.

Many foreign investments in the form of loans were wiped out in the Great Crisis of the 1930s, but the United States again gained greatly in World War II, emerging decisively as having the most foreign investments. Foreign holdings—in cash or in kind—of Japan, Germany and Italy, the losers in the war, were completely wiped out.

The leaders of big business set as their priority goal the opening up of new areas for large-scale penetration of their capital. The economic, diplomatic, political and military forces of U.S. imperialism focused on this objective. The results far exceeded the goals that had been announced by such spokesmen of Wall Street as Nelson Rockefeller. The relative importance of foreign investments to the property income of the ruling class jumped from a previous peak of about 3% to close to 15% by 1984 (table 14-1). These profits far exceeded profits from foreign trade. The export of capital, and the income therefrom, has had an increasing and complex influence on the economic and social life of the United States, as well as on the countries where the investments were made.

TABLE 14-1. INCOME FROM FOREIGN INVESTMENTS AND TOTAL PROPERTY INCOME, U.S. SELECTED YEARS, 1929-1984 (*billions of dollars*)

Year	(1) Income from Foreign Investments	(2) Total Property Income	(3) Percent (1) of (2)
1929	1.15	33.6	3.2
1939	0.56	23.0	2.4
1949	2.01	73.2	2.7
1959	4.88	128.0	3.8
1969	12.93	219.7	5.9
1979	70.32	555.9	12.6
1986	105.15	889.1	11.8

SOURCES: (1) SCB, 3/87, T. 1-2, p. 44; ERP 1987, B-99, p. 358; *Hist. Stat.*, Vol. II, U5-U7, p. 864. Includes fees and royalties from abroad, which are estimated for 1929-1959. For 1986 only, includes an estimated $5 billion income on U.S. investments in Puerto Rico.
(2) *EROP, 1987*, B-23, pp. 270-71; Property income on a before-tax basis.

Bear in mind that the principal recipients of income on foreign investments, directly and indirectly, were a small circle of the very rich and powerful, connected with the New York and some smaller financial centers, and major stockholders in the giant TNCs. For the members of this ruling-class group, income on foreign investments would typically account for 25%-50% of their total revenue. This has provided the material basis for their identification of more and more world areas as being of "vital interest" to the United States, which, in turn, has fostered the government's increasingly aggressive, adventurous foreign policy.

For workers in the countries where the investments were made and in the United States, the foreign investments have had a harmful effect, however—more and more so in later years in the United States.

Direct Investments

The most decisive form of foreign involvement has been the so-called "direct investment"—the ownership of productive enterprises in other countries by a corporation or capitalist. These holdings yield the highest rates of profit, usually because workers' wages are only a fraction of those in the investor's country. Such enterprises are often protected by armed forces of the investor's government; sometimes this is through outright colonial occupation, but often it is because the home country of the enterprise possesses military bases there. In still other cases, the interests of the investors have been protected by puppet governments installed through imperialist military support or intervention. This method, rather than outright colonial control, became the favorite device of U.S. imperialism, especially in the Caribbean, Central America and parts of South America.

Puppet regimes were advantageous after the Russian Revolution, which inspired worldwide anticolonial, anti-imperialist struggles. They have been even more common since World War II, when the anticolonial political struggles triumphed in Africa and Asia without, in many cases, ending the dominant positions of imperialist capital.

A U.S. Government report published in 1984 found that in 1980 there were well over 10,000 multinational (transnational) corporations in the capitalist world, with control over 90,000 foreign affiliates:

> The largest 500 of these MNCs, however, control about 80 percent of the affiliates and about the same portion of the international production of these affiliates.
>
> These 500 largest MNCs play an important role in the world economy. It has been estimated that their total 1981 sales were in excess of 20 percent of the non-communist world gross product.... MNCs based in this country account for an estimated 77 percent of total U.S. exports.[7]

And, one may estimate, just 50 of the largest of these transnational corporations account for half the foreign investment activities and half of the trade of the capitalist world. These 500 MNCs (or TNCs), and more exactly the 50 largest of them, are today the decisive force in the capitalist world economy.

For the three decades 1945-1975, U.S.-owned TNCs held at least half of all direct foreign investments and received a corresponding proportion of the superprofits. Total U.S. foreign holdings multiplied tenfold between 1950 and 1974. Especially important were the large-scale U.S. investments in Western Europe. A primary objective for emplacing U.S. troops in Western Europe was to prevent socialist revolutions. But it was considered equally important to have the presence of the military as Western Europe was opened up for massive capital exports by U.S. corporations.

With West European wages then far below the U.S. level, the U.S. corporations—with the technological advantages gained during the war and their extended scale of operations—were able to reap high rates of profit from their extended positions.

Similarly, the U.S. presence throughout Southeast Asia and in the Middle East became more visible, backed up by U.S. naval and air domination of the regions following the defeat of Japan and the weakening of the British and French navies.

In particular, the American oil companies were able to use U.S. military might to replace Britain as the leading power in Middle Eastern oil, while French holdings were minimized.

However, during the last quarter of the 20th century, the domination of U.S. foreign investments has gradually been undermined, even while total profits from this source have continued to increase—if more slowly and irregularly than formerly.

By the 1970s, Japanese and West German capitalists were rebuilding their foreign holdings, based on the rapid—and in the case of Japan, astounding—growth rate of their industrial and financial power. In addition, the nationalization of oil by most of the OPEC countries was a body blow to the U.S. TNCs, as was nationalization of other mineral and agricultural properties in Latin America.

West European governments reduced the special privileges previously extorted by U.S. investors, and the improvements in wages and conditions won by the West European workers narrowed the differential profit advantage for U.S. TNCs. Nationally-owned corporations were better able to compete with the U.S.-owned companies. Throughout the postwar period, Japanese capitalists, despite U.S.

military occupation, were able to maintain restrictions that severely limited direct U.S. capital penetration of Japan.

By the late 1970s and early 1980s, West European and Japanese companies were building investment positions in the United States as fast as—or faster than—U.S. TNCs were growing in their countries.

Table 14-2 shows the trend of direct foreign investments by the capitalists of the major imperialist countries since 1950.

TABLE 14-2. DIRECT FOREIGN INVESTMENTS, LEADING CAPITALIST COUNTRIES SELECTED YEARS, 1950-1982 (*billions of U.S. dollars*)

Year	USA	UK	Japan	FRG	Netherlands	France	Canada	All Other	TOTAL
1950	12	8	*	*	4	2	1	2	29
1967	59	18	1	3	12	6	4	6	109
1974	119	33	13	15	19	12	8	10	229
1982	221	77	55	39	33	32	30	36	523

SOURCES: U.S.—*Hist. Stat.; SCB;* UK—*British Business,* 13 May 1983; Japan—*Industrial Review of Japan,* various issues; FRG—Ministry of Economics Release No. 8376, 3/18/83; France—*Les Notes Bleues,* Ministere de l'Economie et des Finances, various; others and supplementary—OEEC, International Investments and Multinational Enterprises, 1982; IMF, Annual report on balance of payments.

British corporations remained in second place in foreign direct investments, at about one-third the status of the U.S. companies. Included was a considerable amount of joint U.S.-British investments, and investments in each other's country. This provided much of the material basis for the close political collaboration between the U.S. and British governments.

The British have also had a high rate of profit on their foreign investments in apartheid South Africa, and other colonial-type investments, as well as from large international oil holdings. Taking account of the receipts of interest on foreign bondholdings and bank loans, the British ruling class remains to a very large degree parasitic.

The most spectacular gains were by the Japanese monopolies. Japan emerged in second place in economic and financial strength among capitalist powers, and seemed destined to achieve that status in foreign investments also. In the single year 1985, new Japanese foreign direct investments amounted to $14.5 billion, up from $6.5 billion the year before.[8]

In general the Japanese monopolies have expanded foreign investments more in the form of loan capital and purchase of real estate than in "direct" investment by industrial corporations. During the

1980s a whole series of major U.S. skyscrapers were bought by Japanese monopolies. By the end of 1987, total Japanese foreign investments were estimated at nearly $1 trillion, or 85% of the total of U.S. private foreign investments of all kinds. Moreover, the Japanese foreign-investment total was growing much more rapidly, including large amounts in the debts of the U.S. Government.[9] Beginning in the middle 1980s, the Japanese Zaibatsu corporations launched large-scale direct investments in industries in the United States, most conspicuously in the automobile industry.

U.S. experience has stressed the importance of Lenin's thesis of the prime importance of capital export as distinguished from export of goods. In 1957 sales by foreign affiliates of U.S.-owned TNC's amounted to 9% of their U.S. factory shipments. But by 1982 that ratio had increased to 49%, and the sales by foreign affiliates amounted to 4½ times their exports from the United States.[10] Monopolies of other capitalist countries pushed their export trade along with increasing export of capital. The actions of the U.S. TNCs increased their profits, while leading to huge foreign trade deficits for the United States.

In the late 1970s and the 1980s, U.S. foreign direct investment gains slowed because of the overall weakening of the relative position of U.S. imperialism, as well as the impact of the cyclical crisis of the early 1980s. Thus in Western Europe, while some U.S. corporations continued to expand, others pulled out or reduced their stakes:

> Without question, Europe is a more difficult place to operate in than it used to be. In Germany the multinationals have had to cope with workers participation, in Switzerland, with sky-high labor costs, in France with government preference for joint ventures, in Belgium with skyrocketing social service costs, in the U.K. with labor and productivity problems, and everywhere with inflation and economic stagnation.[11]

While growth of U.S. industrial direct investments slowed, foreign investment activity of the banks accelerated. Besides setting up many foreign branches and operating globally, often from triple bases in New York, London and Tokyo, their lending to foreign borrowers multiplied and became the largest source of foreign investment profits.

As the structural crisis of the 1980s deepened, the U.S. Government exerted diplomatic and military pressure to reanimate direct capital export. In particular, the developing countries, engulfed in debts to the international monopoly banks, were pressured to remove restrictions and to offer concessions to TNCs wishing to make direct investments in their countries. Demands were made for them to denationalize government-owned enterprises so as to make them targets for acquisition by U.S. capital.

Concentration of Foreign Investments

Export of capital is very concentrated, considerably more so than business operations in the United States. Smaller companies cannot afford the overhead involved in setting up overseas operations. Nor do they have the inside track to influential government officials or contacts with major political forces in target countries. Without such diplomatic and political connections—plus, frequently, the lavish bribes that go along with them—the necessary licenses, tax arrangements and other prerequisites are not available. The giant companies have had these advantages, as well as the equipment, material, transport facilities and information essential for profitable coordination of production and marketing in overseas areas.

Table 14-3 shows the foreign and total operating profits of the 25 top industrial TNCs of the United States in 1983, with the foreign share coming to 46% for the 25 companies taken together.

The merger boom of the 1980s also increased concentration in capital export. For example, in 1984 Standard Oil of California, which ranked 6th, absorbed tenth-place Gulf Oil, raising the merged Chevron Corporation to 3rd place. The share of the top 25 in total profits from foreign investments increased from about 50% in 1950 to 63% in 1977–83.[12]

A dramatic example of the higher rate of profit on foreign investment capital is provided by the Exxon Corporation, ranked first in Table 14-3. In 1984 its profits came to 17% on capital invested in the United States, 63% on profits invested abroad.[13] Of course, these are net profits, far smaller than Exxon's gross profits.

For all U.S. non-banking transnational corporations, 22% of their assets, 29% of their sales, 26% of their employees, but only 18% of their employee compensation applied to their foreign holdings in 1982. The smaller share of employee compensation, of course, is the basis for superprofits from foreign investments Banking corporations had 33% of their assets abroad.[14]

TABLE 14-3. FOREIGN PROFITS OF LEADING COMPANIES IN 1983

Rank	Company	Operating Profits (*millions*)		% Foreign of Total
		Foreign	Total	
1.	Exxon	2,913	5,390	54.0
2.	IBM	2,142	5,485	39.1
3.	Phillips Petroleum	1,323	2,571	51.5
4.	Mobil	1,010	1,503	67.2
5.	Texaco	900	1,233	73.0
6.	Standard Oil, California	755	1,590	47.5
7.	Allied Group	737	1,105	66.7
8.	ITT	692	1,201	57.6
9.	Standard Oil of Indiana	663	1,868	35.5
10.	Gulf Oil	604	978	61.8
11.	Coca Cola	572	993	57.6
12.	Citicorp	468	860	54.4
13.	Johnson & Johnson	444	901	49.3
14.	du Pont	436	1,638	26.6
15.	Dow Chemical	382	516	74.0
16.	American Express	379	685	55.3
17.	Pfizer	366	798	45.9
18.	General Electric	358	2,024	17.7
19.	Ford	351	1,867	18.8
20.	Dart & Kraft	340	952	35.7
21.	Burroughs	334	480	69.6
22.	Occidental Petroleum	310	844	36.7
23.	American International Group	303	473	64.1
24.	Minnesota Mining & Manufacturing	301	1,139	26.4
25.	Warner-Lambert	298	678	44.0
	TOTAL, 25 LARGEST	17,381	37,772	46.0

SOURCE: *Forbes*, July 2, 1984, pp. 129–133

Driving Forces for Foreign Investment

The drive to expand capital exports has had three primary motives, all contributing to the overall goal of increasing profits and enhancing the monopoly power position of the investing corporations:

- To obtain monopoly ownership of raw materials and foodstuffs, leading to extra profits;
- To obtain access to markets by locating production facilities in the countries or regions where sales will grow;
- To obtain a higher rate of surplus value by exploiting workers paid lower wages than in the home country.
- To pull down wages and weaken unions in the United States.

Raw Materials Monopoly: Even in earlier centuries, the development of European capitalism relied heavily on domination of a wide range of raw materials and foodstuffs, mainly based on colonial rule over the source countries.

As the military and economic power of U.S. imperialism became predominant, U.S. corporations were able to take over ownership of ever-larger parts of the raw material reserves of Latin America, Asia and Africa. This was achieved partly by displacing previous European or Japanese owners following wars, but even more by usurping control of vast new sources of oil, copper, iron ore, etc.

It was as a direct result of the United States' advantageous position in World War II, and of its postwar ability to suppress, temporarily, national liberation struggles in areas where the former European overlords no longer had the strength to accomplish this, that the United States was able to obtain for "its" five members of the "Seven Sisters" international oil monopoly 100% ownership of the richest fields in Saudi Arabia, and the major share, overall, of ownership in the world's oil reserves.

In the age of motor vehicles and aircraft, of increasing use of oil and gas as heating fuel and as chemical raw materials, oil became far and away the largest single source of profits for U.S. foreign investment corporations.

On the average, oil companies have obtained about 40% of total U.S. direct investment profits. Their losses from nationalization were balanced by the skyrocketing price of oil. However, with the sharp decline in oil prices in the mid-1980s, their foreign investment profits were reduced. Manufacturing companies were getting about 30% of foreign investment profits, with the remainder divided mainly between trading companies and financial concerns. Agricultural and mining investments, which accounted for 15% of foreign investment profits in 1950, yielded only 1% of the total in the early 1980s.[15]

Agricultural investments, such as the properties of the infamous United Fruit Company in Central America, became trivial by the 1960s as a result of the nationalization or sale of a goodly share of U.S. company holdings. However, U.S. companies still make large profits by purchasing the farm products at very low prices and multiplying the prices before offering the products for sale to consumers.

Profits from mining declined sharply as a result of nationalizations compounded by the weakening capitalist world demand for basic metals such as iron and copper. The monopoly corporations have not been reconciled to the dissipation of their domination of crucial raw materials. Big business–White House–CIA–Pentagon collaboration has been conspicuous in a number of cases, not the least of which was the overthrow of Mossadegh and the installation of the Shah in Iran. There have been:

- The attempted invasion of Cuba at the Bay of Pigs, which was an effort to regain domination of Cuban sugar and nickel.
- The murder of Allende and the fascist coup in Chile, which were followed by partial restoration of U.S. monopoly ownership of Chilean copper resources;
- The overthrow of Manley in Jamaica which was aimed at retaining control of Caribbean bauxite; and
- The U.S. aggression against Vietnam, which President Dwight Eisenhower justified as a necessary requisite for control of the raw materials of Indochina.

On the whole, monopoly domination of raw materials has already been seriously undermined. But capitalist control of world markets, plus reactionary governments in many developing countries, has prevented many of the nations of Africa, Asia and Latin America from benefiting from nationalization of raw materials and foodstuffs.

Access to Markets: For many products it is important to have production facilities close to the markets, preferably in the country where the goods are to be sold. This avoids customs duties and other import barriers, as well as heightened transportation costs; it facilitates inventory management; and it helps overcome the producer's negative image as an "outsider" by creating a "national" identity. Petroleum companies saved transportation costs by locating refineries in Western Europe and other major oil-consuming but non-producing areas. Oil was shipped directly from the wells, perhaps in the Middle East, to the consuming countries and refined into the products most in demand there, without having to go through the intermediate process of refining in the home country.

Establishment of the EEC by the major European capitalist countries also stimulated U.S. TNCs to set up productive facilities in Western Europe. By reducing trade barriers among member countries, formation of the EEC was a move in the direction of setting up a single market the size of the U.S. market, which could be supplied by a single, large, well-located plant.

Superexploitation and Superprofits: The ultimate source of capitalist profits is the exploitation of labor. The profitability of foreign investments was magnified with the increase in the number of workers employed abroad and in the amount of profit obtained from the labor of each worker. Employment by foreign affiliates of U.S. companies increased from 3.2 million in 1957 to 7.3 million in 1977.[16]

The majority of the foreign workers are in manufacturing plants. Between 1957 and 1984 the number employed in foreign manufacturing plants of U.S. companies increased two and a half times, while the increase in the United States was slight, and employment of production workers in U.S. manufacturing actually declined. At the peak in 1977, foreign employment of transnational corporations equaled close to one-third of their total employment; and their contribution to total profits, as shown in table 14-3, approached 50%.[17]

After 1977, employment in foreign plants of U.S.-owned TNC's fell, in line with declining employment in the United States. But the drop in employment was concentrated in Europe and Latin America, while employment continued to rise in the developing countries of Southeast Asia, especially in the electronic high-tech industries. This curtailed the number of high-tech jobs available in the United States, jobs that might have offset the loss of employment in the older basic industries. The shift to lower-wage areas contributed to maintaining or increasing the rate of gross profit on foreign investments.

The decline of nearly 10% in employment in U.S. TNC's foreign plants during the first half of the 1980s was a consequence of the capitalist world economic crisis, as well as the increasing restrictions placed on U.S. corporations in some countries and stronger competition from national capital.

The decisive factor in determining profitability is the rate of surplus value. Calculations by Commerce Department economist Ned Howenstine permit a comparison between the *partial* rate of surplus value on foreign investments and that received on domestic production of TNCs. They show a rate of 61% on domestic operations, 171% on foreign operations in 1977.*

The rate of exploitation of labor abroad has gone up rapidly, as it has in the United States. In 1957 wages and salaries absorbed 18% of the sales of foreign operations of U.S. companies; in 1966, 13.7%; and in 1977 only 11.5%.[18]

*For this calculation, surplus value equals sales less cost of materials and services, the latter including compensation of all employees and important parts of the profits of control.

TABLE 14-4. Hourly Compensation of Manufacturing Production Workers in Foreign Affiliates of U.S. TNCs, as % of Wages in Parent Companies

	1977	1982
TOTAL	56%	52%
Developed Countries	72	71
Europe	67	67
Greece	31	36
Portugal	27	25
Japan	84	71
South Africa	21	26
Developing Countries	20	20
Latin America	25	25
Other Africa	15	15
East Asia & Pacific	9	10
Philippines	7	7

SOURCE: *SCB*, Feb., 1982, p. 48, Table 7; US Direct Investment Abroad, 1977, Table IIIG 18, p. 309; *SCB*, Dec., 1985, Table 12, p. 53,

Table 14-4 shows the wide wage differentials in manufacturing between the United States home factories and the foreign enterprises of the TNCs. The rise in employment was especially marked in the Philippines, where wages were the lowest. By 1982, employment of factory workers in the Philippines by U.S. TNCs reached 50,000, exceeding the number in any other Far Eastern country by a wide margin.[19] Obviously, U.S. outlays for its vast military bases and for support of the brutal and corrupt Marcos dictatorship paid off handsomely for U.S.-owned TNCs. This situation contributed to the mass movement that finally forced Marcos out, and to the demand for closing the U.S. bases there.

It is likely that the published government figures have been prettified to make the exploitation in developing countries appear to be less extreme than it has actually been. Thus the 1982 report showed production workers in the Caribbean averaging $3.28 per hour, which is low enough indeed. But consider this 1983 advertisement in the *Wall Street Journal,* placed by the Miami-based Caribbean Industrial Development Corporation:

> Manufacturers: Reduce Labor Costs In The Caribbean
> $3.00 A Day Vs. $6.00 Per Hour
>
> Cut labor costs and boost profits by having a manufacturing base in the Caribbean. Our professional staff . . . will make it worry-free and easy. . . .
>
> An abundance of low-cost labor, proximity to U.S. markets and

> extraordinary advantages under the Administration's new Caribbean Basin Initiative make your query imperative.[20]

$3.00 per day! Veritably a starvation wage.

Historically, Latin America and the Caribbean were favored areas for U.S. foreign investment because the TNCs were assured that U.S. troops would always be in the background to protect their superprofits. Since World War II, this area has seen overt U.S. military aggression in Guatemala, El Salvador, Honduras, Nicaragua, the Dominican Republic and Grenada; and all-out support for the most repressive dictatorships—as in Haiti, Chile, and Paraguay.

Wages in South Africa for Black workers have been lower than the average for developing countries. While U.S. direct investments there have been substantial, Britain remained the dominant profiteer from apartheid.

The surging liberation movements in Latin America have reduced its appeal for the TNCs. Southeast Asia has replaced it as the main source of superprofits from foreign investments (table 14-5).

TABLE 14-5. Latin America and Southeast Asia as Sources of Profit on U.S. Capital Export, 1966-1982, in Percent of Total Direct Investment Profits from All Areas

Year	Latin America	Southeast Asia
1966	24.8%	3.3%
1977	17.0	6.9
1982	12.5	16.0

SOURCES: 1966–1966 Study, Part I T B-11, p. 85, (U.S. Direct Investments Abroad, DOC)
1977—*SCB* April 1981, T 2, p. 32.
1982—*SCB* August 1983, T 18, p. 30.

The transnationals have made use of developing countries, especially in Southeast Asia, for production of electronic and computer components, radios and TVs, thereby nearly eliminating U.S. domestic output of many such items. A large proportion of these products now being imported are made by foreign subsidiaries of U.S. companies, or in plants nominally owned abroad but operating as subsidiaries.

Taiwan is an example. Under U.S. occupation since the 1950s, it has become the largest source of supply in Southeast Asia. U.S. imports from Taiwan multiplied tenfold between 1975 and 1986, reaching $20 billion—making it the fourth largest U.S. supplier, following Japan, Canada and West Germany. While U.S. companies control much of the production and are the main recipients of Taiwanese goods, Japan dominates the Taiwan market. Thus the United States exports to Taiwan only one-fourth the value that it imports from it, leaving a U.S. trade deficit of $15 billion with Taiwan in 1986.[21]

Major U.S. high-tech and retailing corporations have plants in Taiwan to manufacture items to their specification, under their brand names, for sale in the United States. Some plants are directly owned; many are small firms nominally owned by Taiwanese but supplying as sub-contractor a single U.S. company. A trade promotion official in Taiwan noted: "You really can't consider Taiwan an exporting nation. Taiwan is simply a collection of international subcontractors serving the American market."

The capital for these subcontractors may well be supplied by U.S. banks, and the profits appear as domestic U.S. profits rather than what they are in essence—foreign investment profits.[22]

Another favored country for U.S. operations has been South Korea, with its U.S.-imposed military dictatorship and garrison of 45,000 U.S. occupation troops. Political organizations and trade unions were banned until, in 1987, a wave of strikes swept South Korea and significant concessions were won. Substandard wages and the world's longest workweek imposed on a fairly well-educated and productive labor force have provided very high profits. Japanese and U.S. capital stimulated development of a substantial South Korean capitalist class, and there has been considerable production of steel, vehicles and electronic products, as well as of light consumer goods.

In 1984 the world's largest automobile producer, General Motors, signed an agreement with the South Korean Daewoo Motor Company. GM's investment of hundreds of millions of dollars was for the joint production in Korea of 167,000 cars a year by 1987. About half the cars were scheduled for export, "with many expected to be distributed in the United States by the Pontiac Division of General Motors," *The New York Times* writer, Susan Chira, reported.

> Korea's fundamental advantage, analysts say, stems from its low wages. David E. Cole . . . [U. of Michigan researcher . . . VP] estimates that it costs only $2 an hour to make a car in Korea. In marked contrast, he estimates that it costs about $24 an hour in the United States and $12 an hour in Japan.[23]

Lawrence Minard wrote, in *Forbes:*

> By dint of hard work and self-sacrifice unimaginable to most late 20th century Westerns, the 41 million South Koreans have bootstrapped themselves from heartrending poverty in the 1950s to a level of development just below that of the world's most developed countries.[24]

But the sacrifice—and it isn't *self*-sacrifice, it's imposed on the working class and peasantry—certainly does not apply to the *chaebol,* the big monopoly conglomerates of South Korea, which " . . . are run and controlled by their founding families, whose personal fortunes remind one of the Rockefellers, Mellons and Morgans . . . ," Minard continued. The five largest of these accounted for 23% of South Korea's industrial production (in 1982).

> So long as the country can put modern tools in the hands of Korean workers willing to put in 10 and 12-hour days, six and seven days a week, at wages that average $400 a month, the economy's competitive edge will remain sharp for years.

Of course, the Korean workers were never "willing" to work such savage hours. They were forced to by the military dictatorship if they wanted to keep their jobs and survive. The *chaebol* are the power behind the dictatorship. Yet they are intermediaries for the occupying power and superexploiter—U.S. imperialism. In addition to direct investments, capitalist banks have provided 90% of the capital of the *chaebol. Forbes* estimated that the interest and direct investment revenues taken out by U.S. capital more than covered the $3.5 billion of South Korea's trade surplus with the United States in 1984.

Statistics cannot convey the human cost of low wages in developing countries. Conditions of workers in nations dominated by the TNCs are scarcely better than those described by Charles Dickens and Frederick Engels in 19th century England, or by Upton Sinclair in turn-of-the-century United States. And in many places conditions at the end of the 20th century are far worse; mass unemployment—of half or more of the working class in Latin America, for example—far exceeds the extent of that evil in the "advanced" countries a century and more ago.

Consider the situation in Guatemala. Under a U.S.-imposed military dictatorship, beginning in 1954, there has been a vicious regime notorious for murdering many thousands each year. Its hospitality to U.S. manufacturing corporations has been well publicized. According to *The New York Times* journalist Stephen Kinzer: "Nearly half of Guatemala's work force is unemployed, and many of those who have jobs receive salaries that barely allow them to feed themselves and their families. . . ." Lacking homes, the workers built makeshift huts on an empty lot, he said.

> Today, 45,000 Guatemalans are living on the lot, which they have turned into a sprawling shantytown they call El Exodo, Spanish for the Exodus. . . .
>
> The hovels are built of cardboard, discarded lumber, corrugated tin and other refuse. There is no running water, no garbage collection and no sanitary facility. . . . Small children, many of them barefoot, play in piles of garbage. Dogs, chickens and pigs roam freely. Disease has spread through the encampment, with infants the most common victims.[25]

Such horrendous shantytowns have been the abode for millions of workers in virtually every Latin American country. There are as many as 5 million in Mexico City alone. And these appalling conditions multiply as the countryside can no longer feed its growing population, compelling migration to the cities—or to the United States—in search of work and bread.

The contrasts of modern neocolonialism are obvious to anyone who crosses the border between California, Arizona, New Mexico or Texas, on the one side, and the Mexican towns on the other side, a mile or less away. In the U.S. border cities many workers—largely of Mexican origin—live poorly enough. But the squalor, poverty, desolation and hopelessness on the Mexican side are shocking.

The political inequality is also evident. Those entering Mexico from the United States see a uniformed Mexican official casually watching the traffic. No questions are asked; anyone may enter. Returning to the United States, however, there are long lines moving slowly in the approach to the customs and immigration booths. U.S. citizens are rarely delayed, but Mexicans are often subjected to rude and prolonged searches and interrogations.

U.S. companies have invested $2 billion in 600 factories, employing hundreds of thousands of workers, in the Mexican border zone. They get special U.S. as well as Mexican tax privileges for the assembly operations which predominate in these factories.

The *Wall Street Journal* told of the "trouble" in this "employers' paradise" when the series of peso devaluations slashed wages from $10.80 a day to $4.80—60¢ an hour—less than one-tenth the U.S. average at the time, 1984.[26]

Even allowing for the 50% drop in real wages, this 60¢ per hour figure indicates that the $3.08 per hour shown for the TNCs' Mexican plants in 1982 was a doctored figure, two to three times the actual average.

A worker in one of these *maquiladoras* making electronic parts earned $5 a day, of which 40 cents had to be spent for bus fare and $1 for lunch. The "trouble" was that Mexican workers waded across the Rio Grande to the United States. Even as an undocumented "illegal" immigrant, without rights, liable to instant deportation, a woman working as a housemaid across the river in the United States made as much in a day as she did in a week in the *maquiladora.* Thus the border plants suffered from a rapid turnover of labor. Companies have been paying the miserly $4.80 a day because that is Mexico's minimum wage. To stem the turnover, some companies have paid a little more.

By the 1980s, lower wages were no longer a lure for direct investment in Western Europe. Through strong unions, West European workers had won social benefits that largely offset the remaining wage differentials in favor of U.S. workers, especially as real wages went down in the United States. With the marked decline in the exchange rate of the dollar, the effective wage rate in many West European countries went above that in the United States. However, while most U.S. TNCs tried to retain a production position in Western Europe for access to its markets, quite a few U.S. holdings were sold to West European interests.

Two-Way Investment Flow

As the balance of economic power between the United States and other advanced capitalist countries shifted, capital flow between them became a two-way stream.

The monopoly groups of Japan, West Germany, Britain and some other countries accumulated large sums of surplus value for reinvestment. They faced limited investment opportunities in their own economies. The United States remained the largest single capitalist market. The capitalist offensive against labor had reduced unit labor costs significantly, aided further by the decline in the exchange rate of the dollar. By 1985 the valuation of foreign direct investments in the United States was approaching that of U.S. direct investments in other countries.

Table 14-6 suggests that direct foreign investments in the United States might soon exceed U.S. direct foreign investment in other countries. But this appearance is misleading because the valuation of U.S. direct foreign investments is artificially held down by high depreciation and depletion allowances. A more realistic view of the relative weight of direct investment by and in the United States is provided by employment data. By 1984, while increasing rapidly, employment in U.S. establishments owned by foreign capital was still considerably less than half that in foreign establishments owned by U.S. companies. In manufacturing the ratio was less than one-third.[27]

TABLE 14-6. DIRECT FOREIGN INVESTMENTS 1975 AND 1985 (*billions of dollars*)

	1975	1985
U.S. Direct Investment Abroad	$124	$232
Foreign Direct Investments in U.S.	$ 28	$183

SOURCE: *SCB*, June 1986, Table 2, p. 28.

Along with the increased flow of direct investment capital into the United States, there has been a much larger flow of other foreign capital, mainly loan capital, through purchase of bonds, issuance of bank loans and purchase of stocks as "portfolio" investments—that is, without seeking control over the companies. This trend accelerated in the 1980s, when huge federal budget deficits, combined with massive corporate borrowing in connection with the wave of mergers and other corporate manipulations, provided a vast supply of securities that could be purchased. Through Federal Reserve Bank monetary policy, U.S. interest rates were kept higher than those in Western Europe or Japan, encouraging the flow of foreign funds to provide the loan capital needed by the government and the corporations. By the end of 1985, foreign lending and stockholdings in the United States reached $877 billion, as compared with $720 billion of U.S. similar foreign holdings.* Together with direct investments, foreign assets in the United States were put at over a trillion dollars—$1,060 billion—which was $107 billion more than the $952 billion of U.S. foreign holdings.[28]

Government officials and media commentators expressed alarm over the fact that, with this $107 billion negative balance, the United

*Includes U.S. official reserve assets of $43 billion.

States had become a net debtor nation for the first time in the modern era. However, while these data do reflect the decline in the relative economic position of the United States, and a trend which, if continued, can make the United States a true net debtor nation, that was not the case in 1985.

Because the real value of U.S. direct investments is so much more than their book value, and because the real value of U.S. gold reserves is many times their nominal value, the overall assets of the United States were actually larger than the overall liabilities to other countries. But more significant than this technical factor is the fact that the rate of return on U.S. investments abroad remained considerably higher than that on foreign investments in the United States. Table 14-7 shows that in 1985 returns on U.S. foreign investments were still about 50% higher than returns on foreign investments in the United States. Nevertheless, payments of profits are catching up to receipts and if current trends continue, will be higher by the early 1990s.

TABLE 14-7. FOREIGN INVESTMENT PROFITS PAID TO AND FROM THE UNITED STATES 1950–1985 (*millions of dollars*)

Year	Profits Received			Profits Paid		
	Total	Direct*	Other**	Total	Direct*	Other**
1950	2,196	1,892	304	569	354	215
1960	5,453	4,458	995	1,312	469	848
1970	14,078	10,500	3,778	5,741	1,100	4,641
1980	79,591	44,231	35,360	42,845	9,360	33,485
1985	98,340	42,669	55,671	66,344	9,609	56,735

*Direct investment profits consists mainly of profits from ownership and operation of manufacturing, financial, trading, etc., enterprises in other countries. Also included are royalties and license fees received from other countries, which are closely connected with direct investment profits and result from the use of proprietary processes of one country in another. Beginning with 1982, the DOC shifted part of these royalties and fees to another category. Here they have been shifted back and continue to be included with direct investment profits, for the sake of consistency.

**Mainly interest, but also includes dividends on stockholdings.

SOURCES: 1950: DOC, *Balance of Payments Statistical Supplement,* 1962, various tables, and *EROP, 1986,* T. B-99, p. 366.

1960–1985: *SCB,* June 1986, Table 1, pp. 42–43.

Banks and Interest-Gouging to the Fore

As can be seen from table 14-7, interest income became the main vehicle for appropriating surplus value from foreign investments, just as it did within the United States. The rate of interest skyrocketed in the late 1970s and early 1980s, absolutely and in relation to the rate of profit of enterprise. When effective interest rates on loans to developing countries reached as high as 15-20%, foreign loans became a favored method of exploitation for monopoly finance capital. This was further enhanced as the political grip of U.S. capital weakened in many countries. Political unrest had a more certain impact on direct foreign investments than on loans, which were generally accepted as obligations even by revolutionary governments.

During the 1970s many of the developing countries escalated their borrowing from U.S., West European and Japanese banks and from international financial institutions.

One aspect of this, after the inflated oil prices had placed huge sums in the coffers of the rulers of some of the oil-producing countries, was colorfully described by publicist Martin Mayer:

> Now the banks moved center stage in the world economy. Cash-rich and quite at a loss to know what to do with their money, the oil producers deposited their receipts in the international banks. They expected interest on their money; to pay the interest, the banks had to lend the money, and the countries that needed oil saw no way to keep going other than to borrow. The carousel of "petrodollar recycling" began, picked up speed. . . .[29]

This was just one source of funds, and one reason for borrowing, by developing countries. The banks of Japan, Western Europe and the United States accumulated more lendable funds than they could use for domestic investment; the funds came from the savings of their own capitalists, from runaway capital of military dictators, from deposits by the monied sectors of various developing countries who feared revolutionary upheavals or financial collapse at home, and, in the case of the United States, from deposits by Japanese and other foreign capitalists taking advantage of higher interest rates.

Borrowing, by oil-producing as well as oil-importing countries, was for industrial development projects, for luxury construction projects for the ruling classes, to pay the exorbitant prices charged by TNCs for necessities, and, increasingly, for armaments.

With increased receipts from exports during the 1970s, the credit ratings of developing countries improved and they borrowed heavily from U.S., West European and Japanese banks. Table 14-8 shows the debts of the developing nations.

Between 1970 and 1985, debts of the developing countries multiplied more than 10 times, rising from less than one-sixth to one-third of their gross national product. Of course, this rise was very uneven: some nations had little or no debt; others, by 1985, owed more than their gnp, and for them payment became a very heavy, an unbearable, burden. More detailed estimates place the total developing-country debt at over a trillion dollars, instead of the $711 billion shown in table 14-8.

TABLE 14-8. DEBTS OF DEVELOPING COUNTRIES, 1970-1985

Year	Amount (*billion $*)	% of gnp
1970	$ 68.5	n.a.
1973	113.7	15.6%
1980	431.6	21.0
1985	711.2	33.0

SOURCE: World Bank; *World Development Report,* 1986, Tables 2.11, p. 32, A3, p. 155; A2, p. 154; A10, p. 159.

By the early 1980s, interest payments by the developing countries on these foreign loans exceeded $100 billion annually. For the banks, this represented super-superprofits in three ways:

1. The rate of interest in the late 1970s and the 1980s was very high, passing all records of modern capitalism.

2. The developing countries had to pay an additional premium over world interest rates, plus the special add-ons that the banks, sitting in the driver's seat, were able to exact by manipulating the currency exchange, heightened by the currency devaluations taking place in many of the borrowing countries.

3. Operating costs, especially the salaries paid to bank employees, were low in the developing countries.

The rich source of plunder was spelled out by the then largest financial corporation of world capitalism, Citicorp—the holding company of Citibank—in its 1983 Annual Report. With one-third as much assets in Latin America as in the United States and Canada, and one-third as much revenues, Citicorp derived 70% as much profits from Latin America as from the United States and Canada in 1983; in the two previous years, *more* from Latin America (including the Caribbean) than from the United States and Canada.

Most dramatic were its receipts from Brazil, where Citicorp has a special concentration of operations. With only 5% of its assets there, Citicorp obtained from Brazil 23.3% of its profits in 1981, 24.1% in 1982, and 19.5% in 1983 at the depth of Brazil's financial crisis. The more than half a billion dollars in profits taken from Brazil by Citicorp in the four years 1981-1984, plus the vast amount of additional interest garnered but not counted as net income—because it was offset by interest paid to U.S. depositors and other expenses in the United States—contributed significantly, along with lesser amounts of super-profits taken by other banks, to Brazil's financial crisis.

A very profitable bank in the United States clears 15-20% on its equity capital, and that equals 1% on its total assets. Citicorp cleared an incredible 3.33% on its assets in Brazil, and, apparently, somewhere in the range of 75-100% on its capital there in 1982. No bank has come close to such profit rates on operations within the United States.[30]

As noted, there is the higher rate of interest charged in Brazil. Also, to maintain the Brazilian operation, Citicorp employes 6,000 Brazilians, of whom 160 have been promoted to the rank of vice-president. Undoubtedly the Brazilian employees are paid a fraction of the wages of employees with comparable jobs in the United States, adding significantly to the profit total.[31]

In the final analysis, the enormous foreign interest payments have been an indirect form of extracting still more superprofits, more surplus value, from the labor of the entire working class of these developing countries, as well as a drain on other sections of the population. Serious impoverishment of the people—a general reduction in real wages—in the debtor countries has been caused by the "austerity" programs dictated by the IMF, the bankers and the U.S. Government. As governments are forced to hold wages down, and as wages then lag behind rapidly rising living costs by a wide margin, reduced consumer consumption is reflected in lower imports of goods, foodstuffs and fuel. Domestic production, which might otherwise be consumed in the home country, has been sold abroad. Thus an export surplus has been created, and it finances payment of interest to the bankers.

This blunderbuss method has reduced mass consumption by more than the amount of interest paid. The excess reduction in consumption has been converted into additional profits for the local capitalists and extra revenue not only for the local military, who have to be paid off to suppress the impoverished workers, but also for the TNCs, whose profits are automatically augmented as real wages go down.

