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An Introduction to
Marxist Economic
Theory.
Pathfinder 1969, 1973

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Neo-capitalism

THE ORIGINS OF NEO-CAPITALISM

The great economic crisis of 1929 first changed the attitude of the bourgeoisie and its ideologists toward the state; subsequently it changed the attitude of this same bourgeoisie toward the future of its own system.

Some years ago a notorious trial took place in the United States, the trial of Alger Hiss, who had been an assistant in the State Department during the war. At Hiss's trial, one of his most intimate friends, a journalist for the Luce publications named Whittaker Chambers, was the key witness in his conviction for perjury, actually as a Communist who had allegedly stolen documents from the State Department and passed them on to the Soviet Union. This Chambers, who was somewhat neurotic, had been a Communist during the first ten years of his adult life and wound up as religious editor of the weekly magazine *Time*. He wrote a lengthy confessional under the title *Witness*. In this book

there is a passage stating approximately the following concerning the 1929-1939 period: "In Europe the workers are socialist and the bourgeoisie are conservatives; in America, the middle classes are conservatives, the workers are democrats, and the bourgeoisie are communists."

It is obviously absurd to present things in this outrageous way. But there can be no doubt that the year 1929 and the period following the great crisis of 1929-1932 was a traumatic experience for the American bourgeoisie which had been the only one in the whole worldwide capitalist class to be imbued with a complete, blind confidence in the future of the "free enterprise" system. It suffered a terrible shock during this 1929-1932 crisis, a period which was in general the equivalent for American society, so far as becoming conscious of the social question and questioning the capitalist system are concerned, to the period Europe went through at the birth of the socialist workers' movement, the period from 1865 to 1890 in the past century.

For the bourgeoisie, this questioning of the system took various forms on the world scale. It took the form of an attempt to consolidate capitalism by means of fascism and other authoritarian experiments in certain Western, Central and Southern European countries. It took a less violent form in the United States, and it is this American society of the years 1932-1940 which foreshadows what is called neo-capitalism today.

Why is it that it was not an extended and generalized fascist experience which gave neo-capitalism its fundamental characteristic but rather the experiment of an "idyllic detente" in social tensions? The fascist system was a regime of extreme social, economic and political crisis, of extreme tensions in class relationships, which, in the final analysis, was determined by a long period of eco-

nomic stagnation, in which the margin for discussion and negotiation between the working class and the bourgeoisie was virtually reduced to zero. The capitalist system had become incompatible with any residue of a more or less independent working-class movement.

In the history of capitalism we can distinguish between its periodic crises which recur every 5, 7, or 10 years and its cycles of a longer period, which were first discussed by the Russian economist Kondratief and which may be called long-term cycles of 25 to 30 years. A long-term cycle characterized by high growth rates is often followed by a long-term cycle characterized by a lower growth rate. It seems obvious to me that the period of 1913 to 1940 was one of these long-term cycles of stagnation in capitalist production, during which all the successive cycles from the crisis of 1913 to that of 1920, from the crisis of 1920 to that of 1929, were marked by particularly severe depressions because of the fact that the long-term trend was one of stagnation.

The long-term cycle which began with the second world war, and in which we still remain—let us call it the 1940-1965 or 1940-1970 cycle—has, on the contrary, been characterized by expansion, and because of this expansion, the margin for negotiation and discussion between the bourgeoisie and the working class has been enlarged. The possibility has thus been created for strengthening the system on the basis of granting concessions to the workers, a policy which is being practiced on an international scale in Western Europe and North America and may even be extended to several countries in Southern Europe in the near future. This neo-capitalist policy is based on rather close collaboration between an expansive bourgeoisie and the conservative forces of the labor movement and is fundamentally sustained by a rising trend in the standard of living of the workers.

Nevertheless, in the background of this whole development remains the question mark placed over the system, the doubts regarding the future of the capitalist system, and on that level there is no longer any doubt. In all the decisive layers of the bourgeoisie, the deepest conviction reigns that the automatism of the economy of and by itself, the "market mechanism" cannot insure the survival of the system, that it is no longer possible to rely on the automatic internal functioning of capitalist economy, and that a conscious and expanding intervention, more and more regular and systematic in character, is necessary in order to save this system.

To the extent that the bourgeoisie itself is no longer confident that the automatic mechanics of capitalist economy will sustain its rule, another force must intervene for any long-term salvation of the system, and this force is the state. Neo-capitalism is a capitalism whose preeminent characteristic is the growth of intervention by the state into economic life. From this point of view as well, the current neo-capitalist experience in Western Europe is only an extension of the Roosevelt experience in the United States.

To understand the origins of present-day neo-capitalism, however, we must also take a second factor into account to explain the growing intervention in economic life by the state, and that is the *cold war*. More generally this can be viewed as the challenge which the totality of anticapitalist forces have hurled at world capitalism. This climate of challenge makes the perspective of another serious economic crisis of the 1929-1933 type completely intolerable to capitalism. Imagine what would happen in Germany if there were five million unemployed in West Germany while a scarcity of labor existed in East Germany. It is easy to see how intolerable this would be from a political point

of view, and this is why state intervention into the economic life of the capitalist countries is above all anticyclic, or, if you prefer, *antichrisis* in character.

A PERMANENT TECHNOLOGICAL REVOLUTION

Let us dwell a moment upon this phenomenon of long-term expansion. Without this the specific neo-capitalism we have witnessed in Western Europe for 15 years is incomprehensible.

