

MONEY IN THE WORLD CRISIS:

The New Basis of Capitalist Power

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This article is the preliminary result of discussion and collaboration among a group of comrades linked to ZEROWORK in London. John Merrington and Mike Sonenscher have made major contributions to the final result. Since this article was written in October 1976, many of the points have been developed further with a view to advancing the debate and publishing a collective book, forthcoming, with the title, Money and Proletarians.

One of the major difficulties in analyzing the current capitalist crisis and reorganization, whether on the national level or globally, lies in seeing how changes in the international monetary system fit in with changes at the level of the international division of labor and production. To approach this question we must grasp both the nature of the money-form as a *social relationship of power* within capitalism and the historical specificity of the particular organizational forms of that power.

Understood in terms of class power, the money-form cannot be grasped simply in terms of "economic theory"—whether "Marxist" or not. Rather, we must see how money fits into the antagonistic class relations of capital in order to reappropriate the terrain of revolutionary class struggle. If the crisis of today is an historical crisis of Keynesian development—the crisis of a system of *planned development* based on a certain dynamic equilibrium and internal stratification of class forces (see ZEROWORK 1)—then the breakdown of the international monetary system established at Bretton Woods in 1944 is part and parcel of it. This crisis of the money-form is not just the point of arrival of capitalist development; it is both produced by a cycle of class struggle and is the point of departure for a new phase of class confrontation.

It was no accident that the crisis reached the point of no return in the years 1970-1971, for that was the moment of maximum tension between all the components of the system; massively generalized

wage explosions, price increases following in the wake of the inconvertibility decision, and heavy increases in public and corporate debt to the banking system. The dynamic of this process disclosed the possibility of a classic crisis of overproduction. What was no longer classic, however, were the political relations between the classes, relations which made a repetition of the 1929 crash a *political impossibility*. Not only was it essential to avoid the devaluation of capital that always followed crises of overproduction, but also to avoid a direct political confrontation with the working class, which had established the "downward rigidity of wages" and undermined the Keynesian use of money.

Marx's understanding of money within capital provides the point of departure for our analysis. He above all understood that "What appears as a monetary crisis is in fact expressive of anomalies in the process of production and reproduction itself." We begin with the reconsideration of Marx's analysis of the money-form in the *Grundrisse* and *Capital*, for despite the fact that gold has long ceased to be the "world money-commodity" par excellence, his notion of money as the ultimate expression of value, and of value as the product of capital's ability to impose work (abstract labor) through the commodity-form (exchange value), remains key to grasping capital's attempt to use money against the working class in new ways. The postwar system has shown the possibility of imposing a national currency (the U.S. dollar) as international money, yet the collapse of that system has indicated the limits and weaknesses to which it was prone. The problem, then, is not to try and squeeze contemporary reality into an ossified application of Marx's analysis, but to use that analysis as an entry into an appreciation of the history of money in the last half-century—above all, the challenge launched by the U.S. in 1971 with the inconvertibility move, the point of departure of capital's counterattack in the present crisis. On the basis of our current research, we think we can provide some elements for a debate on this question. We argue that from the beginning of the counterattack, international capital has used money as one of its primary weapons against the working class; indeed, we would argue that money has become the ultimate and most sophisticated instrument for world capitalist restructuring today. On the basis of the analysis which follows, we pose the question of the political elements necessary to bring the debate to the level of working class strategy and organization.

THE CRISIS OF MONEY-FORM IN MARX

In Marx's writings, analysis of what he called "modern crises" is fragmentary. Indeed, analysis of crisis on a world scale, where, as he wrote, production is posed as a totality and where all the contradictions explode, is a chapter Marx never wrote. But from the fragments of such a project which do exist in his works we can follow the direction of his method. It appears that according to Marx what lies at the core of the modern crisis is the contradiction between production and "loanable capital"—between the factory and the credit system. Marx saw credit as a powerful motor of capitalist

development because it places accumulated surplus value—the savings of inactive capitalists—at the disposal of active but “impecunious” ones. But, if credit makes possible the full utilization of the capacities of society, why does it become the “main lever of overproduction?”

The answer to this problem cannot be presented in static terms, for credit is the means of overcoming the barriers which productive capital encounters from time to time in the course of its activities. Credit is thus the *mode by which capitalists cooperate to overcome the obstacles which lie in their path*, meaning that *it is what helps the capitalist deal with the problems posed for him by worker struggles*. Through credit—that “powerful instrument of development”—capitalists work together to reassert their command, and as such credit is the preeminent means for the *socialization* of capital.

