

# CAPITALIST CRISIS -

## NO RECOVERY

### Introduction

"The performance in 1984 of the economy as a whole has been the best for some years. Output growth at 4½% has been the most rapid since 1976. The growth of world trade volume at 9% has been the fastest since 1976. Inflation at 5% is the lowest since 1972. Employment has risen by 5 million, the largest increase since 1979. Further, the prospects are that expansion will continue .... over the next 18 months, without creating inflation, and creating a further 4-5 million NET new jobs."  
(OECD Economic Outlook December 1984.)

This rosy assessment of the current state of world capitalism isn't an aberration on the part of the OECD economists. Every other major source - from the National Institute's Economic Review to the UN's Economic Survey - arrives at similar conclusions. From the absolute decline of the world economy in 1982 (only the second such decline in the post-war period - 1974 being the first) capitalism has staged a two year recovery which is still continuing. True, it took all of the 1983 upswing just to regain the previous peak of 1979, but by the end of 1984 that had been considerably surpassed.

Last year, again according to the latest edition of the OECD Economic Outlook, capitalism's total product was the greatest in its history, world trade, by volume and value, was the greatest it has ever been, millions more people were working than the year before, and inflation looked to be under control. If we look at the world's strongest economy - America - the performance is even more impressive. The OECD report described it as "... more reminiscent of the 50's and 60's than the period since 1973." The GNP grew by 6½% which is the biggest jump since before 1963. 6.6 million new jobs were created and the unemployment rate fell from 9.7% to 7.7%. A performance described as "unprecedented in the post-war period."

However, far from undermining the Marxist contention that capitalism is in its death throes, a closer examination of this miracle "recovery" - of its form, content and material basis - dramatically confirms a revolutionary analysis. For Marxists, capitalist crises are NOT synonymous with capitalist collapse. A crisis is a crisis for capitalism, not simply for its immediate and outward manifestations - the breakdown of its accepted system of prices and values, monetary dislocations, the decline (relative and absolute) of production, and the increasingly obvious inability to provide the world population with work and the necessities of life - fundamentally, a crisis is a crisis because it is the embryo of future collapse; it points to the collapse; it reveals the mechanism for collapse.

"The tendency towards collapse which is expressed through crises is nevertheless slowed down and temporarily halted by these very crises though they be the embryonic form of the final collapse; but the countertendencies are essentially of a temporary character. They can postpone the collapse of the system. If the crisis is only an embryonic collapse, the

final collapse of the capitalist system is nothing else but a crisis fully developed and unhindered by any countertendencies."  
(Paul Mattick: "The Permanent Crisis" - This is the best exposition known to us of the Marxist theory of crisis. Photocopies can be obtained on request from the group address.)

Therefore, for Marxists, there is nothing surprising or dismaying about this apparent recovery. On the contrary, as we will show in the rest of this article, far from representing a return to health, this momentary upturn has irrevocably laid the basis for a qualitative deepening of capitalism's death throes. It demonstrates -

"...the expanded reproduction of the crisis itself on a higher plane." (Ibid)

### Financial Jiggery-Pokery

First of all, this "recovery" is almost exclusively located in America. European GNP grew only by 2½% in 1984 compared to America's near 7%. In addition, the American job creation was not matched in Europe. On the contrary, unemployment went up from 9½% in 1982 to 11½% in 1984. That is almost 20million people in Europe alone. There are now 3½million less people working than in 1979.

GNP (Annual percentage change.)

|            | 1972/82 | 1981 | 1982 | 1983 | 1984 |
|------------|---------|------|------|------|------|
| USA        | 2.2     | 2.5  | -2.1 | 3.7  | 6½%  |
| Germany    | 2.0     | -0.2 | -1.1 | 1.3  | 2½%  |
| UK         | 6.4     | -1.5 | 2.5  | 3.2  | 2    |
| Total OECD | 2.5     | 1.7  | -0.3 | 2.6  | 4%   |

Unemployment. (Percentage of workforce.)

|             | 1981 | 1982 | 1983 | 1984 |
|-------------|------|------|------|------|
| USA         | 7.6  | 9.7  | 9.6  | 7½%  |
| Germany     | 4.6  | 6.7  | 8.2  | 8%   |
| UK          | 9.5  | 11.0 | 11.5 | 11%  |
| OECD Europe | 8.2  | 9.5  | 10.5 | 11   |
| Total OECD  | 6.9  | 8.4  | 9.0  | 8½%  |

## Unemployment in millions.

|             | 1981 | 1982 | 1983 | 1984 |
|-------------|------|------|------|------|
| US          | 9.2  | 12.0 | 12.1 | 10.0 |
| OECD Europe | 13.7 | 16.0 | 17.9 | 19.0 |
| Total OECD  | 24.6 | 30.0 | 32.4 | 31%  |

Source: OECD Economic Outlook Dec. 1984.