This long-term cycle started in the United States with the second world war. In order to understand the causes of this phenomenon we must remember that in most of the other expanding cycles in the history of capitalism we find the same common element repeated: technological revolutions. It is no accident that a cyclical expansion of the same kind preceded the period of stagnation and crisis of 1913-1940. The end of the nineteenth century was an extremely peaceful period in the history of capitalism, during which there were no wars, or practically none, except for colonial wars, and during which a whole series of technological researches and discoveries from the previous phase began to find their application. In the current period of expansion, we are witnessing an accelerated technical progress, a genuine technological revolution, for which the expression "second industrial revolution" or "third industrial revolution" hardly seems adequate. We find ourselves, in fact, before an almost uninterrupted transformation of the techniques of production. This phenomenon is virtually a by-product of the permanent arms race, of the cold war in which we have been involved since the end of the second world war.

In fact, if you carefully examine the origin of 99 per

cent of the technological changes applied to production, you will see that they are military; you will see that these changes are by-products of new techniques which first found their application in the military sphere. It is only later, after a longer or shorter time lag, that they come into the public domain to a certain extent and are applied in the sphere of civilian production.

So true is this fact that the advocates for a French striking force (nuclear force) are using it as a major argument today. They explain that if this striking force is not developed, the techniques which will determine an important part of industrial productive processes in 15 or 20 years will not be known in France, for they will all be the by-products of nuclear techniques and their allied techniques on the industrial level.

Here I do not wish to debate this thesis which I consider unacceptable in other respects; I simply wish to underline that it confirms, even in a somewhat "extremist" fashion, that most of the technological revolutions which we are undergoing in the industrial domain and in productive technique generally are by-products of technical revolutions in the military sphere.

To the degree that we are involved in a permanent cold war, which is characterized by a permanent search for technical changes in the sphere of armaments, we have a new factor here, a so-to-speak, extra-economic source, which feeds continuous changes into productive technique. In the past, when this autonomy in technological research did not exist, when it was essentially a product of industrial companies, there was a major factor which determined the cyclical progress of this research. The industrialist would say: we must slow up innovations now, because we have extremely costly installations which must first be amortized. They must become profitable, their in-

stallation costs must be covered, before we can start out on another phase of technological change.

This is so true that economists like Schumpeter, for example, have used this cyclical rhythm in technical revolutions as the basic explanation for successive long-term cycles of expansion, or for long-term cycles of stagnation.

Today this economic motive does not act in the same way. On the military level, no reasons are valid for putting an end to the research for new weapons. On the contrary, the omnipresent danger exists that the enemy will be the first to find a new weapon. There is consequently a real stimulus for permanent research, uninterrupted and practically without any economic consideration (at least for the United States), so that the river flows on with virtually no obstruction. This means that we are passing through an era of almost uninterrupted technological transformation in the sphere of production. You have only to recall what has been produced during the last 10-15 years, starting with the release of nuclear energy and proceeding through automation, the development of electronic computers, miniaturization, the laser and a whole series of phenomena in order to grasp this transformation, this uninterrupted technological revolution.

The term "continuous technological revolution" is now just another way of saying that the renewal period of fixed capital has been shortened. This explains the worldwide expansion of capitalism. Like every long-term expansion in the capitalist system, the limits of the present expansion are determined by the amount of fixed investments.

The rapid renewal of fixed capital also explains the reduction in length of the basic economic cycle. This cycle is normally determined by the age of the fixed capital.

To the extent that this fixed capital is now renewed at a more rapid rate, the length of the cycle is also narrowed.

We no longer have crises every seven or 10 years but instead have recessions every four to five years. We have entered a far more rapid series of cycles of far shorter duration than those which occurred prior to the second world war.

Finally, to conclude this examination of the conditions under which today's neo-capitalism is developing, there is a rather important change taking place on a world scale in the conditions under which capitalism exists and is developing.

On the one hand, there is an enlargement of the so-called socialist camp, and on the other, the colonial revolution. And while the balance, so far as a widening of the "socialist camp" is concerned, effectively represents a loss from the point of view of world capitalism—loss of raw materials, investment opportunities for capital, markets, and on all other levels—the balance, so far as the colonial revolution is concerned, paradoxical as this may seem, has not as yet resulted in a substantial loss to the capitalist world. On the contrary, one of the concomitant factors explaining the scale of economic expansion of the imperialist countries occurring in this phase, is the fact that, insofar as the colonial revolution remains in the framework of the capitalist world market (except where it gives birth to other so-called socialist states), it serves as a stimulus to the production and export of industrial equipment, the products of heavy industry in the imperialist countries.

This means that the industrialization of the underdeveloped countries, neo-colonialism, the development of a new bourgeoisie in the colonial countries, all constitute further supports, together with the technological revolution, for the long-term expansion trend in the advanced capitalist countries. Since these fundamentally have the same effects, they also lead to a growth in production for

heavy industry and for the industries engaged in mechanical construction in the manufacture of machinery. A part of this machinery serves for the accelerated renewal of fixed capital in the advanced capitalist countries; another part serves for the industrialization, the mechanization of the newly independent colonial countries.