In Mexico, real wages were cut a "harsh" 30%, putting the 1984 minimum wage at 20% below the 1970 level.[32]

In Brazil real wage cuts also amounted to about 30% *per year* on the average, compounding as the permitted annual wage increases fell far short of the skyrocketing living costs.

Only part of the funds borrowed by developing countries contributed to their economic growth and long-term development. Still less contributed to the welfare of the working population. Instead, of the fund borrowed, part was used to pay for armaments to repress the people and part was used for showcase projects to glorify the ruling cliques. Increasingly, many of the renewed loans—with their consequent additional interest load—were made to obtain funds with which to repay the interest on the older loans. An incredibly large part of the total went into the pockets of the ruling groups, who turned around and invested the money in the imperialist centers.

According to estimates of the U.S. State Department,

> By 1986, Latin America's external debt totaled $382 billion, more than half of the total indebtedness of all developing countries. Interest payments alone absorbed some 35% of export earnings. . . . *Total capital flight for Latin America since 1979 is estimated conservatively to have exceeded $100 billion* [my emphasis-VP].[33]

Of course, the capitalists who took their capital out of their own countries did so for "sound" business reasons. They avoided losses through depreciation of their countries' currencies. They made profitable investments (sometimes) in booming real estate and stock market deals. But still, these capitalists must be branded as traitors to their own nations. They acted as and often regarded themselves as part of the ruling class of the United States or the other imperialist countries.

Their runaway capital often precipitated the currency depreciation they aimed to avoid. Being among the effective rulers of their own countries, they made their countries' welfare hostage to the sanctity of their foreign investments. Any partial or total debt repudiation, which the masses in their countries might and sometimes did demand, they opposed for fear the United States and other imperialist governments would confiscate their property—their investments in U.S. real estate and stocks.

In many cases, they accepted the dictates of the International Monetary Fund that imposed harsh "austerity" slashes on the living standards of the people, while they continued to enjoy the proceeds of their investments undisturbed.

All this by no means reduces the responsibility of Wall Street and the corresponding financial-industrial centers in Western Europe and

Japan. They are far and away the main plunderers of developing countries and have taken far more out of these nations in interest than the amounts taken out by local capitalists.

Moreover, the monopolies that sell to or invest in developing countries engage in large-scale bribery of government officials and capitalists there, in order to win contracts, get permission to invest, etc. The bribes are added to the debts of the developing countries, contributing to the financial crisis. Examples, in addition to those given in chapter 7, follow:

- Bribes were offered to and accepted by the former Somoza dictatorship in Nicaragua for contracts to build a showcase airport in Managua—equal to 15% of the value of the contracts.
- A whole series of bribes were made in order to conclude construction contracts in Indonesia—adding up to 50% of the value of the contracts.
- In such cases, the sellers then doubled the bribes and added the amount to the charge. Thus, aircraft were sold to a Middle Eastern country at twice the regular price, and there were even higher multiples on hospital equipment.

There have been occasional outbursts of publicity about this corruption. The Westinghouse Electric Company, in 1976, paid Philippine dictator Marcos a bribe of $80 million for a $600 million nuclear power plant contract, which required Marcos to overrule a commission recommendation that the contract go to General Electric. By 1986, when Marcos was overthrown, costs on the still uncompleted project had soared to $2.1 billion.

This illustrates how Marcos and his cohorts accumulated billions in personal holdings, which they stashed away in the United States and other "safe harbors," while the debts loaded onto the Philippine people shot up:

> The episode is described by the officials and others as an example of how Mr. Marcos and his friends were able to amass huge fortunes under his rule. At the same time, the Philippines economy was deteriorating and the country accumulating a foreign debt that now totals about $26 billion.[34]

Growing mass resistance to the hardships imposed on workers led more and more debtor countries to demand some easement in the interest burden. Some governments declared limitations on interest payments, and in 1987 Brazil imposed a complete moratorium on payments to the banks.

Finally the lending banks were forced to realize that much or all of the debts would never be paid. Citicorp, the "hard line" leader of the bankers' cabal in pressuring the debtor countries, was the first to admit defeat by "reserving"—in effect, writing off—$1.5 billion of loans to Brazil and other countries. Other leading U.S. and British banks followed suit.

The U.S. money-center banks, most involved, lost the most—obviously it was no longer possible for the United States to send gunboats to Brazil to collect the money. The power of banks in Japan, the FRG and some other countries less involved in uncollectible loans, gained in comparison with the U.S. banks.

Priority to Direct Investment

By 1985 the valuation of U.S. foreign investments in the form of bonds, bank loans, stockholdings, etc., was three times the valuation of U.S. direct foreign investments.[35] But the *rate* of return on direct investments remained much higher than that on loans. Thus direct investments remained the decisive, most desired form of exacting superprofits out of workers in other countries.

The U.S. Government, on behalf of its corporations, exerted continuous pressure to revive opportunities for expansion of direct investments. The debt crisis of Latin American and other Third World countries were used for this purpose. U.S. Government spokesmen, headed in 1986 by the Treasury Secretary James Baker, demanded that the debtor countries remove all restrictions and make favorable tax provisions for U.S. direct investments as a condition for U.S. agreement to reschedule debt repayments and provide "bridge loans" via the IMF and the World Bank. It was argued that private imperialist capital would "revive" these countries and restore their solvency, even though there was no basis either in logic or in experience to support that claim. Countries that had kept the doors wide open to private foreign capital had just as much difficulty paying the interest on their debts as those that imposed restrictions—limited as the restrictions usually were.

Washington especially targeted publicly owned industries in developing countries. Because of the inability of domestic private capital to mobilize the resources for major industrial projects, the governments of many developing countries established basic industry and transport enterprises as state-owned companies. These became the core of economic progress, and led in providing humane conditions for their workers. Now the lenders' governments demanded turning the enterprises over to private capital, which meant in effect releasing them for capture by U.S. and other foreign interests. Mexico, for example, under this pressure, did denationalize many enterprises.

Hence these countries, already enmeshed in conditions of neocolonialism, were threatened with complete loss of their national economic patrimony.

Baker promoted an "ingenious" scheme: let the debtor countries turn over their industries to the banks in payment of the loans!—a ploy that would not only salvage the banks' investments but also offer prospects of higher future profits. However, with the vigorous and growing political resistance to imperialist plunder in the debtor countries, this proposal never got off the ground.

In much of Latin America and in parts of Africa and Asia, with the working class having displaced the peasantry as the main producers and most active political force, the anti-imperialist struggles have taken on added dimensions and power. Workers, determined to organize trade unions to protect their interests against monopolistic employers, have joined with the landless peasants in their traditional struggles against landlord-militarists. Opposition to central banks has been joined with that against mineral and agricultural plunderers. With the working class in the lead, anti-imperialist solidarity has gained added socialist perspective, a clearer outlook for progress hen its proponents win power.

Limited democratic gains have been won in some of the developing countries and, in Latin America, Nicaragua joined Cuba as revolutionary magnets for the rest of the hemisphere.

Immigrant Workers

The old colonial empires in Africa and Asia were a twofold source of extra profits: the plunder of the minerals and the agricultural products, and the forced labor of natives in the mines and on plantations. Of course, household slaves and indentured servants were also taken to the home countries.

Millions of slaves were brought to the United States. After their liberation when the antislavery forces won the Civil War, Black people were subjected to segregation and conditions of virtual serfdom as sharecroppers and pittance-wage laborers. Their contributions were an important factor in the accumulation of the superprofits that hastened the growth of U.S. capitalism. To a lesser degree, the same features applied to the waves of immigrant factory and farm workers brought into the United States from Europe and, in California and the West, from the Far East.

In the latter part of the 20th century, not only are millions of workers directly exploited abroad by the TNCs but there have been millions of largely "undocumented" immigrants exploited in the United States. For the most part, they have come "voluntarily," driven by hunger in Mexico, the Caribbean and other countries of Latin America. They enter illegally, crossing the Mexican border or coming by sea in small boats. The immigration authorities make a show of preventing their entry and do detain and turn back perhaps half of those who make the attempt. Presumably a serious effort to seal the borders could reduce the inflow to a trickle, but by the mid-1980s, more than a million aliens a year entered and the estimate of resident "undocumented" workers ranged from a few million up to 10 million.

These Latin Americans have been employed mainly in the Southwest border states from Texas to California and in Florida, although many have filtered north to the main industrial centers. Not only are their wages minuscule and their working and living conditions terrible, but they are hired in place of U.S. citizens—especially in preference to Black workers, who have to labor at low-wage jobs but who have won citizenship rights and are known as militant unionists.

The intensification of unemployment among Black workers—and, to a lesser degree among Chicano citizens—in the 1970s and 1980s was associated with the rising utilization of undocumented labor. The United Farm Workers Union president, Cesar Chavez, described conditions of California migrant farm workers—most of whom are immigrants, either "legal" or still "undocumented":

> Today, thousands of farm workers live under savage conditions—beneath trees and amid garbage and human excrement—near tomato fields in San Diego County.
>
> Rats gnaw on them as they sleep. They walk miles to buy food at inflated prices. They carry in water from irrigation pumps.
>
> Child labor is still common in many farm areas.... Some 800,000 underaged children work with their families harvesting crops across America.... Malnutrition among migrant worker children is 10 times higher than the national rate. Farm workers' average life expectancy is still 49 years compared to 73 years for the average American.[36]

In addition to "illegal" immigrants, the U.S. government directly imports seasonal workers for the most onerous, most dangerous jobs, in violation of the most elementary labor laws.

Sonia L. Nazario, a staff reporter, describes in the *Wall Street Journal* the conditions of 9,300 Caribbean workers imported each year just to cut the Florida sugar cane crop:

> "I don't know of any agricultural job that's more difficult than cutting sugar cane," says Ralph Alewine, a Labor Department official who oversees the importation of the . . . cane cutters. . . . "It isn't impossible to do the work, but it's darn near impossible."
>
> Indeed, no white man in 25 years has completed the six-month cane-cuttin season; only a handful since World War II have tried.[37]

The men are forced by "pushers" to work at inhuman speed, to cut with machetes a double row each day, accomplishing daily a record-breaking athletic feat. They are packed into a squalid bunkhouse for sleeping, are poorly fed, and suffer many serious injuries from the speedup. They do it for one simple reason: to be able to feed their hungry families at home on the islands.

The reporter quotes one worker: " 'It seems like slavery.' "

The islands' collaborationist governments claim they encourage the men to take on this inhuman job because it brings hard currency to the islands.

> Some growers say the program even serves a political purpose. Says Dalton Yancey, the executive vice president of a cane-grower's lobbying group: "A lot of people in Jamaica now know what free enterprise can do, compared to communism."[38]

Let's compare this with socialist Cuba, where cane cutters are honored heroes of labor, provided with new homes for good work, entitled to ocean vacations with their families, etc.!

It is likely that in no other country are immigrant workers treated as badly as in the United States. But conditions are scarcely idyllic for the many millions of immigrant workers in Western Europe: Algerians in France; up to 4 million Turkish and other nationalities in West Germany; and the *majority* of the manual labor force in Switzerland. Initially, the immigrant workers were brought in to offset labor shortages, in periods of nearly full employment in West European countries. But they remained and were shunted to the most difficult, dirtiest, unhealthy and dangerous jobs, at the lowest wages. Nationals were encouraged to consider such work "beneath them." In any case, when mass unemployment became rampant in Western Europe in the late 1970s and 1980s, some of the immigrant workers were sent home; most were kept in their jobs at their low wages and bad conditions, while millions of nationals were out of work.

In all the imperialist countries, immigrant workers were used to force down real wages and overall living conditions of the working class so that employers generally, including the biggest monopolies, indirectly gained extra profits, greater in total than the direct profits obtained by the employers of the immigrant workers.

In addition, the capitalists used immigrant workers, often undocumented, as personal servants—again in conditions of virtual slavery.

Impact on U.S. Labor

What is the impact of imperialism, of unequal terms of trade, and especially of the export of capital, on the conditions of the working people of the United States and of other imperialist countries? How much of the plunder "trickles down"? What are the costs?

Under conditions of the final decades of the 20th century, essentially *nothing* trickles down. Not only do all the profits stick to the big business foreign investors, but their foreign economic activity makes possible more intense exploitation of labor in the United States.

To begin with, ordinary consumers benefit little, if at all, from the "price scissors" that keeps down the import prices of raw materials and foodstuffs owned or controlled by TNCs. The TNCs are able to multiply their cost price many times over when putting tropical foods, such as bananas, on the retail market. Special government taxes—in the United States, and to a much greater degree in Western Europe—make petroleum products expensive to the consumer even when crude oil is cheap for the oil companies. Special tariffs, subsidies and quotas prevent users from getting any benefit from the low cost to U.S. monopolies of Caribbean and Central American sugar.

The export of capital has cost U.S. workers well over 4 million jobs as U.S.-based TNCs transferred production to their foreign plants. Orders formerly filled in U.S. plants, especially for export, are filled by the foreign plants (chapter 13). This has been a particularly potent factor in ending the long-term uptrend and substituting a continuing decline in manufacturing employment in the United States.

Having created a global network, TNCs obtained a strong hold over their U.S. workers. The ability and willingness to shift production from any plant where workers resisted stepped-up exploitation, or made demands, was a powerful lever for reducing real wages and worsening the labor conditions. In addition the resultant rise in U.S. unemployment enhanced the overall position of employers in bargaining with labor.

Perhaps most important has been the military aspect—encouraging U.S. imperialism to be the global bully and enabling the transnationals to set up shops on all continents. This has had a doubly negative impact on U.S. labor: it has imposed a heavy tax burden, directly reducing living standards; and it divides workers, politically and racially, to induce them to serve as soldiers in aggressive wars, diverting them from their real enemy and exploiter, the TNCs.

The added jobs for U.S. workers in foreign-owned enterprises does little to offset the job loss from U.S. plants moving abroad. Overwhelmingly, foreign direct investments in the United States represented acquisition of existing U.S. establishments, rather than setting up of new ones and building new factories. In 1985, for example, $18 billion was spent to acquire existing enterprises in the United States, but only $2 billion to start up new ones. There were 236,000 employees in the plants taken over, but only 8,000 were hired to operate the new establishments.[39]

Foreign-owned plants employing thousands of American workers were built in the late 1980s, but usually in competition with rival U.S.-owned plants that, in many instances, were forced to close. The use of capital export as a hammer against the U.S. workers was bluntly put by an executive of the Goodyear Corporation on the occasion of the stock market crash in October 1987: *"Until we get real wages down much closer to those of the Brazils and* [*South*] *Koreas, we cannot . . . be competitive"*[40] [My emphasis—VP].

U.S. Labor Policy on Foreign Trade and Investment

Historically the U.S. trade union movement had a selectively protectivist attitude toward foreign trade, aiming to have restrictions placed on particular types of imports that threatened U.S. employment at a given time. For the AFL-CIO, this was not a major issue—for mobilization of strength or for independent policy. Usually, when unions sought import limitations, so did the employers, who had better financed lobbies, more influence on members of Congress, trade officials, etc.

Moreover, as long as the United States had a big surplus in exports, the issue was not considered vital to the trade union movement as a whole. But there was an objective change in the situation after World War II, when U.S. industry began its large-scale shift of industrial production to foreign plants.

This trend was opposed by progressive forces in the trade union movement, partly because of the threat to jobs and partly in solidarity with the workers in many of the countries where the investments were made under the heels of U.S.-sponsored dictatorships.

However, for several decades the leadership of the AFL-CIO largely ignored this problem. In fact the International Department of the AFL-CIO, rabidly right-wing and anti-Communist in its orientation, supported the government's interventionist activities that set the stage for international runaway shops. At the same time, it supported trade embargoes against socialist countries, and in some cases duped union members into barring entry of Soviet vessels.

In the 1980s, with the growing U.S. trade deficits and the accelerated shutdown of U.S. factories as production was removed to other lands, the problem could no longer be ignored. Many unions actively supported measures to limit the closing of U.S. factories while production continued, or was expanded, in a company's foreign plants. The AFL-CIO adopted such a policy position.

But its International Department, and its long-time president, Lane Kirkland, continued their extreme reactionary foreign policy, objectively giving support to the trends that were causing the loss of millions of U.S. jobs, trends which in general terms they deplored. They tried to prevent unions from actively participating in campaigns against U.S. intervention in Nicaragua and other Central American countries, and against Apartheid. They continued to help the State Department bar entry into the United States of trade unionists from the USSR and other socialist countries. Ignoring pressure from the majority of trade unionists, they did not wage a campaign for a drastic reduction of military spending and for decisive disarmament moves.

But U.S. workers are the social class with the strongest motive for ending and reversing the shift of production from U.S. plants to foreign plants. More and more union members, and leaders of major unions, have seen the need to change a top leadership and an international department fossilized in the ideology of the McCarthy anti-Communist crusade.

For the United Automobile Workers, the International Association of Machinists and other basic industry workers who lead the industrial union department of the AFL-CIO, a campaign against the export of jobs and to prevent plant closings has become a major part of their program. Progressive forces in the unions are urging members to take a stand on these issues. Mass action can be effective in support of radical demands to curb the activity of the TNCs and force them to bring production back home, and to ban plant closings associated with the export of capital.

More and more trade unionists have come to recognize the need for solidarity with the exploited workers of the developing countries. Mutual advantage would be gained if U.S. labor helped Brazilian and South Korean workers to gain wages and conditions at the U.S. level, as part of the campaign to halt the drive of big business to lower U.S. wages and conditions.

Organized Labor

" First we pressure the government into stockpiling woolens...and then..."

IV

15. Economic Crises and the Business Cycle

Capitalist Theories

Economists agree that the business cycle and economic crises came in with the steam engine and the locomotive, about the early 1800s. According to Karl Marx and Frederick Engels, the first *world* economic crisis occurred in 1825 and was centered in England, at that time by far the dominant economic power of the capitalist world.

Most authorities also concur that full-fledged, major business crises have occurred, on the average, every 8 to 10 years. However, Marx anticipated that there would be a tendency for this period to become shorter as capitalist instability increased. As, indeed, it has.

Economic crises have been especially severe in the United States. Economist Paul Samuelson wrote in 1964:

> But it is a strange fact that the United States, supposedly one of the youngest and most vigorous of nations, always tended to have greater average amounts of unemployment and greater variation in unemployment than most other countries. . . . [1]

Actually there is nothing "strange" about this. The very fact that capitalism reached the apex of its development soonest in the United States, with least interference from feudal hangovers, meant that the *normal* instability, including cyclical fluctuations, would tend to be more extreme than in other capitalist countries. The higher-than-customary level of unemployment was a result of the unique position of the United States, which attracted immigrants and guaranteed a virtually continuous reserve army of unemployed, even in times of capacity production and economic boom.

The cyclical course is an objective law of capitalist economic life, interrelated with other economic laws and derived from the contradictions in a capitalist society. The most basic contradiction is between the social character of production and the private appropriation of its fruits by the owners of the means of production.

Cyclical ups and downs, therefore, are as inevitable in capitalist economic life as the equinox and solstice are in the earth's rotation. However, while the earth's orbit is almost exactly scheduled, the economic cycles of capitalism vary widely in time sequence, influenced by a complex of economic, political and military factors.

Prior to World War I, most capitalist economists considered economic crises to be abnormalities, temporary dislocations in the supposedly self-balancing operation of capitalist economic life. Only Karl Marx and his followers, from the 1850s and 1860s, saw crises and business cycles as systematic occurrences rooted in the fundamental nature of capitalist economic institutions and relations.

Beginning in the 1920s, more and more bourgeois economists came to recognize the inevitability of capitalist crises and business cycles, but they were never able to give a fully consistent explanation for them. In fact, in fairly sustained "good times," many of the bourgeois economists spread illusions that capitalism, aided by government regulation, had become able to avoid crises—or at least serious crises. Unable to determine the causes of crises and cycles, conservative economist James S. Duesenberry, after criticizing various theories about the economic cycle, concluded: "Major depressions have been produced by a variety of different types of 'shocks,' not by a regular cycle-producing mechanism."[2]

Professor Duesenberry is only half right. The shocks are important, as detonators, but there is a regular cycle-producing mechanism that causes the ensuing crisis explosion.

The National Bureau of Economic Research (NBER) has done much statistical analysis of fluctuations in various kinds of production, prices, etc., in an attempt to forecast the course of the business cycle. The U.S. Government has adopted the NBER's *index of leading indicators,* which generally trends upward in advance of an economic recovery and downward before a crisis. These data are used as business guides by capitalists. But they do not always prove reliable, and there is wide variation in the time sequence of the indicators, compounded by the delays in reporting, even when the forecast proves correct in general. More to the point, the NBER does not have a generalized explanation of *why* economic events fluctuate in the usual sequence. The leading indicators are determined by statistical correlations, not by scientific analysis.

Many explanations of the business cycle vary from the essentially superficial—such as variations in the money supply—to the frivolous—notably the sunspot theory. However, beginning with the great crisis of the 1930s, capitalist economists began to probe seriously the causes of crises, and they came up with *partially* correct explanations which were, consciously or not, borrowed from Marx.

The pioneer in this respect was the British economist John Maynard Keynes, who concluded that economic crises and business cycles were inevitable and were powered by changes in the rate of profit. On the upside, high profits stimulate investment and production beyond the point where the high profit rate can be sustained. The consequent fall in the rate of profit causes a decline in investment, often "suddenly and violently"—that is, in a crisis extending throughout the economy. And this continues until the rate of profit is restored, and a gradual recovery ensues.[3]

It is true that Keynes's explanation was more complicated, going into the "marginal efficiency of capital," "expectations" of changes, and the excess of profits of enterprise over the rate of interest. But the essence of his analysis turned on the rate of profit.

Followers of Keynes produced formulas purporting to explain the investment cycle without necessarily involving the rate of profit. Paul Samuelson, in the economics textbook used by millions of U.S. college students, explained this viewpoint clearly and with graphic arithmetical examples. He wrote that so long as consumption is stable, investment is needed only to replace worn-out machinery. But given a significant increase in consumption, additional machines have to be added, and total purchases of machinery are multiplied several times. There's a big increase in incomes of workers and capitalists of the machinery industries from this billowing investment, and hence a further rise in sales of consumers goods. Samuelson called this the *acceleration* principle. But sooner or later, sales will slow down, investment outlays will decline, and there will eventually be an end to the increased consumption, resulting in an overall decline in the economy. He summed it up: " . . . investment fluctuates more than sales: to keep the level of investment from falling, sales must not even falter in their rate of growth."[1]*

The worsening economic situation of world capitalism, especially the serious crises and depressions of the 1970s and early 1980s, shook the faith of many capitalist economists in Keynesian and neo-Keynesian explanations of the business cycle, and related proposed "remedies." Thus Campbell McConnell, in the textbook that rivaled Samuelson's as the best seller in colleges, wrote in 1978:

> In the late 1960s economists viewed our postwar economic experience with both satisfaction and confidence; some talked in terms of a "depression-proof economy". . . . But the disquieting stagflation of the 1970s has seriously diminished the confidence of economists in themselves and in the stability of the economy. The 1973–76 period encompassed both the highest rates of inflation and the highest rates of unemployment of the entire postwar era.[5]

He referred to the "agonizing reappraisal of economic thought" and our "rudimentary understanding of the business cycle," and essentially limited himself to a description of cyclical events since 1920.

Samuelson's version, however, remains at least a serious attempt at a scientific explanation of the cycle. Fundamentally it is a crude and flawed version of what Marx said over 100 years ago. But it leaves out an essential element of Marx's theory of crises: *the exploitation of labor by capital.* Because of the exploitation of labor, capitalists not only have many times the income of workers, but also spend their incomes in vastly different ways. The capitalist economists write of consumption by an undifferentiated body of "consumers."

The difference becomes evident when the situation in socialist countries is considered. There, certainly, fixed capital plays an important role and its expansion is generally more rapid than in capitalist countries and has usually been more rapid than the increase in consumption. Yet there are no business cycles, no crises.

The reason is that there is no capitalist class of exploiters, no drive for capitalist profit. The economic surplus over and above current consumption is socially controlled and invested according to a single plan, which ensures approximate balance between expanding supply and growing demand.

*In his example, Samuelson said: "Sales rose 50 percent. How much has machine production gone up? From 1 machine to 11, or by 1,000 per cent. This *accelerated* effect of a change in consumption or other final items on investment levels gives the acceleration principle its name." When sales stop increasing, production of machines goes back to 1. Sales drop and the boom is reversed. Perhaps it would be more accurate to call it the *acceleration/deceleration* principle.

Samuelson wrote in 1955:

> To democratic [i.e., capitalist—VP] nations, the business cycle presents a challenge—almost an ultimatum. Either we learn to control depressions and inflationary booms better than we did before World War II, or the political structure of our society will hang in jeopardy. . . . If as, before the war, America marks time for another decade, the collectivized nations of the world, who need have no fear of the business cycle as we know it, will forge that much nearer or beyond us.[6*]

In the attempt to avoid cyclical blows, or at least minimize their impact, many of the large corporations that dominated investment and production set up long-range plans, often five-year plans in imitation of socialist countries. But these plans, which have aimed to prevent an imbalance between a corporation's investments and its sales, often have foundered because the company has been buffeted by changes in the overall capitalist economy, which it can neither predict with any degree of accuracy nor control.

Increasingly, capitalist governments have attempted to regulate the economy so as to encourage steady, balanced growth. The U.S. Commerce Department puts out annual "industrial outlook" reports, projecting years ahead; and a number of government and quasi-government agencies attempt to coordinate policies to ensure stable growth: the White House, the Budget Bureau, the Treasury Department, the Federal Reserve Board, the Council of Economic Advisers, etc. The French government has developed a more detailed "Plan Calcul," an attempt to combine centralized planning with private ownership of the bulk of the means of production.

None of these attempts has been capable of coping with the essential features of capitalism that make crises inevitable. Nor do they recognize the existence of these features. Under modern capitalism the work of tens of millions of individuals is linked together in the web of a national production and distribution complex within the given country, and is also linked, increasingly, with that of more billions of people in a world structure of production and distribution.

But there is no central control over this complex. What actually happens is determined mainly by the profit-motivated decisions of individual capitalists and groups of capitalists.

Operating within that overall contradiction is, again, that most

*The warning was omitted in most later editions as derogatory capitalist propaganda about the Soviet economy became more general and, for a period, business cycles were milder than some prewar downs.

essential ingredient of Marx's theory of crisis: *the exploitation of labor by capital.* And, far from ending the exploitation of labor, capitalist plans aim to intensify it. This creates a fundamental imbalance that no corporate or government planning or regulation can overcome.

Marxist Theory

Marx examined the whole complex of transactions that take place under capitalism: buyers and sellers of commodities at different levels, and buyers and sellers of the labor power of workers, with the overall social character of production requiring that these transactions balance out: He noted that the " . . . process is so complicated that it offers ever so many occasions for running abnormally." Considering the interaction of commodity exchange and money circulation, there are " . . . so many possibilities of crises" that "a balance is itself an accident owing to the spontaneous nature of this production"—an accident that rarely happens.[7]

Thus a great variety of specific events can touch off crises, minor or major, local or general, which accounts for the ambiguity of capitalist attempts to develop a coherent theory of crises. Indeed, in capitalist economic theory, any imbalance, any "abnormal" situation in exchange or production, should be readily corrected by a price adjustment, with only minor, temporary disturbance in the normal flow of production and exchange.

A basic contribution of Marxism is its explanation of why some kinds of imbalance go beyond the possibility of local adjustment and erupt in a major, profound, far-reaching crisis.

To understand why imbalances develop to a point where they must be resolved by the extreme remedy of a crisis, we have to see how the exploitation of wage labor inevitably builds up disharmony, growing imbalances, in the economy. In the simplest, most summary formulation, Marx wrote:

> The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society consuitited their limit.[8]

In modern terminology, the term *purchasing power* would be used instead of *consuming power.*

Marx explained in detail how the capitalist system and the drive of the capitalists for ever-expanding profits inevitably led to the unbalanced development of production and its divergence from consumption, and to consequent crises.

"Given the necessary means of production, i.e., a sufficient accumulation of capital, the creation of surplus-value is only limited" by the size of the labor force and the intensity of its exploitation. "And the capitalist process of production consists *essentially* [my emphasis—VP] of the production of surplus value represented in" the part of production for which the workers who produced it were not paid. Marx continued:

> It must not be forgotten that the production of surplus-value—and the reconversion of a portion of it into capital . . . is the immediate purpose and compelling motive of capitalist production. It will never do, therefore, to represent capitalist production as something which it is not, namely as production whose immediate purpose is enjoyment or the manufacture of the means of enjoyment for the capitalist. This would be overlooking its specific character, which is revealed in all its inner essence.[9]

In other words, the increase in investment is not necessarily to satisfy a real increase in consumption, as in Samuelson's model, but is for the very purpose for which capital exploits labor—to obtain still more surplus value for more investment. This motivation, this drive, is in contradiction to any balanced, steadily growing pattern of production and sales. Under capitalism, the newly invested capital produces goods that have to be sold on a market whose growth is not coordinated with the growth of production.

Production has increased, and with it profits ". . . to immense dimensions. Now comes the second act in the process. The entire mass of commodities . . . including the portion . . . representing surplus-value, must be sold. If this is not done, or done only in part," or at cut prices, the capitalist gets a lower profit, or even sustains losses and in extreme cases goes bankrupt.

> The conditions of direct exploitation, and those of realising it, are not identical. They diverge not only in place and time, but also logically. The first are only limited by the productive power of society, the latter by the proportional relation of the various branches of production and the consuming power of society. *But this last-named is not determined either by the absolute productive power, or by the abso-*

> *lute consuming power,* but by the consuming power based on antagonistic conditions of distribution, which reduce the consumption of the bulk of society to a minimum varying within more or less narrow limits.* It is furthermore restricted by the tendency to accumulate, the drive to expand capital and produce surplus-value on an extended scale. This is law for capitalist production, imposed by incessant revolutions in the methods of production themselves, by the depreciation of existing capital always bound up with them, by the general competitive struggle and the need to improve production and expand its scale merely as a means of self-preservation and under penalty of ruin [10] [my emphasis-VP].

Well, would it be possible for crises to be avoided by timely increases in wages that would increase mass purchasing power? Unfortunately, no. A sufficient increase in wages to make any difference in mass consumption would significantly reduce the rate of profit, and it is exactly the decline in the rate of profit that generally sets off a crisis. This isn't at all surprising, if we keep in mind the fact that the aim of the capitalist is to make a profit. As soon as the rate of profit declines, he has relatively less new money to invest and he is more inclined to hoard more of it, to use it for speculation, or to send it abroad in search of higher profit.

Marx dealt with the argument that the "evil" of crises could be "remedied" by wage increases:

> One could only remark that crises are always prepared by precisely a period in which wages rise generally and the working class actually gets a larger share of that part of the annual product which is intended for consumption. From the point of view of these advocates of sound and "simple" (!) common sense, such a period should rather remove the crisis. It appears, then, that capitalist production comprises conditions independent of good or bad will, conditions which permit the working-class to enjoy that relative prosperity only momentarily, and at that always only as a harbinger of a coming crisis.[11]

It would seem that the capitalists agree with Marx, for once, because they frequently charge that crises break out because wages are too high. Hold down wages, they say, and profits will soar; there will be more incentive for investment, and everybody will benefit.

The "New Era" of the 1920s in the United States tested that argument. Labor productivity soared, and profits, too. Everything

*In this edition of *Capital,* the English translator sometimes used the term "consumer power," instead of "consuming power." For consistency we use the term "consuming power" throughout, as in the earlier Kerr edition.

boomed except wages, which stayed virtually unchanged; the largely unorganized working class was unable to register even temporary gains. But the resulting lack of mass purchasing power hit especially hard, cutting into profits and setting off the worst crash in the history of capitalism. In modern times, then, the "always" of Marx must be changed to "sometimes." No combination of capitalist industrial and labor practices and policies can avert the cumulation of contradictions that lead to cyclical development. On the other hand, gains and reforms won by labor from bosses and from government can significantly ease the hardships of workers resulting from the business cycle.

In one way or another, the stage is set for a crisis when the accumulation of capital begins to exceed the rate at which profitable sales can be increased and the *rate* of profit begins to fall even while total profits are still rising. The decline in the *rate of profit* is generally a primary sign of an approaching crisis: on the one hand, it denotes overproduction from the viewpoint of the capitalists; on the other, it leads to their "pulling in horns," the reduction or cessation of fresh investment, throwing masses out of work and signaling the eruption of a crisis.

In the final decades of the 20th century, with sharply fluctuating and historically high interest rates, variations in the rate of profit on different kinds of capital have become important in the business cycle. In particular, when the rate of interest rises rapidly, the rate of profit on equity capital may decline even while the rate of gross profit on the total capital continues to go up, and the rate of return received by bankers on financial capital in the form of interest rises sharply. For the industrial capitalists, the declining rate of profit on their portion of the total capital, and the high cost to them of borrowing or floating bonds, discourages additional investment in plant and equipment. If this influence becomes sufficiently general, a crisis of overproduction will ensue.

In the United States, both the crisis of 1974–75 and the two-phase crisis of 1980–82 were preceded by sharp increases in the rate of interest, and they ended after rapid drops in the rate of interest helped to restore the rate of profit on equity capital.

Since the decline in the rate of profit tends to accompany the approach of full employment—with the increase in the bargaining power of labor—the capitalists garner their highest rate and volume of profit when unemployment is substantial. Thus, their aim is to ensure that permanent unemployment becomes a feature of capitalism.

The necessity for there to be partial unemployment is a central theme of Keynes's *General Theory of Employment, Interest and Money.* In postwar United States, the Establishment economists have adopted the vulgar practice of defining the minimum permissible rate of unemployment that corresponds to maximum profits, and they call this rate of unemployment "full employment" (!)

In 1946–47, a measured 2.5% unemployment rate was dubbed "full employment." Soon that rate was increased to 4%, and by the 1980s to the range of 6–7%. In 1983, with a slight decline in unemployment from the 1980–82 crisis peak, government and business economists began to caution against too rapid a recovery lest the unemployment rate drop to the minimum permissible rate!

Marx wrote about this phenomenon of idle capital and idle labor power:

> It is no contradiction at all on this self-contradictory basis that there should be an excess of capital simultaneously with a growing surplus of population. For while a combination of the two would, indeed, increase the mass of produced surplus value, it would at the same time intensify the contradiction between the conditions under which this surplus value is produced and those under which it is realized.[12]

In his overall summary explanation of the theory of crises—at once a scientific synthesis and profoundly eloquent—Marx wrote:

> The contradiction of the capitalist mode of production, however, lies precisely in its tendency towards an absolute development of the productive forces, which continually come into conflict with the specific *conditions* of production in which capital moves, and alone can move.
>
> There are not too many necessities of life produced, in proportion to the existing population. Quite the reverse. Too little is produced to decently and humanely satisfy the wants of the great mass. . . .
>
> There are not too many means of production produced to employ the able-bodied portion of the population . . . not enough means of production are produced to permit the employment of the entire able-bodied population under the most productive conditions, so that their absolute working period could be shortened. . . .
>
> On the other hand, too many means of labour and the necessities of life are produced at times to permit of their serving as means for the exploitation of labourers at a certain rate of profit . . . too many to permit the consummation of this process without constantly recurring explosions.
>
> Not too much wealth is produced. But at times too much wealth is produced in its capitalistic, self-contradictory forms.[13]

U.S. Crises Since World War I

The NBER, official arbiter of business cycles in the United States, identifies fifteen such cycles in the 65 years from 1918 to 1983. That's one cycle every 4.3 years.

Here we count fewer, eleven, during this period. The brief "contractions" of 1918-1919 and 1945 were reconversion adjustments after World Wars, not crises of overproduction. Furthermore, the "contraction" of 1926-27 was really a minor fluctuation—the maximum drop in industrial production was only 5.7%, and the maximum unemployment rate only 4.1%, less than in any real crisis and less than during most post-World War II booms. The NBER regards the 1980 and 1981-82 declines as two separate cyclical contractions; we regard them as one major cycle, with the crisis phase interrupted by a temporary partial recovery in 1981.

The 11 cycles counted here amount to one every six years. The "contraction" phases, including those not counted as crises, totaled 217 months out of 780, or 28% of the time. There were two really long periods of recovery and boom: the 10 years between 1938 and 1948, and the 9 years between 1961 and 1970. The first embraced World War II and the postwar civilian reconversion and export boom. In the second case the Vietnam War, starting in 1965, forestalled a budding crisis.

The following tabulation shows the duration of each cyclical decline and the peak unemployment rate for each:

TABLE 15-1. U.S. CYCLICAL CRISES, 1920-1982

Period of Crisis	Number of Months Decline	Peak Unemployment Rate**	Period of Crisis	Number of Months Decline	Peak Unemployment Rate**
1920-21	18	11.9%	1957-58	8	7.4
1923-24	14	5.5	1960-61	10	7.0
1929-33	43	25.0	1970	11	6.0
1937-38	13	19.8	1973-75	16	8.5
1948-49	11	7.0	1980-82	22*	10.7
1953-54	13	5.9			

*Includes 6 months of contraction in 1980 and 16 months in 1981-82, with 12 intervening months of partial revival.

**Unemployment rates, generally, are averages for 3 months, including highest single month, and are seasonally adjusted.

SOURCES: Geoffrey H. Moore, editor, *Business Cycle Indicators*, Vol. I, NBER, Princeton, 1961, Table 5.1, p. 121; *BCD*, March 1983 (for unemployment statistics) and Nov., 1983 (for dates of peak and trough).

The crises in the years 1948–1973 were mild not only in comparison with the severe crises and incomplete recovery of the 1930s, but even in comparison with the 1920–21 crisis. The post-World War II period was one of rapid economic growth throughout the capitalist world, as the scientific-technological revolution generated the rebuilding of industry in Japan and Western Europe, and the breakup of the colonial system led to the rapid economic growth of a number of countries in Latin America and Asia, enabling them to achieve "middle levels" of development. The U.S. economy was stimulated by scientific-technological advances, by supplying capital and capital equipment to the rapidly developing areas of the capitalist world, and by gains of wealth from World War II. In addition there were the profit jumps from the military buildup and the wars of intervention carried out by U.S. imperialism.

The economic vigor came to a sharp end in the early 1970s with the "oil crisis," the forced devaluation of the U.S. dollar, the defeat of the United States in Vietnam, and the cumulative negative impact of developments in international trade and finance—all of which resulted in a structural crisis (chapter 16).

The average severity of crises during the four decades 1945–1985 approximated that of crises over the earlier period, going back to 1854, for which the NBER has indexed duration and severity. During the structural crisis, however, crises have been deepening, above the long-term average—a serious portent for the future.

Capitalist economists have shed their former illusions about permanent prosperity. The worsening crises of the mid-1970s and early 1980s convinced them of the regularity of these critical events. There were frequent predictions of "recessions" and many polls were conducted to get a consensus of business economists as to when the next one would occur.

During a crisis downturn in production, conditions are created for the next recovery and boom. Excess stocks of goods are gradually sold off—to capitalists, government employees, and workers who are not laid off. Many firms go bankrupt and their equipment and inventories are sold at a fraction of value, enabling the purchasers to make a high rate of profit and start production up again. New areas for investment are found; new products and processes come to the fore. The general rate of profit is restored by speeding up the remaining workers and, where possible, cutting their wages. In a depression period, production stays close to the bottom; in the recovery it gradually revives and gathers force, culminating in a boom period, during which there is widespread speculation, and there are illusions that "the sky's the limit." That sets the stage for the next crisis.

In brief, then, that is a simplistic explanation of the four phases of the cycle: crisis, depression, recovery, boom. Of course, every cycle has its own peculiarities, and the variations are used by the NBER economists to evade developing a theory of the cycle, and by other capitalist economists to justify false explanations that serve the policy objectives of their class.