Yet credit does not in itself succeed in overcoming the real contradiction which lies at the root of capitalist development. The fact

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of being able continuously to overcome through expansion the obstacles posed by workers does not guarantee continued control over labor. The socialization of capitalist development, the “flight” of the entrepreneur from worker resistance through reorganization, the introduction of new machinery, and the extension of capital to all aspects of the society means that the lever of credit always lies at the origin of new levels of class confrontation. It is at this point that we must refer to the theory of money in Marx. Credit, he wrote, is not yet money, because money must be the “incarnation” and representation of value. Money, if it is to be the universal equivalent of all commodities, must be produced like all other commodities, but at the same time not be a use value. It must, in other words, go out of circulation. Money therefore cannot be understood separately from the commodity and from value. Gold, as money, has to be set apart, to become “autonomous” from all other commodities. Hence, all other forms of money in circulation—bank notes, national currency, etc.—cannot be perfect representations of “hard money.” “Behind the invisible value of commodities,” Marx wrote, “‘hard money’ lies

in wait." If credit circulates more rapidly than "real money," it pushes the cycle of production beyond the limit of its valorization and realization: a point arises at which credit enters into conflict with the factory, because *the realization of value has entered into conflict with production.*

The interruption between production and "real realization" must be analyzed at its point of departure, or else it remains only a *possible* rupture in the circuit rather than an immanent tendency. Commodities, if they are to be sold in circulation, must be "socially validated," or else there is the possibility of crisis: speculative turmoil, the devaluation of capital, etc. But we cannot reduce this crisis of the transformation of values into prices to a simple problem of "transitory disequilibrium," a problem of realization. We must instead concentrate on the underlying transformations of the organic relationship between capital and labor that occur during the phase of expansion. In this sense crises of overproduction are "violent manifestations" of the law of value and can never be confronted solely at the level of the market, where the commodity completes its trajectory at the point of sale.

Gold, as "money of all monies," symbolizes for Marx the fact that capital cannot escape from the contradiction of the law of value, and thus that every crisis is also a desperate attempt to "reimpose" the law, which in the expansionary phase capital tries to "escape." The way the law is reasserted, the way capital tries to embark on a new cycle of development is through an attack on the obstacles posed by worker resistance and insubordination of all forms. With the development of capital this process is expanded to a global scale, and gold thus becomes the general means of exchange between currencies internationally, the means of payment for regulating international balances: the ultimate determination of the money-form. Only on the level of the world market—where money is divested of all local and particular determinations—can the complete "civilizing activity" of money be understood; and it is therefore at this level that modern crisis between production as a whole and credit must be analyzed. For gold, as money, guarantees the generalization of the law of value over all national currencies. It guarantees that all nations are subjected to the same discipline of capitalist laws in the world market. And it guarantees historically the extension of the world market according to the dictates of capital.

We need to carry the analysis further in order to bring it "up to date." First, the increase of *means of payments*—whether nationally or on the international level—has always extended beyond the reserves on which it is supposedly based. During the reign of the gold standard, this disproportionate increase of paper money produced cyclical crises, each of which was marked by the violent reappearance of the law of value. But each of these phases of development-crisis was complemented by the progressive enlargement of accumulation on a world scale and the progressive reduction of socially necessary labor time. Credit has acted as a genuine instrument of capitalist socialization. In so far as each phase of development-crisis has been accompanied by a drastic rise in the organic composition of capital, each successive phase of the history of capital has involved ever

greater amounts of means of payments in meeting working class demands. In other words, the dynamic development of capital has become ever more detached from the embodiment of the law of value, from its incarnation in gold. Gold has long ceased to function as the sole universal money, as the general means of payment between nations. The important thing here is that *it could not have been otherwise*. Not only has the real, effective appearance of sterling and then the dollar displaced gold as the "money of all monies," but

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international power has increasingly determined the "value" of all currencies in the last instance. What is even more decisive here is that this transformation of the international monetary system has been the result of the "long march of necessary labor against surplus value." It has been the progressive reduction of socially necessary labor time that has precluded gold from functioning as the sole measure of value, precisely because socially necessary labor time has less and less been the basis upon which real wealth rests. (For more on this see the final section of Mario Montano's article in *zerowork* 1.)