By approaching the subject in this way, we are able to grasp the deeper meaning of the neo-capitalist phase which we are now witnessing, which is that of a long-term expansion of capitalism, a period which I believe is limited in time, just like similar periods in the past. I do not in the least believe that this period of expansion will last forever and that capitalism has now found the philosopher's stone which will allow it to avoid not only its cyclical crises but also its long-term cycles of successive relative expansion and stagnation. But it is this phase of expansion which now confronts the working-class movement of Western Europe with its specific problems.

Let us now turn to the fundamental characteristics of this governmental intervention into capitalist economy.

THE IMPORTANCE OF ARMAMENT EXPENDITURES

The first objective phenomenon which is a tremendous factor in facilitating the growing governmental intervention in the economic life of the capitalist countries is precisely this permanence of the cold war and this permanence in the armaments race. To say permanence of the cold war, permanence in the armaments race, permanence of an extremely high military budget, is also to say state control of an important part of the national income. If we compare the economies of all the big advanced capitalist countries of today with those of all the capitalist countries prior

to the first world war, we immediately see the extremely important structural change which has taken place and which is independent of every theoretical consideration and research. It is a consequence of the rise in the military budget. Whereas prior to 1914 the total state budget took 5 per cent, 6 per cent, 4 per cent, 7 per cent of the national income, the budgets of capitalist states today represent 15 per cent, 20 per cent, 25 per cent or even in some cases 30 per cent of this income.

If for the moment we disregard all considerations of interventionism, the very fact alone of this increase in permanent armament expenses signifies that the state is already controlling an important part of the national income.

I have stated that this cold war may remain permanent for a long period. That is my personal conviction. It is permanent because the class contradictions between the two camps confronting each other on a world scale are permanent. Because there is no logical reason for assuming, whether for the short or long run, that the international bourgeoisie will voluntarily disarm in the face of its global enemies or that the Soviet Union and the United States will reach an agreement which might permit a rapid reduction in these armament expenses by one-half or two-thirds or three-fourths.

We therefore start from the point that permanent military expenses will tend to rise in amount and importance relative to the national income, or to become stabilized, that is to say, increase to the extent that the national income will expand during this phase. And it is the very fact of this expansion in military expenses which creates the important role played by government in economic life.

You may know the article by Pierre Naville published in the *Nouvelle Revue Marxiste* several years ago. In it he

reprinted a set of figures presented by the director of the [French] budget in 1956, showing the practical importance of military expenses for a whole series of industrial branches. There are many industrial branches, ranking very high in importance and among the leaders in technological development, which are working mainly on contracts with the state and which would be condemned to an early demise if these state contracts disappeared: aeronautics, electronics, naval construction, telecommunications and even the engineering profession, and of course, the nuclear industry.

In the United States the situation is similar; but to the degree that these leading branches are more highly developed and that American economy is on a larger scale, these branches constitute the economic axis for whole geographic regions. It can be said that California, which is the state undergoing the greatest expansion, is largely living off the American military budget. If the country had to disarm and remain capitalist, it would be a catastrophe for the state of California, where the missile industry, military aviation industry and electronic industry are all concentrated. It is unnecessary to draw a picture to illustrate the political effects of this special situation on the attitude of California's bourgeois politicians: you will hardly find them at the head of the struggle for disarmament!

A second phenomenon of this expanding phase which at first sight appears to be in contradiction with the first is the increase in what might be called social expenditures, that is, everything tied more or less closely to social insurance. These outlays have been constantly increasing in governmental budgets generally, and constitute a significant part of the national income over the past 25-30 years.

HOW CRISES ARE 'AMORTIZED' IN A RECESSION

This growth in social welfare expenditures is the result of several concomitant phenomena.

There is, first of all, the pressure of the working-class movement, which has always aimed at ameliorating one of the most distinct characteristics of the proletarian condition: *insecurity*. Since the value of labor-power only roughly covers the needs of its current upkeep, every interruption in the sale of this labor-power—that is to say, every accident which interferes with the worker's normal job: unemployment, sickness, disability, old age—casts the proletarian into the depths of poverty. In the beginning of the capitalist system, there was only "charity," private or public, to which the jobless workers could turn in distress, with only insignificant material results and at the price of a terrible blow to his human dignity. Little by little, the working-class movement has imposed the principle of *social insurance*, first voluntary, then compulsory, against these blows of fate: health insurance, unemployment compensation, old-age insurance. And the struggle has finally wound up with the principle of *social security*, which would theoretically cover the wage and salary earner against all losses of current earnings.

Then there is a certain interest on the part of the state. The institutions receiving the great amounts used for financing this social security program often have large amounts of liquid funds. They can invest these funds in government obligations, make loans to the state (short-term obligations, as a rule). The Nazi regime applied this technique and it subsequently spread to most of the capitalist countries.

The ever mounting size of these social security funds

has, moreover, brought about a special situation, posing a theoretical and practical problem to the working-class movement. The latter properly considers that all funds paid into the social security fund—either by the employers, or by the state, or by withholdings from the wages of the workers themselves—simply constitutes a part of wages, an "indirect wage," or "deferred wage." This is the only reasonable point of view, and one harmonizing, moreover, with the Marxist theory of value, since everything received by the worker in exchange for his labor-power should in effect be considered the price of that labor-power, regardless of whether it is paid him immediately (direct wage) or later (deferred wage). For this reason, "parity management" (union-employer, or union-state) of social security funds must be considered as a violation of a worker's right. Since these funds belong only to the workers, any unwaranted interference in their management by social groups other than the trade unions must be rejected. The workers should no more allow "parity management" of their wages than the capitalists permit "parity management" of their bank accounts.