World Crises

In the view of Marx, the development of a major world market plus large-scale machine production were necessary conditions for full-fledged business cycles, as distinct from isolated economic fluctuations. He wrote that it

> ... was only the period when machine industry, having sent down deep enough roots, exercised a preponderant influence on the whole national production; when, thanks to it, foreign commerce began to take precedence over home trade; when the world market successively annexed vast areas in the New World, Asia, and Australia; and finally when the industrial nations entering the lists had become sufficiently numerous; it was only from that period that the recurring cycles whose successive phases cover years, and which always end in a general crisis, the end of the cycle and the starting point of another."[14]

The international character of cyclical development has increased greatly since the 1940s, because of the dramatic increase in the international flow of capital and, with it, the integration of capitalist world economy and capitalist world trade. As brought out in chapter 13, in the last 40 years world trade has grown much faster than world production.

The relative uptrend in the movement of international capital has been even more rapid. Obviously this intensifies the international character of the business cycle and makes it more difficult for any given country to escape its consequences. Added to this are the extreme swings in prices of commodities, rates of interest and rates of exchange, which deepen the impact of cyclical changes in production and trade.

Soviet economist R.V. Rymalov, using U.N. statistics, charted the course of world capitalist cycles from 1950 through 1981. For every

U.S. crisis during this period, there was a corresponding capitalist world crisis. However, there were variations in timing and impact. In some cases specific countries escaped the general world cyclical crisis. The uneven impact of the crises culminating in 1975 and 1982 is shown in table 15-2, which also reflects the long-term uneven growth of production, analyzed in chapter 17. The cyclical crises of 1974-75 and 1980-82 aggravated and contributed to the structural crisis, which began in the early 1970s.

TABLE 15-2. Industrial or Manufacturing Production, Major Capitalist Countries or Groups of Countries, Selected Years, 1973-1985 Index Numbers, 1973 = 100

Country or Group	Year				
	1973	1975	1979	1982	1985
Japan	100	86	113	120	145
United States	100	90	117	109	131
Western Europe	100	96	113	110	118
Asian Developing* Countries	100	109	149	176	235
Latin America*	100	107	142**	130***	144

*manufacturing only.
**1980, the peak year for Latin America.
***1983, the low year for Latin America.
SOURCE: UN *MBS* and DOC, *Business Indicators*, various issues

Financial Aspects of Cyclical Crises

The two most serious U.S. cyclical crises of the 19th century were set off by financial crashes:

> When, in September 1873, the banking house of Jay Cooke and Company closed its doors, the situation changed completely. Overnight the entire credit structure of the country crumbled, and before the end of the year over five thousand commercial failures had been reported.
>
> Throughout the following six terrible years unemployment was on the upgrade.

and:

> On May 4, 1893, the National Cordage company . . . failed. A general break in the stock market followed, and soon the country was passing through the severest economic crisis U.S. capitalism had yet experi-

enced, with runs on the banks, thousands of business failures, and severe unemployment following in its wake.[15]

In the 20th century, the crisis of 1907 was set off by a financial panic, and the great crisis of 1929–33 was started by the worst stock market crash in history; at its climax, it resulted in the shutdown of the entire banking system of the country.

However, not all pre-World War II crises were started by or featured financial crashes. And since World War II, while financial collapses and stock market breaks have occurred, they have not been the principal activators of crisis downturns in production in the United States, although stock market prices have usually turned downward before production and employment, and have turned upward before production and employment in the various postwar cycles. In part this reflects the fact that the dominant financial and industrial interests have early information about symptoms of turns for the worse or for the better in the business outlook, for their own companies and in the economy generally.

Also, speculation plays a very significant role, both in extending and exaggerating the upward phase of the cycle—notably in climactic boom periods—and the reverse, in deepening and prolonged crisis downturns in the economy.

The Great Crisis of 1929–1933

The crisis that erupted late in 1929 was the most severe in the history of the United States and most other capitalist countries. In the United States, between the high and low years—1929 and 1932 respectively:

- Manufacturing production declined 49%.
- Construction activity dropped 76%.
- Non-farm employment went down 22%.
- Unemployment affected up to 38% of the non-farm working class.
- Average annual earnings of those employed fell 27%.
- Earnings of the entire working class, allowing for unemployment, plummeted 50%.
- Wholesale prices went down 32%.
- Farm prices declined 54%.
- Farmers' net income fell 67%.

• Similar or worse losses were inflicted on the millions of share-croppers and tenant farmers.

• In five years, more than a million homes were foreclosed, and more millions of tenants were evicted for non-payment of rent.

• In the worst years, corporations, in total, reported a net deficit.

• Prices on the New York Stock Exchange plunged 74%.

• Exports went down 69%, and imports tumbled 65%.

• The number of banks declined 44%.

• Depositors lost $10 billion due to bank closings, an amount equal to one-fourth of 1933's national income.[16]

The suffering of workers and poor farmers was extreme. Tens of millions were hungry, near or at starvation. Millions were homeless, moving from place to place by any means in search of work. There was no government relief for the victims of the crisis.

But militant fightbacks swept the United States and other capitalist countries. Mass demonstrations of the unemployed, of war veterans and of farmers descended on Washington, state capitals and other major cities. United actions prevented the sale of many foreclosed farms and returned furniture of evicted tenant families. Black share-croppers struggled for survival against the murderous gangs of landlords.

Major demands included immediate relief for the unemployed, government programs to provide jobs, and parity payments for farmers. Against the brutal assaults of the police and the national guard, workers struck for the right to form unions and for a living wage.

The U.S. Communist Party played a leading, in some cases a decisive, role in mobilizing masses for these struggles and in formulating demands that were later incorporated in reform measures of the Roosevelt Administration.

In a number of European countries, where the revolutionary movements were much stronger, the working class demanded the socialist transformation of society and approached closer to carrying out a socialist revolution.

Causes of the Great Crisis

While Marx and Engels emphasized the priority of material production relations, they gave full attention to the financial superstructure of capitalism. This is illustrated by the schema of *Capital*'s three volumes: the first deals with production; the second with the circulation of capital; and the third with the integration of production and financial activities—the "Process of Capitalist Production as a Whole."

Financial difficulties were a detonator of the Great Crisis, which was set off by the New York Stock Exchange crash that began in the autumn of 1929 and continued through the middle of 1932.

Speculation in the 1920s was especially centered on the New York Stock Exchange. When the heavy speculation in real estate reached its climax with the collapse of the Florida land boom in 1926, the volume of transactions on the stock exchange doubled. Then stock prices boomed in 1928 and 1929, especially in the summer of 1929 and reached a level several times that of the early 1920s.

In the climactic boom, stock prices rose about one-third in three months. But they went down even more rapidly: in two months, one-half the market value was lost and, at the bottom—in July 1932—the index of industrial stock prices was at only one-eighth its peak level and didn't regain the 1929 average level until 1951.

The preconditions for the crisis of 1929-33, which determined its severity, developed during the 1920s. This period is of much more than academic interest; there are alarming similarities with the course of developments during the 1980s—although significant differences remain.

What was the basis of the stock market boom of the 1920s?

It was rooted in the contradictions in the sphere of production that were deepening during that period.

In economic terms, the United States had gained a great deal from World War I. Its banks and industries were able to make profits in foreign countries on a much larger scale than formerly; for the first time, it was a net creditor nation; its exports escalated as U.S. manufacturing outpaced European rivals.

At least as important, the militant struggles of U.S. industrial workers to establish trade unions and to obtain decent working conditions and higher wages had been crushed with the aid of the "Red scare." There were mass arrests and the deportation of Communists, instigated by the newly organized FBI, which was headed by the notorious J. Edgar Hoover.

With no major union penetration of basic industry and with only a small Communist Party and a Socialist Party much weaker and less militant than before World War I, the rate of exploitation of labor increased rapidly, as did corporate profits.

Simultaneously, the monopolization of industry and finance accelerated. The much heralded "New Era" of supposedly permanent prosperity and "two cars in every garage" was also a time of despair and expropriation for farmers and for small capitalists and bankers.

The net income of a sample of large manufacturing corporations went up from $645 million in 1922 to $1,721 million in 1929. This was much faster than the increase in production and took place in a period of generally stable prices.[17]

Cash farm income, which peaked at $14.5 billion in 1919 and then fell to $8.1 billion in 1921, recovered slowly, stagnating at around $11 billion a year from 1925 to 1929.[18]

The increase in major corporate profits was much faster than the increase in production. The owners of corporate stock, the directors and top executives of the corporations, had more money than they could invest in production. Thus they put billions of dollars into speculative ventures, into mergers, holding companies, purchase of stocks in other companies. Professionals, merchants, successful farmers and smaller capitalists, whose holdings had been bought up by the big monopolies, also had no way to participate in the boom of U.S. capitalism other than the purchase of shares in the corporations controlled by the Wall Street giants.

Furthermore, there was very liberal access to credit in the form of "margin" accounts, so that speculators had to put up only a fraction of the value of the securities they were purchasing.

Gailbraith attributes the speculative orgy of the 1920s largely to:

> . . . the mood. Speculation on a large scale requires a pervasive sense of confidence and optimism and conviction that ordinary people were meant to be rich. People must also have faith in the good intentions and even in the benevolence of others . . .

—in particular in the captains of industry and finance and in the government.[19]

Marx, observing the financial formations of emerging monopoly capitalism, wrote of the significance of the formation of stock companies, which he saw as

> . . . the ultimate development of capitalist production . . . a necessary transitional phase towards the reconversion of capital into the property of producers, although no longer as the private property of associated producers, [but] as outright social property.[20]

Furthermore, so long as the transition to socialism was not accomplished, Marx commented on the operations of stock companies:

> It establishes a monopoly in certain spheres and thereby requires state interference. It reproduces a new financial aristocracy, a new variety of parasites in the shape of promoters, speculators and simply nominal directors, a whole system of swindling and cheating by means of corporation promotion, stock issuance and stock speculation. It is private production without the control of private property.[21]

Here Marx means "control" in the sense of businesslike caution and bookkeeping in operation, as is made clear in what follows:

> The credit system appears as the main lever of over-production and over-speculation in commerce solely because the reproduction process, which is elastic by nature, is here forced to its extreme limits, and is so forced because a large part of the social capital is employed by people who do not own it and who consequently tackle things quite differently than the owner, who anxiously weighs the limitations of his private capital in so far as he handles it himself.

Marx discussed the two functions of the credit system: (1) to develop "the incentive of capitalist production, enrichment through exploitation of the labour of others"; and (2) to "the purest and most colossal form of gambling and swindling."[22] To Marx and Engels, the financial superstructure, including speculative excesses, was firmly linked to the material base, including production "excesses" relative to markets. This connection is usually avoided by bourgeois economists. However, John Kenneth Galbraith recognized it in relation to the Great Crisis:

> Also there is a chance . . . that more deep-seated factors were at work and made themselves seriously evident for the first time during that summer. Throughout the twenties production and productivity per worker grew steadily: between 1919 and 1929, output per worker in manufacturing industries increased by about 43 percent. Wages, salaries, and prices all remained comparatively stable. Accordingly costs fell and with prices the same, profits increased. These profits sustained the spending of the well-to-do, and they also nourished at least some of the expectations behind the stock market boom. Most of all they encouraged a very high level of capital investment. . . . It follows that anything that interrupted the investment outlays—anything, indeed, which kept them from showing the necessary rate of increase—could cause trouble.[23]

Galbraith qualifies his analysis by writing: " . . . there is no final proof of this point." But, in fact, the data he gives—rapidly rising labor productivity and stagnant wages, which indicate a sharp escalation in the rate of surplus value and in profits that surge several times as fast as the increase in labor productivity—point to the inevitability of a crisis, a severe crisis, as Marx explained in his analysis of the basic cause of all real crises.

Marx wrote: "Let us suppose that the whole of society is composed only of industrial capitalists and wage-workers."[24] Certainly real life was, and is, much more complicated—a fact of which Marx was very well aware. But then, as now, this abstraction was necessary to understand the real basis for major crises, the reason why events more serious than temporary stock market breaks and "inventory recessions" take place.

And in his further discussion, Galbraith came close to this recognition, but without acknowledging its class character and its root in the exploitation of labor by capital. He wrote:

> There seems little question that in 1929, modifying a famous cliché, the economy was fundamentally unsound. This is a circumstance of first-rate importance. Many things were wrong, but five weaknesses seem to have had an especially intimate bearing on the ensuing disaster. They are:
>
> 1) The bad distribution of income. . . . This highly unequal income distribution meant that the economy was dependent on a high level of investment or a high level of luxury consumer spending or both. . . . Both investment and luxury spending are subject, inevitably, to more erratic influences and to wider fluctuations than the bread and rent outlays of the $25 a week workman. This high-bracketed spending and investment was especially susceptible, one may assume, to the crushing news from the stock market in October 1929.[25]

Significantly, Galbraith listed this first. Then he continued: "2) . . . the bad corporate structure . . . exceptional number of promoters, grafters, swindlers, imposters, and frauds . . . holding companies. . . . "[26] His other points included the unpayable international debts.

Thus, cyclical crises are convulsive resolutions of accumulated contradictions both in the sphere of production and in the financial sphere. They are temporary purgatives of imbalances at the expense of mass suffering for the workers and losses for the weaker capitalists. At times the financial shocks may be the most dramatic manifestations of the crisis, as in 1929, but the contradictions in the sphere of production, arising from the capitalist system of exploiting labor for private profit, are always the ultimate root causes of crisis.

There remains the question of why this particular crisis was so exceptionally deep and prolonged. It is difficult to justify the conclusion that the stock market crash of 1929 was decisive in this respect. In the first quarter of 1930 there was a considerable recovery in the stock market, and the decline did not reactivate until June. Even so, the average index of stock prices in 1930 was higher than in 1928, and still at very high levels in comparison with earlier years of the decade.[27]

The steep toboggan of the crisis was determined in the basic area of production. The Federal Reserve Board index of manufacturing output for 1930 was well below the 1928 level, back to the level of 1925. Steel production fell to 20% below the 1928 level, and was the lowest since 1924. There were similar dramatic declines in production of bricks and other construction materials; shoes, cotton and wool textiles, etc.[28]

The sharp cuts in wages and farm incomes, the absence of government action to relieve suffering and restore mass purchasing power, kept the whole economy on the toboggan.

Depression and Partial Recovery

The ultimate end of the crisis, followed by a prolonged depression and then by a partial recovery, came about as a result of:

1. The closing of 10,000 banks, concentrating financial business in the most powerful banks, which had obtained the remaining deposits of the failed institutions at little or no cost. Similarly in industry, the most powerful monopolies took over the assets of bankrupt companies at trivial cost, thereby restoring their rate of profit.

2. Maintaining the purchasing power of the wealthy. Interest payments were almost fully kept up, declining less than the consumer price index. For every loser in the stock market, there was, objectively, a winner who got the stock cheaply. By the end of the crisis, there was a record concentration of stock holdings in the hands of the very rich and in their bank-held trust funds.

3. The U.S. and other capitalist governments taking strong measures to overcome the crisis and stimulate economic activity. Under the pressure of a growing mass movement, the Roosevelt Administration adopted relief programs and passed legislation with increasing reform content.

In Germany, Italy and Japan, government intervention of a different, non-peaceful, type fueled economic recovery, seeking a way out through fascism and war. In Germany the big capitalists brought Hitler to power. He destroyed unions; his favorites seized the property of Jews; a reign of terror was enforced against Communists, all progressives and non-"Aryans." Ultimately millions were sent to concentration camps and murdered, with the Jewish people the principal targets. Millions more, workers from occupied countries, were forced to work in munitions factories or, if "unfit," were sent to the infamous death camps. Militarization of the economy revived basic industry with the aid of credits from other capitalist countries.

The "peaceful" methods of government intervention in the United States did not evolve easily, however. They took place in an environment of acute class struggle—between workers and employers in the factories; between the unemployed and the police-armed forces alliance. There was also significant disagreement between different sections of the capitalist class, which partly paralyzed the Roosevelt Administration's efforts and contributed to the secondary economic crisis of 1937-38, from which the capitalist world was "rescued" only by World War II.

On the whole, the succession of cyclical crises and prolonged depression of the 1930s can be evaluated in the following way:

- *They were a major factor in the deepening general crisis of capitalism, proof that the system was no longer viable as a vehicle for "free" private enterprise, but could be kept limping along only by more and more far-reaching state intervention and support.*
- There was a deep structural crisis of world capitalism, which was ultimately resolved in a most horrendous way—by the fascist aggression culminating in World War II.

The seriousness of the economic crises for capitalism was intensified by contrast with the spectacular success of the Soviet Union, the first and, at that time, the only socialist country. The USSR launched its first five-year plan on the eve of the Great Crisis and carried it through with the most rapid industrialization and all-around economic growth in the history of mankind. This phenomenon, taking place in counterpoint to the crises of capitalist economy, led to the radicalization of the working class in many capitalist countries, to the growth of Communist parties and revolutionary movements throughout the world.

Government Contracyclical Regulation

Since the 1930s, capitalist governments have intervened to try to moderate, delay or reverse cyclical crises of overproduction. A parallel aim is to achieve steady, moderate, balanced growth in economic activity. Thus, in depression periods, special measures are taken to try to revive capital investments. In periods of economic recovery, a major objective is to overcome the shortage of mass purchasing power in relation to the rising production potential. And in boom times, government actions focus on restraint of economic activity in the hope of avoiding extremes that would precipitate a crisis.

As the general crisis of capitalism has deepened, there has been more and more government economic regulation, broader in scale and in scope. But always it has fallen short of what is needed for steady, stable, balanced growth, its effectiveness limited by irreconcilable contradictions:

- The constant goal of increasing profits and strengthening capital at the expense of labor is often in conflict with what is needed to stabilize economic activity.
- Measures taken to strengthen the capitalists of a particular country, as against their rivals, cause uneven development among the different nations.
- Continued exploitation and plunder of developing countries creates in them extreme economic and often political crises, which threaten—and, more and more often do actually result in—the overthrow of capitalist and imperialist domination.

The extension of government intervention to achieve effective control logically requires nationalization of key sectors of industry and finance, and centralized planning to coordinate them. But to do this would concede the obsolescence of capitalism, so it is resisted to the last by the ruling class.

Monetary policy is one form of government intervention. When they want to stimulate the economy central banking systems—such as the U.S. Federal Reserve System—take actions devised to increase the amount of money in circulation and to cause the private banks to reduce interest rates. When they want to curb inflation, they act to reduce the amount of money in circulation and put pressure on the private banks to raise interest rates.

Monetary policy often goes awry because actions of private capitalists prove to be more powerful than those of the central banking systems—especially with the internationalization of the money supply. As a result, there can be changes in quantity and rates of interest outside the influence and power of any particular central bank. In addition, changes in the money supply and interest rates often do not have the predicted economic effect.

On the whole, monetary policy is a less important form of government economic intervention. A more powerful form is fiscal policy—government spending and taxation, surpluses and deficits. Simply put, increases in government spending mean more money for people to spend, thus tending to stimulate economic activity, while decreases in government spending have an opposite effect. Similary, reduction in tax collections leave more money for people to spend, tending to stimulate economic activity, while tax increases tend to depress economic activity. Of course, much depends on which economic classes benefit or lose, but the overall impact can be analyzed without examining the class impact.

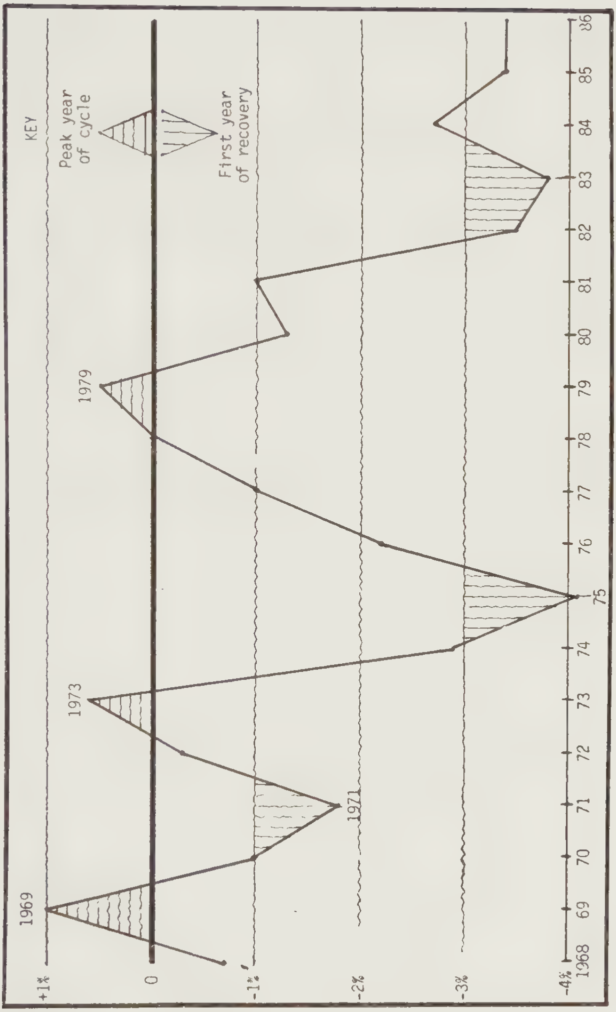
Government spending includes salaries of government workers, purchase of armaments and other commodities, government construction contracts, payment of social security and other social benefits, payment of interest to bankers. When total government spending exceeds total tax and other government receipts, there is a government deficit. A deficit, by putting more money in people's pockets than it takes out, tends to stimulate the private economy. When the total of taxation and other receipts exceeds government spending, there is a government surplus, and the net purchasing power of the population is reduced, tending to curb economic activity.

The cyclical history of the U.S. economy has been consistent with this analysis. In recent times, each year with a combined surplus has been followed by a cyclical crisis. Thereupon government deficits followed. And when they finally reached the requisite depth, a cyclical recovery began. This process is illustrated for the period since 1969 by chart 15-1.

In part, these shifts in the balance of government spending and taxation have occurred automatically. In times of crisis and depression, unemployment insurance, poverty benefits, etc., increase, while tax collections are curtailed because people have lower incomes. Thus deficits rise. In times of boom, on the other hand, with lower unemployment and less poverty, payments for these benefits decrease; while tax collections go up. This reduces deficits and, if carried far enough, brings about a surplus.

But these "automatic stabilizers" are usually insufficient to end a depression or to curb a boom; hence governments take special measures to reinforce them. For example, when the working class is strong enough, new social legislation may be enacted to raise minimum wages, which results in increased private spending. On the other hand, when reactionaries are the policy-makers, taxes paid by the

CHART 15-1. GOVERNMENT SURPLUSES, DEFICITS, AND THE BUSINESS CYCLE, 1968–1986 (Includes Federal, State and Local Governments) Surplus (+) or Deficit (–) as percent of GNP



capitalists are drastically cut and their subsidies are hiked, as in the 1980s. Thus the resources of the capitalists for investment and luxury consumption were vastly improved. This is, then, not so effective an economic stimulator and the underlying contradictions in the economy are deepened.

There is a further contradiction in the use of fiscal policy to regulate the economy, especially under conditions of right-wing sway.

As the chart shows, surpluses have been less and deficits have become deeper and, since 1979, continuous. By 1986 the economy had been in a recovery phase, however shaky, for four years. Yet the government deficit remained above 3% of gnp. The President repeatedly promised to reduce government spending and to balance the budget; Congress passed a law requiring a balanced budget. But in practice these promises and that law were ignored. It became obvious that to cut government spending and/or raise government taxation enough to reduce the deficit by half—much less to eliminate it—would precipitate a cyclical crisis.

These huge continuing federal government deficits brought about a new contradiction: the rapid escalation of the government debt, incurred by borrowing to balance the excess of spending over revenues. This could not go on indefinitely without causing a sharp increase in interest rates and leading to a repetition of earlier high rates of inflation. And that would, in turn, eventuate in a cyclical crisis that would erupt in the financial sphere and would also contribute to the structural crisis, discussed in chapter 16.

Regulation and Reform

Capitalist government regulation does not take place in a political vacuum, based only on the conclusions of academic theorists. The class struggle exerts a powerful influence.

Thus the measures taken by the Roosevelt Administration to stem the economic crisis of the early 1930s had a twofold character: they included stimuli needed by monopoly capital to save itself and revive economic activity; and they included concessions won by the struggles of millions of workers and farmers. It was this aspect that justified the characterization "New Deal" used by Roosevelt.

The hard won gains of the working class included, among others, the right to organize unions and strike in basic industry, minimum wages, a shorter workweek, social insurance, temporary programs of government jobs for the unemployed, improved prices for farmers.

The initial emergency measures had a dual effect: they restored the rate of profit by raising prices, providing credit on easy terms, etc., and they revived mass purchasing power.

Simultaneously, the monopolization of the economy was hastened by the takeover by big business of millions of failed small enterprises, banks and farms. But the New Deal was unable to achieve lasting recovery. It took the powerful stimulus of World War II to release the enormous productive potential of the U.S. working class and the country's productive plant.

After the war, U.S. Government regulation had the same dual character: measures were taken to increase profits at the expense of a heightened rate of labor exploitation combined with limited concessions that raised living standards and mass purchasing power.

With variations, a similar general pattern characterized government economic regulation in Western Europe, Japan and other capitalist countries.

However, with the deepening general crisis of capitalism and the outbreak of the structual crisis in the early 1970s, the world's capitalists sharpened their antilabor offensive. This drive picked up momentum in the 1980s with right-wing administrations in the United States and in most advanced capitalist countries.

In the United States, the budget deficits grew and grew as a result of more and more military spending, tax reductions to corporations and the rich, and subsidies to groups of big industrial and farmer capitalists. Combined, of course, with reductions and elimination of benefits and concessions granted earlier to the working class.

The recovery from the 1980–82 crisis and depression was very one-sided. Even official data revealed the chasm between rich and poor; between the haves and the have nots; between the extravagant lifestyle of the multimillionaires and the deepening poverty among widening circles of workers, retirees and unemployed.

The disparity fueled the conflict between rising production potential and the limited purchasing power of the masses.

- Structural distortions worsened.
- The federal budget deficit and the national debt multiplied.
- The debt crisis of the developing countries deepened.
- The deficit in U.S. foreign trade reached new peaks, as did the ratios of imports to exports, spreading instability throughout capitalist commodity and currency markets.
- The deficit in the U.S. balance of payments* reached about $150 billion a year. To compensate, a corresponding amount of foreign capital investment in the United States would be required via

*Balance of payments includes not only foreign trade but also tourism, income on investments, shipping and other services.

purchase of government securities and investments in the private economy.

It was feared that foreign investors would lose confidence in the U.S. economy, which would end or reverse this inflow. That would result in a shortage of funds to finance the federal deficit, and record interest rates and high inflation would follow.

To maintain and expand purchasing in the face of stagnant or declining real incomes, the capitalists encouraged middle- and working-class consumers to borrow, recklessly. And similarly, corporations borrowed liberally to finance their mergers and takeovers.

Worldwide, the monied moguls plunged their stupendous amounts of surplus value into the various stock exchanges. Between 1982 and the 1987 peak, prices on the New York stock exchange—and most others—more than tripled. The rate of profit, while higher on the real capital invested in industry, was lower in relation to the prices of shares, including those procured to seize control of a corporation.

There were serious regional crises in the United States. In Texas and neighboring states there was virtually a crisis of overproduction centered around the petroleum industry, agriculture, real estate and banking. In the Midwest, farm bankruptcies and factory closings created depressed conditions and, in turn, led to many bank failures. Even while overall economic indicators rose, the rate of bank and business failures reached a postwar high.

Under these conditions, a cyclical crisis loomed and capitalist economists debated when it would break out. There were many similarities to the period that preceded the crash of 1929-1932.

One similarity was especially important. The boom psychology in 1929 was abetted by a rapid rise in manufacturing production. In the six months April-September 1929, immediately preceding the October 1929 crash, manufacturing output was 15% above the level of the corresponding months in 1928.[29] Likewise in the spring and summer of 1987, industrial production, which had been nearly stagnant for two years, suddenly started to escalate. For the six months April-September 1987, output was 4.1% above that a year earlier, and in September alone, the gain was 5.4%.[30]

Whatever the reason—more export orders; substitution of domestic production for imports following the decline in the exchange value of the dollar—the extent of the jump in industrial output exceeded what could readily be explained by minor changes in the foreign trade balance.

In October 1987, when the stock market plummeted more suddenly and sharply than in October 1929, 58 years earlier, a trillion dollars were wiped out from the market valuation of U.S. securities. Relatively similar losses occurred on the stock exchanges abroad.

Undoubtedly this had to have a negative impact on consumer purchases and capital investments. Would it plunge the U.S. economy into an early recession, as on the earlier occasion?

The capitalist class, in chorus, proclaimed that sacrifice was needed and the standard of living had to be reduced in order to restore the structural balance. Of course all of the concrete measures called for by business leaders, government and congressional leaders were for sacrifices by the lower income groups—through lower wages and fewer social benefits plus higher taxes. From the establishment there was no call for lowering dividends, salaries, or real estate receipts of high government officials and corporate executives.

Although there were many differences between 1929 and 1987, there were striking similarities in the symptoms and in the official prescriptions for the cure.

Of course the working class was not supportive of capitalist demands. Although not yet united for a militant and progressive program, workers were moving in that direction. The Communist Party, as in the 1930s, did have a program—one that would benefit the majority of Americans and reverse the trend called for by the capitalists. The salient parts of that program:

- Take $150 billion from the military budget and use the funds for low-rent housing and for needed infrastructure projects. That would provide jobs and mass purchasing power while contributing to a more peaceful world.
- Double the minimum wage.
- Implement a far-reaching affirmative action program, with quotas.
- Reduce the workweek to 35 hours, without reduction in pay. That would provide 10 million additional jobs and add $14 billion to workers' incomes.
- Restore upper income and corporate tax rates to the 1977 level. That would increase federal revenues by $200 billion and balance the budget.
- Cancel the debts of the developing countries.
- Nationalize the money center banks and use the financial resources of the country to finance projects needed by the American

people and to help the development of the Third World, in accord with UN principles.

• Curb overseas operations of the TNCs and require them to bring production back to the United States.

• End restrictions on trade with the USSR and other socialist countries. On the basis of East-West trade experience, a conservative estimate would be that this would mean $50 billion additional foreign trade receipts and more than 500,000 additional jobs in the United States.[31]

These and other socially needed and economically constructive programs will not come from Washington spontaneously. They require united action by the millions who will benefit.

There were many differences between the situations following the 1929 and 1987 stock market crashes. In 1987–88, in particular, the major capitalist governments undertook emergency monetary and fiscal measures striving to prevent the spread of the financial crisis to the sphere of material production. Such measures might delay, but could not prevent, eruption of a serious cyclical crisis of overproduction.

16. Structural Crisis of World Capitalism

Production, trade, finance, and living standards are involved in the structural crisis of world capitalism.

Marx pointed out that capitalist business cycles followed the development of a world capitalist market, which provided the scale of imbalances and uneven developments that resulted in sharp, cyclical movements in production and trade, with corresponding financial upsets.

In the second half of the 20th century the internationalization of economic life magnified dramatically. As previously noted the ratio of world trade to world production approximately doubled, and the relative scale of international financial transactions multiplied several times. The giant banks of capitalism operated on a global scale, with instant communication and electronic fund transfers that stimulated currency exchanges in enormous volume, to take advantage of even a fraction of a percent in interest rates or of impending changes in exchange rates.

These developments took place in a context far more destabilizing than that of the earlier stages of capitalism. Following the breakup of the system of colonialism—and its replacement by neocolonialism in most of the liberated countries—some of the developing countries with large populations acquired modern technically advanced industries, which were, however, operated under conditions of repression and low wages taken over from the colonial epoch.

Moreover, capitalism was faced with the necessity of coexisting with socialism, which previously was limited to the USSR. This became a significant economic factor in more than a dozen countries on several continents.

By the early 1970s, the contradictions arising from this knot of circumstances erupted in a crisis going beyond the "normal" cyclical round. This crisis threatened the very industrial base of capitalism. It destroyed long-established structures of world trade and finance. It undermined social gains won through generations of struggle.

The special crisis phenomena continued into the middle 1980s, outlasting two world cyclical crises and recoveries. The end of this crisis is not in sight, and in important aspects it became even more serious in the 1980s. It is the structural crisis of world capitalism.

There have been earlier periods of major structural changes that have gone beyond "ordinary" business cycles and have involved leading capitalist countries. Analysis of such periods, focusing on the sphere of industrial production, gave rise to theories of "long cycles," associated with the Russian economist Kondratieff. However, the current structural crisis is far more complex, comprehensive and deep than any that occurred in any earlier period of structural change in the capitalist world economy.

The socialist countries, interacting economically with capitalist nations, have been affected by the structural crisis of world capitalism. However, the impact for the socialist countries has been secondary, especially for those that coordinate their economic life through the Council of Mutual Economic Assistance (CMEA). Their structural problems, of a different type, have not prevented continued overall economic progress (see chapter 18).

The structural crisis of capitalism interacts with the more comprehensive general crisis of capitalism in the economic, political and social spheres. Major political features of the general crisis, maturing in the second half of the 20th century, created the preconditions for the structural crisis. And this in turn deepened the general crisis and led to more serious cyclical declines in production.

The United States emerged from World War II as the dominant power of world capitalism. The developing economic relationships reflected that power in the skyrocketing profits of U.S. monopoly capital; in U.S. monopoly capital's deep penetration throughout the capitalist world; and in its ability to influence the patterns and terms of world trading and financial relationships.

Political and economic developments that undermined the U.S. position came to a head about a quarter-century after 1945, invalidating prior trading and financial relationships. But in the real world of capitalism, changes could not take place smoothly, by consensus and through a programmed transition; they took place explosively, chaotically, contrary to all attempted plans, and they occurred in a series of specific crises that merged into the structural crisis of world capitalism. Moreover, the changed relationships were as unbalanced as those they replaced; they lacked stability and could not be consolidated. The sectors of commodity and service transactions and payments, therefore, became a long-lasting, ever-changing central factor in the overall general crisis of capitalism.

The basic developments were: the major gains of restored capitalist countries in Western Europe and of Japan relative to the United States; and the major gains of world socialism relative to capitalism.

The decisive political changes included:

- The consolidation of socialist power in large parts of Europe and Asia, and in Cuba in the Western Hemisphere;
- The achievement by the USSR of military parity with the United States, setting the stage for the detente agreements and serious disarmament negotiations;
- The first major military defeat of U.S. imperialism in its history, in Vietnam;
- The breakup of the colonial system in Asia and Africa; and
- The rebellion of the oil-producing countries against the transnational monopolies, and the eventual nationalization of oil production in most developing countries, with far-reaching economic and financial effects.

Slowdown and Near Stagnation of Industrial Production

A central feature of the structural crisis has been the abrupt shift from a rapidly rising trend to a very slowly rising trend of industrial production, the core of economic life.

The impact of this shift was marked. World capitalism had overcome the losses sustained in the 1930s and World War II and was further stimulated by the advances of the scientific-technological revolution, by the new markets created by the economic gains of the working classes, and by adding to the framework of the world market a billion people liberated from colonialism.

As a result, capitalist world industrial output increased more rapidly than in any previous 25-year period. But the following period of slow growth lasted longer than the crisis and depression period of the 1930s.

Over the 12 years 1973–1985, per capita industrial production in

TABLE 16-1. GROWTH RATES OF INDUSTRIAL PRODUCTION, CAPITALIST WORLD, SELECTED PERIODS, 1948-1985

	Industrial Production	
Period	Percent Increase	Annual Rate of Increase
1948-1960	96%	5.75%
1960-1973	115%	6.05%
1973-1985	23%	1.76%
1973-1979	16%	2.56%
1979-1985	6%	0.96%

SOURCE: United Nations, *Statistical Yearbooks*, various issues; UN *MBS*, Feb., 1987, Special Table A; p. 276

TABLE 16-2. INDUSTRIAL PRODUCTION AND POPULATION GROWTH, CAPITALIST WORLD, 1973-1985

Period	% Increase in Production	% Increase in Population	% Change in Per Capita Production	
			Total	Per Year
1973-1985	23.3%	26.4%	−2.5%	−0.4%
1973-1979	16.4%	12.8%	+3.1%	+0.5%
1979-1985	5.9%	12.0%	−5.4%	−0.9%

SOURCE: Industrial Production, as in Table 16-1. Population, summed for capitalist countries from UN *MBS*, various issues, Table 1.

*the capitalist world actually declined, with the reduction concentrated in the second half of the period.**

With the rate of exploitation of labor increasing, with a rising share of total output going for military purposes, with the gap between rich and poor conspicuously widening, inevitably there has been a mounting burden of poverty and misery and an overall decline in the

*A word of explanation is required for the decline in *per capita* production. It was due partly to the sharp drop in world production of oil, caused by the multiplied price of oil. For manufacturing industries alone, the decline in per capita production between 1979 and 1985 was 1.3%, instead of the 5.4% shown in Table 16-2.

It is also important to note that over this period a slight increase in per capita manufacturing output was recorded in the developed countries, and a more substantial increase in the developing countries, taken separately. But because the slow rate of production increase in developed countries dominates the production change in the capitalist countries as a whole, while the fast population growth in the developing countries dominates the population picture for world capitalism as a whole, the combination of statistics for the two groups of countries shows a decline.

It is valid to combine the figures for the entire capitalist world because of the integration of the capitalist world economy. Thus the decline in per capita industrial output had a negative effect on living standards in most areas of the capitalist world, and complicated economic and social problems generally.

living standards of the working classes of the capitalist countries. Of course there have been variations in timing and intensity, but the negative effects have applied to all main sections of world capitalism and most individual countries.

Tables 16-1 and 16-2 provide the essential production data.

From a growth rate of near 6% per year over the quarter of a century from 1948 to 1973, the rate dropped to less than 2% per year over the next 12 years, and less than 1% per year in 1979–1985.

Table 16-2 compares industrial production growth with population growth for this critical 12-year period.

Decline in Industrial Employment in Developed Capitalist Countries

With the sluggishness of industrial production, industrial employment in the developed capitalist countries declined, resulting in a marked, lasting increase in unemployment. In the United States employment of production workers in manufacturing, which stood at close to 15 million in both 1973 and 1979, fell to 13 million in 1986, which in turn was very little more than the cyclical low level of industrial employment in 1982–83. Man-hours of industrial employment in 1986 were 12% lower than in 1973.[1]

The effect on a growing working class forced millions to take jobs—any kind of jobs—in the trade and service industries. Taking advantage of this, employers made more use of part-time employment at poverty wages and were able to greatly expand their hours of operation and number of outlets, at very low labor cost. Weekly earnings of retail trade workers declined from 59% of factory workers' in 1972 to only 46% in 1985, while their hourly earnings declined from 72% of the factory average to only 63%.[2]

Between 1979 and 1986 factory employment declined about 10% in West Germany, between 10 and 15% in France and Italy, and a dramatic 27% in the United Kingdom, where the structural crisis hit with maximum severity. Japan was the one major exception, and its manufacturing employment started to decline in 1986.[3]

Table 16-3 shows the growth of unemployment in the major industrialized capitalist countries.

There was little reduction in unemployment during the cyclical recovery from the 1982–83 crisis, and in some countries unemployment continued to increase. Because of official undercounting of

TABLE 16-3. PERCENTAGE OF UNEMPLOYMENT, MAJOR CAPITALIST COUNTRIES 1969 AND PEAK YEAR 1982-1985

	1969	1981-85 Peak		1969	1981-85 Peak
United States	3.5%	9.7 ('82)%	Italy	3.1%	10.6 ('85)%
Canada	4.4	11.9 ('83)	United Kingdom	2.9	12.1 ('82)
Japan	1.1	2.8 ('84)	Netherlands	1.4	17.2 ('84)
France	2.2	10.5 ('85)	Belgium	3.6	14.4 ('84)
West Germany	0.6	9.3 ('85)			

SOURCES: United Nations, *Statistical Yearbook*, 1975, Table 23, pp 104-106; UN *MBS*, Nov., 1986, Table 8, pp. 17-20

unemployment, it is accurate to say that in all of these countries except Japan "double-digit" rates of unemployment had become chronic by the middle 1980s.