This does not mean that the gold standard has never functioned, but rather that each moment of its imposition has led to its transcendence by the real dynamics of international class relations. In the phase before World War I, Britain extended its empire beyond the gold standard by investing sterling in its colonies (thus creating an external demand for its commodities), meeting the deficit it had with Europe and the U.S. by attracting gold through the simple manipulation of the bank rate. The gold standard was in reality always a sterling standard. After 1918 the U.S. imposed the gold standard on Europe, while divorcing its entire domestic monetary policy from any metallic base. The flow of gold into the U.S. in the 1920's never increased the money supply on a proportional basis, thus allowing prices to remain low and the volume of trade and direct investments abroad to increase.

Throughout these phases the gold standard was, in other words, a means of imposing a specific imperialist policy, a policy sustained by the key role of first sterling and then the dollar as means of payment, as *national currencies given a fundamental role in the development of the productive forces on a world scale*. It would be wrong to conclude that imperialist development and the extension of the basis for accumulation in this latest period has been something "fictitious" or based upon pure "paper money," just as it would be wrong to conclude that international cyclical crises occurred because of the non-functioning of the "law of value" embodied in gold. In fact, the increase in the "monetary consumption" of gold has

remained more or less steady from the time when sterling and the dollar began to function as international currencies. Currencies, in other words, have never been completely convertible in any real sense. For if such had been the case, gold reserves would have to have increased in volume to an extent quite disproportionate to annual gold production. In short, gold has always been more or less nominal.

We can now draw some conclusions. First, the international monetary system has more and more grown dependent on the national currencies that have acted as means of payment for world accumulation. Second, both domestic and international credit have been increasingly transformed into credit *ex nihilo*, into artificially

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created money which is no longer based on accumulated surplus value, but on *no existing value*. The requirement for “artificial money” to act as a productive force beyond the value embodied in gold reserves is that it must become money as capital, that is, it must become credit which *commands* alien labor: money must become command. But precisely because this form of money as capital makes for both an extension and intensification of the basis of accumulation, gold comes to function increasingly marginally as the measure of value, which in turn comes to depend less and less on socially necessary labor time and increasingly on *imperial command*. In other words, if money becomes increasingly less convertible in terms of gold, it has to become ever more convertible in terms of command of capital over labor-power. The problem for capital is that while international credit—the World Bank, the International Monetary Fund, etc.—has increasingly functioned as the lever of capitalist socialization on a world scale, the command function upon which money now rests is not solid—precisely because of the new era of international working class struggle. What is at the root of the current international monetary crisis is that not only can the international currency—the dollar—no longer be converted to gold, but *money as capital itself can no longer be converted into effective command over labor*.

INCONVERTIBLE MONEY

The establishment of an inconvertible monetary system by Nixon in August of 1971 has presented challenges to analyses of the monetary crisis. We have said that the crisis, as a crisis of the money-form of capital, exploded because international capitalist organization was no longer able to contain the dynamics of the class struggle. Thus, the inconvertibility of the dollar cannot, as is often done, be examined simply in terms of the U.S. refusal to meet its commitments to the other capitalist nations, a refusal to cover with gold all the dollars accumulated in the central banks of Europe and Japan. An examination must begin with a look at the nature of the monetary system of international power constructed after World War II.

The system established at Bretton Woods in 1944 represented a U.S. victory in which gold was to play a key political role in determining the composition of the International Monetary Fund. The U.S., which during the 1930's had accumulated two-thirds of the world gold supply, imposed the condition that the I.M.F. would be empowered to allocate to nations in difficulty liquidity (credit) on the basis of given amounts of gold and national currencies already committed to the fund by the member countries. In other words, the amount of credit the I.M.F. would make available would depend on the initial contribution of each member country, an arrangement that would later allow the U.S. to expand significantly its foreign debt, since the quantity of dollars in international circulation came to exceed, by 1957-1958, the quantity established in the statutes of the I.M.F. The other members were required to maintain a fixed rate of exchange of their currencies against the dollar, so that the central banks of these countries were put in a position of supporting the value of the dollar. This situation produced an automatic inflationary tendency, given the fact that the acquisition of dollars implied an expansion of domestic money supply. It was clear by the mid-1950's that there was a contradiction between the static principle of the international capitalist order originally conceived in the U.S. "currency principle" and the dynamic development of the new capitalist order that had followed World War II. The birth at this time of the Euromarket—a U.S. banking system outside of the U.S. to allow the multinationals to ignore the gold-dollar exchange standard—indicated that the U.S. victory at Bretton Woods had been a Pyrrhic one.