But the mounting size of these payments into social security has managed to create a certain "tension" between direct wages and deferred wages, since the latter sometimes reach 40 per cent of the total wage. Many trade-union centers are opposed to further increases in "deferred wages" and want to concentrate on having every new gain in the form of an immediate gain in direct payments to the worker. It must be understood, however, that underneath the fact of the "deferred wage" and of social security lies the principle of *class solidarity*. Actually, the funds for sickness, accidents, etc., are not based on the principle of "individual return," (each one eventually receiving everything he or the employer or the state has paid in for his account),

but on the *insurance* principle. Those who do not have accidents pay so that those who do may be fully covered. The underlying principle in this practice is that of *class solidarity*, i.e., the interest of the workers in avoiding the *creation of a sub-proletariat*, which would not only undermine the militancy of the laboring masses (each individual fearing to be driven into this sub-proletariat sooner or later) but would also represent a danger of competition for jobs and its threat to wages. Under these conditions, instead of complaining about the "excessive" scale of the deferred wage, we should demonstrate its *pitiful inadequacy*, for it brings about a terrible drop in the standard of living of most old workers, even in the most prosperous capitalist countries.

The effective answer to the problem of the "tension" between direct and indirect wages is the demand to replace the principle of a solidarity limited solely to the laboring class by the principle of a solidarity widened to include all citizens, the transformation of social security into *national services* (of health, full employment, old age) *financed by a progressive tax on incomes*. Only in this way can the "deferred wage" wind up as a genuinely important increase in wages and a *genuine redistribution of the national income* in favor of the wage earners.

It must be recognized fully that up to now this has not been accomplished on a great scale under the capitalist system, and it is even necessary to pose the question of whether this can be realized without provoking a capitalist reaction of such character that we would soon find ourselves in a period of revolutionary crisis. In point of fact, the most interesting experiences with social security, such as the one introduced in France after 1944 and more particularly, the National Health Service in Great Britain after 1945, were financed to a far greater extent by *taxing the workers themselves* (mainly by increasing

indirect taxes and by increased taxation of even modest wages, as in Belgium for example) than by taxation of the bourgeoisie. That is why we have never seen a genuine and radical redistribution of the national income by taxation in the capitalist system; it remains one of the great "myths" of reformism.

There is another aspect to this growing importance of "deferred wages," of social insurance, to the national income of industrialized capitalist countries: it is their *anti-cyclical characteristic*. Here we find another reason why the bourgeois state, neo-capitalism, is interested in increasing the volume of these "deferred wages." It is because it plays the role of a shock-absorbing cushion in preventing too sudden and too violent a drop in the national income in the event of a crisis.

Formerly when a worker lost his job, his income fell to zero. When a fourth of the labor force in a country was unemployed, the income of wage earners and salaried workers automatically decreased by a fourth. The terrible consequences of this drop in income, this drop in "total demand," for capitalist economy in general has frequently been described. It gave the capitalist crisis the appearance of a chain reaction, which kept on going with terrifying logic and inevitability.

Let us assume that the crisis breaks out in a sector producing machines and that this sector is compelled to close its plants and discharge its workers. The loss of income by the latter radically reduces their purchases of consumer goods. Because of this, there is very soon an overproduction in the sector making consumer goods, which, in its turn, is soon compelled to close its plants and dismiss some of its personnel. Again, therefore, there will be a further drop in the sales of consumer goods, and an increase in inventories. At the same time, the plants manu-

facturing consumer goods, being hard hit, will reduce or cancel their orders for machines, which will bring about the shutdown of more firms engaged in heavy industry, consequently, the dismissal of another group of workers, followed by a new drop in buying power for consumer goods, with another consequent sharpening of the crisis in the light industrial sector, which will in its turn create new layoffs, etc.

But once a system of effective unemployment insurance has been instituted, these *cumulative effects of the crisis are dampened*: the greater the unemployment compensation, the stronger will be the dampening effect on the crisis.

Let us return to the description of the beginning of the crisis: The sector manufacturing machinery experiences an overproduction and has to lay off some of its personnel. But when the unemployment compensation amounts to let us say 60 per cent of his wages, this layoff no longer means a total loss of income to the unemployed, but only a reduction of 40 per cent in his income. Ten per cent unemployment in a country no longer means an overall drop in demand of 10 per cent but only of four per cent; 25 per cent unemployment now means no more than a 10 per cent drop in income. And the cumulative effect of this reduction (which is figured in academic economic science by applying a multiplier to this reduction in demand) will be correspondingly reduced; the crisis will not hit the consumer goods sector so forcefully; the latter will therefore lay off far fewer workers; it will be able to continue some of its orders for machines, etc. In brief, the crisis does not spread out in the form of a spiral; it is "stopped" midway. Then it begins to be resolved.

What we now call a "recession" is nothing but a classical capitalist crisis which has been abated, particularly by

means of social insurance.

In my *Treatise on Marxist Economics*, I cite data on the last American recessions which empirically confirm this theoretical analysis. In fact, according to these figures, it appears that the recessions of 1953 and 1957 began with extreme sharpness and had an amplitude comparable in every respect to the severest crises of capitalism in the past (1929 and 1938). But contrary to these pre-second world war crises, the recession of 1953 and of 1957 stopped expanding after a certain number of months, were consequently stopped halfway, then began to recede. We now understand one of the fundamental causes for this transformation of crises into recessions.