Basic Industries Decline

At least as significant as the slowdown in overall industrial production was the decay of those major industries that formed the traditional base of modern capitalist economy. A sharp decline hit steel and metals, the very core of industry. Production of oil, the most widely used energy product, dropped significantly. Important machinery products for industry and transport, including shipbuilding and agricultural equipment, suffered major, long-lasting losses. The basic industry declines were more serious in the United States than in most other developed capitalist countries but affected all of them, even Japan.

To some extent, the downturns resulted from substitution of materials and new processes, as well as from economies due to scientific-technological progress: e.g., plastics instead of metals; atomic energy replaced some coal and oil. Such changes, in circumstances of steady overall growth, would have caused relative declines, slower growth than formerly in basic industries. That is what happened, by and large, in socialist countries, where centralized ownership and control, plus effective economic planning, permitted structural changes to take place through adjustments that benefitted from the long-term advantages of state-of-the-art methods without social and economic disruption.

In the capitalist countries, however, the changes were a factor contributing to the all-around *structural crisis*, causing disruption and socioeconomic losses in basic industry, with ramifications extending throughout economic life.

The deterioration in basic industry output extended at least through the two business cycles of 1973–79 and 1979–85, with the slump more severe in the second cycle. As with industrial production generally, the structural crisis began to involve basic industrial output seriously in many of the capitalist developing countries, with varying impact. The most drastic case was oil, but also affected were metals.

Table 16-4 shows the wide variation in steel production declines among all the capitalist countries that produced 10 million metric tons or more in 1984, arranged according to 1984 production.

TABLE 16-4. STEEL INGOT PRODUCTION (1973 OR PEAK YEAR) AND (1984) (*millions of metric tons*)

Country	Peak Year*	Production Peak or 1973	Production 1984	Percent Change** Peak or 1973 to 1984
Japan	1973	119.3	105.6	– 12%
United States	1973	136.8	82.7	– 40%
FRG	1974	53.2	39.4	– 26%
Italy	1978	24.3	23.1	– 5%
France	1974	27.0	19.0	– 30%
Brazil	1984	7.2***	18.4	+157%
United Kingdom	1973	26.7	15.1	– 43%
Canada	1979	16.1	14.7	– 9%
Spain	1984	10.5***	13.6	+ 29%
Belgium	1974	16.2	11.3	– 30%
India	1982	10.9	10.3	– 5%

*Peak year in the period 1973–1984. Some countries had still earlier peaks, and some continued to increase after 1984.

**Percentage calculated on tonnage to the nearest thousand.

***1973 production.

SOURCE: UN *MBS*, April 1980 & Feb., 1986, T. 38

The United States and Britain (United Kingdom) showed the most serious declines, concentrated in the years after 1979. But Japan, which replaced the United States in first place among capitalist steel producers, also showed a downtrend overall. Among European capitalist countries, Spain alone showed a persistent increase. A number of developing countries had steady uptrends, the most outstanding being Brazil, which passed Britain in 1984 and France in 1985.

But even such developing countries as South Korea, Argentina and Mexico, which showed increased steel production in the 1970s, sustained setbacks in the 1980s.

The shipbuilding industry exemplifies the monumental waste of resources, and the deprivation of lifetime employment for hundreds of thousands of workers, caused by the latest structural crisis and the anarchy and general crisis of capitalism. With the rapid growth of capitalist world economy and trade in the 1950s and 1960s, there was a corresponding upsurge in the demand for merchant shipping, for both dry cargo carriers and oil tankers—especially the latter as more and more of the world's growing needs were provided by the Middle East and other developing areas.

Between 1948 and 1969 the volume of ocean shipping multiplied 4.7 times and by 1973, 6.7 times. But by 1970 the world's merchant fleets were only 2.7 times the 1948 level. A feverish shipbuilding boom ensued. Prices of ships and charges for shipping multiplied, contributing to the accelerating inflation of the decade. In the four years 1973–1976, 133 million gross registered tons of shipping were launched, exceeding the entire volume of the world's fleets as of 1960. But by that time the 1973–75 world crisis had set in, and shipping volume dropped sharply. The world's merchant fleets went up 82% between 1970 and 1979; the shortage of shipping had turned into a chronic surplus. The annual volume of new launchings dropped by more than one-half in the 1980s, consisting mainly of replacement of older vessels with modern, faster and more efficient ones.

The remaining civilian shipbuilding was overwhelmingly concentrated in Japan and South Korea. The industry nearly came to a halt, except for repair work, in Western Europe and in the United States, where it was partly offset by rising military shipbuilding.[4] Between the mid-1970s and the mid-1980s, employment in U.S. shipyards dropped 30%.[5]

The Texaco Corporation charged $341 million against its 1984 profits for the indefinite drydocking—in effect, scrapping—of excess supertankers it had been operating under "foreign flags."[6] The oil companies especially list most of their vessels under "flags of convenience" in Liberia, Panama and other countries that, for a small fee, permit such registration. The purpose is to avoid hiring unionized U.S. workers. Thus workers from developing countries can be employed at minimum wages and under poor conditions. This is another way to realize superprofits from the export of capital without actually transferring funds to the foreign country, thereby keeping the capital "safe" from revolutionary movements.

Major sections of heavy machinery production were victims of the structural crisis. For decades, McCormick's reaper epitomized the supremacy of modern U.S. industry. But by 1985 International Harvester, the company Cyrus McCormick founded, was bankrupt and did not even include tractors in its remaining line. Manufacture of large two-wheel-drive tractors, which U.S. companies dominated, fell 63% between 1978 and 1984, and continued down although 1984 and 1985 were years of economic recovery.

The market for U.S.-made machine tools in 1985 was 40% below the level reached in 1979, the previous cyclical peak year. An important factor in both farm equipment and machine tools was the increasing market share held by foreign producers. But also important was the downtrend of the overall domestic market, especially in farm equipment, due to the financial crisis of U.S. agriculture.

The long-term drop in the number of U.S. farms and farmers since 1950 undermined a major social sector of capitalism—the "independent," "self-employed" farmer. The number of farms and farm operators fell from close to 6 million in 1946 to half that number in the mid-1960s and to 1.3 million by the end of 1985.[7] And the decline was gaining momentum; up to 10% of all commercial farms were being foreclosed or otherwise eliminated each year as farm product prices were cut and interest payments on farm mortgages and costs for farm supplies were stepped up.

Half the remaining farmers were part-time, working for wages as their main source of income. Of the 600,000 commercial farms, 110,000 were owned by banks, insurance companies and rich capitalists, and were operated for them by commercial farm management corporations.[8] Agriculture in such states as California and Florida was dominated by large corporations. These big-business agricultural enterprises have been among the most brutal exploiters of labor, imposing poverty wages, long hours and sub-human living conditions. They reaped benefits by using undocumented workers, making big profits while selling farm products at prices that working farmers could not compete with and survive economically.

Indicative of the decline in basic machinery production are the following indexes of production for 1985, on the base 1977 = 100: engine and farm equipment, 61.8; construction and allied equipment, 73.5; special and general industrial equipment, 96.6; major electrical equipment and parts, 93.2.[9]

In 1986 *Business Week* featured a special report on "The Hollow Corporation":

> From autos to semiconductors, many U.S. manufacturers are turning into marketers for foreign producers. A new type of company is emerging—one that may design or distribute but doesn't actually make anything. A hollow corporation. It is a phenomenon our economy cannot afford. . . .
>
> INDUSTRY'S STUNNING DECLINE
>
> Companies are abandoning manufacturing to bolster profits—quick fixes that foreshadow a national crisis. . . .
>
> THE SERVICE ECONOMY: NO PARADISE
>
> Service-sector jobs just don't pack the punch of industrial jobs—in wages, innovation, and productivity.

The same phenomenon has taken place, in greater or lesser degree, in Western Europe and Canada, and in Australia and New Zealand.

A structural crisis is also a period of change, the painful replacement of the old with the new. However, under present conditions of the general deterioration of the capitalist economy, what grows is insufficient to replace that which disappears. Moreover, much of what is growing is parasitic rather than productive, harmful rather than beneficial in terms of people's welfare and the overall health of the economy.

Production of plastic materials more than doubled and plastic products increased 80% between 1977 and 1986. And part of that increase in plastic materials replaced steel.

Printing and publishing increased a respectable 60%, but most of that resulted from the vast proliferation of advertising and promotional material, which filled the pages of newspapers and cluttered up mailboxes.

Production of military equipment—the most harmful and dangerous of all—increased 80%. Moreover, that rise was partly offset by a reduction in civilian production that resulted from the huge financial costs, the increased taxes on workers and the reduced government social and construction spending that accompanies military spending.

The most rapidly growing sector of manufacturing was the "high-tech" complex of computers, electronic components and communication equipment. Between 1977 and 1985 production of computers at least tripled, electronic components (other than TV tubes) multiplied 2.75 times, and communication equipment 2.2 times.[11]

By 1984, these industries accounted for 40% of the value of all machinery and equipment, other than transportation equipment, manufactured in the United States.[12]

Computers and automation offer prospects of a qualitative improvement in people's lives. However, under capitalism this potential is realizable to only a small extent for most. And the capabilities of technological products are also misused in ways that contribute to deterioration in the quality of life.

Indicative of the relative deterioration of the production sector of the U.S. economy, 57% of all business equipment made in 1985 was for commercial use, more than three times the 18% destined for use in manufacturing.[13]

However, reference to "the deindustrialization of America" is inaccurate. As shown in table 16-2, even during the 1980s there was a slight increase in the absolute volume of industrial output in the capitalist world, and a somewhat faster increase in the United States. More to the point, the overall industrial capacity of the United States and of the capitalist world generally, increased faster than actual production.

The *social* need for industrial products mounts, and even more productive capacity and output is required to satisfy it. What stands in the way are the contradictions of the social *system,* compounded by its cyclical and structural crises.

Inflation

Inflation is a term referring to rapid price increases, associated with the increase in the money supply to pay government bills—and not necessarily preceded by higher production costs. Historically, raised prices have been associated with wartime conditions, with the runaway inflation occurring in countries suffering extensive war damage. The United States went through a period of severe inflation in the Civil War, but most of the high prices were lowered after that conflict. World War I also sparked raised prices, which were only partly adjusted shortly after the war because, by that time, monopoly capital was a powerful factor. Prices didn't return to the 1913 level until the depression of the 1930s, and then it was only a temporary respite.

World War II showed the much stronger position of monopoly power. Price increases, sharp as they were during the war, were somewhat held down by price controls. But with the removal of those restrictions, prices shot up even faster immediately after the war, and the country entered a period of permanent price increases. These increases were modest during the period of relatively rapid economic growth, but even then represented a deterioration of capitalist economic stability.

With the onset of the structural crisis, with the weakening and forced devaluation of the U.S. dollar, inflation became rampant, and continued at a high rate for up to 15 years in the United States and other major capitalist countries. In the middle 1980s the rate of price increases slackened, but there were fears that a high rate of inflation might soon resume. Meanwhile, runaway inflation spread through key countries of the "Third World," and monetary and budgetary policies of capitalist countries indicated that inflation had become a permanent feature.

Data for the United States are shown in tables 16-5 and 16-6.

TABLE 16-5. INFLATION AND INTEREST RATES, UNITED STATES BY DECADES, 1940-1980

	Consumer Price Index: 1967 = 100	% increase		Interest Rates AAA Corporate Bonds
		Over 10 Years	Annual Rate	
1940	42.0			2.84%
1950	72.1	72%	5.6%	2.62
1960	88.7	23	2.1	4.41
1970	116.3	31	2.7	8.04
1980	246.8	112	7.8	11.94

SOURCE: Prices: *Hist. Stat.*, Series, E-135, p. 135; *EROP, 1986*, Table B-55, p. 315.
Interest Rates: *EROP, 1986*, Table B-68, p. 332

Along with higher inflation came extraordinarily high interest rates. The jump in interest rates shown for 1970 resulted from the appearance of inflation in the last years of the 1960–1970 decade. High inflation rates persisted for several years after 1980 before tapering off. But the rate of interest only partially followed the decline in inflation, as bankers were afraid that extreme price increases might soon reappear. Inflation and super-high interest rates played a significant part in setting off the cyclical crises of 1974–75 and 1980–82.

1980 was the peak year, with an inflation rate higher than the rate of interest on top-quality bonds. The interest rate "caught up" and peaked in 1981, at more than 14% for AAA issues, and 20% charged small companies, consumers, etc. For several years, interest rates were higher than at any previous time in U.S. history.

TABLE 16-6. INFLATION AND INTEREST RATES, UNITED STATES 1980-1986

Year	Consumer Price Index 1967- = 100	% Increase over previous year	Interest Rates AAA/Corporate Bonds
1980	246.8	13.5	11.94%
1981	272.4	10.4	14.17
1982	289.1	6.1	13.79
1983	298.4	3.2	12.04
1984	311.1	4.3	12.71
1985	322.2	3.6	11.37
1986	328.4	1.9	9.02

SOURCE: *EROP, 1987,* T. B-57, p. 310; B-68, p. 324

However, the inflation rate tapered off and by 1983 was not much more than the rate during the decades 1950–1970. Interest rates declined much more slowly because of fears of the revival of double-digit inflation and because of the particular demand for borrowed funds to cover federal government deficits and corporations' bonds, which were issued to pay for takeovers, "leveraged buyouts," and the like.

A large part of the U.S. deceleration of inflation was due to the sharp cut in oil prices. Also, the Bureau of Labor Statistics reported consumer price increases as much less than the actual rise in living costs. With the recovery of petroleum prices, and with the decline in the international exchange rate of the dollar, it was certain that the inflation rate in the last years of the 1980s would be much higher than during the mid-1980s.

A similar acceleration of inflation hit all the major capitalist countries in the period of the structural crisis, as indicated in table 16-7.

In most cases there was a marked deceleration of inflation in the 1980s, especially in West Germany and Japan, the two strongest

TABLE 16-7. ANNUAL RATE OF INCREASE, CONSUMER PRICE INDEX, MAJOR CAPITALIST COUNTRIES 1970-1980 AND 1980-1985

Country	Annual Rate of Increase, Consumer Prices 1970-1980	1980-1985	Country	Annual Rate of Increase, Consumer Prices 1970-1980	1980-1985
United States	7.8%	5.8%	West Germany	5.1%	3.9%
Japan	9.0	2.7	Italy	13.8	14.0
France	9.6	9.6	United Kingdom	13.7	7.2

SOURCES: *EROP, 1986,* Table B0108, p. 376
BCD, Nov., 1986, Table F-2 pp 95–96

countries financially. While average inflation rates remained very high in France and Italy, that was because they had accelerated in the early 1980s. But even in those countries, inflation slowed down in 1985–86, owing largely to the decline in oil prices. The factors that gave rise to the high inflation of the 1970s and 1980s remained a threat, however.

Meanwhile, inflation rates in many of the developing countries were even higher than in the advanced capitalist countries, and they accelerated in the 1980s, especially in Latin America. Between 1980 and 1985 the cpi multiplied 1,348 times in Argentina; 18,185 times in Bolivia; 71 times in Brazil; 33 times in Peru; and more than 10 times in Mexico. In most cases inflation zoomed higher in 1985 and 1986.

Outside of Latin America, the most extreme reported inflation was in Israel, a 225 times multiplication in the cpi over the five-year period.[14]

Oil and the Structural Crisis

Between 1970 and 1982 the effective world market price for crude oil multiplied 10 to 20 times, depending on how it is measured. With international oil trade in 1980 exceeding $300 billion, or 15% of the total of all world trade—far more than any other commodity—the impact of this price explosion, as well as the circumstances in which it took place, was a major stimulant to the inflation afflicting world capitalism and an important factor in the eruption and deepening of the structural crisis.

The rebellion of the oil-producing countries—and the formation of OPEC—was a giant step forward in the national liberation struggle of developing countries against imperialism. It had a deep impact on what had been the single most lucrative source of superprofits—the foreign investments of the transnational oil companies, the so-called Seven Sisters (five of them U.S.-owned, the other two Dutch/British and British), which was one of the most effective cartels in modern history. Most of the oil was taken out of the producing countries by these TNCs, then processed and sold throughout the capitalist world. The governments of the producing countries were paid a pittance compared with the prices charged for petroleum products in the consuming countries. In 1970 the average payment to Mid-Eastern countries was 86.3¢ per barrel, equivalent to about 2¢ per gallon of gasoline, which then retailed at 36¢ in the United States and a dollar or more in many European countries.

Because production costs in the Middle East, Venezuela, Algeria, etc., were so much lower than in the United States, the oil companies imported more and more petroleum for U.S. consumption, nearly all for the escalating needs in Western Europe and most Third-World nonproducing countries. Production rose rapidly in the Middle East:

> *In 1950, the United States accounted for 52% of all the world's oil production, but in 1972 for only 19%.* . . . The United States, Western Europe and Japan combined account for less than one-fifth of the world's oil output, but approximately two-thirds of its consumption.[15]

The U.S. oil companies accounted for one-third of all U.S. direct foreign investments profits. With world oil production more than doubling every decade, the profits and power—political as well as economic—of the oil giants intensified.

Revolutions succeeded in some OPEC countries, and Left movements gained strength in others, stimulated by the defeat of the United States in Vietnam. OPEC was able to win some concessions, and when the more advanced governments nationalized oil, the price was multiplied. Later, even conservative OPEC governments nationalized their oil, in whole or in part. The oil revenues of the OPEC countries increased from $2.5 billion in 1960 to $100 billion in 1975,[16] and double that in 1982, when the price of oil peaked at $35 per barrel.

In the given balance of world political forces, Washington was unable to intervene militarily to prevent this process, even as the movement for nationalization of resources spread to countries producing metals. Prices of minerals roughly tripled, and export prices of food commodities more than tripled.[17]

On the one hand, this spurred inflation in consuming countries. On the other, it meant that for a decade the terms of trade of many developing countries improved; the grip of the "price scissors" weakened; and the countries enjoyed significant economic growth.

The economic crisis of 1980–82, combined with political factors, brought this stage to an end. Most OPEC members remained within the capitalist economic and political orbit. New capitalists became oil multimillionaires and put much of their wealth in the capitalist banking and investment framework. In the most populous oil-producing countries, the workers, however, experienced little improvement in their abominable living conditions and lack of political freedom. The many years of internecine warfare between Iran and Iraq, along with the murder of Communists and other progressives in both countries, epitomized the deterioration within OPEC.

Moreover, the Seven Sisters, while weakened, were by no means expelled from the international oil markets, or even from the most important producing countries. Thus a reported 40,000 workers of Exxon and its partners remained in Saudi Arabia, living in secluded enclaves, largely exempt from the laws of the host country, under contract to operate the wells. In most OPEC countries, refining capacity and shipping facilities were enough to handle only a small fraction of the oil produced, so it had to be turned over to the TNCs for transport, refining and distribution. The margins the oil companies collected for refining the oil widened appreciably. In addition, they fully maintained, and to some extent augmented, the volume of oil they extracted in the United States, the North Sea, and other areas where oil remained under corporate ownership. This output took advantage of the OPEC-initiated price increases, of course.

The OPEC countries operated under constant threat of U.S. or U.S.-inspired military intervention, discouraging far-reaching social changes. U.S. naval vessels patrolled the Persian Gulf, and Washington's over-armed satellite, Israel, exerted constant pressure on the Arab countries. As if to demonstrate what would happen if there were a serious move to the left, the U.S. Air Force bombed Libya and declared all-out economic warfare against it; the United States maintained a military installation in Nigeria, the largest oil producer in Africa; and U.S. aggression in Central America was continuous. The U.S. permanent occupation of the Panama Canal Zone and interventions in the Caribbean delivered a clear message to Venezuela—OPEC's largest producing member in the Western Hemisphere.

Under these conditions, OPEC was incapable of overcoming the anarchy of capitalist world markets. The price of oil declined, slowly at first and then sharply, and by 1987 was at one-half its previous peak. Similar reductions hit other primary commodities.

The collapse of oil prices eased one feature of the structural crisis—inflation in the advanced capitalist countries. But it deepened another and most serious feature—the debt crisis afflicting some 40 developing countries.

The International Debt Crisis

Aspects of this crisis were discussed in chapter 14. The "austerity" programs imposed by international imperialism through the IMF and other institutions, in the period 1982–1984, led to still deeper contradictions. They forced declines in manufacturing production of 25% in Brazil; 23% in Argentina; 16% in Chile; and 10% in Mexico in the early 1980s.[18] This made payment on the debts impossible, and the debtor governments were forced to ease up on the austerity terms and permit production to revive. To pay the interest on the debts, it was necessary to use the receipts from large export surpluses and to slash imports. But this worsened the U.S. trade deficit and abetted the decline of its industry.

Mass pressure in the debtor countries forced governments to take a more determined stand. It became clear that the debts would never be paid in full and that, at the very least, interest payments would have to be sharply reduced. The U.S. banks, as the main creditors of the Latin American borrowers, aggressively led the collection efforts of international high finance, and the struggle with debtor countries became increasingly tense. The proposal of Fidel Castro—that the debts be repudiated on the grounds that the TNCs had already taken out of the debtor countries far more plunder than the amounts owed—got broad popular support in the Third World.

Some U.S. banks, and especially the Japanese creditor banks, recognized the implausibility of collecting in full and sold off parts of their holdings at a discount. The Japanese banks and government started to organize a state-monopoly corporation to take the unpayable debts off the hands of the banks. Within the United States, a struggle with anti-monopoly forces over proposals for government bailout of the banks loomed.

The World Bank stressed the conflict between attempts to collect on the debts and the U.N. resolutions calling for priority development growth of the Third World countries. The bank's report stated:

> Despite their adjustment efforts, these countries [the debtors . . . VP] seem to be as far as they ever were from reconciling growth and creditworthiness. The problem is so intractable that for the biggest debtors sound policies and world growth, though essential, will not be enough to restore growth.

Without relief that permitted growth and a modest rise in consumption, the report continued, "... it may not be politically possible to maintain the course of development."

To resolve the problem as the bankers would wish, said the World Bank, would require 4% per year economic growth as well as sustained recovery and trade liberalization in industrialized countries, reduction in interest rates charged, and additional capital of $14–$21 billion per year provided. Even with this unbelievable combination of positive factors, the bank concluded, the debts of the countries concerned would continue to increase.[19]

The real question is whether the international debt crisis will be relieved through far-reaching concessions by the bankers, by outright default provoked by sheer inability to pay, or by revolutionary action by people in the debtor countries. The former privileged position and superprofits of the bankers cannot be restored.

Rise and Fall of the Dollar

The deepest *cyclical* crisis in the history of capitalism, set off in the financial sphere, erupted on the New York Stock Exchange in the autumn of 1929.

The deepest *structural* crisis in the history of capitalism also emerged first in the financial sphere—in the money markets of New York, London and Tokyo:

> ...President Nixon suspended the convertibility of the dollar on August 15, 1971. This declaration was equivalent to an official admission of the previously evident failure of the international monetary system established in Bretton Woods after long and difficult negotiations. Although the real reasons for this failure are much deeper and more complex, the immediate cause was the tremendous *outflow of money* from the United States to Europe and Japan. Never before had economic history recorded a currency movement of such magnitude....[20]

Gold, during most of the history of modern capitalism, was the universal world currency. A Soviet economist wrote that "[*G*]*old is the world money,*" the basic standard of international financial settlement on the world market. However, he went on, the currency of the leading trading and financial capitalist power has often been substituted for gold, and other settlement means have also been developed for payments. But, he continued:

> ... to the extent that world money must, by its very nature, appear in the direct form of gold, the means of settlement representing world money must be freely convertible into gold. Whenever they are not, there is a world payments crisis.[21]

For a long period, the British pound sterling was the widely accepted alternative for gold in central reserves of government banks and in international settlements. This was formalized after World War I at the Geneva conference of 1922. But as a result of World War II, the United States decisively displaced Britain as the dominant financial, as well as industrial, power of capitalism. The dollar became the leading currency, the widely used substitute for gold.

At the Bretton Woods (New Hampshire) Conference in 1944, with the war still going on in Europe and the Pacific, the dollar was formally established as the cornerstone of capitalist world international finance and trade. While other currencies could be converted into one another, only the dollar was convertible into gold. The United States undertook to convert all dollar claims of other countries into gold at a fixed price of $35 per ounce, and the central banks of other major capitalist countries agreed to maintain the exchange rate of the dollar close to its parity with gold.

As the only country that profited from World War II, the United States by 1949 had more than $24 billion of gold, or 70% of the world's supply of centralized gold reserves. But by 1970 reserves were down to $11 billion and falling rapidly.[22]

To preserve its financial leadership, U.S. finance capital used its power in the capitalist world to change the standard, to abandon free convertibility of currency into gold.

As the balance of payments situation of the United States deteriorated, the U.S. government, step by step, limited the convertibility of other countries' dollar claims into gold—or, for that matter, into other currencies.

> As time passed the privileged position of the United States was de facto enhanced to such an extent that ... the international monetary system had come to be based essentially on a dollar standard instead of the 'gold-exchange' standard.[23]

Washington had a dual motive in trying to maintain the "dollar standard," to sterilize gold—i.e., keep it out of circulation—and to hold its price down to the official rate of $35 per ounce. The domination of the dollar in international payments was of tremendous advantage to

U.S. corporations in buying up foreign properties and establishing profitable enterprises in other countries. And gold played a significant part in the commercial exports of the Soviet Union: U.S. economic warfare against the USSR was pursued by holding the price of gold down to the prewar level when prices in general had multiplied several times.

When the United States was forced to "close the gold window" in order to retain its remaining gold reserves, the role of gold as a world money was, in effect, ended. But also ended was the ability of the United States to hold the price of gold at $35 per ounce, although it attempted to do so for another couple of years with successive 10% devaluations. To this day, the gold reserves of the United States are valued at $42.22 per fine ounce, for a total of $11 billion, while the real value of the gold, based on its market price in 1986 of more than $400 per ounce, is approximately $100 billion.

Thus, the capitalist world's demand far exceeded the ability of the gold producing and exporting countries to supply it at the former price. The free market price of gold shot up, peaking in 1980 at more than $600 per fine ounce before "settling down" in the $300-$400 per ounce range. A new rising trend in gold prices appeared in 1987.

At the end of 1984, just four West European countries—West Germany, Switzerland, France and Italy—had, together, 327 million fine ounces of gold, substantially exceeding the 263 million ounces held by the United States. The U.S. dollar, however, remained the main currency for international trade settlements because of the status of the United States as the "protector" of world capitalism. This contradiction—rivalry with U.S. imperialism and dependence on U.S. imperialism—has complicated all relationships. For example, other governments, having "received" gold from the United States in the 1950s and 1960s, didn't take it home; for the most part they left it for safekeeping in the vaults of the Federal Reserve banks. Thus their wealth has been hostage to the whims of U.S. imperialism.

At the same time, capitalist rivalry has gradually undermined the dominance of the dollar in world trade and payments. Many settlements have been made in European Payment Units (a combination of the currencies of the Common Market countries of Western Europe), and especially in the Japanese yen.

The exchange value of the dollar relative to the currencies of other capitalist countries has seesawed, under conflicting influences:

a. The rising U.S. deficits in trade and payment balances has tended to increase the supply of dollars and weaken the demand, forcing the price down; and

b. The flow of foreign currencies into the United States, buying dollars for investment in real property, bonds, stocks, enterprises, etc., has tended to raise the demand for dollars, pushing the price up.

This contradiction—the lack of structure in world currency arrangements, the uneven development of different countries' exports and imports—led to continuous and often radical shifts in relative currency values, including many-times devaluations of the currencies of financially weak developing countries, causing runaway inflation there.

The Balance of Trade Crisis

The extraordinary increase in the U.S. deficit in foreign trade was examined and its causes explored in chapter 13.

Capitalist economic theory holds that by reducing the relative value of its currency, a country cheapens its goods on world markets and makes imports more expensive, thereby effecting a favorable shift in its balance of trade. Thus, in theory, it can cure an excess of imports by reducing the exchange value of its currency.

In practice, however, other factors often prove more powerful, so that currency devaluations do not reverse a trade deficit or even prevent its further worsening, while they do cause domestic hardship. This was the case in the United States. The growth of its trade deficit began when the dollar was relatively cheap in relation to other major currencies. The deficit picked up steam when the dollar strengthened. In 1985 the U.S. Government and its leading allies combined efforts to force down the exchange value of the dollar, in hope of easing the trade deficit. But for at least another two years, it continued to grow.

The fundamental causes of the U.S. trade deficits remained unchanged. The U.S.-owned TNCs did not bring back production from foreign plants, but continued to move production abroad. The aggressive export drives of Japan and West Germany and of the newly industrialized countries of East Asia—such as South Korea and Taiwan—gathered strength.

Moreover, the devaluation of the dollar was ineffective in relation to most of the countries of world capitalism, whose currencies were tied to the dollar or, in many cases, were weaker than the dollar and fell further. By and large, only the currencies of strong capitalist powers such as Japan and West Germany strengthened against the dollar. The capitalists of South Korea and Taiwan, with extreme and rapidly rising export surpluses to the United States, kept their respective currencies approximately in step with the U.S. dollar. The currencies of the most debt-ridden developing countries continued to fall in relation to the dollar. So did those of industrialized countries such as Australia and Canada, whose economies were basically weaker than that of the United States.

According to calculations of the Morgan Bank, the trade-weighted exchange value of the dollar by the end of 1986 was still a shade above the 1980–1982 average. True, the Japanese yen's trade-weighted exchange rate was more than 50% higher than in 1980–1982, but that of the British pound was 25% lower.[24]

Japan experienced economic difficulties, a slackening of exports, as a result. But the Japanese TNCs did not slacken their export drive. On the contrary, they joined the U.S. TNCs in shifting more and more production to South Korea and other low-wage countries.

Only a fraction of the U.S. trade deficit was covered by the excess of its foreign investment income over outpayments on foreign investments in the United States. So the United States had a very large deficit in its total balance of current payments.

This was covered only by continued high level purchases of U.S. government securities, corporate stocks and bonds—buttressed by direct investments in the United States—by Japan, West Germany and other creditor countries. However, as the U.S. deficit and debt mounted, as the prices of stocks soared into the stratosphere, the conditions for a financial shock that would end the balancing inflow of capital, or even reverse it, ripened.

Besides complicating the structural crisis, the U.S. trade and payment deficits could prove crucial in setting off a serious cyclical crisis.

Domestic Financial Strains

Debts and financial failures of all kinds shot up explosively in the 1980s. For two decades the ratio of consumer debt to consumer income remained in the 12–13% range. Suddenly, in 1984, it took off and, by the end of 1986, approached 17%.[25] Prior to 1984, the ratio was above 14% in only one year, 1979, and this was one of the elements presaging a cyclical crisis.

The federal debt, which first passed $500 billion in 1975, passed

$1,000 billion, or one trillion dollars, seven years later in 1982, and doubled again in just four years, passing $2 trillion in 1986.[26]

Between 1980 and 1986 mortgage debt outstanding increased 72%, as compared with a 54% rise in gross national product.[27] The most rapid increase was in commercial mortgage debt, an aspect of an upsurge in business indebtedness generally. In the corporate world, the wave of mergers and takeovers was largely financed by the issuance of "junk bonds"—that is, bonds that represented the great bulk of the total capital involved in the merger/takeover transactions. Even the most prosperous corporations bought back large quantities of their stock from the market and borrowed for capital expenditures, the purpose being to increase the profits per share of stock and therefore the stock exchange price.

Business failures increased more than seven times and their liabilities more than 12 times between 1979 and 1985.[28] The number of bank failures went up yearly, and federal authorities reported that over a thousand banks were in danger of failure. All of these indications of financial strain were far greater than anything known since the crisis of the 1930s.

Dramatizing the situation, several important multibillion-dollar banks failed or had to be bailed out by Washington, at substantial cost to the government and stockholders. In 1986 the Bank of America, which had been the world's largest bank in terms of assets, fell into a severe financial crisis, as did most of the banks of Texas when the oil and real estate booms collapsed along with the price of petroleum.

In seeming defiance of these difficulties, between 1982 and 1987 prices of stocks on the U.S. and other major world stock exchanges tripled. This reflected the inability of capitalists to find profitable material investment for their burgeoning surplus value, diverting the funds instead to the drive for speculative profits. The inevitable crash in stock market prices in late 1987 rocked world capitalism.

Summary of Elements of the Structural Crisis

- The marked slowdown in industrial production in the capitalist world;
- the weakening and decay of traditional basic industries;
- the marked imbalances in international trade and payments;
- financial frenzy and speculative excesses;

• renewed price scissors against developing countries and the international debt crisis; and

• the declining trend, throughout most of the capitalist world, of the real wages and living standards of workers, alongside the unprecedented enrichment of the capitalist elite and their military and bureaucratic satellites.

The contradictions involved in these symptoms are further compounded by the militarization of the capitalist world economy and the proliferation of local wars and interventions.

Within the structural crisis, as of the mid-1980s, there were a series of acute financial crises, deep economic crises in particular countries, and depressions in large sections of the United States. No resolution of the complex structural crisis was in sight. But the danger of a severe *global* capitalist crisis of overproduction was growing.

Which Way Out?

A structural crisis is more prolonged than a "normal" business cycle and includes lasting structural distortion. Its resolution requires a qualitative change in the operation of capitalism.

The 1930s, with acute and prolonged economic disarray, was a period of such structural crisis. While the demands of war revived economic activity, the resolution of the structural crisis began before the war and was completed after the war. The main ingredient was the qualitatively new, greatly expanded level of government economic intervention, of state monopoly capitalism, which the capitalists required to save their social system.

One decisive factor was the far-flung U.S. economic, political and military intervention in Western Europe and Japan to prevent social revolutions. However, in response to workers' demands, measures were also enacted to mitigate the tensions of the class struggle; simultaneously, the rate of exploitation of labor was increased.

The persistence of the currently ongoing structural crisis shows that the old methods are insufficient. The capitalist class strives to find solutions through a new level of government intervention—the internationalization of state monopoly capitalism. This concept is a distorted version of the old reformist notion of a unified world capitalist state in which people would live in peace and harmony. It is distorted because it is limited to the major imperialist powers and is directed *against* the rest of the world, both socialist and capitalist.

Further, the leaders of world capitalism aim to achieve their version of economic growth and prosperity by an offensive against the working class, designed to raise the rate of profit through an absolute reduction in the living standards of the exploited people.

This attempt to reverse the course of history cannot succeed. It not only does great economic damage; it also increases the danger of nuclear war.

An approach that offers the possibility of resolving the structural crisis, even before the establishment of socialism, might include the following radical, qualitatively new features:

- Real internationalization of economic regulation, including all countries—advanced and developing, capitalist and socialist—along the principles of the United Nations' New International Economic Order.
- Within the major capitalist countries, effective nationalization of decisive financial and industrial sectors—with democratic peoples' control—to make possible a degree of economic planning and international cooperation.
- Demilitarization of economic life.
- Provision of qualitatively more complete and vastly expanded social and economic benefits for the working class.

Such a change of direction will not come easily. It will require united, militant mass action of the working class, within individual countries and internationally. It will not eliminate the need for supplanting capitalism with socialism, but it will make the transformation easier.

17. Uneven Development of the Capitalist Economy

Capitalist economy develops unevenly—between countries, between industries, and over different time periods. From a world historical view, the most important uneven economic development is that between capitalist and socialist countries (see chapter 18). This chapter is devoted to analysis of the uneven development of the economy among capitalist countries.

Uneven Development of Industrialized Capitalist Countries: Historical Perspective

Uneven rates of economic growth, of foreign trade and investment, have been important factors in the military and political history of capitalism, as well as in its economic connections. There have been divergences between the rapidly changing comparative economic potentials of capitalist powers and the relatively unchanging balance of military power.

Before the breakup of the colonial system in the second half of the 20th century, there were wide discrepancies between the distribution of economic and military power, on the one hand, and the possession of colonies from which various forms of plunder could be derived. The attempt to "correct" these discrepancies was a decisive motivation for World War I belligerent powers, as well as for the Axis powers versus the Anglo-American-French part of the alliance in World War II.

Lenin, in *Imperialism, the Highest Stage of Capitalism,* wrote:

> Finance capital and the trusts do not diminish but increase the differences in the rate of growth of the various parts of the world economy. Once the relation of forces is changed, what other solution of the contradictions can be found *under capitalism* that that of *force?*[1]

However, settlements of differences among imperialist states by force have become extremely unlikely because of the success of the revolution Lenin led and of those that followed. The rulers of capitalist states fear that wars among them would end up with socialist revolutions.

Still, uneven development of the capitalist states continues to have a major impact on world economic and political developments, and even on military developments, so far as they concern wars among developing countries, or between capitalist powers and developing countries. In addition, uneven development has a significant impact on the course of the class struggle between capital and labor in the capitalist countries, as well as on relations between advanced capitalist countries and between them and the developing countries.

Differences in Growth Rates

Over the 115 years from 1870 to 1985, industrial capitalism expanded many times in scale and advanced to the stage of monopoly capitalism and state monopoly capitalism. But there have been major, persistent differences between countries and regions in rates of growth. These differences have been interrupted by war and wartime destruction, but have soon reasserted themselves.

Among the major capitalist countries, Japan has had by far the fastest growth rate, the United States and Canada following. Western Europe's growth rate has been slowest. Differences in growth rates among West European countries have played an especially important role in the political and military history of the capitalist epoch. Within that area, Germany—and now the FRG (West Germany)—has had the fastest growth rate; Britain the slowest.

These changes, cumulative over decades and generations, have wrought decisive changes in the balance of world economic power. The changes become more rapid and complicated as new significant national centers of capitalism appear on the scene.

Table 17-1 shows the annual growth rate of industrial production for each of the five most powerful capitalist states and the number of times their production multiplied during these 115 years. As can be seen from the table, even a difference of 1% per year in the rate of growth suffices to bring about a drastic change in the relative power position of two countries over a long period of time.

Four charts graphically present the data. Chart 17-1 compares the number of times industrial production multiplied in each of the five countries. The contrast between the soaring bar for Japan and the minuscule bars for France and Britain, is an eloquent representation of the changes that have occurred.

Chart 17-2 shows the world of industrial capitalism as it was about to enter the era of modern imperialism, with Britain, followed by France, as the leading center of industry, and Japan not yet a significant factor.