When we look more closely at the American boom, it is impossible to see anything healthy about it. Firstly, it is the product of a financial manipulation. It has been achieved quite simply by an astronomical increase in monetary expansion - 14% in 1983 - and a correspondingly gigantic increase in state debt. The US 1984 budget deficit approached 200 billion dollars and the Balance of Payments deficit went from 11,000 million in 1982 to 82,000 million in 1984. If the apparent recovery in America is "better than usual" the price is a dramatically worsened current account balance as a percentage of G.N.P. In the past it varied from approx. 1 to 0; this time it has dropped off the scale, going from -0.5 to -3.5.

It's a scaling up of the old familiar reflationary policies which the rest of the world had to abandon in the 1970's because of the resulting uncontrollable inflation. This has been temporarily avoided so far in the US by the simple expedient of making the rest of the world finance the debt. The increasingly tight grip imposed on the World Bank and the IMF by the Reagan regime has been accompanied by a catastrophic cessation of American lending to the rest of the world, particularly the poorer sections of it.

## LENDING TO NON-OIL DEVELOPING COUNTRIES (OECD figures).

1979 - 21 billion dollars.  
1980 - 39 billion dollars.  
1981 - 40 billion dollars.  
1982 - 20 billion dollars.  
1983 - 12 billion dollars.

However, this is only the tip of the iceberg. The massive US budget deficit has transformed America for the first time in almost one hundred years into a debtor nation.

"Since the late nineteenth century, and until very recently, it was exporting savings ... to the rest of the world .... But in three short years, America has run down these accumulated assets and by the end of this year, it will have become the world's biggest debtor nation. If the dollar were to stay at its present level America would be a debtor to the tune of more than 1,000 billion dollars by 1990."  
(Sunday Times Business News 10/2/85.)

The accompanying high interest rates and a gigantically bolstered dollar has meant the US economy has acted like a sponge, sucking in every spare piece of investment cash, savings and capital. The result has been a net flow of funds into the US in 1983-84 of 250 billion dollars, with a corresponding depletion of the resources available for productive investment in the rest of the world. To quote the Economist - "When America keeps scooping up scarce savings, it

pulls up interest rates in other countries, discourages their investment, and so leaves them stuck with old-fangled plant." Thus, the fillip given to world trade and production by the US import boom produced by the high dollar, has NOT been transformed into investment for the future, but has starved the US's competitors of investment capital. US "recovery" has therefore meant stagnation (at best) for the rest of the world. It has meant a barrier to the future healthy expansion of productive capacity. In addition, the price paid for the stimulus of the dollar-led export boom has been the depressing effect on industry of high interest rates and a dislocation and destabilisation of world currencies with the re-introduction of inflationary pressures. The apparently unstoppable collapse of the pound is merely the most spectacular example of this. The net result, according to the Sunday Times Business News has been:

"The massive inflow of foreign savings has financed three fifths of the increase in investment which has been the sustaining force of the US recovery, and pushed the dollar up by enough to cut inflation by 1.5% a year for the last four years." (December 1984).

TRADE BALANCE IN BILLION DOLLARS.  
OECD Economic Outlook December 1984.

|         | 1980  | 1981 | 1982  | 1983 | 1984 |
|---------|-------|------|-------|------|------|
| US      | 0.4   | 4.6  | -11.2 | -42½ | -81½ |
| Germany | -15.7 | -6.5 | 3.5   | 5.25 | 5.5  |
| U.K     | 6.8   | 13.2 | 9.5   | 1.5  | 2.75 |

Even the most optimistic of bourgeois economists are wondering how long the whole house of cards can be sustained.