From the standpoint of the distribution of the national income between capital and labor, the mounting size of the military budget has an opposite effect to the similar increase in "deferred wages," since in every case a part of the "deferred wage" always stems from supplementary payments by the bourgeoisie. But from the standpoint of its *anticyclical effects*, the mounting size of the military budget (of public expenses generally) and the mounting size of social insurance play identical roles in "abating" the violence of crises, and gives neo-capitalism one of its special aspects.

Aggregate demand can be divided into two categories: the demand for consumer goods and the demand for producer goods (machines and equipment). The expansion in social security funds makes it possible to avoid an extreme drop in expenditures (in demand) for consumer goods after the outbreak of a crisis. The expansion in public expenditures (especially in military expenditures), makes it possible to avoid an extreme drop in expenditures (in demand) for producer goods. Thus, these distinctive traits of neo-capitalism operate in both sectors, **not in suppress-**

ing the contradictions of capitalism—crises break out just as they did before, capitalism has not found a means of insuring a more or less harmonious and uninterrupted growth—but in reducing their amplitude and seriousness, at least temporarily.

The framework for this process must be a long-term period of accelerated growth but at the cost of permanent inflation.

THE TENDENCY TO PERMANENT INFLATION

One of the consequences of all the phenomena we have just discussed, all of them anticyclic in their effect, is what may be called a tendency to permanent inflation. This has become an obvious manifestation in the capitalist world since 1940, since the beginning or eve of the second world war.

The fundamental cause of this permanent inflation is the importance of the military sector, of the armament sector, in the economy of most capitalist countries. The production of armaments has this special characteristic: it creates purchasing power in exactly the same way that production of consumer goods or production of producer goods does—wages are paid in plants making tanks or rockets, just as they are paid in plants manufacturing machines or textiles, and the capitalist owners of these plants pocket a profit just like the capitalist owners of steel mills or textile plants—but in exchange for this supplementary buying power, there is no corresponding supplementary merchandise placed on the market. Parallel with the creation of buying power in the two fundamental sectors of classical economy, the consumer goods sector and the producer goods sector, is the appearance of a mass of merchandise

on the market place, which is capable of absorbing this purchasing power. In contrast, the creation of purchasing power in the armament sector has no compensatory increase in the mass of merchandise, either consumer goods or producer goods, whose sale can be absorbed by the purchasing power thus created.

The only condition in which military expenses would not be inflationary would be if they were completely paid by taxes, and that in proportions which would permit a continuation of exactly the same ratio between the buying power of workers and capitalists on the one hand and between the value of consumer goods and producer goods on the other¹. This situation does not exist anywhere, not even in those countries where the tax bite is greatest. In the United States, in particular, total military expenses are not at all covered by taxation, by a reduction in the supplementary buying power, so that there is a corresponding tendency toward permanent inflation.

There is also a phenomenon of a structural nature in capitalist economy in the period of monopoly which has the same effect, namely, the rigidity of prices so far as any decline is concerned.

The fact that the great monopolistic trusts virtually or completely control a whole series of markets, particularly the producer goods and hard consumer goods markets, shows up in an absence of price competition in the classical meaning of the term. Whenever supply is less than demand, prices increase, whereas when supply exceeds

1. The formula is not quite exact. For the sake of simplification, we are not taking into account that fraction of the purchasing power of the capitalists which is destined (1) for the consumption of the capitalists themselves, and (2) for the consumption of the supplementary workers who are hired as a consequence of capitalist investments.

demand, prices do not fall but remain stable or fall only slightly. This is a phenomenon which has been noted in heavy industry and in the durable consumer goods markets over practically 25 years. It is moreover a phenomenon tententially linked to the long-term cycle previously discussed, for it must be frankly acknowledged that we cannot predict changes in the prices of durable consumer goods after the close of this long-term period of expansion.

It cannot be excluded that when the automobile industry will increase its excess productive capacity, this will wind up with a new competitive struggle over prices and with spectacular declines. It is possible to defend the thesis that the famous automobile crisis predicted for the second half of this decade (1965, 1966, 1967), could be absorbed relatively easily in Western Europe, if the selling price of small cars was lowered by one half. If the day came that a Citroen 4CV or a 2CV would sell for 200,000 or 250,000 old francs, there would then be such an increase in demand that this excess capacity would most likely disappear in a normal way. This does not appear possible within the framework of present agreements, but if we view the matter in terms of a long period of five or six years of cut-throat competition, something entirely possible in the European automobile industry, then the eventuality cannot be excluded.

Let us immediately add that there is a more likely eventuality, one in which excess productive capacity is suppressed by the shutting down and disappearance of a whole set of firms, in which case the disappearance of this excess capacity will prevent any important drop in prices. That is the normal reaction to such a situation in the system of monopoly capitalism. The other reaction must not be completely excluded, but up to this time we have not

witnessed it in any sphere. In the oil industry, for example, the phenomenon of potential overproduction has existed for six years, but the lowering of prices permitted by the big trusts, which operate at profit rates of 100 per cent and 150 per cent, is a drop in the bucket: the price reductions amount to 5 or 6 per cent, whereas the trusts could reduce the price on gasoline by 50 per cent if they wanted to.