Chart 17-3 illustrates the vastly different picture near the end of the 20th century. The United States was in the lead, with the bar for Japan half as high and that for Britain, the highest in the previous chart, now the lowest.*

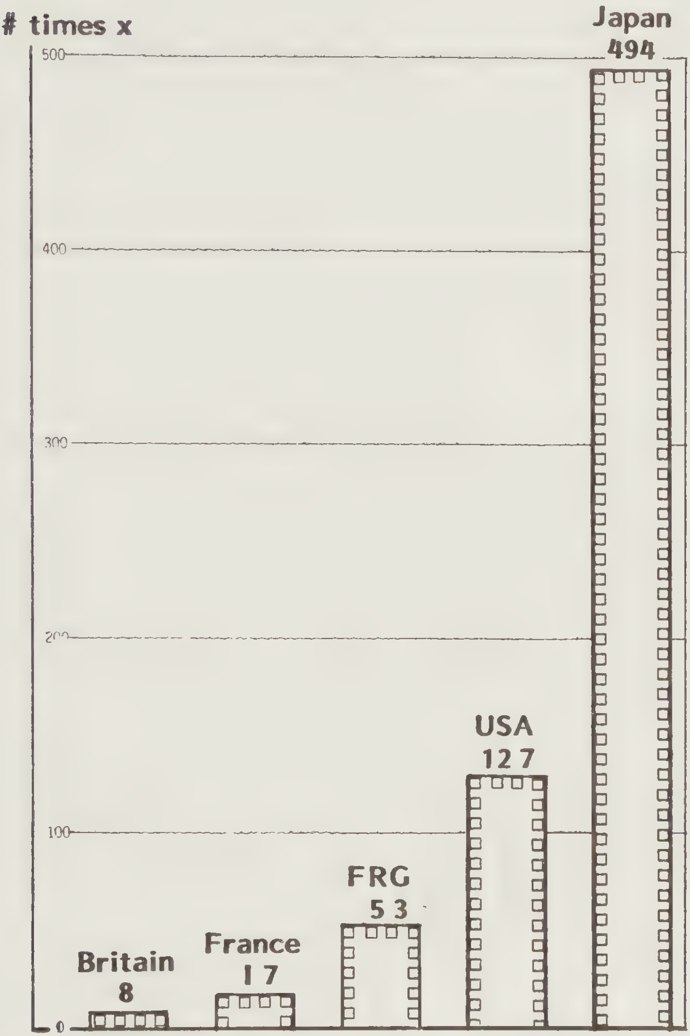
Chart 17-4† shows schematically the changes in position over the 125 years for four of the countries. France is omitted for the sake of simplicity: its line would be between Germany's and Britain's. Interrelated with military and political developments, during the 1890s, the period of formation of the great trusts, the United States surpassed Britain and France in overall industrial production, leaving them far behind during the 20th century.

Prior to World War I, imperial Germany, together with the Austro-Hungarian Empire, temporarily surpassed France and Britain industrially, and on that basis calculated on taking over much of the Anglo-French colonial empires. However, the appearance of the United States as an industrial and military supplier, and ultimately a military ally of Britain and France decisively shifted the balance against Germany. Again Hitler Germany, absorbing the production of Austria and Czechoslovakia, obtained temporary superiority over the Anglo-French alliance, only to be crushed in the war against fascism by the USSR and the Western allies.

*The scales of charts 17-2 and 17-3 are set so that the numerical levels are consistent with the number of times growth shown in Table 17-1. Thus the bar for Japan in chart 17-1 is at 10, and in chart 17-2 at 4940, which is 494 times the numerical level in the chart for the earlier year.

†This chart represents the growth with a straight line for each country, without allowing for radical declines in wartime and depression, accelerations and decelerations. It is on logarithmic scale, necessary to contain the thousand-times range of production from Japan's in 1870 to that of the United States in 1985.

CHART 17-1. NUMBER OF TIMES MULTIPLICATION OF INDUSTRIAL PRODUCTION
1870-1985



But in the second half of the 20th century, West Germany again decisively surpassed both France and Britain in industrial power.

Japan had become a significant industrial power by the 1920s, and used its might in the aggressive campaign against the Far Eastern and Pacific colonies of the West European countries and the United

RELATIVE INDUSTRIAL PRODUCTION OF MAJOR POWERS
1870, Japan = 10 1985, USA = 10,000

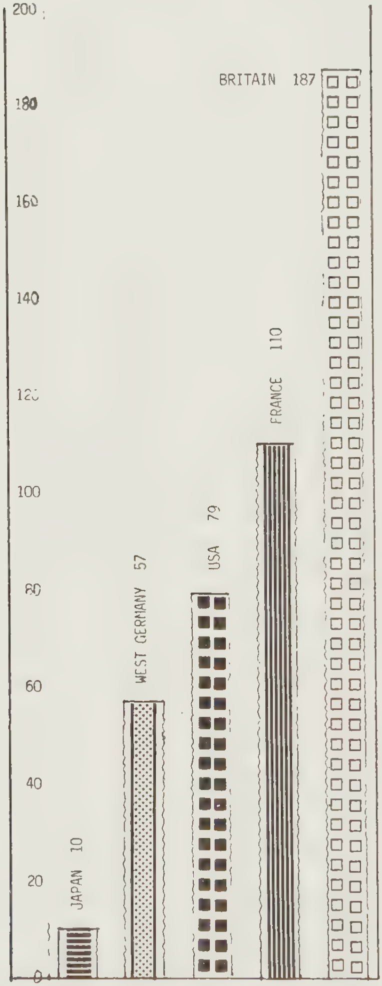


CHART 17-2

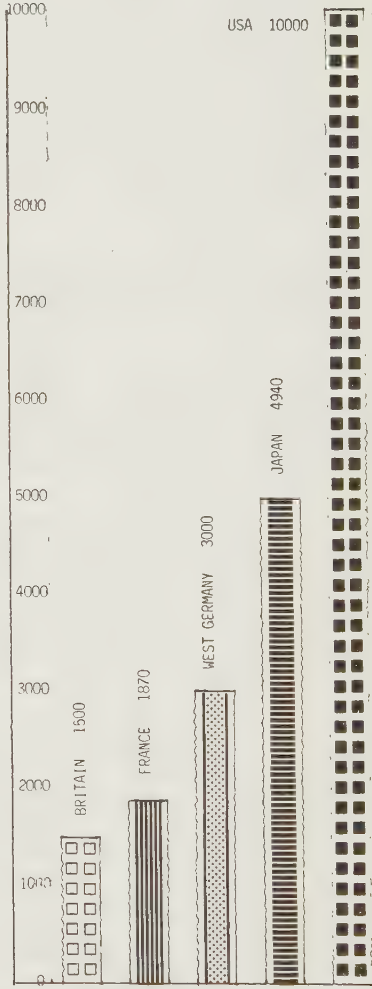


CHART 17-3

States, as well as in its attempt to conquer China. After its defeat in 1945, Japan recouped its losses and achieved an economic growth rate never before realized by a capitalist power. During the 1970s, it emerged as second only to the United States, and by the mid-1980s Japan seriously challenged the U.S. position in all major industrial and financial spheres.

TABLE 17-1. GROWTH IN INDUSTRIAL PRODUCTION, 1870-1985 LEADING CAPITALIST COUNTRIES

Country	Number of Times Growth	Annual Rate of Growth, pct.	Country	Number of Times Growth	Annual Rate of Growth, pct.
Japan	494	5.54%	France	17	2.47%
United States	127	4.30%	United Kingdom	8	1.82%
West Germany	53	3.51%			

SOURCES: Estimated from DOC, *Long-Term Economic Growth, 1860-1965,* Tables IV7, IV8, pp. 101-102; *BCD,* 8/85, 11/86

Factors Behind Uneven Development

These are *some* of the forces accounting for the changes in relative economic power of the most advanced capitalist countries.

Japan: The Japanese antifeudal revolution came much later than those of Britain and France. In the middle of the 19th century Japan was invaded by U.S. and British fleets, "opened up" to capitalist trade and technology, and in danger of becoming a colony of imperialism.

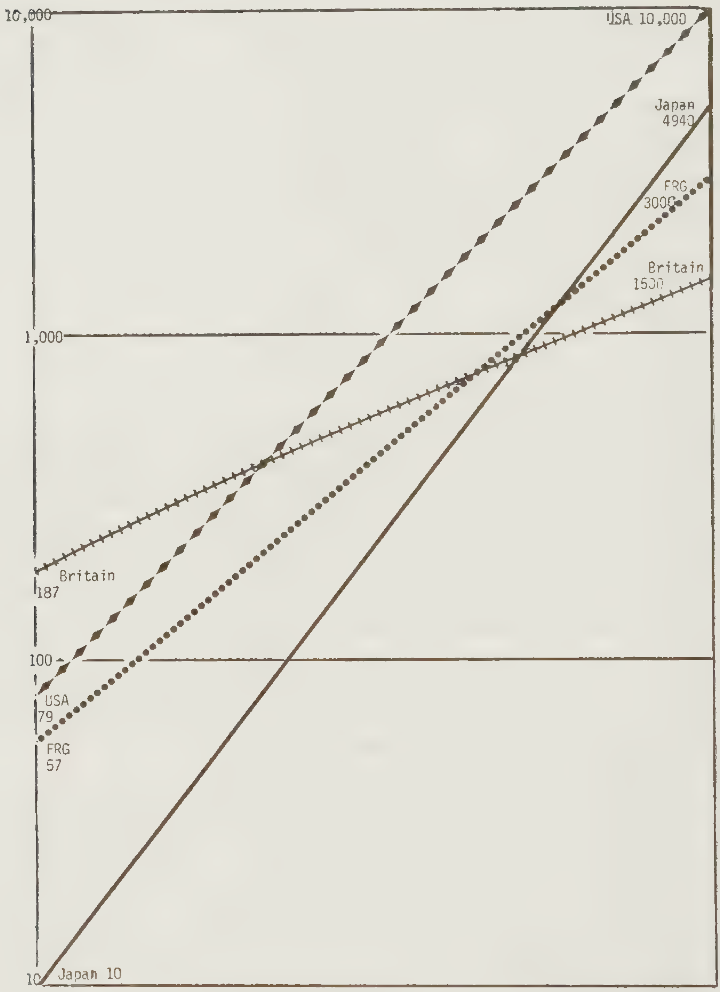
The 1868 revolution (the Meiji restoration) brought to power a group—themselves part of the feudal ruling classes—that resolved to develop industry, modeled on Western technology, and build up military strength to preserve Japan's independence and emulate the other colonial powers in foreign conquests.

As brought out in chapter 9, the ruling Zaibatsu financial-industrial groups were more tightly organized, more coordinated with their government, than corresponding groups in Europe and America. They have been little hampered by the ideological constraints of bourgeois democracy, the antimonopoly pressures remaining from an earlier period of competitive capitalism.

With intense labor exploitation, they were able to accumulate capital at a faster rate than other capitalist groups, and to use it for investment, technological advance, and foreign expansion.

United States: U.S. Capitalism benefited from the slave trade and slave labor, and the special oppression of Black people since the Civil War; from territorial expansion—continually developing new areas—and from the mass immigration from Europe, Latin America and Asia. The incomers brought with them their industrial skills, their scientific knowledge and capital, and greatly expedited the country's

CHART 17-4. DYNAMICS OF INDUSTRIAL PRODUCTION, 1870-1985, FOUR MAJOR CAPITALIST COUNTRIES. Japanese production in 1870 = 10



population growth. With the largest unified market and—up to World War II—less involvement in empire building than its European rivals, U.S. monopoly capitalism had the basis for rapid economic growth. But it lacked the stringent state monopoly organization of the Japanese and was more restricted by the democratic traditions and struggles of the petty bourgeoisie, the farmers, the workers, and the oppressed minorities.

Europe: The European powers acquired large colonial empires in the pre-monopoly period. Their ruling classes, to a considerable extent, lived on the fruits of their plunder, giving less attention to domestic industrial development. Britain, with the largest empire, lost the most by this practice in the long run. In addition, its monopolies and finance-capital groups were never as well developed and consolidated as those of the United States and Germany.

Uneven Development in the Second Half of the 20th Century

World War II and its aftermath saw the emergence of the United States as an industrial, financial, political and military colossus dominating the capitalist world. Its major rivals were shattered physically—drastically in the case of Japan and West Germany, and financially in the case of the other capitalist powers. Brandishing the atomic bomb, the United States had Britain as a weak ally, and the other capitalist states were dependent on U.S. political, economic and military support for retention of their class rule.

The power of U.S. capitalism continued to grow as its TNCs made a major penetration of Western Europe and established profitable semicolonial domination over large sections of the Third World. But by 1953 industrial output in Western Europe and Japan, with the aid of huge transfusions of loans and grants from the United States, had more than regained prewar levels; and, a decade later, West Europe had restored its position in industrial production relative to the United States, and Japan had surpassed it.

Table 17-2 shows the dynamics of development of industrial production of the main groups of capitalist countries from 1953 to 1985, with rapid growth until 1973 and sharp decline in the structural crisis period thereafter.

The consistent growth of Japan stands out, and after 1963 the lagging of Western Europe behind the United States reappears. The resulting distribution of industrial power among the main capitalist countries as of 1985 is shown in Table 17-3.

Japan and West Germany, the two strongest Axis powers, more than restored their previous position in world economic power with substantial U.S. assistance. The United States, part of the anti-Axis coalition, now considers these two countries its most important political-military allies against the Soviet Union.

TABLE 17-2. INDUSTRIAL PRODUCTION INDEXES AND GROWTH RATES, 1953-1985 DEVELOPED CAPITALIST CENTERS AND MAJOR GEOGRAPHIC REGIONS INDEX NUMBERS, 1953 = 100

Year	U.S. & Canada	Japan	Western Europe	TOTAL
1953	70.9	27.3	48.2	55.9
1963	100.0	100.0	100.0	100.0
1973	171.2	310.6	166.9	180.2
1985	212.2	462.1	197.6	230.3
		Annual Growth Rates, percent		
1953-1963	3.5%	13.9%	7.3%	6.0%
1963-1973	5.5	12.0	5.3	6.1
1973-1985	1.8	3.4	1.4	1.8

SOURCE: United Nations Statistical Yearbooks and *MBS*, various issues. Total figures exclude Australia, New Zealand, South Africa and Israel, which are considered developed countries.

TABLE 17-3. DISTRIBUTION OF INDUSTRIAL PRODUCTION OF MAJOR DEVELOPED CAPITALIST COUNTRIES, 1985

Region or Country	Percent of Total, 1985	
North America	40.5%	
United States		37.3%
Canada		3.2
Japan	16.2	
Western Europe, including	43.3	
West Germany		10.8
France		6.2
United Kingdom		5.3
Italy		4.9

SOURCES: Estimated from various issues of UN Statistical yearbook and *MBS*, U.S. *BCD*, and *Stat. Abst.*

However, as between Japan and West Germany, it is now Japan that is decisively the most powerful economically.

In Japan, U.S. direct military occupation assured restoration of capitalism. In addition, it helped the Zaibatsu by transferring to them on a vast scale the technological know-how of the giant U.S. companies. The U.S. Government and big business wanted to build up Japan as a Far-Eastern intermediary in achieving capitalist domination of all Southeast Asia, with its dense populations and rich resources.

True, the Japanese paid billions in royalties to the U.S.-owned TNCs for this know-how, but the Japanese concerns gained many times over by speeding up the modernization of their industry and its competitiveness on world markets.

By 1953, even after fully recovering from wartime damage, Japan's industrial output was less than 4% of the total of the seven major powers. But by 1985 it accounted for 16%. Its production multiplied 17 times, as compared with three times in North America and four times in Western Europe.

The political and economic rulers of the United States, deciding to help in the revival of Japanese economy, considered that this revival would never go so far as to seriously challenge U.S. companies in world markets. This was a major error.

For the decade 1953–1963, Western Europe, still catching up from World War II losses, was gaining rapidly compared with the United States and Canada, but subsequently its growth again slowed and, of course, lagged far behind Japan's.

Among the developed capitalist countries, the most significant decline has been that of Britain, which a century earlier had been in first place. By the mid-1980s its output was approximately equal to that of Italy, which a few decades earlier had been considered a relatively underdeveloped country. The pound sterling, for centuries the premier currency of the world, had lost two-thirds of its exchange value. The lag in British production, foreign trade, technology and organizational structure was continuous and conspicuous. The outstanding social advances that the British working class had won after World War II were rapidly eradicated as mass living standards declined below the levels of other West European countries.

A British political columnist, Peter Jenkins, described the consequences "... of a decade and a half of accelerated decline," as so rapid that

> ... one can actually see it occurring from one year to the next. ... We see urban dilapidation and squalor, a rotting housing stock and rusting transport facilities, shabby-looking people in filthy streets and public places, things everywhere broken or not working.

And he also described the decline in scientific research and university study.

Commenting on Jenkins' article, *New York Times* columnist Anthony Lewis wrote:

> More than three million Britons are unemployed, a rate approaching 13 percent. A depressing part of that picture is the unemployment

> among university graduates. Many of the brightest young women and men have been in part-time work for years, or on the dole. . . .

Economists and historians, according to Lewis, considered that "rot set in . . . even as the empire reached its apogee. The country emphasized glory abroad over enterprise at home. . . . It rewarded philosophers and sneered at businessmen."[2]

Lewis confused the propaganda and ideology of imperialism with its reality. British imperialism emphasized superprofits from foreign investments and the concomitant virtual enslavement of masses of Africans and Asians over domestic development. The rewards for generals and bankers who bought up gold mines were greater than those for domestic industrial capitalists.

Britain's decline was foreseen by such critics as Hobson and was clearly predicted by Lenin. Precisely because Britain's dependence was so heavily based on the superprofits of imperialism—and especially on its colonial empire—it lost the most when its colonial empire collapsed and, overall, imperialism weakened.

Moreover, because Britain was decisively inferior militarily to the United States, it was forced to cede some neocolonial spheres of investment and superprofits to its transatlantic ally and rival. However, British imperialism retains the leading position in South Africa and is the largest profiteer from its apartheid system.

In some respects U.S. imperialism in the 1980s faced the same problems Britain did earlier: it was the dominant capitalist power, most dependent on the loot of its TNCs from abroad, most weighed down by the burden of militarism. The ruling class, rich and arrogant, implacably exploited and oppressed the workers, driving down living standards and worsening social conditions. The symptoms of decay and corruption were increasingly evident as the manifold threats to the dominance of U.S. imperialism mounted.

Of course, history never repeats earlier situations exactly and there are many differences, but the resemblance is not without significance. Table 17-4 shows the extreme uneveness in production of different basic products among the major capitalist powers

Japan outproduced the United States in steel and motor vehicles in 1983, but the United States produced four to five times more electricity and sulphuric acid than Japan. Canada led the world in production of newsprint, not shown in the table.

The U.S. lead was especially marked in computers, semiconductors and other high-tech products, with Japan a growing rival. U.S.

DUCTION OF SELECTED BASIC PRODUCTS

)*	Synthetic Rubber (000 tons)	Sulphuric Acid (000 tons)	Steel (000 tons)	Motor Vehicles (000)	Electricity (billion kwh)
	1,978	31,234	75,420	9,145	2,383
	1,002	6,662	96,984	11,122	556
	432	4,354	36,108	4,162	372
	512	4,243	17,616	3,816	297
	260	2,629	15,972	1,290	276
	233	2,339	21,684	1,565	181
	183	3,679	12,828	1,525	396

all columns

equipment and munitions exceeded the com-
e six other countries listed.

ent in Periods of Time: The United States

s annual rates of increase in U.S. industrial d intervals from 1860 to 1986.

ate of Increase al Production	Period*	Annual Rate of Increase Industrial Production
4.6%	1920–1929	4.3%
5.7	1929–1939	0
5.6	1939–1953	6.4
3.8	1953–1963	3.4
5.4	1963–1973	5.4
3.8	1973–1986	2.2

rvals are for 10 years, some are for longer or shorter periods so d ending years are high points in the business cycle in order to cyclical factors.

Long-Term Economic Growth, 1860–1964, Series A-15 and ; *EROP, 1987*, Table B-45, p. 296

n decades the growth rate of U.S. industry was ry interruptions during cyclical crises. But there- the general crisis of capitalism hit, with a general h. There were three periods of zero or slow y periods of rapid growth—the first stimulated ne Korean War, the second by the Vietnam War.

The sluggish economic growth during the structural crisis period of 1973–1986, combined with the losses in the U.S. foreign trade position and in its competition with various rivals, plus the political offensive of monopoly capital, have had serious social consequences.

Changes in Capitalist World Growth Rates

The general crisis of capitalism brought with it a succession of radical changes in the pace of economic development. The upheavals of World War I stimulated growth, followed by the stagnation of the 1930s; then the upheavals of World War II set off a longer period of record growth, followed by the prolonged relative stagnation of the structural crisis period.

Since World War II, several factors contributed to rapid economic growth:

1. ***The Scientific-Technological Revolution:*** This century, particularly since 1930, has been marked by incredible scientific developments, especially technological applications of fundamental scientific discoveries. This has led to a proliferation of major, entirely new industries and products, and to new ways of making old products. These developments have called for major capital investments and have opened important new markets.

2. ***The growth in size and strength, and the improved political orientation, of the organized working class in the capitalist countries:*** Through their struggles in the trade unions and in Communist parties, they won important concessions in wages, trade union rights, working conditions and social benefits. This in turn greatly increased mass purchasing power and the market base for industrial production within the developed capitalist countries.

3. ***The escalation of the activities of transnational corporations,*** especially their concentrated extraction of oil and other vital materials from developing countries, at low and relatively declining prices. The profits from foreign investments and cheap raw materials increased the capital base for economic growth.

4. ***The intensified competition between capitalism and socialism:*** The rapid economic growth of the USSR and other socialist countries, threatening to overtake capitalism in economic power and setting examples of what can be accomplished by the working class when it has state power—these factors were seen by capitalist leaders as a rising threat to their class rule. To the extent possible, they used government regulation of the economy to stimulate economic growth and to limit the economic gains of world socialism. This competition was a significant motivation for major economic and social concessions to labor, especially in Western Europe, where the knowledge of Soviet and other socialist countries' accomplishments was more widespread and where revolutionary movements were strong.

Slowdown in the 1970s and 1980s

The rapidity of its growth, 1946 to mid-1960s, activated the contradictions inherent in the development of capitalist production. These went beyond those associated with the preconditions for a cyclical crisis, and erupted in the structural crisis discussed in chapter 18.

During this period, the power elite of the capitalist countries attempted to adjust to the increased rivalry with Third World countries as these developing countries have become major world market factors. The transnational operators have used the lower wages paid in the developing countries to intensify the exploitation of labor in their own countries and, to a considerable extent this has been successful. But the mass markets in their own countries have been undermined, contributing to the downtrend of economic growth.

Will world capitalism be able to resume rapid economic growth? Clearly this no longer depends solely on the automatic operation of "free enterprise" but on the extent and direction of government intervention in and regulation of the economy, on the course of the class struggle, on the character of relations between capitalist and developing countries, and on the direction of economic relations between capitalist and socialist countries. It also depends on the location and scope of future socialist and national liberation revolutions.

But whatever emerges, the slowdown during the period of the structural crisis has been an important factor in the further weakening of the world system of capitalism in its competition with socialism.

Developing Countries Become Important in Capitalist World Industry

Historically, imperialist powers maintained virtual market monopolies in their colonies for their manufactured goods, preventing development of large scale – especially basic and heavy – industry. Colonial production was limited to tropical crops, oil and minerals, and native crafts, for the most part. The United States followed a similar policy in its colonies and in the nominally independent Latin American countries it dominated.

However the postwar national liberation struggles led to the independence of former colonies and to the increased maneuverability of their ruling classes, and they started to achieve a more rounded industrial development. Petroleum installations were nationalized and petroleum processing plants were established. Some mineral enterprises were also nationalized. Steel, machinery and fabricating plants of various types were set up. TNCs set up enterprises in these countries to take advantage of the low wages, so the manufacture of components for computers and other high-tech products became important, along with the manufacture of automobiles and other kinds of transportation equipment.

Developing countries accounted for 8% of the capitalist world manufacturing output in 1953, 10% in 1973, and 15% in 1985.[3]

Because of the faster population growth in the developing countries, however, there was little advance in their share of per capita output, which was 4.8% of that in the developed countries in 1953, and only 5.8% in 1983, 30 years later. Because of the worsening social conditions, the gap in per capita real income actually widened.

But the rapidly rising production of manufactured goods in developing countries played an important role in capitalist world markets, *since most of that production was for export to developed countries, rather than for internal consumption.* The trends in industrial production in the major groups of capitalist countries and socialist countries are shown in table 17-6.

The figures for China are significant in the context of this chapter because of the increasing integration of China in capitalist world markets. Should this orientation become decisive, it will have a far-reaching and a complex impact on the capitalist world economy.

By 1985 Brazil surpassed Britain and France in the production of steel; Brazil, Mexico, South Korea and India all produced cement on the level of major West European countries; and a number of developing nations were significant producers of chemicals. South Korea was on the way toward replacing Japan as the dominant factor in the capitalist world shipbuilding industry. South Korea and Taiwan developed rounded structures of state monopoly capitalism, and financial institutions, that operated on world banking markets. Stock exchanges in Seoul and Taipei tied in with those of New York,

TABLE 17-6. MANUFACTURING PRODUCTION, BY GROUPS OF COUNTRIES, 1973, 1979, AND 1985 INDEX NUMBERS, 1973 = 100

Year	Capitalist Countries				Socialist Countries	
	Developed	Developing			CMEA	China
		Total	Latin America	Asia	European	
1973	100	100	100	100	100	100
1979	113.5	140.1	135.9	148.2	139.9	175
1985	121.6	184.2	144.3	235.1	187.4	286

SOURCES: United Nations, *Statistical Yearbook*, 1981; *MBS*, Feb., 1987
For China, Soviet statistical Yearbooks, various years.
Manufacturing production, rather than total industrial production, is shown to avoid heavily influencing trends because of sharp fluctuations in petroleum production, especially in the Middle Eastern countries. However, the figures for China represent industrial production as a whole.

London and Tokyo. Extensive financial activity also flourished in Singapore and Hong Kong.

The escalation of industrial development in the former colonial areas was due partly to the influx of U.S. and other TNCs and partly to the endeavors of the native capitalists. In both cases, however, these activities led to plant closings and unemployment in the developed countries as a result of the growing supply of goods on their markets from the developing countries. But the "successes" of many of the developing countries rested on shaky ground.

South Korea was one example. Its rapid economic growth was based on extreme exploitation of a rightless working class: 60- to 70-hour working weeks with low wages were standard. There was no right to organize. Every attempt to protest, to express mass public sentiment on any issue, was mercilessly suppressed. A large U.S. military occupation force gave strength to the local dictatorship. But the examples of many other countries, including others in Southeast Asia, proved that no power could indefinitely maintain such merciless oppression. Revolution, of whatever degree of radical influence, was inevitable. By 1987, the struggles of the South Korean working class had made important gains, weakening the dictatorship.

Economically, the "successes" depended on maintaining ever-expanding export markets in the United States and Western Europe. But a cyclical crisis, compounded by increasing protectionist pressures, could lead to acute financial and economic crises in these countries also. They offered no lasting road to solution of the problem of underdevelopment.

Spheres of Influence in the Third World

Despite the achievement of political independence by most former colonies and the growth of manufacturing industry, most developing countries have remained within the capitalist orbit of economic, military and political influence. Rivalry for domination over developing countries—and the ensuing profits—has remained intense and has led to important changes.

Prior to World War II, Latin America was decisively in the sphere of U.S. influence; Africa and the Middle East were dominated by the European powers, principally Britain and France, with Italy having a lesser stake and Germany trying to regain positions lost in World War I.

The Far East was an arena of struggle—for domination among the imperialist powers and for liberation by the developing countries. The United Kingdom, with its control over India, Malaysia and Hong Kong, had the strongest position. The Netherlands was a major colonial power in what is now Indonesia; France was in Indochina; the United States, in the Philippines. Japan tried to gain domination over China with its occupation of Manchuria and invasion of much of the Chinese mainland.

In World War II, Japan raised its sights, aiming to rule the roost in the entire Far East, through its "Greater East Asia Co-Prosperity Sphere." Fascist Germany's goal was to reduce to colonies first the countries of West and Central Europe, and then the Soviet Union, in its fanatic drive to total world domination.

These aims to redivide the world were defeated through the united and costly resistance of a large part of the world's population, headed by the Soviet Union.

The revived capitalist powers of Western Europe and Japan all remained militarily dependent on and allied with the United States. But at the same time they competed with the United States, and with each other, for economic division of the remaining capitalist world.

Changing Patterns of International Trade

By and large, the United States maintained its leading position in trade with Latin American countries and Canada, while West European powers reestablished their primacy in trade with Africa and the Middle East. By the mid-1970s, Japan had gained in most areas and had established its lead in trade with the Far East—its primary target for control before World War II, as shown in table 17-7.

TABLE 17-7. EXPORTS OF DEVELOPED CAPITALIST COUNTRIES TO DEVELOPING AND SOCIALIST COUNTRIES, 1985 (*Billions of U.S. Dollars*)

Exports from	Exports to Capitalist Developing Countries				To Socialist Countries	
	Latin America	Africa	Middle East	Far East	Europe	Asia
United States	30	5	7	23	3	4
Japan	8	3	11	33	3	13
Western Europe	17	35	36	25	30	7

SOURCE: UN *MBS*, Feb., 1987, Special Table D pp. 294–295.

West European countries and Japan have a certain overall balance in their trade with developing countries, and even generally maintain the traditional pattern of exporting manufactured goods and importing raw materials, foodstuffs, fuels and minerals, along with a growing, but not yet dominant, share of manufactured products.

The United States, on the other hand, has developed enormous trade deficits with the Third World, and *U.S. imports from developing countries now consist mainly of manufactured goods,* at the expense of domestic production. The huge import surplus, or trade deficit, of the United States is concentrated on Japan and the developing countries of the Far East, as shown in table 17-8.

TABLE 17-8. IMPORTS, EXPORTS, AND IMPORT SURPLUS OF THE UNITED STATES FOR SPECIFIC GROUPS OF COUNTRIES, 1985 (*billions of dollars*)

Country or Groups of Countries	Imports	Exports	Import Surplus
Japan	66	22	44
Far East Developing Countries	52	23	29
Far East, Total	118	45	73
All Other	209	162	47
Grand Total, including	327	207	120
Latin America	42	30	12

SOURCES: UN *MBS*, June 1986, Special Table B; Feb., 1987, Special Table D

Japanese-U.S. Rivalry–the Main Interimperialist Conflict

Japan and the developing countries of East Asia accounted among them for 60% of the U.S. trade deficit. Moreover, to a considerable extent, developing countries of East Asia were importing materials or components from Japan and assembling and further processing them for ultimate export to the United States. Among more important trading partners, Japan had big export surpluses in trade with Hong Kong, Taiwan, South Korea and Singapore in 1984, while the United States had import surpluses with the same countries, usually much larger than the Japanese export surplus. Taiwan, for example, is under U.S. military occupation but is heavily influenced politically and is penetrated economically by Japanese interests. In 1984 Japan exported $6.0 billion of goods to Taiwan, as compared with U.S. exports of $4.8 billion. But Taiwan exported only $3.2 billion of goods to Japan, as compared with $15.4 billion of exports to the United States.[4]

Taiwan's exports to the United States were exceeded only by those of Canada, Mexico, Japan and West Germany. Taiwan's per capita exports to the United States were second only to those of Canada, whose economy is largely an extension of the U.S. economy.

As the Chinese market opened wide in the 1980s, Japan gained decisively in the race for leadership. In 1985 Japanese exports to the Asian socialist countries, overwhelmingly to China, reached $12.9 billion, as compared with West European exports of $6.5 billion and U.S. exports of only 3.8 billion.[5]

By the end of 1986, aided by the devaluation of the dollar, Japan's global exports, for the first time in history, approximated those of the United States.

The gains of Japanese finance capital in world markets were equally impressive. With the decline in the exchange value of the dollar, the main banks of the Japanese Zaibatsu group emerged with total assets exceeding those of Citicorp, the largest U.S. bank. Japanese banks combined with U.S., British and some West European financial institutions in international lending activities. Stocks of Japanese companies, along with those of South Korean and Taiwanese firms, became "hot items" on the world stock exchanges.

U.S. and West European banks had long-established branches, with limited operating powers, in Japan. In the 1980s, the Japanese banks and insurance companies rapidly established major positions, especially in the United States, setting up branches, purchasing real estate parcels, and buying interests in some of the largest investment banking and stock brokerage firms.

Trade and investment rivalry became acute between U.S. and Japanese firms, alongside their collaboration and joint ventures. Similar conflicts between the United States and Western Europe, and between Japan and Western Europe, mounted. These conflicts have usually been settled, ultimately, through agreed redivisions of markets and investment spheres.

But the settlement of differences has become increasingly difficult. The conflict between the drive for export surpluses of other capitalist countries, and especially Japan, on the one hand, and the need for the United States to reduce its import surplus, became impossible to reconcile with patchwork measures. The danger of outright trade warfare increased.

The most acute conflict between Japanese and American capitalists is in the area of the electronic-computer industrial complex. It is the main growth sector offering relief from the structural crisis, with global production approaching $1 trillion (depending on the exact definition of its scope).

The United States, which two decades ago had decisive leadership of this sector, is now rivaled by Japan's virtual equality in that field, buttressed by the other Far Eastern countries.

While the United States continues its lead in production of the largest computers and the most sophisticated equipment designed for military and space use, it has lost its domination in smaller computers, in many other electronic products, and in the semiconductors and integrated circuits (chips) that are the building blocks of electronic products.

U.S. and Japanese corporations strive to form joint ventures, and to take over one another's holdings. Motorola Corporation of the U.S. and Toshiba of Japan agreed to exchange technology and build a jointly held chip plant in Japan. Fujitsu Ltd., the largest Japanese computer maker, tried to take over U.S. Fairchild Semiconductor Corporation. Washington forbade the takeover on grounds of "national security," but far-reaching collaboration between the two companies continues. Corporations of both companies set up subsidiaries in Asian low-wage havens, as well as in Central America, for the manufacture of chips and complete electronic products.[6]

In 1986 the U.S. and Japanese governments agreed on the terms under which they would compete for shares of the world market. But in 1987, claiming that Japan was violating these terms by "dumping," Washington imposed trade sanctions for a period against Japan in the sharpest outbreak of trade warfare yet between these two rivals.

Conflicts between IBM and Fujitsu resulted in costly law suits, which were finally submitted to U.S. arbitrators. The U.S. Government and the media engaged in an all-out campaign of denunciation of the Japanese Toshiba group for its rather small-scale sale of machine tools to the Soviet Union, allegedly in violation of U.S. imposed laws. In "punishment," Toshiba was barred from exporting to the United States, while Congress considered more far-reaching measures of reprisal.

Up to and including World War II, the sharpest interimperialist rivalry was between Germany on the one side, and Britain and France on the other. It exploded in the two world wars, although by the 1940s Hitler Germany, while opening hostilities against Britain and France, considered the socialist Soviet Union its main enemy and concentrated its forces accordingly. The United States was not a major participant in this rivalry among the European powers, although its interests were more aligned with Britain and France than with Germany.

However, on the other side of the world, the main rivalry was between the United States and Japan. U.S. imperialism, having proclaimed its domination of the Western Hemisphere in the Monroe Doctrine, followed that principle in its conquests and occupations, and in restraints on European powers seeking to penetrate the hemisphere. The United States saw great potential for future expansion across the Pacific toward Asia. U.S. imperialism established colonial rule over the Philippines, Guam, Hawaii and Alaska, occupied Vladivostock after the Russian Revolution, and participated with Britain and France in establishing "International Settlements"—colonial enclaves—in China.

Japanese imperialism, also saw Asia and the Pacific basin as its main area for expansion and seized vast areas during World War II. With the European powers weakened by Nazi Germany, the military thrust of Japan was against the United States, occupying all its Asian and Pacific colonies and the Aleutian Islands.

Again Japanese imperialism has risen as the main rival of U.S. imperialism, and again Asia is the principal theater of conflict, where both sides concentrate their expansionist efforts. Moreover, economically Japan is a much more powerful rival of the United States than ever before. Militarily, it is under U.S. occupation and lacks the power to challenge the United States.

But the United States cannot use its military domination to win its economic warfare with Japan. Its rivalry with Japan is distinctly secondary to its hostility to the Soviet Union and is sublimated to its need for Japan as an anti-Soviet ally.

As the Japanese challenge to the superprofits of U.S. TNCs and Wall Street banks becomes more acute, the economic warfare between the two becomes more intense and weakens the anti-Soviet alliance.

More generally, U.S. military power is essentially useless in its economic conflicts with its political and military allies. Indeed, it is a handicap, in the sense that Washington, the main aggressive power, *needs* the alliance more than do its partners. This gives a certain advantage to Western Europe and Japan in economic conflicts with the United States. Washington is constrained to keep within bounds its economic warfare against Western Europe and Japan in order to maintain a united anti-Soviet front, the core of all U.S. foreign policy—including economic policy. Washington faces the possibility that its NATO allies and Japan might stop complying with the U.S. economic warfare against socialist countries. Citing U.N. resolutions on human rights, economic and social rights, and the Helsinki accords, the NATO allies and Japan could take advantage of the tremendous markets that trade with the socialist countries would open up. So far, because of the limitations imposed by Washington, only a fraction of this potential has been realized. But, faced with U.S. economic warfare against them, the allies of the United States might respond by entering into broadened agreements with the USSR.

Development and National Liberation

The most critical aspect of uneven development in the capitalist sphere of the world has been between the developed and the developing countries. In the "Third World," with the majority of the world's population, the persistence of the wide differential in per capita levels of production—and an even wider and growing gap in real income levels—has created a contradiction that has led to increasingly serious conflicts.

World War II and its aftermath triggered the liberation struggles of three-quarters of the world's people living in Africa, Asia and Latin America. By the early 1970s, almost all formal colonies had gained independence and were represented in the United Nations.

Socialism was under construction in China, the Korean Peoples Democratic Republic (North Korea), Mongolia, Cuba and Vietnam.

Radical improvements in economic and social conditions were accomplished with aid from the USSR and other more developed socialist countries.

Most newly independent countries faced the urgent problems of overcoming underdevelopment. In a world of easy communication and transportation, it was no longer tolerable to have differentials in per capita incomes of 10 to 1, and as much as 50 to 1, in comparison with the advanced industrialized countries. This affected not only the workers but also the intellectuals and capitalists of those countries.

The leading political forces in the "Third World" recognized the culpability of imperialist plunder for their condition. They demanded, in the United Nations, that the developed capitalist countries help them achieve economic independence and improved living standards.* They demanded easy-term loans and grants, elimination of trade barriers on their goods, reduction of monopoly prices charged them, payment of reasonable prices for their raw materials, and access to advanced technology and industrial know-how. Especially important was their demand for noninterference in their internal affairs, including their right to take whatever action they considered necessary concerning foreign investments, including the right to nationalize enterprises on their own terms.

In 1974 the U.N. General Assembly, by acclamation, passed a "Declaration on the Establishment of a New International Economic Order" and a "Programme of Action" to put it into effect. Because of the form of adoption, the U.S. delegation was not required to vote for or against it.

The resolution proclaimed the "united determination" of member states to work for a new international order

> ... based on equity, sovereign equality, independence, common interest and cooperation among all states, *irrespective of their economic and social systems* which shall correct inequalities and redress existing injustices, make it possible to *eliminate the widening gap between the developed and the developing countries.* ... [My emphasis-VP].

*The demands of the developing countries do not specify developed *"capitalist"* countries, but the USSR and its allies have never been involved in the exploitation and plundering the developing countries, and for long periods were even prevented from having any economic ties with them by the pressures of imperialist colonial and neocolonial powers. Furthermore, the USSR does provide large volumes of economic assistance to developing nations, probably a larger share of its national income than that provided by the U.S. The difference is that the Soviet Union focuses its aid *mainly* on economic assistance for independent advancement, especially to nations breaking away from imperialism; while U.S. aid focuses on military and economic assistance to impose and maintain dictatorial regimes.

and ensure economic progress and social development and peace. It denounced foreign occupation of countries, alien and colonial domination, and apartheid; affirmed the priority of national interests of countries over those of transnational corporations operating within their boundaries. It called for active assistance to developing countries, preferential treatment for their exports, access to modern science and technology, ending of unfavorable price ratios, and encouragement of national industry.

The Programme of Action specified concrete measures to achieve these aims.[7]

There is little doubt that if this program were actually carried out, the living standards of billions of people would be radically improved, vast new markets would be created, and the economies of ALL countries would benefit immeasurably. The advanced countries could achieve full and profitable employment supplying the developing countries' material requirements needed to overcome the backwardness and poverty resulting from centuries of plunder. This program was supported by the socialist countries. It was fully consistent with the principles of their social system. Indeed, the joint program adopted by their economic organization, the CMEA (see chapter 18), specifically stated that priority assistance to less developed socialist countries also aided the more advanced socialist countries. They have lived up to these principles in their internal dealings as well as in their dealings with "Third World" developing countries, to the extent possible in the face of opposition from capitalist and local reactionaries.