"If the budget is not reduced, the most common scenario is a loss of confidence in the dollar, sharp depreciation and a resurgence of inflation in the US. And with 70% of OECD growth originating in the US, the sustainability of the US recovery continues to have wide significance for the world economy as a whole."  
(OECD Ec. Survey. Dec.84.)

But even if the Reagan administration manage to force their current proposals for spending cuts through Congress it would (according to the May 1984 edition of the National Institute Economic Review) only reduce the budget deficit to 150 billion dollars, and then only if the projected growth rates of 4% p/a materialise. At the most optimistic assumption, the US budget deficit in 1988 would still be equivalent to 3-4% of US GNP. In other words, if the American economy is to avoid runaway inflation and the dramatic collapse of the dollar it must continue to extract surplus capital from the rest of the world at the same rate as in 1983/84. Given the stagnant performance of the rest of the world's economy and the fact that the US has already used up in the last two years the spare capital that existed, this is clearly impossible without significant liquidisation of foreign capital.

The Working Class and the Recovery

If the financial jiggery-pokery at the root of the US upturn indicates the fragility of the whole affair,

the other major element in the upturn - the fate of the working class - demonstrates the deepening of capitalism's terminal decline and not its recovery. We are not seeing the foundations laid for a further healthy expansion; on the contrary, what we are seeing is a form of cannibalism - capitalism feeding off itself to survive and laying the basis for a deeper collapse next time. The second fundamental key to the upturn has been a massive increase in the exploitation of the working class - both relative and absolute.

"The improvement can be traced to strong productivity performance and greater preparedness of labour to accept less than full indexation of wages to prices..... As a result of real labour costs growing more slowly than productivity the share of labour cost in total value added is now below that of 1973."  
(OECD Ec. Outlook. Dec.84).

Productivity has increased across the board while real wages have been held steady (at best), or in most cases, actually cut. In the USA for example, real wages have declined by 9% since 1967. The average American worker now earns the same, in real terms, as in 1962. One in six US workers are now officially below the poverty line compared with one in ten at the start of Reagan's administration. This decline shows no sign of stopping. Between June and August 1984, wages rose by an annual rate of 2.6% while prices rose by an annual rate of 4.2%. And, as in every other country, the simple comparison between the rate of inflation and the rise in negotiated wage rates conceals a growing gap between the two. As a result of falling hours worked, declining overtime, less generous bonus rates, the increasing elimination of fringe benefits, and much tighter industrial discipline resulting in less absenteeism etc, the actual rise in earnings is often much less than the negotiated rise in base rates would suggest. The result is what the bourgeois economists of the

#### Productivity. Total OECD.

|                                     | 1981 | 1982 | 1983 | 1984 |
|-------------------------------------|------|------|------|------|
| GNP                                 | 1.7  | -0.3 | 2.6  | 4%   |
| Employment                          | 0.4  | -0.5 | 0.4  | 1½   |
| GNP/Employment<br>(ie Productivity) | 1.4  | 0.2  | 2.2  | 3%   |

Source: OECD Economic Outlook Dec. 1984.

National Institute Economic Review coyly call "widespread negative wage drift". In addition to the attacks on direct wages, workers throughout the world have also had to endure even more stringent cuts in their "social wage" - ie. that part of their earnings which they receive in the form of social services - health care, education, public housing programmes, public transport etc. In the US under Reagan, cuts in food stamps have hit one million of the poorest families; ½ million women have lost Medicaid benefits; 900,000 children have lost free school breakfasts; and three million have lost low-cost hot lunches.

Taken in conjunction with the massively increased unemployment in the rest of the world, the reality of this "recovery", is that the growth and expanded

accumulation which has apparently taken place actually means relatively less people doing more. It represents a decline in capacity, a diminution of the productive apparatus of capitalism.

"The pattern of investment in the major countries would appear to support suggestions from business surveys, that much of current investment is being devoted to rationalisation and labour-saving rather than the expansion of capacity." (UN Economic Survey.)