'ECONOMIC PLANNING'

The other side of the neo-capitalist coin has to do with the body of phenomena which has been summed up in the terms "managed economy," "economic programming," or still further "indicative planning." It is another form of conscious intervention in the economy, contrary to the classical spirit of capitalism, but it is an intervention which is characterized by the fact that it is no longer mainly a governmental act but is more an act of collaboration, of integration, between government on one side and capitalist groups on the other.

How can we explain this general tendency to "indicative planning," to "economic programming," or to a "managed economy"?

We must start from a real need of big capital, a need which derives from precisely the phenomenon which we described in the first part of our discussion. We spoke there of an acceleration in the rhythm of the renewal of mechanical installations; or a more or less permanent technological revolution. But when we speak of an acceleration in the rhythm of renewal of fixed capital we can only be referring to the necessity of amortizing continuously expanding investment expenses in periods of time which continuously become shorter. Certainly this amortization must be planned and calculated in the most accurate

way possible, so as to preserve the economy from short-term fluctuations, which contain the danger of creating incredible disorder in enterprises operating with millions of dollars. This fundamental fact is the cause of capitalist economic programming for its drive toward a managed economy.

Today's capitalism of the great monopolies assembles tens of millions of dollars in investments which have to be amortized speedily. It can no longer afford to run the risk of substantial periodic fluctuations. It consequently requires a guarantee that its amortization costs will be covered and assurance that its revenue will continue, at least for average periods of time corresponding more or less to the amortization period of its fixed capital, periods which now extend between four and five years.

Moreover, the phenomenon has emerged directly from within the capitalist enterprise itself, in which the ever increasing complexity of the productive process implies increasingly precise *planning* efforts in order for it to function as a whole. Capitalist programming is, in the last analysis, nothing but the extension, or more exactly, the coordination on a national level of what has already been happening on the level of the large capitalist enterprise or capitalist groupings such as the trust or cartel embracing a group of companies.

What is the fundamental characteristic of this indicative planning? It is essentially different in nature from socialist planning. *It is not mainly concerned with setting up a set of objectives in production figures and insuring the attainment of these goals.* Its major concern is with coordinating the investment plans already drawn up by private firms and with effecting this necessary coordination by proposing, at the very most, certain objectives considered to have priority on the governmental level. These are, of

course, objectives corresponding to the general interest of the bourgeois class.

In a country like Belgium or Great Britain, the operation has been effected in a pretty crude way; in France, where everything happens on a much more refined intellectual level, and a great deal of camouflage is used, the class nature of the mechanism is less obvious. It is nonetheless identical with that of the economic programming of the other capitalist countries. In essence, the activity of "planning commissions," of "planning bureaus," of "programming bureaus," consists of consulting representatives of various employer groups, examining their investment projects and market forecasts, and "harmonizing" the forecasts of the different sectors with each other, and endeavoring to avoid bottlenecks and duplications.

Gilbert Mathieu published three good articles on this subject in *Le Monde* (March 2, 3 and 6, 1962), in which he pointed out that as against 280 trade unionists who have participated in the work of the different planning commissions and subcommissions, there were 1,280 company heads or representatives of employer associations. "In practice, Mr. Francois Perroux believes, the French plan is often set up and put into operation under the predominant influence of the big companies and financial institutions." And Le Brun, although one of the most moderate trade-union leaders, asserts that French planning "is essentially arranged between the higher agents of capital and the higher civil servants, the former normally having greater weight than the latter."

This confrontation and coordination of the decisions of firms is, moreover, very useful for capitalist entrepreneurs; it constitutes a kind of sounding out of the market on a national scale and over a long term, something very difficult to achieve with present techniques. But the basis for

all these studies, all these calculations, still remains the figures advanced as forecasts by the employers.

There are consequently two characteristic fundamental aspects to this kind of programming or "indicative planning."

On the one hand, it is narrowly centered on the interests of the employers which are the initial element in the calculation. And when we say employers, we do not mean all employers, but rather the dominant layers of the bourgeois class, that is to say, the monopolies and trusts. To the degree that a conflict of interest between very powerful monopolies may sometimes arise (remember the 1962 conflict in America between the steel producer trusts and the steel consumer trusts regarding steel prices), the government plays a certain role as arbitrator between capitalist groups. It is, in some respects, an administrative council of the bourgeois class acting in behalf of all stockholders, of all members of the bourgeois class, but in the interest of the dominant group rather than in the interests of democracy and the larger number.

On the other hand, there is an uncertainty lying at the base of all of these calculations, an uncertainty arising from the fact that the programming is based purely on forecasts and from the additional fact that the government has no means for carrying out such programming. As a matter of fact, neither do the private interests have any way of assuring the fulfillment of their forecasts.