For the United States, Britain, France, etc., however, it was quite a different matter. They did not bother to denounce the U.N. programs. They ignored them and, as much as possible, kept them from public knowledge. In practice, they opposed the concepts in all particulars.

- Instead of respecting sovereign equality, they dictated policy and attempted domination, with crude use of economic, financial and, in the last analysis, military power.
- Instead of helping narrow the gap, they widened it through use of the price scissors, usurious interest, and extraction of superprofits from direct investments.
- Instead of favorable treatment to developing countries' exports, they imposed special barriers, except in cases of specific imports required by the TNCs for their operation.
- Instead of assisting in development of nationally owned and

controlled industry, they exerted maximum pressure to obtain unlimited ownership and control by the TNCs.

In the "third development decade," the 1980s, the United Nations adopted the most ambitious program for the developing countries operating within the capitalist framework, with capitalist social systems. Annual growth rates of 7% were projected for gross domestic product (gdp), or 4.5% per capita. Farm output was to rise 4% per year, and manufacturing output 9%; foreign trade was to rise a little faster than gdp, with a slight excess of imports. Crucial for success was a rapid increase in investment, to reach 28% of gdp by 1990, of which 24% was to be from domestic savings. However the other 4%, of external funds, would have vital significance qualitatively. To make sure of it, net official development assistance from the developed capitalist countries was to reach 0.7% of their gdp.

In fact, gdp in the developing countries as a whole increased 1.6% in 1981, 0.5% in 1982, and not at all in 1983. That means that on a per capita basis, the developing countries lost 5.4% over those three years, signifying a sharp reduction in funds available for the investment needed to set conditions for later growth.[8] And only slight and uneven recovery occurred during the mid-1980s.

The U.N. Department of International Economic and Social Affairs noted:

> The situation in much of the developing world remains deeply troubling. Many countries are emerging from the recession with a legacy of difficulties which will not be dissipated by recovery elsewhere. The aftermath of a pervasive drought has left many sub-Saharan African countries with a very precarious payments position. Debt-service ratios, particularly in Latin America, are likely to remain unusually high even after recovery in industrial countries, and debtor countries will still be compelled to retrench drastically. While there is recognition of the need for adjustment of productive structures to allow higher levels of domestic activity that would be consistent with lower current account deficits, neither internal nor external conditions are conducive to the mobilization of sufficient resources for the needed investment. Apart from a number of countries, mostly in South and East Asia, per capita incomes have fallen for several consecutive years, and investment expenditures are generally well below the levels realized in the late 1970s. External loan financing from private sources has slowed to a trickle, and the very stringent international liquidity situation restricts capital goods imports.[9]

Earlier, notably during the 1970s, Social-Democratic politicians in Western Europe, and some Democrats in the United States, paid lip service to the official development goals. During the Carter Administration, there were slight modifications in policy toward some Latin American countries.

The World Bank and its subsidiary, the International Development Agency, did provide some credits at low interest rates for economic development. So did individual capitalist countries. The IMF provided some currency stabilization loans. But most of the capital investment in developing countries was either direct investment by TNCs, or by private bank credits for capitalist enterprises—often jointly owned by domestic and foreign capital—not oriented to balanced internal economic development and growth but to provide maximum profits and high interest to the lenders, to supply the export markets rather than to develop a rounded economy and raise living standards in the developing countries.

These conditions determined that the world capitalist cyclical and structural crises of the early 1980s had a maximum impact on the "Third World." By the 1980s, the 1974 U.N. declaration was virtually dead insofar as capitalist countries were concerned, and the naive hopes of U.N. economists for major improvements in the 1980s were shattered. Combined international and domestic pressures frustrated independent development.

The international obstacles were economic and political. As a result of the effect of the price scissors, the terms of trade for the non-oil producing developing countries worsened drastically. Even countries with substantial export surpluses in oil—Mexico and Venezuela—were hit by the inflated prices of imported goods, and especially by soaring interest rates.

World Bank loans almost always went for projects in countries with conservative capitalist governments, least apt to use the funds for socially constructive purposes. By the 1980s, the IMF was world imperialism's main international financial policeman over the economies of indebted developing countries. With the backing of the major capitalist powers, the IMF was able to insist on drastic economic assaults on living standards, threatening coordinated all-out economic warfare against any developing country that refused the dictated terms. Governments unwilling to mobilize mass support for a revolutionary solution to the crisis—in cooperation with other developing and socialist countries—were compelled to yield to the onerous terms.

As the debt crisis of the developing countries mounted, especially in Latin America, resistance to this system increased. Finally, a number of Latin American countries simply refused to have anything to do with the IMF.

In the case of the Interamerican Development Bank, to which the United States was the largest contributor, the voting structure was such that the United States, with the support of only two Latin American countries, could veto any action of the majority. However, by 1986–87, the resistance to Washington's dictation was such that it could no longer get the two votes. Thus the Latin American countries had the power, through united action, to determine where aid should go and how much. The United States thereupon demanded a change in the rules to restore its effective veto power, but the Latin American countries refused, despite the U.S. threat to withdraw funding.

These conflicts were bound to sharpen as long as the course of economic change was counter to that called for by U.N. resolutions and they tended toward increasing instead of decreasing the extreme income gaps between the developed and less developed areas. Moreover, the extreme inhumanity of Washington's policies resulted in limited defiance of its edicts by some NATO allies, which individually, and sometimes through the World Bank, provided modest assistance to Nicaragua and other countries on the U.S. "hit list."

Politically, the United States, especially—but with the collaboration of Israel, South Africa, Britain and some other countries—seriously interfered in the internal affairs of the developing countries. Unlimited freedom for private capital was the condition for financial and trading cooperation. National government-owned enterprises were opposed and hampered, although in many countries government ownership was the only means whereby sufficient capital could be mobilized to establish important industrial enterprises. Moderately democratic governments, where labor had a modest voice, were frowned upon, and encouragement was given to counterrevolutionary right-wing generals. Priority in assistance was given to the reactionary military dictatorships. All governments that permitted Communist parties to operate legally were looked on with suspicion by Washington, and any government that had Communist participation was automatically a target for CIA intervention, seeking its overthrow.

The positions of U.S. TNCs were sacrosanct. Nationalization of any sector had to be on terms agreed to by the TNCs, that is, payment of an extortionate price. Under 1960's legislation—the Hickenlooper Amendment—the United States barred all foreign aid to any country that nationalized U.S. property without adequate compensation, with

Washington to decide the compensation. Any country that moved in the direction of socialism became the target of all-out economic warfare as well as military harassment, if not outright or indirect aggression.

Political intervention by a united front of imperialist powers was exemplified in 1985 when 13 "donor" nations, with the World Bank as manager, set up a $1.1 billion fund for long-term economic assistance to African nations suffering from famine and economic collapse. Unquestionably the sub-Saharan countries were the least developed, most in need of assistance. But the donor group blamed the troubles of the sub-Saharan countries on the "misguided" policies of governments that favored state enterprise and "discouraged private business" rather than on the heritage of past colonialism and the present plundering by imperialism.

Hence the donor group slated the fund for use to help only those African countries "that agree to adopt economic policies that encourage private business, assist farming and generally eliminate bureaucracy and waste."[10]

In each case, moreover, the contracts for the "aid" would go to the corporations in the donor country. The list of 10 countries considered eligible for aid and 10 more likely to become eligible conspicuously omitted all countries that had moved in a progressive direction socially and economically.

Obviously the amount of the fund was trifling compared with the needs of so many countries. It was, in effect, little more than an inducement for political support to right-leaning politicians in the African countries.

On a number of occasions, the United States had been overruled by World Bank votes, and aid was given to countries it opposed. Under its mid-1980s reactionary government, the U.S. did not want to risk even such minor deviations from its imperialist extremism, so it refused to contribute to the fund, relying instead on its own African-aid program.

The formidable problems of the developing countries with capitalist-oriented regimes, even those with democratic leanings, have been aggravated by their greedy, ruthless and profit-driven capitalist nationals. In most Third World countries, the income gaps between capital and labor have been even wider than in the United States, Western Europe and Japan. Luxury spending by the ruling elite has taken an inordinate share of the national income and has been responsible for a substantial part of the indebtedness. For the most part, the ruling cliques of the developing countries have been willing to be *compradores;* to act, in effect, as junior partners of the TNCs in exchange for U.S. political support against "their own" workers.

The developing countries did get elementary health training and medicine from the advanced countries, which reduced the still high infant mortality and overall death rate and led to a rapid population growth. This, in turn, led to a mass exodus from the countryside. Millions of people poured into the capital cities in hopes of finding employment, creating terrible conditions of pollution and overcrowding, of primitive shacks in makeshift slums. In some countries, 20% or more of the population live in the capital cities, and multitudes were without means of livelihood.

As the crises of world capitalism—general, structural and cyclical—combined in the early 1980s, mass living standards in the developing countries plummeted. Resistance led to successful revolutions—as in Nicaragua—and large-scale armed resistance, as in El Salvador and the Philippines. Major struggles also developed in other countries, and explosive situations were maturing.

Particularly vicious dictator-puppets of U.S. imperialism were overthrown in Haiti and the Philippines. There was no immediate change in the class composition of the ruling groups in those countries, nor did the struggle for basic change end, but liberation movements in other countries were encouraged—mass actions for the overthrow of the South Korean and Chilean dictatorships became much stronger.

The Philippines were the site of the largest U.S. foreign bases and of the largest contingents of U.S. troops in developing countries—along with South Korea. But even those forces were not able to guarantee the continuation of rule by local exploiters basically dependent on and subservient to U.S. and Japanese imperialism.

Although some Far Eastern and Latin American nations have approached high industrial-technical levels, they have remained at or close to the level of the poorest and least developed countries in social structure and mass living standards. To resolve these contradictions there will have to be far-reaching social revolutions that lead to a change in economic structure so that production will be mainly oriented to raising living standards rather than to supplying capitalist markets at cut-rate prices.

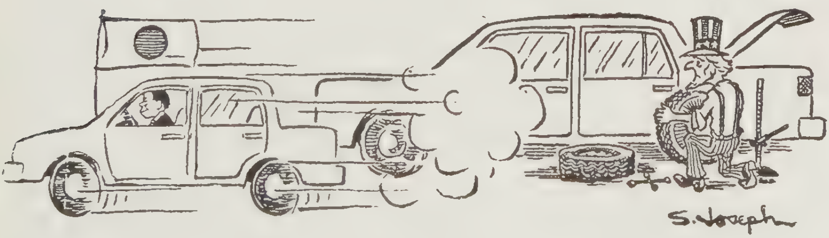
It has become clear that the interests of workers in the United States and other advanced capitalist countries are consistent with the objectives of the progressive forces in the developing countries, and directly opposed to the objectives and policies of the TNCs and the capitalist governments. To an increasing extent, this has been recognized in some of the literature of the U.S. trade union movement, although inconsistently. More and more people in the United States and Western Europe have given active support to the liberation struggles in Latin America, Southern Africa and other areas. And as more successes break the chain of imperialist domination, the position of the workers in the United States and other advanced capitalist countries will be strengthened.

The qualitative transformation and dominating scale of the internationalization of economic life enhance the timeliness of the injunction of Marx and Engels at the close of the *Communist Manifesto:* "Let the ruling classes tremble at a Communist revolution. The proletarians have nothing to lose but their chains. They have a world to win. Workingmen of all countries, unite."[11]

The practical possibility of such unity has increased; and what is especially important—the consciousness of its necessity has grown, including in the United States, where chauvinist propaganda attempts to convince U.S. workers that they, too, are the beneficiaries of "American exceptionalism."

Workers in countries that have already achieved socialism are no longer exploited, of course, but it remains important for there to be unity between them and workers in capitalist countries.

By far the most important feature of economic life in the last half of the 20th century is the uneven development between socialism and capitalism, the different aspects and directions of development of these two forms of society. These characteristics are examined in the next chapter.



18. Socialism vs. Capitalism

The most basic factor in world affairs is the relationship between capitalist and socialist societies.

The 1917 October Revolution, which brought a new social order pledged to a program where the means of production would be commonly owned, injected the capitalists of the world with alarm, fear and hatred. The Soviet Union has, ever since, had to defend itself against persistent attempts to destroy it. First, while wracked by the four years of World War I, there was the military aggression by a coalition of the major capitalist powers in 1918–1921 to be fought off; then there was the awful devastation and loss of lives during the Hitler-instigated World War II. And ever since, there has been the mounting threat of nuclear assault by the United States and its NATO allies.

Thus the USSR has been forced to concentrate a heavy proportion of its economic efforts toward reconstruction from the damage of past wars and for preparations to meet the menace of new ones. This burden has slowed and distorted the development of the Soviet civilian economy considerably, and similar pressures have hampered the socialist regimes established after World War II.

As the Soviet Union achieved strategic parity with the United States, it was the consensus within the two principal nuclear powers that a nuclear war cannot be won and must never be fought: it could destroy not only the participants but also much of the rest of the world in the process. Yet by the mid-1980s, Washington had not yet adjusted U.S. policy to accept that basic reality. Thus major diversion of resources and labor to military ends has continued to impact upon the economic life of the United States and, oi necessity, the USSR.

Nevertheless, despite wars and preparation for wars, the Soviet Union has been able to allot sufficient resources to achieve a successful socialist society, to force the world to compare it with capitalism. Such comparisons are clouded, however, materially and psychologically, by military confrontation.

This chapter summarizes developments to date in the economic competition between socialism and capitalism, taking into consideration all the restrictions and distortions imposed by militarization of economic life.

Most attention focuses on comparisons between the United States and the Soviet Union, the most powerful capitalist and socialist countries. But since World War II, other socialist and socialist-oriented societies have emerged, and broader comparisons are relevant.

A capitalist society was defined in the Introduction to this work. What then are the characteristics of a socialist society?

Characteristics of Socialist Societies

Social: The working class becomes the dominant, ruling force in society. Cooperative farmers constitute the other major sector in the USSR. There are also cooperative trade and service groups and handicraft-type manufacturing cooperatives. Professionals—including cultural figures—are increasing in number, but more and more they are workers who achieve professional status by further training, and the distinction between professionals and workers tends to narrow. The capitalist class, as a group that owns property and profits from the labor of others hired to produce from that property, no longer exists. Private enterprise exists: farmers market produce grown on their personal plots; plumbers, carpenters, etc., service householders; artists receive fees for paintings, performances, etc. However these individuals do not hire labor but depend solely on their own skills and talents. Many are part-time free-lancers, as they also hold salaried jobs or are members of cooperatives.

Political: Reflecting the social structure, the leading political party in socialist countries is a Communist Party, or a similar Marxist-Leninist party with a different name. In the Soviet Union—and some other socialist countries—the Communist Party is the only party. This evolved historically because other parties in existence at the time of the October Revolution refused to participate in the Soviet government, instead entering into a Civil War and joining the interventionists. There are, however, a number of political parties in the German Democratic Republic (GDR), Czechoslovakia, and other socialist nations, and they have significant representation on governing bodies.

The national, state and local governments are led by a plurality of workers, supplemented by cooperative farmers, professionals, Communist Party and trade union officials, most of whom have a working-class background. This applies as well to the Supreme Soviet, the parliamentary bodies, the Council of Ministers and the Central Committee of the Communist Party. Special provisions provide for proportional representation of all the many nationalities in the Soviet Union, and there is a Council of Nationalities in the Supreme Soviet, which provides more than proportional representation for the smaller nations and nationalities.

Economic: The national government owns the principal means of production—factories, mines, transport systems, large trading establishments, state farms. The enterprises operate according to a central plan, which sets goals and quotas for production and supply, prices and wages, major investments, taxes and state budget allocations, coordinates education programs with anticipated employment requirements, etc. A large part of the housing is publicly owned and rented at very low rents, but there is an increasing proportion of privately owned or cooperatively owned housing.

As the economy becomes larger and more complex, planning is increasingly broad and strategic, with more responsibility distributed among industrial and agro-industrial complexes for detailed planning and cooperation within the overall framework.

Operation of enterprises conforms to the concept of working-class rule. Managers are regarded as professional organizers, not representatives of a hostile, capitalist class. The workers' unions have extremely broad powers over working conditions, health and benefit provisions, vacation facilities, hiring and firing. Every encouragement is given to workers, individually and through teams of workers, their unions and Communist Party organizations, to participate in planning operations and in finding ways to improve operations and reward those who develop new methods.

* *

During the 1980s an annual average of 4.6 million individuals—engineers, technicians, workers—made proposals for rationalizing production, new inventions, etc., with an estimated economic effectiveness of more than 7 billion rubles per year.[1]

As levels of education and conditions of life improve, workers participate more actively in the management and improvement of enterprises. The government and Communist Party, by education, exhortation and—increasingly—use of material rewards for valuable innovations and improvements, strive to develop a spirit of full participation in economic affairs by all workers.

This situation is in striking contrast to that in the United States and other capitalist countries. While many companies do have "suggestion boxes" that invite workers to make proposals—even rewarding suggestions that are adopted—such incentives are two-sided and are often, understandably, resisted by workers and their unions. A worker may make a suggestion enabling him to do the work of three. He gets a bonus, and gets to keep his job, but two workers lose their jobs, as the employer takes no responsibility for their welfare. Indeed, the really large bonuses will go to the executives who succeed in significantly reducing labor costs at the expense of the incomes and jobs of workers.

Most important, the capitalists reject any significant worker influence over operations, including those vital to the health and safety of the workers. Some of the bitterest strikes are precisely over the desire of workers to have some influence over the conditions of their work, some effective machinery for settling their many grievances with management.

These are *rights* in socialist societies, guaranteed by law and exercised to the extent that workers participate in their trade union affairs.

There are variations between the economic structure in the Soviet Union and in other socialist countries, but in most cases these differences are secondary. There is increasing international cooperation and planning among most of the socialist countries through the Council of Mutual Economic Assistance (CMEA).* Unlike the situation in international capitalist organizations, each CMEA member has an equal vote and participation in all projects is voluntary for each member.

The bulk of foreign trade of CMEA member countries is with other socialist countries. At the same time, they attempt to develop broader trade with the rest of the world to the extent possible in view of limitations imposed by capitalist governments.

For the most part, the CMEA countries are also allied politically and militarily. Very substantial economic assistance is given by the USSR and other European socialist countries to less developed CMEA

*As of 1985, the CMEA member countries were: USSR, Bulgaria, Hungary, Vietnam, German Democratic Republic, Cuba, Mongolian People's Republic, Poland, Rumania, and Czechoslovakia (listed in Russian alphabetical order, except for USSR).

members and to other socialist and socialist-oriented countries, which may—or may not—join CMEA as they advance in their development.

The socialism of China and Yugoslavia differs significantly from that of the USSR and other CMEA members. The specific features and problems of these nations are outside the scope of this volume. As of 1987, their main economic and financial relations were with capitalist countries.

At least a dozen countries in Asia, Africa and Latin America have governments that, with their peoples' support, are striving to build socialist societies. They are, however, starting from quite low levels of economic and social development. For the most part, they are members of the non-aligned movement politically, and their leading political parties are influenced in varying degrees by Marxism and Leninism.

Full Employment

A major feature of Soviet society, and that of most other CMEA members, is the existence of full employment. Everybody of working age is guaranteed a job. It is difficult to overestimate the importance of the economic security this provides; or the contrast with capitalism, where very few people enjoy such economic security. Capitalist economic theory considers full employment impossible because of the anarchy of the system; and undesirable because it leads to excessive [sic] labor bargaining power and lower profits. Thus unemployment is always present and becomes a mass phenomenon in times of economic crisis, cyclical or structural.

Economic security is a significant qualitative advantage of socialism over capitalism, even though it cannot be measured statistically.

Contrary to hostile propaganda, workers in socialist countries may choose their occupations and places of employment within the range of their capabilities and qualifications. They can change jobs at will, and there are generally many publicly posted calls for additional workers at various skill levels. Graduates of colleges and technical institutes are offered a choice of employment in accord with their professions and sign contracts for three years, after which time they may leave. As plants become obsolete, or require fewer workers as a result of modernization, there is advance notification and planning so the displaced workers can move to other jobs with equivalent conditions without loss of income through unemployment.

Physically healthy people of working age who are neither students, nor in the armed forces, nor engaged in caring for small children, are legally required to work. In 1987 the Soviet government attempted to enforce that law. Some people, especially in the southern regions, preferred to live off family members, social benefits, etc. When they were pressured to get a job, some Western journalists seized on the campaign as "proof" of unemployment in the USSR! Of course, in the United States there are tens of millions of people of working age who choose not to work, who are not counted as members of the labor force nor as unemployed.

Human Rights

Since World War II, documents spelling out norms of human rights—political, social and economic—have been adopted by the countries of the world. Especially notable are the United Nations Convenants on human rights (1974) and the Helsinki Accords of 1975 (Conference on Security and Cooperation in Europe: Final Act). These documents are practically unknown in the United States and they have not been ratified by the U.S. Senate. Their contents are not taught in the schools; copies can be found only in large libraries. The UN documents are not mentioned in the Establishment media or by Establishment politicians. The Helsinki Accords are referred to by name—in charges of alleged violations of human rights in the USSR. An ultra-right anti-Soviet organization calls itself the Helsinki Watch Committee, but it carefully refrains from concrete, objective reference to that document.

Analysis shows that the socialist countries are far closer to compliance with the human rights objectives than the capitalist countries; that the major violations of these rights, as specified in the documents, are by capitalist governments and reactionary groups.

The restriction about which there is most clamor is the limitation on emigration by the USSR, the GDR and other socialist countries. The UN documents, however, specify the security of a country as a qualifying factor in its coverage of this issue.

There is a historical basis for the development of these restrictions.

The rapid economic growth of the United States in the latter part of the 19th century and first quarter of the 20th century, which raised it to first place in world economy, was largely based on the labor of tens of millions of people from Eastern Europe. These immigrants came from lands where living standards were lowest and repression most severe. By drawing away the most energetic people, with most financial assets, the countries they left were seriously weakened while, at the same time, the U.S. capitalists gained a cheap labor force and an additional source of capital.

Russian emigration was freely permitted after the 1917 Revolution until a specified cutoff date. But thereafter, and especially after World War II, the United States, West Germany, Israel, etc. organized and financed drives to stimulate emigration from the USSR and other socialist countries. The aim was to weaken them and, in the case of some countries—notably the GDR—to draw off so many people, especially the highly trained specialists in all fields, as to destroy their viability as nations.

By the 1980s, this drive was losing its force in view of the increasing equalization of living conditions between socialist and capitalist countries. The desire to emigrate was limited to comparatively few, and restrictions were relaxed.

So what about U.S. limitations on the right to immigrate? Not to mention its own strictures on foreign travel during the McCarthy period after World War II, U.S. immigration policies violate the human rights of millions striving to leave countries south of its border. They want to escape starvation and, in some cases, repression; to find work and conditions for survival. The barriers to their immigration are carefully calibrated to detain and drive back most while permitting a million or more each year to "get by," to become "illegal," "undocumented aliens," subject to extreme exploitation, with no civil or human rights whatsoever.

Contrast this inhumanity with the U.S. open-door policy and open-arm welcome accorded émigrés from the USSR, who have been seduced by promises of fame, fortune and "freedom." Once here, however, for every prominent artist or athlete, there are hundreds of professionals—doctors, professors, scientists—who are working at menial jobs in order to exist. Many want to return to the USSR.

The hypocrisy of the outcry about Soviet emigration policies is revealed when one considers the fact—little known to most Americans—that while the Soviet Union welcomes U.S. visitors, Washington refuses entrance visas to a large number of Soviet citizens who want to visit. As of 1987, the U.S. government still adhered to the *rule* forbidding entry to any Soviet trade union delegation, despite invitations from U.S. unions. Also subject to a high proportion of refusals have been non-defecting Soviet Jews, who want only to visit the

United States. The reason for these barriers are all too obvious: they are to prevent exposure of the myths of "forced labor" and "government anti-Semitism" in the USSR.

This particular issue is singled out here because it has been given maximum exposure in the United States. It has been fostered by the forces that are determined to deprive all people of their most fundamental human right—the right to life—by their preparations for nuclear war and their resistance to disarmament. On another level, U.S. legislation in its cold-warfare against the USSR is based on its interpretation of Soviet emigration policies.

It is a truism that there is no such thing as absolute freedom in human society. Aside from basic necessary limitations—as against crime—which exist in all civilized societies, restrictions on individual liberties in socialist countries are consonant with the threats, military and economic, against them by capitalist states. There are also legal restrictions that differ from U.S. concepts. For example, profiteering, a major crime in the Soviet Union, is the accepted goal of capitalist activity. Propaganda for war is illegal, as are racism and expressions of national hatred. Soviet writers are appalled by the "freedom" of American media to propagate perverted sex, gambling, fascism and war. They contend that their legal institutions limit not freedom but the abuse of freedom.

Considering the entire range of social, political and economic rights, *workers* in a socialist country have far more freedom than *workers* in a capitalist country. U.S. workers and employees are told they live in a free country and have complete personal freedom. But in fact they are subject to such evils as unemployment, exploitation, poverty, racial and sex discrimination, insecurity in illness and old age, police brutality, and effective exclusion from political power.

Rich capitalists, the top 1% of the U.S. population in income and wealth, enjoy very extensive privileges, at the expense of all the rest. They have, indeed, broad freedom of action and are well aware they would lose many of their advantages in a socialist America. They equate the losses they assume they would sustain with the situation of all Soviet citizens.

The Soviet Union is not a Utopian society. There are injustices. There is bureaucracy. There is opportunism. There is crime.

Not all people participate wholeheartedly in economic activity. There are those who have personal problems, as anywhere else. There are many who are interested only in their individual welfare. There are many who aren't fairly paid for the work they do. Planners, government and Communist leaders make mistakes. Some shortcomings have been inherited from the Tsarist regime; others have been imported from capitalist countries via the influence of the media and personal contacts.

But recognition of these problems by the Soviet leadership, and broad public discussion, indicates a high level of maturity of socialist society, which promises accelerated progress. These evils are not systemic. They are combatted and reduced by government action, with overwhelming popular support. And they are much less severe than similar and even more harmful vices in capitalist countries. Attempts to use them to justify war preparations, and for attacks on socialism as a system, should be rebuffed.

Particularly obnoxious are demands of powerful Americans for reforms in the Soviet Union when these same people are rigid opponents of urgently needed changes in the United States.

Basis of Soviet Economic Progress

Socialist economic progress rests on a dual foundation.

One base is balanced, planned growth. This is the sphere of economists, engineers, managers, computer experts. Central planning strives for an approximate balance between supply and demand for materials, labor, consumer goods and services, between construction and equipment of new plants and the requirement for them. Similarly there must be financial balances and foreign trade balances, all combined with allowance for dynamic growth, differentiated between industries and regions, with special allocations for top priority projects.

Capitalist economists condemned the very idea, claiming that it simply could not be done or, at best, would be a formula for stagnation and regression; that it violated the free operation of economic activity guided by individual self-interest. They especially mocked attempts to achieve such sophisticated management and control in a historically backward, largely peasant country, with a low level of mass literacy.

History proved the critics wrong. Socialist planning worked with remarkable effectiveness, achieving, in large measure, the balance required and the goals of dynamic growth. Of course, the system—the first, pioneering attempt at socialist planning—didn't work perfectly. But it worked well enough to overcome obstacles imposed by external pressures from capitalism, from unfavorable weather conditions for agriculture, from the initial cultural backwardness, from the variety of national and ethnic habits and preferences with which the planners had to deal.

It has been sufficiently effective that a number of capitalist governments and individual corporations have drawn up their own five-year plans. By and large, these imitations have not worked and cannot work, as they cannot overcome the anarchy and contradictions of capitalism.

The second, and no less important foundation of socialist economic progress was and remains the devoted efforts of tens of millions of workers to accomplish the economic tasks. Projects of tremendous magnitude were carried out under difficult conditions by people whose main motivation was to make socialism work and to improve it. They hoped in the process to achieve the human rights goals of socialism—liberation from all forms of exploitation and national/ethnic oppression; equal rights for all people; continual improvement in overall standards of life, material and cultural. Millions welcomed the opportunity to participate in grandiose economic and scientific-technological projects. Further, there was the knowledge that much had to be done quickly to defend their country from threatening invaders.

Such stimuli, motivating the millions, made possible the construction of great basic industries and modern agricultural enterprises; rebuilding one-third of the country laid waste by aggressors; developing the world-important oil and gas fields of northern Siberia; building the Baikal-Amur Railroad (BAM); orbiting the first space ships.

This social motivation remains decisive as the 20th century approaches its end, and the stage of development makes possible accomplishment of great tasks without the pioneering hardships endured by earlier generations.

Most people, when faced with a choice between capitalism and socialism, will decide on their perception of which system will provide them with a better life, a better and more secure standard of living, rather than on a theoretical basis of which society is better. So comparisons of actual economic status and, especially, of progress in capitalist and socialist countries are crucial in determination of workers' attitudes.

It has not been possible for most people, in either socialist or capitalist countries, to get realistic, rounded analyses of the economic situation and development in countries with the other major social system. For example, the capitalist media go to great lengths to prevent dissemination of information about actual conditions in socialist countries.

Thus, before we analyze actual data and compare levels and rates of development between capitalist and socialist countries, especially between the USA and the USSR, here is a sampling of the material presented to the American public by the U.S. Establishment media.

Denigration of Socialist Economic Achievements

Ideologists and propagandists of capitalism hide, distort and blatantly lie about economic developments in the socialist countries, especially in the Soviet Union. Establishment media participate in this campaign, as do politicians—especially the more aggressive, right-wing Presidents, who have unlimited access to publicity.

The impression conveyed by much of the U.S. media is of a backward society of poor peasants and of workers forced to labor in obsolete, inefficient factories, with outdated technologies, turning out substandard goods. Such propaganda has been most rampant during periods of economic difficulties in the capitalist world and when there have been differences of opinion among the capitalist nations over foreign policy. On the one hand, Americans and West Europeans have been told over and over than no matter what their problems, they are doing much better than their counterparts in socialist countries. On the other hand, the more aggressive militaristic factions, favoring foreign interventions and the accelerated nuclear arms race, have taken the line that the alleged economic weakness of the USSR and its allies enables the United States to win the arms race and dictate terms in international affairs.

Paradoxically, it has alternatively been claimed that the Soviets, despite their alleged economic backwardness, are at the very peak in military production and are way ahead of the United States. The absurdity of the contention that overall economic and technical incompetence could be combined with supremacy in the most complex of modern industries—the military—is expected to escape the notice of the supposedly dimwitted public. At times both arguments have been used simultaneously, in different contexts, but with the same end in view: to incite Congress to vote larger military appropriations and to support more aggressive and dangerous policies, more profitable to the armament manufacturers.

During the Reagan Administration the dominant theme was that by going all-out with military preparations, a decisive advantage could be gained over the Soviet Union.

The New York Times White House correspondent, Leslie H. Gelb, reported in 1986 that Mr. Reagan's aggressive stance was spurred by his belief that the United States was "relatively stronger" and the USSR "relatively weaker" than previously, both militarily and economically. Gelb went on: "Senior officials . . . feel . . . that Moscow was running into real problems of economic stagnation at home."

Shortly thereafter, the newspaper gave more details of this attitude— omitting the diplomatic language of the earlier report—which openly used this estimate as the basis for the U.S. decision to proceed with aggression against developing countries and to continue its nuclear arms buildup without the USSR being able to take any counteraction:

> Behind these judgments is a new and fundamental consensus in the Administration that Mr. Reagan has altered the correlation of overall power with Moscow and that the Russians are 'on the run' as one high-ranking official put it.
>
> "The Soviets were on the move in the 1970s—they had the dynamism," a senior Administration official said. "Now, we have it and they know it." . . .
>
> Administration officials acknowledged that their view that they have the Russians on the run explains why they think Moscow will eventually have to come around to the President's way of framing an arms control agreement.

Up to that time, the only kind of "arms control" Washington would accept was one whereby the USSR disarmed while the United States continued to build up its armaments—on earth and in space. The cited officials "expect that U.S. pressure will force the USSR to stop helping Angola, Nicaragua, Libya and Cambodia. . . . "[2]

This attitude in no way corresponded to the facts. But it is extremely dangerous. Hitler had similar illusions in launching World War II.

The top Establishment foreign policy journal, *Foreign Affairs,* featured professor Seweryn Bialer and Joan Afferica's article on "Gorbachev's World." They declained about a "trend of decline," a "far-reaching and multi-dimensional systemic crisis" of the socialist system, which "cannot deliver the sustained expansion without which Soviet power will falter." They wrote that the USSR's problem is to "keep from falling further behind" the USA. They asserted that other socialist countries are even worse off with "declining growth," "stagnation or fall of their living standard," and "technological backwardness. . . . The entire region may be called with full justification the Great East European Co-Stagnation Sphere. . . . "

Devoting much space to scientific-technological criticism, they wrote: "In the last decade, for the first time in postwar history, the productivity and technology gap between the United States and the Soviet Union grew."[3]

Note the admission, after the fact, that in an earlier period the USSR gained on the United States in these spheres. But the same kind of propaganda of Soviet failure was made during those earlier decades.

What is most remarkable in the whole 40 pages of their article is that Bialer and Afferica cite not a single statistic or other concrete fact to back up their assertions. Abandoning all pretense of scientific method, they stoop to the most vulgar lies and inventions to propagate their hatred of socialism.

In advance of the November 1985 Reagan-Gorbachev meeting, U.S. big business journals stressed the thesis that the alleged technological backwardness of the USSR enabled the United States to win decisive military superiority over the Soviet Union. Especially through the "Star Wars" program of extending the arms race into space, the U.S. would subject the USSR to intolerable strain economically and technically.

Fortune chortled over a "Soviet nightmare," about its inability to match U.S. microelectronics . . . "Hiroshima began the nuclear age. Now microelectronics holds center stage, and the Soviet military cannot wish away the realities of the high-tech arms race."

The historical comparison was unfortunate for *Fortune*'s thesis. For Hiroshima was designed to bully into submission a Soviet Union supposedly unable to catch up to the United States in nuclear armament—an illusion of which Washington was soon disabused. The entire postwar history shows that every attempt to get ahead of the USSR militarily through technological advances in armaments has been matched, and with decreasing time intervals, by the Soviet Union. But, *Fortune* made clear, its argument need not be valid for the benefit it confers on U.S. corporations to be realized:

> The Pentagon's commitment should mean a lavish and continuing supply of R&D funds for U.S. companies in the forefront of defense

> technology . . . Even if a Star Wars defense is never built, research toward it can only strengthen the U.S. technological advantage.[4]

Business Week echoed the same theme: "Russia is falling badly behind in technologies such as computers. . . . President Reagan's Strategic Defense Initiative, calling for a huge push into new technologies, has sharpened that anxiety."

At the time the *Business Week* article was written, "austerity" in social programs and wage cuts were being foisted on U.S. workers to pay for the Pentagon space warfare and generally rising military budgets. As if to console them, *Business Week* had this to say:

> Russians sacrificed living standards for decades to pay for a massive nuclear buildup. . . . For more than 10 years, the Soviet economy—the underpinning of its military power and global political role—has been running out of steam. The Soviet Union not only lags behind the U.S. in gross national product, but also is growing more slowly.[5]

Business Week, like many other Establishment publications, freely advised the Soviet Union to solve its alleged problems by reverting to capitalism—as if the complex of crises in the 1980s was not enough to deter any who had escaped capitalism from returning to it!

Criticism and self-criticism is a thematic Communist method of analyzing shortcomings and finding ways to overcome them. So Soviet media and political leaders publicize data on the weaknesses and partial failures of the Soviet economy, as well as on accomplishments. A favorite ploy of U.S. Sovietologists, journalists and politicians is to extract the criticism, in isolation from the overall appraisal, implying a lack of progress on balance. Thus U.S. readers and listeners are given an utterly false picture of unrelieved failure all along the line.

University of Kansas Professor Harry Shaffer concluded a brilliant expose of dishonest denigration of Soviet economic achievements with these words:

> Indeed, the evidence is available for all who wish to examine it. With the records so clearly before us, is it not time that we begin to give credit where credit has long been overdue, that we recognize the truly impressive economic and social achievements of the Soviet Union, and that we analyze the Soviet economy from a perspective of scholarly impartiality and fairness, notwithstanding the fact that, to quote two known Western Sovietologists, an "unbiased evaluation of Soviet economic performance is difficult, since many in the West would be unsympathetic to the Soviet political system."[6]

So let us examine the facts.

Summary Comparison of the USSR and the USA since 1973

Socialism has achieved a much faster economic growth rate than capitalism. But the most essential economic difference is that under socialism the benefits of growth go to the working people; under capitalism they go overwhelmingly to the owners of capital. In the recent and continuing period of structural crisis, this has been to the absolute detriment of the conditions of U.S. workers. This is illustrated by chart 18-1, which shows that between 1973 and 1986, Soviet industrial production increased more than twice as fast as that of the United States, and its national income nearly twice as fast.

More indicative of the fundamental difference between the social systems is the fact that real wages and farm incomes increased in line with production in the USSR, while real wages and farm incomes sustained major declines in the United States.

Chart 18-2 compares changes between 1973 and 1984 in per capita production of key commodities in socialist and capitalist countries. The contrast between socialist progress and capitalist regress is marked.

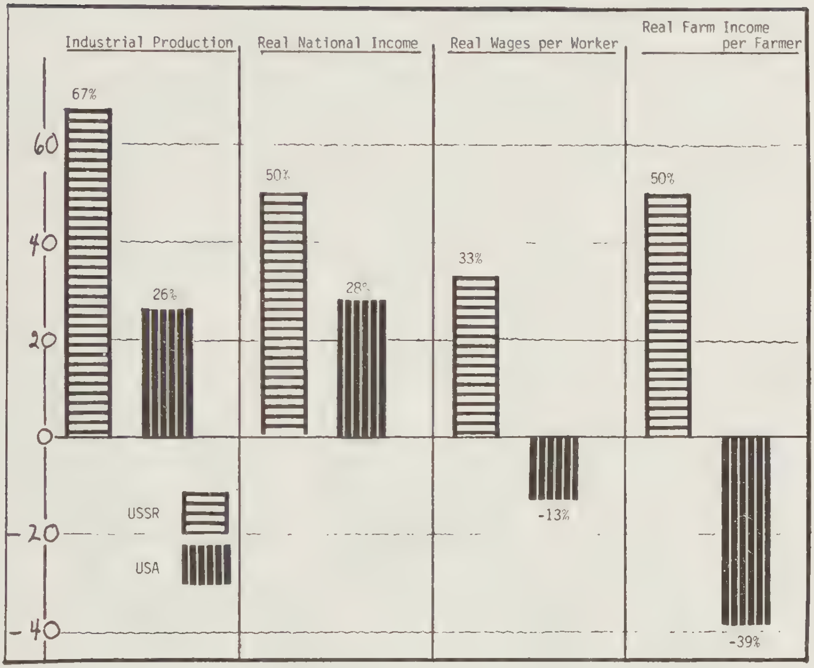
Industrial Production

The most crucial measure of economic strength and progress in the modern world is the level and rate of increase in industrial output. Russian industrial production in 1913 was only about one-eighth the U.S. level. In 1922, after four years of war and four more years of counterrevolutionary intervention, Soviet industrial output was a mere 3% of the U.S. level.

Soviet production made rapid gains, especially under the five-year plans beginning in 1928. By the eve of World War II, the USSR was a significant industrial power. But wartime damage, combined with the accelerated progress made by U.S. industry as a result of that war, left Soviet production again a rather small fraction of the U.S. level.

Faced with the cold-war hostility and the atomic menace from the United States, the Soviets had to mobilize every resource at maximum capacity to recover and expand industry. The plans set

CHART 18-1. *PERCENT CHANGE, 1973-1984, USSR AND USA*



goals for many times multiplication by 1960 of production of steel, oil and other key products, goals the capitalist observers considered absurdly ambitious. But the goals were met and in the case of oil, even exceeded.