This "pattern of investment" is in reality a process of disinvestment, ie. of the destruction of the less productive plant and machinery. The ensuing maintenance of output can then only be achieved by brutal and unrelenting increases in work rates and the levels of exploitation.

|                 | <u>Output.</u> | <u>Investment.</u> |                  |
|-----------------|----------------|--------------------|------------------|
| Average 1967-73 | +4.9%          |                    |                  |
| Average 1973-80 | +2.5%          | +1.9%              | (OECD Countries) |
| 81              | +1.5%          | -16.2%             |                  |
| 82              | -0.2%          | -4.9%              |                  |
| 83              | +1.5%          | -4.0%              |                  |

And, of course, the more the actual base of productive capacity declines, the less effect each hike in productivity can have. In Europe as a whole, productivity in 1979-83 rose by 4.6% which was more than TWICE the ensuing rise in total GDP. In Britain it was even more marked - despite productivity rising by more than 6% in that period the actual level of output remained below the figure of 1979. The accelerating crisis is forcing capitalism to strip the disguise from the social relations which lie at the heart of the process of accumulation.

"The countertendencies" (to the tendency for the rate of profit to fall) "are eventually all used up leaving only one means for the continued existence of capitalism - the permanent, absolute and general pauperisation of the proletariat."  
(Mattick - The Permanent Crisis.)

The clearest proof we have that this "recovery" represents a tightening of the noose round capitalism's neck comes when we look at what American capitalism has actually done with the surplus capital which has been scavenged from all over the world and with the largest state debt in the history of mankind. Certainly, as we have already seen, total output has risen dramatically and millions of new jobs have been created, but a closer look at the content of this growth shows how utterly sterile it has been for capitalism. The heart and guts of a capitalist economy - the industrial infrastructure - the only possible basis for healthy, continuing expansion in the future, has NOT benefitted. On the contrary, the "recovery" has continued its dismantling.

"Among the sectors most affected by the recession - metals, textiles, machinery, - employment has been slow to recover and remains below pre-recession levels."  
(OECD Ec. Outlook. Dec 84.)

If we look at the FUTURE 500, (which is the name given to a basket of the top American industrial companies) they now have 10% LESS workers than 10 years ago. The particular shape this "recovery" has taken has accelerated this process. American farmers who borrowed heavily in the years when the interest rate was much lower have been devastated by debt charges

and are going bankrupt on a scale not seen since the Dustbowl years before the war. Industry likewise, is suffering from the unexpected scale of interest repayments they have incurred. Net interest Payments now cost US companies one third of pre-tax profits compared with  $\frac{1}{3}$  in more normal times. In addition, the high dollar has made American industry massively uncompetitive resulting in the explosive rise in the US trade deficit we have already detailed.

Where has the growth taken place then? Firstly, it has gone to sustain the massively increased expenditures incurred by Reagan's defence plans. Armaments spending has been bolstered across the board - from conventional weapons, to nuclear missiles, to the much-trumpeted Star Wars. The projected cost of this latter scheme alone has been estimated at 1,000 billion dollars. (Which just happens to be the estimated total of US debt in 1990). The only other growth sector in the American economy and the one which has accounted for the largest proportion of new jobs created is the service industry. And, almost unbelievably, the most important element within this has been the growth of the fast-food industry! (Where real wages have dropped most dramatically - 17% since 1967.) So we can see, far from laying the basis for future growth, for healthy expanding accumulation, this "recovery" has actually destroyed the material basis for it. It has accelerated the decay of the industrial infrastructure at the heart of the capitalist economy - unless, of course, we can imagine capitalism plowing forward into future health on the basis of ever-increasing Taco Joints, Aerobic Dance centres and bombs!

### Wall Street. 1980's

So far, we have seen that the major elements of the upturn - the financial jiggery-pokery, the increasing pauperisation of the working class and the industrial cannibalism to provide for a massive expansion of waste production - are a guarantee of future crisis. However, there is a fourth element present which threatens that the next downturn will be catastrophic for capitalism. In the euphoria of the American economic "miracle", it has been forgotten that only a year ago, the collapse of the Continental Illinois Bank threatened a chain reaction in the entire global banking system. Nor was that collapse an isolated one. The figures for bank failures are extremely ominous for capitalism.

|         |              |
|---------|--------------|
| 1946-50 | 5.0 per year |
| 1976-80 | 9.8 per year |
| 1981    | 10           |
| 1982    | 42           |
| 1983    | 48           |

And the reason for that is the uncontrollable debt burden of the third world. In 1982 it was 626 billion dollars. Argentina owes 43.6 billion dollars; Brazil 93 billion dollars; Mexico 89 billion dollars. Just to service the interest on Brazil's debts costs 12 billion dollars. All the above countries pay MORE to service their debts than they earn from the export of their goods and services. The ever-growing Possibility of a default has led to a constant re-scheduling of repayments and the issuing of new loans simply to allow the major debtors to service the interest payments. As a result of this, the profits of the major US banks which are heavily dependant on their income from the third world, have slumped dramatically - down over 10% in the second half of 1984 alone, leading to the collapses we have detailed above.