In 1956-60, the "programmers" of the *Communaute Europeenne du Charbon et de l'Acier* [European Coal and Steel Community] as well as those of the Belgian Ministry of Economic Affairs, twice missed the mark badly in their forecasts of coal consumption for Western Europe and especially for Belgium. The first time, prior to and during the crisis in subsidies caused by the Suez events, they fore-

cast a substantial increase in consumption for 1960 and a consequent increase in coal production, with Belgian production going from 30 million tons of coal annually to 40 million tons. In reality, it fell from 30 to 20 million tons during 1960; the "programmers" had consequently committed a compound error of rather significant proportions. But no sooner was this one on record when they made another in the opposite direction. While this drop in coal consumption was occurring, they predicted that the trend would continue and declared that it was also necessary to continue closing coal mines. However, the contrary took place between 1960 and 1963: Belgian consumption of coal went from 20 to 25 million tons a year, with the result that after having cut down Belgian productive capacity in coal by one-third, there was an acute scarcity in coal, particularly during the winter of 1962-1963, and it was necessary to import coal post-haste, even from Vietnam!

This example gives us a vivid picture of the *technique* which the "programmers" must resort to ninety per cent of the time when making their calculations for industrial sectors. It is simply a *projection* into the future of the *present trend*, corrected at best by a factor expressing the elasticity in demand, which in turn is based on forecasts of general rates of expansion.

THE STATE GUARANTEE OF PROFIT

Another aspect of this "managed economy," which gives it a particularly dangerous character vis-a-vis the working-class movement, is the idea that "social programming" or "income policies" is implicit in the idea of "economic programming." It is impossible to guarantee the "stability" in their expenses and incomes for a five-year period, the time necessary for amortizing their new equipment,

without simultaneously guaranteeing the stability of their wage expenditures. It is impossible to "plan costs" if "labor costs" cannot be "planned" at the same time, that is to say, if wage increases cannot be anticipated and contained.

The employers and governments have tried to impose such a tendency on the trade unions in all the countries of Western Europe. The attempts are reflected in prolongation of the term of contracts; in legislation which makes work stoppages more difficult or outlawing wildcat strikes; and in a whole propaganda uproar in favor of "income policies" which are apparently the "only guaranty" against the "threat of inflation."

This idea that we must orient toward "income policies," that the rates of wage increases can be calculated exactly, and that we must in this way avoid the incidental costs of strikes "which bring no return to anyone, neither to the worker nor to the nation"; this idea is also becoming widespread in France. Implicit in it is the idea of deeply integrating the trade unions into the capitalist system. From this angle, trade unionism basically ceases to be a weapon of struggle of the workers for *changing* the distribution of the national income. It becomes a guarantor of "social peace," a guarantor to the employers of stability during a continuous and uninterrupted process of work and the reproduction of capital, a guarantor for the amortization of fixed capital during the entire period of its renewal.

Obviously this is a trap for the workers and the workers movement. There are many reasons why this is so and I cannot dwell on them. But one basic reason flows from the very nature of capitalist economy, of market economy generally, and Mr. Masse, the present director of the French plan, admitted it in a recent speech he made in Brussels.

Under the capitalist system, the wage is the price of labor-power. This price varies around the value of this

labor-power in accordance with the laws of supply and demand. What, then, is the normal development in the relationship of forces, in the play of supply and demand for labor, during the economic cycle in capitalist economy? During the period of recession and recovery, there is unemployment, which adversely influences wages, and the workers consequently find the struggle for substantial wage increases a very difficult one.

And what is the phase in the cycle which is most favorable to the struggle for wage increases? It is evidently the phase in which there is full employment and even a scarcity of labor, that is to say, the final *boom* phase, the conjunctural peak or "boiling point."

This is the phase in which the strike for wage increases is easiest and in which the employers have the greatest tendency to grant wage increases even without strikes, under the pressure of labor scarcity. But every capitalist technician of conjunctures will tell you that it is precisely during this phase, from the point of view of "stability," of *remaining within the limits required by the capitalist rate of profit* (for that is always at the bottom of this kind of reasoning), that it is most "dangerous" to call strikes and get wage increases. For if you increase total demand when there is full employment of all the "factors in production," then the supplementary demand automatically becomes inflationary.

In other words, the entire logic of a managed economy is precisely to avoid strikes and attempted improvements *during the only phase of the cycle in which the relationship of class forces favors the working class*. This is the *only* phase of the cycle, this phase where the demand for labor greatly exceeds the supply, in which wages can stage an upward leap and reverse the unfavorable tendency in the distribution of the national income between wages and

profits at the expense of wages.

This means that the "management" is aimed at preventing so-called inflationary increases in wages during this particular phase of the cycle and simply winds up by reducing the overall rate of increase in wages for the whole cycle. A cycle is then secured in which the relative portion of wages in the national income will have a permanent tendency to fall. It already has the tendency to fall during the period of economic revival, since that is a period of increased profit rate by definition (otherwise there would be no revival!); and if the workers are prevented from correcting this tendency during the peak period, it means that the trend toward a deterioration in the distribution of the national income will be perpetuated.

There is, moreover, a practical demonstration of the consequences of a completely rigid policy on incomes under state control with union collaboration; it has been practiced in Holland since 1945 and the results are a matter of record. There has been a marked decline in the ratio of wages to national income, which is matched nowhere else in Europe, not even in West Germany.

Moreover, there are two decisive arguments on a purely "technical" level against the proponents of an "incomes policy."

1. If you demand on "conjunctural" grounds that increases in wages should not exceed increases in productivity during periods of full employment, why don't you demand even greater wage increases in periods of unemployment? On a conjunctural basis, such increases would be justified at that time since they would stimulate the economy by increasing total demand...

2. How can an "incomes policy" be practiced with the slightest effectiveness if incomes from wages are the only

comes policy" demand as a prerequisite workers' control of production, opening up of company books, and the abolition of banking secrets, if for no other reason that to establish the exact income of the capitalists, and the exact increases in productivity?