The gains continued. By the 1980s the USSR estimated its industrial production at 80% of the U.S. level; agricultural output at 85%; national income at 67%; and capital investment at equal to that of the United States.[7] CIA estimates placed the ratios somewhat, but not radically, lower. Thus, as of 1976, the CIA put Soviet gross national product at 60.4% of the U.S. level and its capital investment at up to 10% greater than that of the U.S.[8]

Table 18-1 shows the growth of industry in the USSR and in the United States from 1953 to 1986. The years shown were selected to avoid distortion owing to cyclical fluctuations in the United States.

The rate of increase slowed in both countries in the later period, but far more in the United States than in the USSR. Overall, during this period, industrial production increased more than ten times in

CHART 18-2. *PERCENT CHANGE IN PER CAPITA PRODUCTION, 1973-1984*
Key Commodities, Capitalist and Socialist Countries (Source: UN Publications)

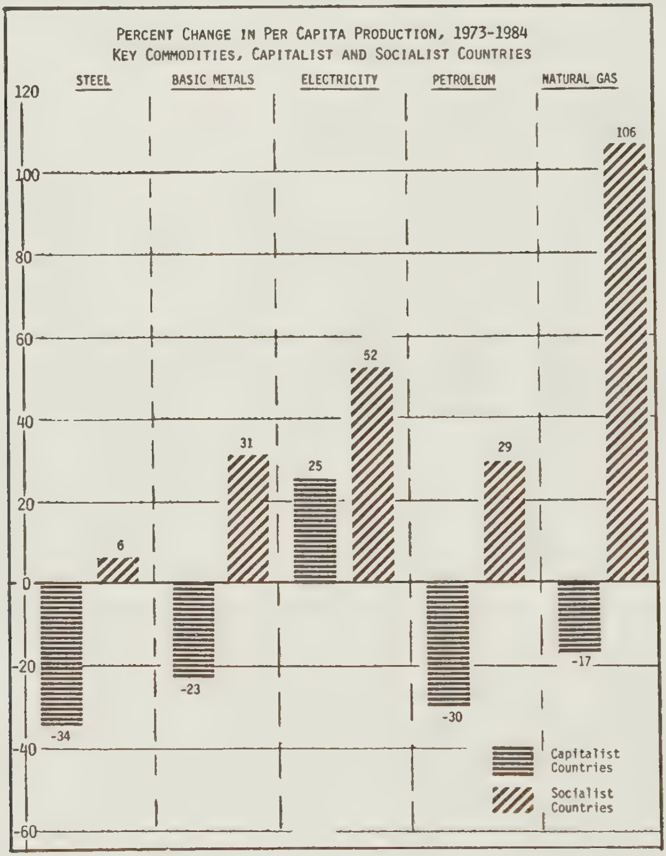


TABLE 18-1. INDUSTRIAL PRODUCTION, UNITED STATES AND USSR 1953-1986
INDEX NUMBERS 1953 = 100

Year	USA	USSR	Year	USA	USSR
1953	100	100	1973	234	581
1963	139	270	1986	310	1052

SOURCES: *EROP*, 1977, B-45. p. 296; UN Statistical Yearbooks and *MBS*, various issues; *Pravda*, 1/18/87.

the USSR, as compared with a little more than three times in the United States.

Table 18-2 compares annual rates of growth in industrial production in the U.S., the USSR, and between the developed socialist countries and developed capitalist countries, for periods between 1953 and 1985.

TABLE 18-2. INDUSTRIAL PRODUCTION ANNUAL GROWTH RATES, USSR AND USA, DEVELOPED SOCIALIST AND CAPITALIST COUNTRIES, BY PERIODS, 1953-1985

Period	USSR	USA	Developed	
			Socialist Countries*	Capitalist Countries**
1953-1963	10.4%	3.4%	10.3%	6.0%
1963-1973	8.0%	5.4%	8.3%	6.1%
1973-1985***	4.6%	2.3%	5.1%	1.8%

*Developed Socialist Countries are the European members of the CMEA.

**Developed Capitalist Countries are developed market economies, as defined by the United Nations.

***A 12-year interval, 1973-1985, is more appropriate than a decade interval because the opening and closing years represent corresponding periods in the business cycle.

SOURCES: United Nations Statistical Yearbooks and *MBS*, various issues; Narod. Khoz. SSSR, various issues; *EROP, 1986*

In each of the three periods, covering a third of a century altogether, the growth rate of the USSR decisively out-stripped that of the United States; and the growth rate of the developed socialist countries outstripped that of the developed capitalist countries.

Note, however, that the U.S. production growth rate was much faster in the 1963-73 decade than during the other two periods shown. In the early 1960s, Premier Khrushchev forecast that the USSR would rapidly overtake the United States in production. On the one hand, he underestimated the reserves of capitalist economy, which speeded up the economic and industrial growth rate in the period 1963-73. This was a significant acceleration, even though to a considerable extent it was due to Vietnam War stimulation. On the other hand, he underestimated the obstacles to maintaining the extremely high USSR growth rate of the earlier postwar period.

Still, his forecast of continual Soviet gains proved valid, while the economists who claimed that the Soviet economy was falling further behind and was lagging hopelessly were decisively wrong.

The faster growth rates for socialist countries as a group has also been consistent, and especially marked during the period of the capitalist structural crisis beginning with 1973. The setback to Polish production during its political-economic crisis of the early 1980s was more than offset by fast gains realized by some of the other socialist countries.

Sometimes, contrasts showing the much faster growth rate of Soviet economy are dismissed with the argument that the USSR was merely catching up from a very low level. That argument collapses when it is considered that the Soviet growth rate during most of the period since World War II has been much faster than that of the United States at a much earlier time, when the U.S. level of development was at a considerably lower point than that of the Soviet Union after World War II.

A particularly interesting comparison is that between the GDR (German Democratic Republic or East Germany), and the FRG (Federal Republic of Germany or West Germany). Here we are dealing with people of the same ethnic group and the same cultural, educational, technical level, etc.

In both countries the growth rate was very fast, and not too different, for a considerable period after World War II. The FRG was recovering its leadership position in European capitalism. The GDR was enjoying the benefits of socialist planning and aid from the USSR, together with a hard-working, reliable workforce.

But then in the early 1970s, the structural crisis of capitalism hit, and the gains of the GDR became decisive. This is indicated by table 18-3.

TABLE 18-3. Growth of Industrial Production, GDR and FRG, 1953-1985

Period % Increase in Industrial Production	GDR	FRG	Period Annual Rate of Increase	GDR	FRG
1953-1963	113%	108%	1953-1963	7.9%	7.6%
1963-1973	85%	66%	1963-1973	6.3%	5.2%
1973-1985	77%	13%	1973-1985	4.9%	1.0%

SOURCE: United Nations Statistical Yearbooks and *MBS*

The moderate slowing of the growth rate in the GDR since 1973 was unexceptional, considering the high level previously reached. Not so with the virtual stagnation that set in in the FRG. Further, the rapid growth in the West German economy was achieved with the help of millions of "guest workers" imported from southern Europe and Asia, who were subjected to super exploitation. During the period since 1973, the FRG economy was afflicted with all the hardships of mass unemployment, shutdowns of basic industry, and other symptoms of decay and corruption affecting the capitalist world in general.

In the 1970s, living standards were generally regarded as lower in the GDR than in West Germany. It is doubtful whether such an appraisal, for the majority of workers, would be considered valid in the late 1980s. In 1981, on a personal visit to all corners of the GDR—small towns, large cities, rural areas—the reality of prosperity was obvious to me everywhere, not only in physical appearance of structures, but also in supplies of commodities and attitudes of the people. There are few places on this globe about which such a conclusion could be reached.

The reported increases in industrial production for the GDR are conservative. The emphasis is on *net* production, taking into account the reduction in consumption per unit of raw materials and components. In 1986, for example, the official index of gross industrial production increased 4.3%, while net output of industry went up 8.5% and labor productivity, calculated on the same basis, rose 8.8%.[9]

Similar results were achieved in the two previous years. In terms of net output, and considering labor productivity and quality of products, the effective growth rate of the GDR may well have accelerated significantly in the mid-1980s.

USA and USSR: Output of Important Products

While still behind the United States in overall industrial output, by the mid-1980s the USSR was in first place in production of a number of key, basic industrial products, while still lagging in other important products (table 18-4).

TABLE 18-4. PERCENT OF SOVIET TO U.S. LEVELS OF OUTPUT OF SPECIFIED ITEMS VARIOUS YEARS, 1913-1985

	1913*	1928	1937	1945	1960	1975	1985
Electricity	8%	4%	24%	15%	33%	49%	58%
Oil	27	9	16	8	42	119	136
Natural gas	—	0.7	3	3	12	49	114
Steel	15	8	33	16	71	130	191
Chemical fibers & yarn	—	0.4	6	0.3	27	32	38
Cement	13	6	27	11	81	188	226
Cotton textiles	41	30	33	15	57	166	170

*Czarist empire

SOURCE: *Narod Khoz.* 1975, pp. 138-141; *The USSR in Figures* for 1985, pp. 56-62.

In almost all areas, the Soviet Union is gaining, and, in historical terms, rapidly. Its world leadership in oil, natural gas, steel, and cement are of undoubted importance. While still behind the United States in electrification, it claims equality with the United States in industrial use of electricity and is equal to or above most other capitalist countries in overall electrification.

However, the USSR continues to lag seriously in production of the principal modern chemicals, and in most consumer durable goods. It leads the United States by a wide margin in production of cotton and wool textiles, and presumably of garments, and it also produces more than twice as many shoes. In these items, as in more and more consumer durables, the United States has come to depend increasingly on imports.

The USSR is a world leader in production of most types of industrial and farm machinery, holding first place in output of tractors. Its output of radio sets, TVs, refrigerators, etc.—running into many millions yearly—is approaching the point where normal demands will be met and, increasingly, emphasis will be on supplying better quality replacements. Per capita output of consumer durables went up 74% between 1970 and 1985.[10]

Production of passenger cars, at about 1.3 million yearly, has been far less per capita than in advanced capitalist countries. The USSR has a much more developed, and high quality, urban transit system as well as an extensive interurban bus and rail system. It evidently does not envisage the degree of passenger car use that has become the norm in the United States, However, about half of all families in some other socialist states now have passenger cars.

The USSR's meat output in 1985 was 61% of the U.S. level, but milk production was 153% and fish 240% of the corresponding U.S. levels.[11] Soviet planning calls for increased per capita meat consumption, and other dietary changes to conform to medical recommendations. In Hungary and the GDR, and perhaps Czechoslovakia, high levels of meat consumption have already been reached.

Floor space of urban dwellings multiplied six times between 1940 and 1985, but because of rapid urbanization, the increase per capita was only 2.2 times.[12] As of 1987, 17% of urban families still had to share kitchens and bathrooms, a marked improvement over earlier shortages but still short of the goal of a good apartment for every family. This is sometimes cited as an indica.ion of continued low living standards in the USSR. But the situation is no better in many West European countries and, from all appearances, considerably worse in Japan. Is it better in the United States? True, in 1987 there was a 7% vacancy rate of apartments. But most people could not possibly afford the rents or purchase price. And multi-family living facilities are the way of life for tens of millions in the United States, particularly among Afro-American and Hispanic peoples. This is aside from the fact of homelessness of hundreds of thousands.

In the USSR, at least there is a system of allocation of housing space according to need, so that those whose circumstances are most uncomfortable have priority, and thus overcrowding and unhealthy situations are largely avoided.

Technology

Capitalist ideologues claim that the private profit motive is the decisive driving force behind scientific and technical advance. Lacking this, they claim, the Soviet Union must fall far behind technologically. Certainly many advances in U.S. products and technology have been discovered or invented by individuals seeking mainly to make their fortune. But, I submit, the desire to expand human knowledge, to be creative, was decisive in the case of such figures as Edison and Einstein.

And creativity is given every encouragement under socialism, along with the campaign to make the country stronger and more prosperous. Monetary rewards are less than under capitalism although, recognizing the importance of material incentives, they were substantially increased in the late 1980s. But on the whole, inventiveness and creativity are much more important under socialism. Time will tell which weighting proves more successful in the long run, but the record so far is in favor of socialism.

Interest in improvements and inventions under socialism is attested by the millions of innovations and patent applications submitted annually, not only by scientists and engineers, but also by workers and by groups of workers, as well as by individuals who are studying for higher technical qualifications, engineering degrees, etc.[13]

According to U.S. estimates, Soviet R & D outlays amount to 3.7% of gnp in 1982, compared with 2.6% in the United States and less in most other capitalist countries.[14] As of 1985, the USSR had 1.5 million research workers, probably more than any other country. However, Soviet leadership criticized the undue proportion of abstract research work aside from practical applications and started a major drive to improve that situation.

General Secretary Mikhail Gorbachev dealt eloquently with the question of scientific-technological competition in a 1986 interview:

> I know that in the West they like to speak of the so-called lagging of the Soviet Union as concerns the development of contemporary science and technique. I believe that this is eloquently refuted by the opening up and leadership of Soviet scientific-technical thought in most varied areas. It's sufficient to recall the first earth Sputnik, the flight of Yuri Gagarin, opening the cosmic era, the success of the recent projection of the "Venus" space vehicle to the Halley comet. In this unique exploration is blended together the achievements of Soviet physicists and machine builders, mathematicians and toolmakers, other departments of science and technique, and professional mastery of the working class.[15]

Unfortunately, some of the most complex and exacting scientific-technological requirements are in the field of armaments. The success of the USSR in achieving strategic parity with the United States in the military field testifies to the essential equality of socialist science and technique with that of capitalism. True, by the mid-1980s, the Soviet Union had not been able to apply as much advanced technology to important civilian lines, and in some respects lagged behind the United States. However, its progress has been very rapid. Its production of numerically programmed machine tools multiplied 30 times, of computers 16 times, and of industrial robots 152 times (to 15,200) between the early 1970s and 1985.[16]

Soviet plans for the final 15 years of the 20th century put even more stress on accelerating technological progress throughout the economy. Top priority has been assigned to computerization, automation, robotization, elimination of arduous manual labor, economizing the use of materials, improving the quality of output. With the labor supply increasing slowly, and most of that devoted to improving services, the plan calls for industrial productivity to increase 2.3 to 2.5 times between 1985 and 2000.[17]

Very rapid advances have been taking place in the GDR also. It specializes in production of industrial robots, and by 1983, 32,000 were in use in its industry. Mass output was achieved and multiplied in computers, electronic components, and other high-tech goods.[18]

For a period the Soviet leadership underestimated the potential and the broad range of application of computers, and thereby lagged behind the United States. However, since 1970 it has escalated its efforts in this area and has made substantial progress, quantitatively and qualitatively.

Use of computers has become widespread in U.S. classrooms. The Soviets have adopted the goal of teaching computer science and use of computers in classrooms as a standard in all USSR schools. With a planned economy, and increasing capacity for output of personal computers, this goal may well be realized in the USSR, while it may not be adopted in the United States, in view of the many children taught in under-financed, socially neglected schools.

Datamation, a trade magazine, notes:

> Most experts agree that the Soviet Union is now three to five years behind the West in its dp [data processing—VP] technology. The same experts believe that this gap is closing. . . . The software gap is narrower. . . . The USSR's real strength has always been in fundamental research and the theory of computing . . . it was Soviet scientists who established the principles of linear programming—an essential computer-based technique for optimizing complex manufacturing processes in oil refineries and chemical plants throughout the world.[19]

There is intensive cooperation among the CMEA countries in developing computer technique, and in producing equipment and software. In this respect socialist countries have a certain advantage over capitalist countries, where attempts at international cooperation are often overbalanced by severe competition and secrecy.

The Helsinki Accords provide specifically for cooperation in computers, telecommunications, and information technology. But Pentagon influence tries desperately to prevent any sale of high-tech processes or equipment to the socialist countries, either by the United States or any other capitalist country. Some sales do take place on the part of West European and Japanese firms, but U.S. agents, regarding such trade as criminal, endeavor to punish the culprits with economic reprisals.

For example, the USSR received delivery in 1983–84 of four computerized, sophisticated machine tools for milling ship propellers. The machine tools were supplied by Toshiba, a major Japanese heavy industry conglomerate—analogous to General Electric in the United States—and the computers were furnished by Kungsberg, a major government-owned Norwegian firm. The Pentagon learned of the transaction in 1987 and raised a ruckus, claiming that the sale violated COCOM rules that limited sales of machine tools and computers to the Soviet Union to obsolete models. Submitting to U.S. pressure, the Japanese and Norwegian governments arrested individuals involved in the transaction; the Toshiba machine tool subsidiary was barred from selling to socialist countries for a year; the Norwegian government actually dismantled part of its company. The incident was used as an excuse to sharply curtail Toshiba's exports to the U.S. as part of trade warfare between the United States and Japan.

Paradoxically, conferences are held involving literally hundreds of specialists from IBM, GE, and other major U.S. companies with their Soviet counterparts, although there have been little practical results—except "by osmosis."

In a 1986 attempt to block off even that, the Pentagon tried to impose strict restrictions on publication of scientific papers.

The American Electronics Association was in the forefront of the organizations of U.S. capitalists that wanted to end the embargo, which they claimed cost the United States $9.3 billion in sales and 188,000 jobs in 1985.[20]

The USSR has been less restrained in selling technology to the United States.

Malcolm W. Browne wrote in *The New York Times:*

> An American these days might start his morning by putting on his contact lenses, switching on the television set, downing a glass of fruit juice and brewing coffee on the gas range. Then he might ride to work by subway to a plant making machine tools, automobile parts, or perhaps even military rocket casings. He might end his day by popping open a can of beer, unaware that Soviet-bloc technology purchased by American companies had played a role in each of these activities.[21]

Statistical Manipulations

Reactionary politicians and economists engage in wholly unfounded statistical manipulations for anti-Soviet purposes. The strategy is most dangerous when applied to military matters. For years negotiations on reducing armed forces in Europe were stalled because the Pentagon insisted that the USSR had hundreds of thousands more troops than it reported. The U.S. Defense Department has issued crudely falsified, but graphically illustrated, propaganda claiming to show a vast Soviet preponderance of weapons. This fabrication was exposed not only by the Soviet Union, but also by U.S., Swedish, and other Western research organizations. For years the CIA claimed that "real" Soviet military expenditures were increasing by 4% per year. But when the "line" changed to the Reagan doctrine—that the Soviets were weak enough to beat with Star Wars—the CIA "discovered" it had been in error, that the increase in the Soviet military budget was 2% per year.

Similarly, attempts are made to obscure the economic gains of socialism over capitalism by alleging that Soviet economic statistics are falsified, and by "correcting" them. The CIA has become the more or less official "corrector."

Professional "Sovietologists," many of them anti-Communist émigrés, are also active in this "work," often with CIA financing.

Table 18-5 compares U.S. industrial growth rates with those of the USSR, both as officially published by the USSR Central Statistical Board, and as "corrected" by the CIA.

TABLE 18-5. USSR and USA Industrial Production, Annual Growth Rates 1950–1980, by Decades

	A (USSR Statistics)	B (CIA Statistics)	C (FRB Data)
	USSR		USA
1950–1960	11.8%	9.2%	3.9%
1960–1970	8.5	6.4	5.0
1970–1980	5.9	4.7	3.2

SOURCES: Columns A and C, as for Table 18-2.
Column B., US Congress, Joint Economic Committee, "USSR: Measures of Economic Growth and Development, 1950–80,", Washington, 1982, T. 4, pp. 191–194 (data prepared by CIA)

In this particular case, a major part of the "corrections" consists of the CIA changing the weights of Soviet indexes for separate indexes, changes which cannot be justified. In any case, even the cut down CIA versions of Soviet growth rate show a faster rate for the USSR. The same with gross national product figures.

A sensible attitude toward use of Soviet statistics was expressed by *The New York Times* journalist, Leslie H. Gelb, who formerly conducted disarmament negotiations with the Soviets for the U.S. government:

> . . . the United States is in possession of a mountain of facts published by the Soviet Government and Soviet writers and scholars. The primary source book is called The National Economy, or *Narodnoye Khozvaistvo* . . . an annual statistical handbook first published . . in 1956. . . .

> It is taken as generally reliable by all the Soviet experts I talked with, and the C.I.A. tells Congress every year that the data, with necessary extrapolations and with the notable exception of the military budget, are good. As Abraham Brumberg put it:
>
> "You can't have a modern state dealing with a double set of statistics—one for propaganda and one for its own internal uses."

Gelb then gives some examples of the studies the CIA does on the USSR for the Joint Economic Committee of Congress, concluding the list with: "Yet another demonstrates that real per capita consumption [in the USSR] rose at an average annual rate of 3.4 percent, resulting in a tripling of the standard of living of the average citizen since 1960."[22]

This view was expressed by Mr. Gelb in 1984. Two years later as White House correspondent, he carried out his job by reporting "with a straight face" Reagan's view of Soviet "economic stagnation" cited earlier in this chapter.

Living Standards

Even if the CIA's data are used, just think of the significance of a 3.4% per year rise in living standards, sustained over a long period of time (see table 18-6). It is really without historical precedent. Consider how it contradicts the standard anti-Soviet propaganda claim that all Soviet growth is at the expense of the consumer.

The ultimate criterion for the success or failure of a social system is the extent to which it succeeds in meeting the vital needs of the population and, more concretely, in providing rising living standards in accord with the new developments of modern society.

Trade Between Socialist and Capitalist Countries

In the years immediately after the Bolshevik revolution, the capitalist powers, having invaded Russia, then blockaded it and embargoed trade with the emergent USSR in an attempt to starve it to death. By the beginning of 1920, with the main counterrevolutionary and interventionist forces defeated and ousted, trade revived slightly. Lenin noted:

TABLE 18-6. REAL WAGES AND REAL PER CAPITA DISPOSABLE INCOME USA AND USSR, 1960–1985, INDEX NUMBERS, 1960 = 100

Year	Real Wages, 1960 = 100 per worker		Real Per Capita Disposable Income 1960 = 100	
	USSR	USA	USSR	USA
1960	100	100	100	100
1965	119	111	119	118
1970	151	113	158	134
1972	162	120	172	143
1975	181	112	196	147
1980	203	105	232	152
1985	220	104	258	163

SOURCES: USSR; Narod Khoz., various issues; *Pravda,* Jan. 21, 1986.
USA: *EROP, 1986,* T. B-42, p. 301. B-26, p. 283; B-55, p. 315.

> . . . some American manufacturers appear to have begun to realize that making money in Russia is wiser than making war against Russia. . . . We shall need American manufactures, locomotives, automobiles, etc. more than those of any other country.

And he listed Russian products in short supply globally, which the other countries would have to buy.[23]

Trade became significant in the late 1920s and early 1930s, with Germany and the United States in the lead. General Electric, Ford, Curtiss-Wright, etc., had major contracts. U.S. firms led in construction of the Dnieper Dam. But after 1931 the U.S. government, despite its deep economic crisis, imposed stringent politically based restrictions on U.S.–USSR trade, which were relaxed only during World War II when armaments and vehicles were shipped to the Soviet army.

Immediately after the war, the United States embarked on a policy of all-out economic warfare against the USSR and other socialist countries, and used its economic, political and military power to try to involve the entire capitalist world in this economic warfare. Its main goal was to weaken the socialist countries in preparation for a military assault. A secondary aim was to slow economic progress so as to limit the appeal of socialism to workers in capitalist countries.

This economic warfare is a blatant violation of UN resolutions for non-discriminatory foreign trade. It is "justified" by claims that all items on its list of embargoed commodities could be used by the USSR for military purposes. However, 99% of the commodities on the Soviet Union want list are obviously for civilian use. Embargoing, at various times, everything from ladies bras to motor trucks, the Pentagon has carried this shopworn argument to absurd lengths.

Another "justification" is alleged "human rights" violations in the Soviet Union, with emphasis on its emigration policies. Whatever view is taken, this issue is an internal affair of the USSR. Criticism of USSR "human rights violations" comes with ill grace from U.S. politicians, with our violations of the whole range of economic, social, political and cultural rights of the working class, the Afro-American and other minority peoples particularly. Especially hypocritical is censure from politicians who encourage economic relations with countries under the cruelist, most extreme, dictatorships.

The falsity of both arguments is proved by the U.S.'s complete embargo on trade with Cuba and Vietnam, which obviously pose no military threat to the United States and which have, at times, permitted liberal emigration.

The United States-dominated Coordinating Committee (COCOM) has drawn up lists of goods and technologies barred from export to socialist countries, as well as credit limitations. This agency operates covertly, like the "covert action" agencies whose murderous, corrupt activities were exposed in the Irangate affair. U.S. Government agents, in capitalist countries, try to exercise extraterritorial police powers and arrange for the blockade of scheduled shipments, extradition to the United States of traders violating Pentagon regulations, etc. This operation, in conjunction with the basic anti-Communism of capitalist class rulers everywhere, has had specific tactical successes, and overall has significantly limited the extent of East-West economic ties. But its effectiveness is declining as the economic viability of socialist countries increases and the economic imperatives driving other capitalist countries requires them, more and more, to disregard U.S. dictates.

Economic warfare against the USSR has damaged the U.S. economy, not only its economic growth, its employment, trade and payments balances, but even its capitalists' profits. This is the one "sacrifice," however, that the right-wing forces of U.S. big business have been willing to make in pursuit of their dream of reversing history and destroying socialism.

How to assess the balance of anti-Soviet economic warfare?

A Soviet commentator has said that World War II cost the USSR 20 years, and the cold war another 10 years. That is, the Soviet Union, with its achievements since World War II, would be further ahead by 10 years if not for the cold war. Indeed, that is a serious cost.

But what has it cost the United States? A generation's loss of hard-won labor and civil rights gains. A more far-reaching loss in the relative economic position of the United States in the world economy. A 60-year throwback in the overall political and human rights environment. And, a degree of corruption and decay not experienced before in U.S. history.

In 1972, during the period of detente, a broad trade agreement was signed between the United States and the Soviet Union. However, it was never ratified by Congress. The Jackson-Vanik law was passed, imposing tough restrictions against Soviet products and sales to the socialist countries, using Soviet emigration policies as an excuse.

Thus by the mid-1980s, U.S. economic warfare against socialism was clearly a strategic failure in view of the obvious advance the of socialist countries. U.S. capitalists again pushed for opening trade with the USSR, claiming that the embargoes permit their competitors to take away their customers. The first signs of easing tension, in the Reagan–Gorbachev Geneva meeting in 1985, were followed by advocacy of trade by the U.S. Secretary of Commerce and by hundreds of U.S. capitalists at a meeting in Moscow.

The main opposition to trade with the USSR has come from the Pentagon, which enforces economic warfare as a corollary to its thesis that trade barriers will help weaken the USSR to the point where military defeat by U.S. forces will be possible. This concept is, of course, futile and suicidal in the nuclear age.

East–West trade would be a boon to the overall U.S. economy and to the welfare of the American people. With the repeal of trade barriers, U.S. exports to European socialist countries could reach the level of its exports to the Western European countries—$52 billion in 1985. And that was at a time when trade was depressed by the overvaluation of the dollar, compounded by the effect of the transnational corporations supplying their West European markets from plants located there.

A similar level of sales to the European socialist countries would mean 1.3 million jobs for U.S. workers, at the often-used calculation of one job per $40,000 of exports. Since the main interest of the USSR is for purchase of advanced machinery and equipment, and other basic industry products, producing these items could be of major importance in rebuilding and reviving the moribund basic industries of the "Rust Belt," as well as providing additional markets for the newer high-tech products. Many additional jobs would be provided by eliminating the trade embargoes against Cuba, Vietnam, etc.

To the Year 2000

Historically, during the first 50 years of Soviet power, the central economic task was to expedite production of basic industrial and agricultural products—from electricity, steel and oil to grain and cotton—in order to provide the foundation necessary for a modern economy and for a modern military machine. It was necessary to provide materials for the tremendous volume of construction required to house a growing population, and the people had to be supplied with fuel, clothing and food; to be provided with a constantly rising standard of living.

Economic planning concentrated on these goals. Key enterprises were supplied with the necessary materials; finished products were allocated to the neediest. Prices and measures of profit or loss were given less attention. Additional labor from the huge peasant population was available to make up for the lower rates of productivity.

Thus by methods of centralized planning, industrial production zoomed at a record rate and, in a relatively short time, the USSR became the second largest industrial power in the world.

By the 1960s the shortcomings in the method of planning and management had to be analyzed and corrective steps taken. The economy had become so great, so complex—involving so many millions of products and tens of thousands of enterprises spread over the vast area of the largest country in the world—that planning all aspects from one center led to inevitable inaccuracies, tended to become bureaucratic rather than creative. Moreover, a socialist society, like a capitalist society, must accumulate a surplus over current costs in order to provide for capital investment, social services, and military expenses. This had to take the form of accumulating profits from separate enterprises, industrial and agricultural.

Profits under socialism? Indeed. All societies, to grow, must accumulate an economic surplus for investment, and that surplus can only come if each establishment sells its goods for more than the total production cost. But there is a decisive difference between capitalist and socialist profits. Capitalist profits enrich the owner; that's their purpose. He decides how much to use for personal luxuries, how much to gamble with, how much to invest in economic expansion—and where to invest.

Socialist profits are accumulated mainly by the state and used for nationally planned investments, as well as for varied social benefits. They are not for individual enrichment. A significant and increasing share is maintained by the profit-making enterprise or amalgamation of enterprises, which have the power to decide how to use it—investment in expansion, provision of social services, housing, etc.—for its workers.

Attempts to modernize methods of planning and management in the 1960s were not wholly successful. The obstacles were partly objective—plant managers did not have adequate economic training and the scope of the changes required was underestimated by Party and government leaders. And they were partly subjective—bureaucratic opposition to change, plus insufficient political involvement of workers, engineers and executives.

Nonetheless, up until the middle 1970s, rapid economic growth continued anyhow. But by the late 1970s and early 1980s, the shortcomings became a brake on progress and, as is obvious from table 18-2, the rate of economic growth—and hence of increasing living standards—slowed.

By the mid-1980s the educational level of managers, the worker training program, the political understanding of Party and government leaders, as well as of the people in general, had progressed enough for a major attempt to be made to overcome the shortcomings and to advance to a new, higher, accelerated stage of socialist economic development.

Perestroika

The general outline of the changes were projected in 1985. They are being effected, step by step, and in the first two years of application, 1986–87, the results were promising in the areas where they were introduced. The main objectives of the new program can be summed up as: decentralization; incentives; democracy. Their effectuation, in conjunction with improved central planning has been designed to accelerate economic growth, to upgrade the quality of goods, to provide expanded services to the population. Key features were tried experimentally in parts of the country over a period of years to determine the best variants. Undoubtedly there will be changes as experience accumulates.

Decentralization: The plan is to transfer more authority to enterprises, or related groups of enterprises (amalgamations). They would have more authority to decide on varieties and sizes of goods to make, what materials to use and where to buy them; more authority over pricing and wages. But, along with that, they would have more responsibility. The enterprise would have to put into effect a reliable system of accounting and make decisions with an eye to the "bottom line." It would need an accurate system of inventory control, the lack of which has cost many billions of rubles. The monthly plan of each enterprise would have to correct the maladjustment whereby needed parts or materials are not on hand at the beginning of the month, causing curtailment of production and frantic overtime at the end of the month in an effort to catch up.

Incentives: Workers in a socialist society are inspired by moral and material incentives. Moral incentives have played a critical role in the USSR, where there has been near-universal support for the idea of socialism, and by a patriotism strengthened by the country's history. But material incentives are also important, and these have been inadequate.

Marxist theory calls for working-class revolutions that aim to replace capitalism with communism. However, a communist society cannot be created overnight, by decree. Marx and his followers posited two stages of communist society. In later parlance, the first stage—which is all that exists or is likely to exist for a considerable time—is referred to as socialism.

The concepts of the two stages are embodied in these formulas:

Socialism—from each according to his ability, to each according to his work.

Communism—from each according to his ability, to each according to his needs.

In the first stage, there would not be enough goods and services produced to provide everybody with all the things they wanted or felt they needed. Furthermore, the general level of human consciousness would not be such that those who contributed more would be willing to yield part of their appropriate share to others who contributed less but needed more. So the general formula is for payment according to the quantity produced and the quality—degree of skill—of labor.

Conceptually, in the higher stage, the level of production would be so high that there would be enough to supply each individual with whatever he wanted, or felt he needed. And the level of human consciousness would be reached where there would not be the drive, characteristic of capitalism, of inordinate, conspicuous consumption on the part of a monied minority.

In reality, in existing socialist societies, there are important goods and services distributed in whole or in part according to needs—

notably medical and educational services—and some provided at a fraction of cost, such as housing and transit. The number of these benefits tends to increase.

But most goods and services are purchased with wages based on the skill level of workers and the effectiveness with which a job is carried out. For some decades, there were criticisms of weaknesses in the Soviet implementation of this system, criticism directed mainly at "wage levelling"—that is, payment of the same wages to all workers employed in the same job, no matter how well or poorly they worked. Also criticized were the inadequate differentials for professions that require extensive education, preparation and skill, such as teachers, doctors, engineers and scientists. In 1987 there was a determined, far-reaching effort to overcome this weakness, to come closer to the principle of distribution according to work. It is anticipated that this will provide a major incentive for more disciplined work and a rising productivity of labor.

Democracy: Socialist democracy, conceptually, goes beyond the formal electoral democracy of advanced capitalist societies. It includes economic democracy, the rights of people to control the affairs of their work place. Realistically, however, this is exceedingly complex. Two factors are considered: what possibility is there for democracy at the work place when all operations are governed by a central plan? And, if people are interested only in getting their pay and in living their private lives, how can they be involved in the management of their enterprises?

Historically, this has been *partially* solved through trade unions, which in socialist countries have major power over allocation of housing, vacations, social benefits of all kinds, as well as very effective machinery to protect members against management actions considered to be harmful to workers.

But in the 1980s there was underway in the Soviet Union a major effort to broaden effective local and workplace democracy. It was necessary and possible. The general level of education and skill of workers had reached a level high enough to make their participation meaningful. And millions of workers were interested, active in affairs, ready to participate in management. Teams of workers were authorized to set their own wage scales, bonuses, etc., within the bounds of the values they created. Workers were authorized to elect shop and plant managers, a power inconceivable under capitalism.

Of course, there have been problems. A manager, experienced in leading the work of a plant in one part of the country, could be proposed to fill a vacancy in another area. How are the workers there to know whether to accept him or whether to vote, instead, for promotion of a section manager in their own shop? Through experimentation, the Soviet leadership and workers tried to find a way. In 1986-87 tens of thousands of managers at all levels were elected or promoted, while some were turned down by majority vote of the workers.

As to the added responsibilities—discipline had been weak in Soviet enterprises. With wages and jobs guaranteed, some would take it easy, not do a fair share of work. Since there are always demands for labor elsewhere, labor turnover was excessive. The call for discipline was given prominence and teams of workers were called upon to ensure it by persuasion of lagging members, and they were given authority to reduce wages or bonuses of those who did not do their share. In addition, positive incentives could be used to encourage steadiness on the job and to reduce turnover.

Along with progress toward structural improvements, there was successful emphasis on immediate changes in living standards. Particularly important was the 15% above plan drive in housing construction to 2.3 million units in 1987, with a perspective of 20 million in the fifteen years 1986-2000. Also important was the imposition of quality control at factories, barring shipment of shoddy goods to consumers.[24]

Fifteen Year Goals: The 27th Communist Party Congress set forth the USSR's 12th Five Year Plan—for the period 1986-1990. At the same time, a broad 15-year plan was adopted, naturally less detailed but including qualitative as well as quantitative goals.

The plans made clear that acceleration was expected. The rates of increase specified for the period 1986-1990 were less than those for the period 1986-2000, as it was recognized that the new methods, the new emphases, would not be fully effected overnight.

While acceleration was a key word used in describing the objectives of the reforms underway, no instant miracles were anticipated. The changes were far-reaching, requiring changes in the way many people think as well as ongoing tests to determine the most effective tactical methods for achieving the goals.

So, in discussing the 15-year perspective, political leaders and major economists considered that the five-year period 1986-1990 would be a large part one of transition to the new methods. They anticipate that there will be faster and higher quality growth than during the previous five years, but not yet at the pace considered desirable and possible. More decisive acceleration was looked for in the final decade of the century when, it is hoped, the reforms become better defined and consolidated.

Among the qualitative goals are:

- To speed up social and economic development
- To substantially accelerate scientific and technological progress
- To ensure a further rise in the well-being of all sections of the population and significant improvements in living conditions
- To raise per capita real incomes 60–80%
- To accredit the social prestige of conscientious, high-quality labor and professional skills
- With the growth of labor productivity, to increase wages and improve the forms of payment; to provide greater moral encouragement to work collectives and individuals
- To improve working conditions; reduce the share of manual labor in production to 15–20% (from about 45%)
- To satisfy more fully consumer demands for high-quality and diversified goods
- To better the food supply to the level of scientifically substantiated norms for rational consumption
- To increased retail trade by 80%
- To develop a highly efficient service industry, to reduce the burden of housework
- To provide a flat or house for every family
- To double funds for social security, vacations, education and health services
- To encourage sport and other forms of recreation
- To persist in carrying out environmental protection work
- To double the national income, mainly by increasing labor productivity by 130–150% toward achieving the world's highest level of social labor productivity
- To economize on materials and fuels, therby meeting 75–80% of the increased requirements
- To raise the efficiency of capital investments, giving more emphasis to re-equipment and reconstruction rather than to building new enterprises from scratch
- To ensure the all-round acceleration of scientific and technological progress and general application of its results in industry and management, in the services sphere and everyday life.
- To enhance the role of the Soviets of People's Deputies—the most important form of socialist government of the people—in

economic, social and cultural development; to expand the working people's participation in administration. And the overall objective:

> Fulfillment of the tasks set will make it possible for Soviet society to rise to a higher stage of economic and social progress; the USSR will enter the third millennium as a still stronger advanced power and its achievements will exert an increasing influence on the course of world development.[25]

Given no worsening of the international situation, these goals, as ambitious as they sound, may well be reached. Given a major relaxation of international tension and progress toward disarmament and reduction of the military burden, the upper bounds of the proposed targets can become realistic.

People in capitalist countries have similar aspirations. But capitalist governments will not adopt such goals, nor plan on reaching them. Nor is the capitalist system geared to achieving progress in human welfare.

But the Russians and the other peoples of the USSR have no monopoly on the ability to achieve dramatic economic and social progress. For those who live in capitalist countries, it is necessary to organize and struggle to move in the direction of such goals, to make gains in the material, moral and cultural conditions of life.

In the final count, elimination of the danger of nuclear annihilation has become central to progress as well as survival, everywhere; and no people have more responsibility than we Americans in this universal effort to reach the goal of a nuclear weapon-free world.

Appendix

CHAPTER 1.

TABLE 1A. PRODUCTIVE AND NONPRODUCTIVE WAGE AND SALARY WORKERS, UNITED STATES, 1980, BY INDUSTRY GROUPS *(thousands)*

Industry Group	Wage and Salary Workers		
	Total	Productive[4]	Nonproductive[3]
Agriculture[1]	1,303	1,203	100
Mining	949	768	181
Construction[5]	5,002	4,119	883
Manufacturing	21,554	16,961	4,593
Transport & Public Utilities	6,230	4,262	1,968
Trade	18,093	8,545	9,548
Finance, Insurance & Real Estate	5,516	0	5,516
Services (private)	16,962	8,481	8,481
Government[2]	15,014	0	15,014
Total	90,623	44,339	46,284
Percent of Total	100.0%	48.9%	51.1%

SOURCES: Total number of Wage and Salary Workers from U.S. Dept. of Labor, BLS, Bulletin 2096, *Labor Force Statistics Derived from the Current Population Survey:* Vol. 1, 1982; Table B-16. Applies to all industry groups except Agriculture and Government. Includes all wage and salary workers, except for Service (private). Thus for other groups the totals include workers in government enterprises.