Once again, the upturn, far from relieving the pressure, has actually turned the long term

screws on. Every extra point on the interest rate adds 4 billion dollars to the servicing costs of the third world's debt burdens. and, of course, it is all paid in dollars. The stronger the dollar, the more it costs in real terms for repayment. Thus, the long term debt burden has been increased by the upturn. In the short term, successful rescheduling and the US import boom has averted the immediate danger of a default. (Though, once again, we can see that the temporary fillip given to third world economies by rising exports to the US, can have no long term benefit for capital there. The extra income generated is immediately repatriated to the US to service the debts, where, as we have seen, it is sterilised by being diverted to the unproductive arms and waste sector.)

The inevitable collapse of the American import boom will revive in an even more severe form, the threat of a major default. The consequence would be a collapse of the global banking system and a dislocation of world currencies on a scale never seen before. The world economy simply does not have sufficient slack left to deal with such a contingency. In September, 1983 the IMF itself had to be refinanced after being forced to suspend its operations for two months. The austerity measures imposed on the debtor nations by the IMF have already had catastrophic effects. In Chile, living standards have dropped by 20%; in Bolivia by 25%; in Brazil by 30%; and in Nicaragua by 40%. In places like the Dominican Republic, Morocco and Tunisia, basic foodstuffs have doubled in price. In these areas, the bourgeoisie are finally being forced to contemplate their last card - the absolute pauperisation of the working class - and the rash of food riots and mass civil unrest that we have seen there as a result have left them with burnt fingers. For the ruling class of these areas, a default (and the ensuing collapse of the world monetary system) might well be preferable to facing their own proletariat in revolutionary insurrection. The current "recovery" has actually only succeeded in presenting the bourgeoisie with all the original problems in a dramatically worsened and more dangerous level.

"If the US revival turns out to be founded on swampy ground, a second world depression could lie just around the corner and this time with the international financial system having already soaked up so much, a new slump could have catastrophic effects."  
(Guardian Dec. 84.)

Even if world capitalism can somehow avoid a catastrophic dimension to the next downturn, as we have seen in this article, the very "solutions" which were applied to the last downturn to produce the "recovery" we have been examining, GUARANTEE that a further downturn is inevitable. We can already see that the recovery is clearly tapering off. US GNP rose by 8 $\frac{1}{2}$ % in the first half of 1984 but only by 4% in the second half. The OECD forecast for 1985 is only 3%. When we look more closely at the optimistic statement from the OECD which introduced this article we can see that this recovery was weaker than the recovery from the 1974 crisis - output growth, was less vigorous, the trade revival was smaller and unemployment globally was not dented. An examination of capacity utilisation rates points to the same conclusion - each crisis is deeper than the one before and each recovery is weaker.

### Capacity Utilisation Rates in the USA.

|             |            |                  |            |
|-------------|------------|------------------|------------|
| Boom Years. | 1973 - 94% | Recession Years. | 1975 - 78% |
|             | 1979 - 85% |                  | 1982 - 66% |
|             | 1983 - 79% |                  |            |

(UN Economic Survey.)

- And finally, the fundamental point emerging from a close examination of the upturn is that capitalism is now nakedly confronting the only "economic" solution it has to its crisis - the pauperisation of the working class.

"Only when the proletariat must necessarily be absolutely pauperised are objective conditions ripe for a real revolutionary movement."

Clearly, we stand on the brink of that now.

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- Major sources used - OECD Economic Outlook
  - National Institute Economic Review
  - UN Economic Survey.

Additional material was found in "Notes on the World Economy since W.W.II." an as yet unpublished article by R.Weyden of the Wildcat group.

## Cormack

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