Besides, this does not at all mean that we must accept the technical arguments of the bourgeois economists. It is absolutely wrong to say that increasing wages beyond the increase in productivity is automatically inflationary in periods of full employment. This is true only to the degree that the profit rate is left stable and intact. If we were to reduce the profit rate thanks to a tyrannical intervention against private property, as the *Communist Manifesto* puts it, then there would be no inflation whatever; we would simply take buying power from the capitalists and give it to the workers. The only objection that can be raised is that this runs the risk of slowing down investment. But we can turn capitalist technique against its own authors by telling them that it is not such a bad thing to reduce investment when there is a period of full employment and a boom at its "boiling point"; that on the contrary, this reduction in investments is already on the way at the very moment, and that from the standpoint of anticyclical policy, it is more intelligent to reduce profits and increase wages. This would permit the demand from wage workers, from consumers, to come to the relief of investment in the interest of maintaining the conjuncture at a high level, a conjuncture which is threatened by the inevitable tendency for productive investments to fall off at a certain state.

We can draw the following conclusion from all this: state intervention in economic life, managed economy, economic programming, indicative planning, are not the least bit neutral from the social point of view. They are

instruments of intervention into the economy which lie in the hands of the bourgeois class or of the ruling groups in the bourgeois class, and are in no sense arbitrators between the bourgeoisie and the proletariat. The only real arbitration which the capitalist governments carry on is an arbitration between different capitalist groups within the capitalist class.

The real nature of neo-capitalism, of the growing intervention of government in economic life, can be summarized in this formula: more and more, a capitalist system left to its own economic automatism runs the risk of perishing rapidly, and increasingly *the state becomes the guarantor of capitalist profit*, the guarantor of the profit of the ruling monopolistic layers of the bourgeoisie. It guarantees this in the measure that it reduces the amplitude of cyclical fluctuations. It guarantees this by state orders, military or paramilitary, of increasing importance. It guarantees this also by *ad hoc* techniques which make their appearance precisely within the framework of the managed economy. The "quasi-contracts" in France illustrate this. They are explicit guarantees of profit to correct certain disequilibria in development, either regional in character or between branches of industry. The state tells the capitalists: "If you invest your capital in such and such a region, or in such and such a branch, we will guarantee you six per cent or seven per cent on your capital regardless of developments, even if your junk proves unsaleable, even if you fail." This is the supreme and clearest form of the state guaranty of monopoly profit but it is not the invention of the French planning technicians, since Messrs. Schacht, Funk and Goering had previously applied it within the framework of the Nazi armament economy and its four-year rearmament plan.

In the final analysis, this state guarantee of profits, like

all of the genuinely effective anticyclical techniques in the capitalist system, represents a redistribution of the national income in favor of the leading monopolistic groups through the agency of the state. It is effected by the distribution of subsidies, by tax reductions and by granting credits at reduced interest rates. All of these techniques culminate in a rise in the rate of profit, and, given the framework of a normally functioning capitalist economy, especially in its phase of long-term expansion, this rise in the profit rate obviously stimulates investment and works out according to the expectations of the authors of these projects.

Either one stands squarely inside the framework of the capitalist system on a completely logical and consistent basis, and consequently accepts the fact that the only way to guarantee a constant increase in investments and the industrial upsurge based on such increases in private investments is through increasing the rate of profit;

Or one refuses, takes a socialist position, rejecting the road of increasing the rate of profit, and advocates the only alternative road, which is the development of a powerful public sector in industry, alongside the private sector. This is the road out of the capitalist framework and its logic, and passes over to the arena of what we call structural anticapitalist reforms.

In the history of the Belgian working-class movement in recent years, we have experienced this conflict in orientation which awaits France in the coming years, just as soon as it experiences the first rise in unemployment.

Some socialist leaders whose personal honesty I don't want to question have virtually said, and in as brutal and cynical a manner as I put it just a moment ago: "If you want to reabsorb unemployment in a short period within the existing system, there is no other way to do it than by

increasing the rate of profit." They did not add, though it goes without saying, that this implies a redistribution of the national income at the expense of the wage earners. In other words, unless you are out to deceive people, you cannot sermonize for a more rapid economic expansion, which under capitalism implies an increase in private investments; and simultaneously demand a redistribution of the national income in favor of the wage earner. In the framework of the capitalist system, these two objectives are absolutely incompatible, at least for the short and middle range period.

The working-class movement is therefore confronted with a fundamental choice between a policy of reform in the *neo-capitalist* structures, which implies an integration of the trade unions in the capitalist system so that they are transformed into gendarmes for the maintenance of social peace during the amortization phase of fixed capital, and a basically *anticapitalist* policy, with a program of short-term anticapitalist structural reforms.

The fundamental goal of these reforms would be to take away the levers of command in the economy from the financial groups, trusts and monopolies and place them in the hands of the nation, to create a public sector of decisive weight in credit, industry and transportation, and to base all of this on workers' control. This would mark the appearance of dual power at the company level and in the whole economy and would rapidly culminate in a duality of political power between the working class and the capitalist rulers.

This stage in turn could usher in the conquest of power by the workers and the establishment of a working-class government which could proceed to the construction of a socialist democracy free of exploitation and all its evils.

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