[1]For Agriculture, the number of wage and salary workers is from the *Economic Report of the President* (*EROP*), Feb., 1985, Table B-94, p. 340.

[2]For Government, from U.S. Dept. of Commerce, *Survey of Current Business* (*SCB*), July 1984, Table 6.7B, p. 73; excludes members of armed forces and employees of government enterprises.

[3]Nonproductive workers from BLS Bulletin 2096, Table B-17, p. 634 for most categories. Includes managers and administrators, sales workers and clerical workers, less self-employed and unpaid family workers.

[4]Productive workers include professional and technical workers and blue collar workers.

[5]In construction, it was assumed that self-employed were distributed between managers and craft and kindred workers.

CHAPTER 2.

TABLE 2A. Calculation of Rate of Surplus Value and Labor's Share, U.S. Manufacturing 1925–1984 (*$ billions*)

1 Year	2 Value Added by Mfgr.	3 Wages	4 Depre-ciation	5 Surplus Value	6 Rate of Surplus Value (%)	7 Net Value Added	8 Labor's Share (%)
1925	25.7	10.0	1.2	14.5	145%	24.5	40.8%
1927	26.3	10.1	1.4	14.8	147	24.9	40.6
1929	30.6	10.9	1.5	18.2	167	29.1	37.5
1931	18.6	6.7	1.6	10.3	154	17.0	39.4
1933	14.0	4.9	1.5	7.6	155	12.5	39.2
1935	18.6	7.3	1.5	9.8	134	17.1	42.7
1937	25.1	10.1	1.5	13.5	134	23.6	42.8
1939	24.5	9.0	1.5	14.0	156	23.0	39.1
1947	74.3	30.2	2.4	41.7	138	71.9	42.0
1949	75.4	30.3	3.1	42.0	139	72.3	41.9
1950	89.8	34.6	3.4	51.8	150	86.4	40.0
1951	102.1	40.7	3.8	57.6	142	98.3	41.4
1952	109.2	43.8	4.2	61.2	140	105.0	41.7
1953	121.7	49.0	4.7	68.0	139	117.0	41.9
1954	117.0	44.6	5.1	67.3	151	111.9	39.9
1955	135.0	49.2	5.5	80.3	163	129.5	38.0
1956	144.9	52.0	6.0	86.9	167	138.9	37.4
1957	147.8	52.6	6.6	88.6	168	141.2	37.3
1958	141.5	49.6	7.0	84.9	171	134.5	36.9
1959	161.5	54.7	7.4	99.4	182	154.1	35.5
1960	164.0	55.6	7.8	100.6	181	156.2	35.6
1961	164.3	54.8	8.2	101.3	185	156.1	35.1
1962	179.1	59.1	8.5	111.5	189	170.6	34.6
1963	192.1	62.1	9.0	121.0	195	183.1	33.9
1964	206.2	65.8	9.5	130.9	199	196.7	33.5
1965	226.9	71.4	10.2	145.3	204	216.7	32.9
1966	250.9	78.3	11.2	161.4	206	239.7	32.7
1967	262.0	81.4	12.3	168.3	207	249.7	32.6
1968	285.1	87.5	13.3	184.3	211	271.8	32.2
1969	304.4	93.5	14.2	196.7	210	290.2	32.2
1970	300.2	91.6	15.1	193.5	211	285.1	32.1
1971	314.1	93.2	15.9	205.0	220	298.2	31.3
1972	354.0	105.5	16.8	231.7	220	337.2	31.3
1973	405.6	118.3	17.8	269.5	228	387.8	30.5
1974	452.5	125.0	19.2	308.3	247	433.3	28.8
1975	442.5	121.4	21.0	300.1	247	421.5	28.8
1976	511.5	137.6	23.0	350.9	255	488.5	28.2
1977	585.2	157.2	25.4	402.6	256	559.8	28.1
1978	657.4	176.4	28.4	452.6	257	629.0	28.0
1979	747.5	192.9	32.1	522.5	271	715.4	27.0
1980	773.8	198.2	36.4	539.2	272	737.4	26.9
1981	837.5	212.2	40.7	584.6	275	796.8	26.6
1982	824.1	204.8	44.8	574.5	281	779.3	26.3
1983	882.0	212.4	48.3	621.3	293	833.7	25.5
1984	983.2	231.8	52.1	699.3	302	931.1	24.9

SOURCES:
Columns 1, 2, and 3 from U.S. Census Bureau, 1985 Annual Survey of Manufacturers, M85 (AS)-1, Table 1a, pp. 1-4.
Column 4 from U.S. Department of Commerce, *Fixed Reproducible Tangible Wealth in the United States, 1925-1979,* and tabulations supplied by Bureau of Economic Analysis, *Straight-Line Depreciation, (.85 F Service Life of Equipment). Total of All Legal Forms of Organization, Manufacturing—Equipment and Structures,* Table A-3, p. 115 in printed text.
Column 5, Column 7 minus Column 3
Column 6, Column 5 divided by Column 3 times 100
Column 7, Column 2 minus Column 4
Column 8, Column 3 divided by Column 7 times 100
Same sources and methods for years 1849-1923, chart 2-2, except depreciation estimated by author at 4% of value added by manufacture.

Note 1:

TABLE 2B. WORKERS' WAGES COMPARED WITH VARIOUS POVERTY AND BUDGET LEVELS 1973 AND 1986

	1973	1986*
1. Average annual wage, non-farm workers	$7,560	$15,860
2. 125% of poverty level	5,675	14,110
3. Gallup Poll minimum requirement	7,748	18,148
4. BLS lower budget	8,181	18,619
5. Percentage line 1 is more than line 2	33%	12%
6. Percentage line 1 is less than line 3	– 2%	–13%
7. Percentage line 1 is less than line 4	– 8%	–15%

SOURCES:
1) BLS monthly bulletins, *Employment and Earnings,* weekly earnings multiplied by 52.
2) U.S. Census Bureau, P-60 reports, latest available for 1984, updated to 1986 by increase in consumer price index (cpi).
3) Fort Worth *Star-Telegram,* 6/22/86.
4) *Stat. Abst.* 1982-83, No. 763, p. 475, 1981, latest figure published, updated by increase in cpi.
*All 1986 data, except Gallup poll, estimated by author on basis of actual data for first half of year.

Note 2:

To determine the rate of surplus value and labor's share:

If wages = w, value added = v.a., and surplus value = s.v. then:

$$\text{rate of surplus value} = \frac{100\% \times (\text{v.a.} - \text{w})}{\text{w}}$$

$$\text{labor's share} = \frac{100\% \times \text{w}}{\text{v.a.}}$$

Note 3:

The three main adjustments are:

1) Allowance should be made for the salaries paid to engineers and other professional and technical salaried employees who, along with the blue-collar workers, participate in creating value and surplus value. Obviously correction for this adds to the outlay for production wages and salaries, reducing the amount of surplus value.

2) Allowance should be made for that surplus value created by manufacturing workers which is not collected by the producing company or included in ts reported value added by manufacture, but is collected by the wholesaler and retailer in their markup over the manufacturer's price. Our estimate, consistent with data in Chapter 1, is that a little more than half the gross profit in retail trade is thus transferred from factories, mines, etc. The remainder is accrued as a result of production work done by retail employees (processing, moving or packing goods). Obviously correction for this raises the rate of surplus value in manufacturing.

3) Allowance should be made for the substantial, and generally rising, amount of federal, state and local income taxes withheld from wages of production workers and salaried employees. Such withholdings are, in effect, part of the surplus value directly appropriated by the government and not kept by the manufacturer.

For 1981, these three adjustments brought the rate of surplus value down from 276% to 197% with the first adjustment; back up to 241% with the second; and finally up to 296% after the third adjustment. Furthermore, all the assumptions used in making these adjustments were such that, for each, to avoid overstatement, any bias was toward a lower-than-actual rate of surplus value. Appendix table 2A and all charts also reflect conservative representations.

Chapter 3 Government Statistics Distorted Against Labor

1) The Consumer Price Index

The consumer price index (cpi) is widely referred to as the cost-of-living index. It is used to trace the course of real wages of workers. Many union contracts contain provisions for periodic wage adjustments in line with the cpi.

While the cpi is published by the U.S. Department of Labor, through its Bureau of Labor Statistics (BLS), it is a mistake to assume that the Labor Department represents the intereses of the working class. In practice the Secretary of Labor, like other Cabinet members, is either himself a capitalist, a professional politician, or an academic figure with a procapitalist viewpoint.

In any event, Labor Department officials are subject to the direction of the White House, which basically represents capitalist class interests.

The cpi is designed to show the course of workers' real wages and living standards more favorably than they actually are. For one thing, the cpi omits taxes withheld from workers' paychecks, thus systematically understating the increase in living costs. In addition, major components of the cpi demonstrably show less of an increase than independent evidence indicates has occurred.

Food: Food expenditures are a major basic component of living costs. The Commerce Department reported that between 1939 and 1983 the American people increased their expenditure per unit of food consumed (as reported by the U.S. Department of Agriculture) by 10.94 times. The BLS index of retail food prices went up only 8.9 times.*

Housing: Rents for housing are paid by a large proportion of the working class, especially lower-paid workers. The BLS method of calculating a rental index automatically involves a downward bias: it does not allow for depreciation in the real value of a rental dwelling as it ages. Thus the monthly rent on an apartment may remain unchanged—or go up—as it deteriorates from a modern, well-located flat to a slum. Obviously the deterioration in quality, while the cost remains unchanged, is the equivalent of a substantial rent increase. And at least as important, the BLS does not allow for the typical multiplication of rents when a new unit is substituted for an old one—loss through fire, conversion to commercial use, etc.—or when one large apartment has been divided into several smaller ones. For example, if the previous month's index number for the old unit was 200, and its rent $200, the replacement unit with a rent of $500 is included the next month at the index level of 200.

Convincing evidence of the impact of this system of constructing the rental index is a comparison of the course of the rent and homeownership components of the BLS housing index. The index for rental costs for June 1983 was given as 246.1 and the index for homeownership costs as 381.9, with 1967 = 100. Thus, according to the BLS, the cost of owning a home increased nearly four times, while the cost of renting a home increased only two and a half times in the 16 years (from 1967 to 1983). But it is a fact that rental units have become increasingly scarce, with a demand and supply balance that has enabled landlords to raise rents at least as much as—and usually more rapidly than—the basic cost of housing. True, for a small minority of working-class families, rents were held somewhat in check by local rent control laws or by access to publicly owned housing, but this was clearly insufficient to overcome the downward bias in the rental index.*

Transportation: The transportation-cost component of the cpi is dominated by personal automobile expenses. The 1984 average annual index for

*Consumer Food Expenditures from *EROP, 1985,* Table B-14, p. 248; Volume of Food Consumption from *Hist. Stat.,* Table G-850, p. 328; *Stat. Abst.,* 1985, No. 196, p. 121.

new passenger cars for workers was 207.9. The average wholesale price per vehicle, using Census data for 1967 and other Commerce Department data consistent with Census statistics, was 358.2% of the 1967 level in 1984. There has been no slackening in retail price margins, and the effective spread has actually increased because of higher interest rates, since most new cars are bought on the installment plan.

The BLS cpi for used cars for 1984 was 375.7. While there may be sharp year-to-year fluctuations in the relative prices of used and new cars, the huge gap indicated by these figures is strong evidence that one of the indexes is far out of line. There is no reason to believe that the BLS overstated the increase in used car prices.

A factor contributing to the slow increase in the BLS new car index is its liberal allowances for quality improvement. For the model years 1980–1985, the combined BLS allowances for quality improvement came to $1,288 per car, amounting to 58% of the actual increase of $2,218. Thus, *only $930 of the $2,218 rise in car prices taking place over those six years affected the index.* Data for earlier years are incomplete, but the indication is that about 25% of the actual price increase for the 1968–79 period was attributed to quality improvements by the BLS.

Bear in mind that the quality improvement valuations were largely made by the companies themselves, with their incentive to make a good showing, and that whatever the quality improvement, the higher costs still had to be borne by the buyer. Many of the changes were added "options" for which the buyer had to pay whether or not they were considered as improvements in quality. (E.g., push-button window control; a rear side window that doesn't open.)†

Taxes: The cpi makes no allowance for the rising deductions from workers' paychecks for federal, state and local income and social security taxes. True, it is not a cost-of-living index, but merely a consumer price index, and this portion of the cost of living is not a price. But that is a semantic distinction: the cpi is considered a cost-of-living index by the public; it is widely referred to as a cost-of-living index; and it is used as a cost-of-living index to adjust wages and for other purposes.

Doubtless there are other segments of the cpi that are subject to criticism, but extensive additional research would be required to examine all the data from an independent or working-class viewpoint.

During the period of maximum militancy and left-progressive influence in the U.S. trade union movement, the union organizations conducted independent research and exposed the fraudulent character of the BLS cpi. This was done in wartime conditions, when there was special inflationary pressure.

* Data from BLS release, "The Consumer Price Index, June 1983." That month was selected for analysis because thereafter the BLS changed its method of calculating housing costs for the consumer price index. The effect of the change is not yet clear.
†Data from annual BLS releases on quality changes in new passenger cars.

However, some of the most penetrating criticisms made by the unions apply in peacetime also. The 1944 research report prepared jointly by the American Federation of Labor (AFL) and the Congress of Industrial Organizations (CIO) claimed that the cost of living increased 43.5% between January 1941 and December 1943, instead of the 23.4% reported by the BLS. A later version, prepared by the CIO alone and updated to March 1944, showed an increase of 45.3% vs. the 22.8% rise conceded by the BLS.*

In 1951 the United Electrical Radio and Machine Workers (UE) published a report concluding that living costs in January 1951 were 262.5% of the 1939 level, in contrast to the BLS index of 182.7% for the month.†

A serious trade union study of subsequent and current living costs would certainly be in the interests of the working class.

2) Productivity

For the period 1965–80 the BLS showed a gain in manufacturing productivity per man-hour of 2.2% per year and for 1973–80 of only 1.3% per year, as contrasted with 3.3% and 3.0% per year, respectively, as shown in Chart 3-2 and Appendix table 3A.

These BLS figures were highly publicized to make the case for a major "alarming" deceleration of productivity. Even more publicity was given to the BLS overall productivity figure for the "nonfarm business sector," which showed an increase of only 1.0% per year over the entire interval 1968–1982, and actually stagnated between 1977 and 1982. Moreover, these indexes were published quarterly and in many quarters they declined. Much more media coverage was given to the declines than to the increases.

The BLS completely ignores physical production statistics in compiling its figures on productivity, basing its data on incomes received. This practice has reached such an absurd stage that the BLS each year calculates a preliminary index of manufacturing productivity using the Federal Reserve Board index of physical output, because it is published before the gross national product (gnp) data, and then "corrects" it to the usually lower growth rate derived from the gnp figures.

The "real" gross national product figures for any sector of the economy are approximately equal to the sum of "real" incomes distributed to various claimants out of the proceeds of output. In reality, however, while wage and salary payments are almost completely reported, property incomes are incompletely reported. Moreover, the underreporting of property incomes has become increasingly conspicuous with the soaring use of expense account payments and a widening package of tax-avoidance deductions from gross profits.

Thus, for the year 1980, the excess of manufacturing gnp over wages and

*Phil Murray and R.J. Thomas, *Living Costs in World War II, 1941–44,* Congress of Industrial Organizations, June 1944, summary page.

†*UE: The Facts about High Living Costs,* New York, June 1951, Table 1, p. 14

salaries came to only $227 billion dollars, while the excess of value added by manufacture over payroll, reported by the Census Bureau for the same year, came to $424 billion. Depreciation allowances could account for only about one-fifth of that difference.*

As shown in the text, the rate of surplus value was increasing very rapidly during the years in question, and this is only partly reflected in the gnp figures for manufacturing.

Interestingly, the BLS calculates and publishes productivity indexes for many separate industries, based on physical production figures, and many show very rapid gains in productivity over the period. The failure to do so for manufacturing as a whole cannot have been made for a valid technical reason. Regardless of intent, the effect is to provide antilabor propaganda to employers.

The distortion contained in the productivity indexes for the entire nonfarm economy is much more gross.

At the extreme, wages and salaries reached 71% of reported gnp for the service industries—which account for as many full-time equivalent workers as manufacturing. In trade and services the trend of real wages has been even more decidedly downward than in manufacturing. More and more of the property income is siphoned off into the huge and increasing "underground economy" to avoid taxes and other expenditures.

These noncommodity sectors of the economy account for two-thirds of the man-hours, and the stagnant or declining productivity growth shown for them disproportionately drags down the overall index. This despite the fact that bank clerks, for example, handle many more transactions per hour, retail checkout clerks many more sales—with modern equipment, etc.

The most absurd component of the BLS index of productivity concerns construction. According to the BLS, productivity per man-hour in construction has been declining since 1965, for a total drop of 33.3%—exactly one-third—between 1965 and 1981. That completely confounds the readily observable facts about the rapid increase in construction mechanization and has been challenged by many who hesitate to challenge the entire BLS productivity procedure.*

3) Falsified "real per capita income"

The Commerce Department series of "real per capita income" figures decidedly exaggerates the increase in the 1970s and 1980s because they used as a deflator not the BLS cpi, with its shortcomings, but an "imputed index for consumer expenditures per unit," which goes up much more slowly. The essential difference between this type of index and the cpi is that the cpi has a constant set of weights, as of the base year, while the imputed index changes

*_Survey of Current Business_, July 1984, Table 6.1, p. 69; Table 6.6B, p. 72; _Stat. Abst._ 1985, No. 1337, p. 746.

weights year by year to take account of changes in consumption patterns. Regardless of the general merits or demerits of this procedure, the resultant index obviously understates rising living costs much more than does the BLS index. Using the cpi, real per capita income rose 3.1% between 1973 and 1983 instead of the 14.5% publicized by the government using the imputed price index. This very small 3.1% increase is more consistent with the observed decline in real wages during this period. The real income of capitalists through interest dividends, executive salaries, bonuses, etc., and other forms of property incomes, has gone up sharply during this period.

4) Unemployment Statistics

Unemployment statistics are based on a sample household survey in 1986 of 59,000 occupied households.

People were not asked whether or not they were unemployed. They were asked whether they worked at all in the past week. Even an hour's casual work put the person in the "employed" category. Then if the first answer was "no," they were asked whether they actively looked for work during the last month. Only if they said "yes," and responded "correctly" to other questions were they counted as unemployed. As of 1986 more than five million were in the category of occasional part-time workers but counted as fully employed.

A study in Iowa showed that asking a person whether or not he or she was unemployed doubled the number counted.

People who were traveling to look for a job—thus were not part of an occupied household—were not counted as unemployed. Neither were the increasing number of homeless people. Enumerators shy away from surveying households in "dangerous" areas, where, of course, unemployment is especially high. The statistics make it clear that large proportions of Black males were excluded from the labor force, particularly Black youth; and the unemployment rate among these sectors is especially high. People who said they wanted jobs but did not actively look in the past month because there were no jobs available were not counted as unemployed. Millions more who did not work for various reasons—including illness, being on strike and weather conditions, which might cause prolonged seasonal stoppage in some industries—were all counted as employed.

For calculating the rate of unemployment, the BLS artificially reduces the result by inflating the base against which it is calculated. Self-employed persons, by definition, cannot be unemployed, but they—whether farmers or merchants or professionals—are included in the base. During the 1980s, to further reduce the reported rate of unemployment, the BLS started to include in the labor force members of the armed forces stationed in the United States.

**Business Week,* February 25, 1980.

TABLE 3A. Indexes of Man-Hours, Production, Productivity, Real Wages, Relative Wages, and Production per Dollar of Real Wages, 1919-1985, 1919 = 100

Year	1 Index of man-hours	2 Index of production	3 Productivity index (3÷2)	4 Index of real wages 1919=100	5 Relative wages 1919=100	6 Production per $ of real wages
1919	100.0	100.0	100.0	100.0	100.0	100.0
1920	102.7	102.8	100.0	100.0	100.0	100.0
1921	71.5	78.0	109.1	104.5	95.7	104.4
1922	81.1	101.8	124.0	104.8	84.5	118.3
1923	95.8	119.3	124.0	110.3	88.9	112.4
1924	85.2	111.9	131.2	115.8	88.2	113.3
1925	89.8	124.8	139.0	112.7	81.1	123.3
1926	92.5	132.1	142.9	112.0	78.4	127.6
1927	90.6	131.2	144.8	114.7	79.2	126.2
1928	89.6	137.6	153.2	118.2	77.1	129.6
1929	94.8	153.2	161.7	119.5	73.9	135.3
1930	78.7	125.7	159.7	119.9	75.0	133.2
1931	63.9	102.8	160.4	122.3	76.2	131.2
1932	51.3	78.9	153.2	118.2	77.1	129.6
1933	56.6	94.5	166.9	122.9	73.7	135.8
1934	59.9	102.8	171.4	143.5	83.7	119.4
1935	67.6	121.1	179.2	145.2	81.0	123.4
1936	78.7	144.0	182.5	144.9	79.4	125.9
1937	85.0	156.9	184.4	156.8	85.1	117.6
1938	66.7	121.1	181.2	160.3	88.4	113.0
1939	78.6	145.0	184.4	165.1	89.5	111.7
1940	85.3	170.6	199.4	170.9	85.7	116.7
1941	112.0	218.3	194.8	180.1	92.5	108.2
1942	140.3	254.1	180.5	190.8	105.7	94.6
1943	170.7	316.5	185.1	202.4	109.4	91.5
1944	166.9	342.2	204.5	209.2	102.3	97.8
1945	141.7	286.2	201.3	206.2	102.4	97.6
1946	123.8	237.6	191.6	201.4	105.1	95.1
1947	131.5	265.1	201.3	198.6	98.7	101.4
1948	129.6	275.2	211.7	201.7	95.3	105.0
1949	115.8	259.6	224.0	211.0	94.2	106.2
1950	127.1	302.8	237.7	218.5	91.9	108.8
1951	136.1	326.6	239.6	219.5	91.6	109.2
1952	136.1	340.4	249.4	225.3	90.4	110.7
1953	142.6	370.6	259.7	238.0	91.7	109.1
1954	127.4	346.8	272.1	241.8	88.9	112.5
1955	135.4	390.8	288.3	252.7	87.7	114.1
1956	136.0	407.3	299.4	262.3	87.7	114.1
1957	131.5	411.9	313.0	265.4	84.8	117.9
1958	117.8	382.6	324.0	265.8	82.0	121.9
1959	126.9	431.2	339.0	274.3	80.9	123.6

	1.	2.	3.	4.	5.	6.
1960	125.0	440.4	351.9	278.4	79.1	126.4
1961	120.3	441.3	366.2	283.2	77.3	129.3
1962	126.0	480.7	381.2	288.7	75.7	134.6
1963	126.9	509.2	400.6	292.5	73.0	137.0
1964	129.9	544.0	418.2	297.9	71.3	140.4
1965	137.9	602.8	436.4	302.1	69.2	144.5
1966	147.4	657.8	445.5	305.1	68.5	146.0
1967	144.9	670.6	462.3	308.6	66.7	149.8
1968	147.4	708.3	479.9	316.1	65.9	151.8
1969	149.5	739.4	493.5	317.8	64.4	155.3
1970	139.6	706.4	505.2	315.4	62.4	160.2
1971	134.8	717.4	531.2	321.9	60.6	165.0
1972	140.9	792.7	561.7	333.9	59.4	168.2
1973	149.4	862.4	576.6	336.3	58.3	171.5
1974	144.9	849.5	585.7	327.4	55.9	178.9
1975	127.2	765.1	600.6	328.1	54.6	183.1
1976	135.3	843.1	622.1	335.3	53.9	185.5
1977	141.0	917.4	649.4	342.5	52.7	189.6
1978	147.4	982.6	665.6	345.5	51.9	192.6
1979	149.8	1022.9	681.8	337.0	49.4	202.3
1980	139.5	992.7	710.4	321.9	45.3	220.7
1981	138.1	1013.8	733.1	321.2	43.8	228.2
1982	122.7	937.6	763.0	321.9	42.2	237.0
1983	125.0	1011.0	807.8	325.0	40.2	248.6
1984	134.0	1136.7	846.8	326.7	38.6	259.2
1985	131.9	1164.8	881.3	326.8	37.1	269.7

SOURCES: Index of Man-Hours: U.S. DOL, Employment, Hours, & Earnings, U.S. 1909–84, Vol I, pp. 56–58; Vol.II, p. 882.
Index of Production: FRB, in *Hist. Stat.*, Vol. II, p. 667, Series P 13; FRB release, July 1985.
Productivity Index: Calculated from production and man-hours indexes
Real Wages: U.S. DOL, *Hist. Stat.*, and *Handbook of Labor Statistics 1983*, Table 85, p. 195; Consumer Price Index (W) T 100, p. 322, Current releases.
Relative Wages, Col. 4 ÷ Col 3 × 100
Production per \$: Col. 3 ÷ Col. 4 × 100

Chapter 4

TABLE 4A. *Percent Black Of White Median Family Income*, 1945-1984

Year	% Black of White	Year	% Black of White
1945	55.6	1966	57.8
1946	51.6	1967	59.2
1947	50.1	1968	60.0
1948	52.4	1969	61.3
1949	50.1	1970	61.3
1950	53.3	1971	60.3
1951	51.7	1972	59.4
1952	55.8	1973	57.7
1953	55.1	1974	59.7
1954	54.7	1975	61.5
1955	54.1	1976	59.5
1956	51.6	1977	57.1
1957	52.5	1978	59.2
1958	50.2	1979	56.6
1959	52.2	1980	57.9
1960	53.8	1981	56.4
1961	51.8	1982	55.3
1962	51.8	1983	56.4
1963	51.3	1984	55.7
1964	54.3		
1965	53.6		

SOURCES: 1945-50—BLS Bulletin 1119, Table 23, p. 40.
1951-66—DOC Series P-23, No. 80, Table 31, p. 14.
1967-84—DOC P-60, No. 151, Table 10, pp. 29-30.

For most of the earlier years, data were available only for "Black and other families." Adjustments were made for Black families only by extrapolation or interpolation. For the years 1945-1958, the ratio for Black and other families was reduced by one percentage point to represent the ratio of Black and white family income.

Chapter 5

TABLE 5A. CALCULATION OF RATE OF PROFIT, MANUFACTURING, 1925-1983

($ billions) Year	Average for Year: Fixed Capital	Inventories	Half wages & salaries	Total capital	Surplus value	Rate of Profit %
1925	14.1	11.5	6.5	32.1	14.5	45%
1927	16.0	12.3	6.6	34.9	14.8	42
1929	18.1	12.5	7.1	37.7	18.2	48
1931	18.6	10.2	4.6	33.4	10.3	31
1933	16.7	7.8	3.1	27.6	7.6	28
1935	15.4	9.0	4.8	29.2	9.8	34
1937	15.3	11.4	6.4	33.1	13.5	41
1939	15.2	11.1	6.4	32.7	14.0	43
1947	25.9	25.2	19.8	70.9	41.7	59
1949	34.0	27.4	20.7	82.1	42.0	51
1950	37.8	28.7	23.3	89.8	51.8	58
1951	41.4	35.2	27.4	104.0	57.6	55
1952	45.8	40.2	29.8	115.8	61.2	53
1953	49.9	42.5	33.2	125.6	68.0	54
1954	53.8	42.8	31.5	128.1	67.3	53
1955	57.5	43.3	34.5	135.3	80.3	59
1956	62.3	47.9	37.0	147.2	86.9	59
1957	68.3	51.3	38.2	157.8	88.6	56
1958	72.9	51.1	36.9	160.9	84.9	53
1959	75.6	51.6	40.6	167.8	99.4	59
1960	78.3	53.4	41.8	173.5	100.6	58
1961	81.0	54.3	41.8	177.1	101.3	57
1962	83.7	56.5	44.9	185.1	111.5	60
1963	87.0	59.1	46.6	192.7	121.0	63
1964	91.4	61.7	49.3	202.4	130.9	65
1965	98.0	65.8	53.3	217.1	145.3	67
1966	107.7	73.1	58.6	239.4	161.4	67
1967	119.2	81.3	61.7	262.2	168.3	64
1968	129.3	87.6	66.3	283.2	184.3	65
1969	138.5	94.4	71.3	304.2	196.7	65
1970	147.7	99.9	70.9	318.5	193.5	61
1971	155.9	102.2	72.1	330.2	205.0	62
1972	163.5	105.4	80.2	349.1	231.7	66
1973	173.8	116.4	89.2	379.4	269.5	71
1974	189.2	141.2	95.3	425.7	308.3	72
1975	208.4	158.9	95.3	462.6	300.1	65
1976	228.4	167.6	106.5	502.5	350.9	70
1977	251.9	182.2	121.0	555.1	402.6	73
1978	280.1	199.8	135.8	615.7	452.6	74
1979	316.4	225.2	149.8	691.4	522.5	76
1980	358.4	252.6	158.4	769.2	539.2	70
1981	400.2	273.2	170.7	844.1	584.6	69
1982	435.8	273.4	170.7	879.9	574.5	65
1983	460.6	262.6	177.1	900.3	621.3	69

SOURCES for Table 5A on p. 524

SOURCES for Table 5A.
Basic data from U.S. Department of Commerce:
Fixed Capital:
1925–79 from *Fixed Reproducible Tangible Wealth in the United States, 1925–79,* Table A-3, p. 115.
1980–83 from BEA.
Inventories:
1929–39 from *Business Statistics,* 1959, p. 19
1947–83 from *EROP,* 1985, Table B-50, p. 289
1925–27 Estimated on basis of income tax data.
Wages and Salaries:
1983 *Annual Survey of Manufactures,* Statistics for Industry Groups and Industries, M 83 (AS)-1, Table 1a, pp. 1–4.
Surplus Value: From Appendix Chapter 2, Table 2A.
Other data calculated: *Total Capital* = sum of columns 1, 2, and 3.
Rate of Profit = 100 × surplus value ÷ total capital.

TABLE 5B. CALCULATION OF RATE OF PROFIT, ALL CORPORATIONS, 1931-1979
(*$ billions*)

Year	Business Receipts	Cost of Sales	Gross Profits	Debt	Capital Stock	TOTAL CAPITAL		Rate of Profit %
						Year End	Average	
1931	95	57	38	48	143	191	202	19%
1932	71	50	21	47	134	181	186	11
1933	75	52	23	46	128	173	177	13
1934	91	65	26	49	142	190	182	14
1935	103	74	29	50	139	189	189	15
1936	117	84	33	47	133	180	185	18
1937	130	94	36	49	142	191	186	19
1938	109	78	31	50	137	188	189	16
1939	122	87	35	49	137	186	187	19
1940	137	97	39	49	138	188	187	21
1941	177	126	51	50	143	192	190	27
1942	205	147	58	45	140	185	188	31
1943	237	172	65	44	146	189	187	35
1944	249	183	66	42	150	193	191	35
1945	241	178	63	41	155	196	194	32
1946	271	200	71	45	165	210	203	35
1947	348	258	90	50	181	231	220	41
1948	390	290	100	57	197	255	243	41
1949	372	276	96	62	208	270	262	37
1950	435	317	117	66	224	289	280	42
1951	492	363	129	73	239	312	301	43
1952	503	372	132	81	254	335	323	41
1953	529	388	140	87	273	359	347	40
1954	521	384	137	91	280	371	365	38
1955	605	443	162	98	305	404	387	42
1956	641	469	172	109	328	437	420	41
1957	685	500	185	123	344	467	452	41
1958	697	505	191	132	369	501	484	39
1959	773	557	216	143	389	532	517	42
1960	803	577	226	154	409	563	547	41
1961	824	587	237	166	434	600	581	41
1962	895	638	257			629	614	42
1963	950	673	277	181	477	658	643	43
1964	1019	722	296	193	503	696	677	44
1965	1120	793	327	210	536	746	721	45
1966	1224	866	358	233	567	800	773	46
1967	1285	909	376	252	613	865	833	45
1968	1404	990	414	286	667	952	909	46
1969	1561	1105	456	326	728	1054	1003	45
1970	1621	1146	475	363	752	1115	1084	44
1971	1764	1241	522	403	809	1212	1164	45
1972	2007	1412	595	445	887	1332	1272	47
1973	2361	1682	679	493	958	1451	1392	49
1974	2855	2068	787	542	1016	1558	1504	52
1975	2962	2130	832	587	1095	1682	1620	51
1976	3370	2417	954	638	1207	1845	1764	54
1977	3814	2725	1089	694	1351	2045	1945	56
1978	4354	3113	1241	781	1494	2275	2160	57
1979	5136	3710	1426	885	1716	2600	2438	58

SOURCES: 1931-1969 *Hist. Stat.*, Vol. II, series V-108-140, pp. 924-926
1970-1977 *Stat. Abst.*, 1981, Table 919, p. 542; Table 914, p. 540
1978 IRS, *Corporation Returns*, Table 1
1979 IRS, *Corporation Returns*, Table 2

CHAPTER 6

Actual Examples of Gross Profits and Profits of Control
First National Boston Corporation

This is the holding company of one of the country's largest money-center banks, the First National Bank of Boston. A holding company is a corporate entity through which control is exercised over a number of operating enterprises. Financial results of the operating units are consolidated in the published reports of the holding company. In the case of the First National Boston Corporation, the bank is by far the main property of the holding company.

The bank's operations do not directly generate surplus value. Surplus value is received through interest on loans and investments, and through fees for financial services supplied to customers. Among these customers are companies and workers engaged in the production of commodities, the original source of surplus value. Other customers are themselves secondary recipients of surplus value created in the process of production, such as wealthy investors and other financial companies. A large part of the interest received by the bank is passed on to depositors. The remaining revenues, less operating expenses, are the bank's gross profit, or operating profit.

Since First National Boston Corporation does not publish a gross profit figure, the gross profits are defined here as the sum of interest income and other incomes less interest paid out by the bank and less salaries and other expenses—with the exception of that portion of salaries and expenses considered here as being part of the profits of control.

On the basis of data contained in the corporation's 1981 annual report, the profits of control can be calculated at $181 million for that year. Table 6A shows the composition of the $181 million.

TABLE 6A. Profits of Control, First National Boston Corporation, 1981

	$ millions
Compensation of directors, officers and the 1,100 executives with the rank of vice president or higher	82
Professional services and regulatory examination fees	34
Travel, customer contact and advertising	26
Miscellaneous	39
TOTAL	$181

The annual report lists 1,100 high ranking officials of the corporation. In 1981, the typical salary of a young vice president of a major bank was

$50,000, with other compensation adding 30%, for a total of $65,000. (Information from personal contact.) Salaries and compensation of executive vice presidents, senior vice presidents and higher officials would be substantially more, bringing the average up to $75,000. This figure, multiplied by 1,100 gives $82 million.

The other three items listed in Table 6A are specified in the annual report.

The $181 million profits of control amounted to nearly half the total gross profits of the corporation, $414 million, as shown in the following table:

TABLE 6B. DISTRIBUTION OF GROSS PROFITS, FIRST NATIONAL BOSTON CORPORATION, 1981

	$ Millions
Interest on bonded debt	32
Rents paid	23
Income taxes	59
Net income to stockholders	119
Profits of control	181
TOTAL GROSS PROFIT	$414

The $32 million of interest amounted to 9% on the average debt of $350 million. The $119 million of net income to stockholders represented a rate of return of 15% on their equity capital of $775 million. The $414 million gross profit represented a rate of return of 37% on the total capital (debt and equity capital) of $1,129 million.

If those who benefitted by the profits of control owned, together with their close friends and relatives, 25% of the stock—a not unlikely proportion—their investment would be $194 million (one-fourth of $775 million). Their total return, equal to the profits of control, plus one-fourth of the net income, would then have been $211 million ($181 million plus stockholders' income of $119 million), or 104% on their capital.

International Business Machine Corporation (IBM)

This super-blue chip of U.S. industry still has a relative monopoly position in data processing, based on a very strong research establishment and sales organization. In recent years it has bowled over one would-be rival after another. It benefits from patented and other uniquely held technology, plus the cost savings of mass production on a scale many times that of its closest competitors. It also benefits from unsurpassed connections with the government. Thus it operates with enormous profit margins unknown in traditional industries.

IBM's gross income from sales, rentals and services came to $29.1 billion in 1981. The corresponding cost of production was only $12 billion. The $17.1 billion difference, correctly labeled as gross profit in the company's annual report, represented a 142% markup over costs and accounted for 59% of selling prices—otherwise referred to as a 59% profit margin.

The gross profit amounted to a return of 87% on the company's invested capital of $19.7 billion, averaged over the year. More than half the gross profit, $9.4 billion, consisted of selling, general and administrative expenses. This, broadly interpreted, was the profits of control. Most of it went to the many executives, officials and directors, and to their lawyers, accountants and other outside aides. A smaller part was used to pay salesmen's commissions.

Income taxes paid to U.S. and foreign governments accounted for $2.7 billion of the gross profit; $1.6 billion was spent on research and development, in effect a form of capital investment.

Interest payments of $0.4 billion ($400 million) came to 8% of the long-term debt and current short-term debt, which totaled $4.8 billion. However, the company's net interest outlay was trivial, since it received 90% of it back in the form of interest on its cash balances.

The net income available for the common shareholders was reported at $3.3 billion, or less than one-fifth of the gross profits. However, this was a return of 19% on the equity capital of $17.3 billion.

The company's gross investment came to $6.8 billion, of which the largest part, $4.6 billion, consisted of IBM-produced machines that were rented instead of being sold. The remaining $2.2 billion consisted of plant and equipment. The company's fixed capital investment was financed out of reinvested net income, not distributed in the form of dividends, out of depreciation funds, and out of sale of additional stock to shareholders and employees.

Few details are available on the distribution of the $9.4 billion profits of control. During 1981 stock options, for the purchase of shares at a fixed price at any time over the following 10 years, were granted to company officials "and other key employees." By the end of that year, nearly 15 million shares were under option, at an average option price of around $60 a share. At the end of 1982, the price of IBM stock being $96.25 per share, the option holders had a potential profit of $540 million. Lesser employees were entitled to set aside 10% of their salaries for the purchase of stock at 85% of market price. During 1981, 8.3 million shares were purchased in this way, at an indicated immediate paper profit of $77 million, and more than $300 million if held to the end of 1982.

At a stockholders' meeting, IBM president John R. Opel refused to reveal the amount paid to lawyers in the antitrust case the company had won, saying only that it was a "... big number. It costs a lot to defend yourself against these kinds of attacks." (*Report to Stockholders,* Annual Meeting, April 26, 1982.)

IBM has more than 50% of the market for mainframe computers in the United States and in the entire capitalist world. Certainly this fact, plus the company's exceptional profit markups, provided an unusually strong *prima facie* case of monopoly. But the U.S. Government's many-years-long antitrust suit against IBM was dismissed without even a face-saving settlement.

Of course, IBM had on its board of directors, serving as general counsel, Nicholas De. B. Katzenbach, who had been U.S. Attorney General in the Carter Administration. In that post he had been in ultimate control of antitrust activities, including the government's case against IBM! Yet there was no hue and cry about "conflict of interest."

And Katzenbach was only one of nine former cabinet members or ambassadors on IBM's board of directors in 1982, almost equally divided between those who had served in Republican and in Democratic administrations. Included were two former secretaries of Health, Education and Welfare, supervising the Social Security Administration, one of the largest purchasers of data processing equipment; and a former Secretary of Defense, from which agency IBM obtains billions in business, directly and indirectly.

In addition to former cabinet members, IBM had on its board Stephen D. Bechtel Jr., Chairman of the Bechtel Group, which virtually controlled the Reagan Administration through its officials who were appointed as secretaries of Defense and State by Reagan. (Basic data from IBM Annual Report for 1981.)

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