The declaration of dollar inconvertibility in 1971 must be situated in this context. Given that worker struggles could no longer be managed by monetary means as a spur to further investment and productivity, the strategy of "planned development"—the Keynesian system—had to be abandoned. The international wave of struggles beginning in the mid-1960's meant the breakdown of the whole system of international stratification of command over living labor, upon which the gold-dollar exchange standard was based. Dollar inconvertibility was imposed on the U.S. because its control over the international system had reached an impasse. The decision

was a means of escape from the law of value, from the immediate impact of worker struggles, and from the risk of a dangerous repetition of the classic type of 1929 crisis, which would have generated an explosive class confrontation. But at the same time, this means of escape enlarged the terrain of counterattack, liberated the range of strategic options for capital. The U.S. redefined its leading role by imposing on the rest of the world a new kind of forced *self-discipline* in which the ultimate sanction is money as world command, that is, determined and regulated *politically* and hence freed from any commodity limits. In other words, inconvertibility can only be understood in political terms; it set the strategic framework for reorganization of capital by means of the crisis—a *planned crisis against the global working class through the manipulation of money*.

Given the historical development of capital at the time he was writing, Marx did not explore the notion of an inconvertible paper money very far. He saw that theoretically the “value” of such money was determined by the value of the commodities circulated and the labor commanded, but he had few occasions in the periods he examined to study such a situation concretely. Subsequently, the only serious Marxist effort to do so systematically was that of Rudolf Hilferding in his 1910 work *Finanz Kapital*, which dealt with the capitalism of the Austro-Hungarian Empire, which was run on the basis of inconvertible money. Like Marx, Hilferding saw that there



was no such thing as any real value of money as such; there was only a quantitatively determined rate of exchange of money, and that rate was manipulated by “finance capital.” Hilferding had the merit of seeing that one aspect of the problem for the recomposition of capital at that time, and the reason for the way in which money was being manipulated, was the relation between the banking system and the capitalization of the rentier class, the mobilization of all “unproductive income” through credit as capital. This new relation between the banks and the state—the centralization of credit—he saw to be the lever whereby such nonproductive income could be mobilized for a

relaunching of productive industrial capital. The relevance of this for the present period should be clear: today, once again, capital is manipulating money to transfer value from an "unproductive" role to a "productive" use in capital investment. But today the unproductive income is not financing a rentier class, but rather the working class, which converts wages to income through its refusal to function as labor power.

But if a rereading of Hilferding reveals this sort of useful similarity, it can also be misleading, because of Hilferding's limitations. For he unfortunately hypostatized the regime of inconvertible money and failed to see the "finance capitalism" he confronted as an historical phase of capital centered on the emergence of the big banks and joint stock enterprises. The subsequent passage of dominance from the big banks to industrial capital marked the transitory nature of what he studied.

Moreover, even in the period of its usefulness for understanding the mobilization of income for capital, other limitations of Hilferding's analysis led to disastrous political practice. Seeing the big banks as the enemy, his strategy was the social democratic nationalization of the banks, pension funds, insurance funds, etc. "Socialism" in this perspective becomes the socialization of credit for the development of the productive forces such as capital was "unable" to achieve. This kind of conclusion was unavoidable, since the problem of money was seen only in terms of dysfunctions *within* capital and between capital and nonproductive sectors such as the rentier class. What Hilferding and his successors failed to see, and what we must grasp today, is the process of socialization which was at the root of the finance capital phase. The reorganization he observed, which involved both individual capitals and the banking system, marked a step necessary for the widening of the basis for the extraction of relative surplus value from the working class and the generalization of abstract labor. The working class in Hilferding's approach is seen as external, as an exogenous factor in this reorganization, for he could not see the *historically defined composition of the working class* upon which and against which capital was *forced* to reorganize itself and which had historically contradicted both the previous industrial and monetary systems. What Hilferding and official Marxism of all varieties failed to see was that the gold standard depended on an international class composition that had been superseded. When we examine capital's recourse to inconvertible money in the present crisis, we must see how it is a means of transforming working class conquests into a further socialization and concentration of control.

Yet we must also see that under today's conditions, the capacity for such a transformation is severely limited. The current transition by means of inconvertible money and floating exchange rates is precarious. It appears that money can no longer serve as the lever for further socialization on the basis of the given composition and demands of the working class, and must thus become an instrument for the violent rupture of that composition—a weapon for the dictatorship of capital in its quest to undermine the advanced form of

working class power. At this level of confrontation, where money becomes pure unmediated assertion of state power against the working class, the "transition" is not only more precarious but threatens to become *permanent*: in this lies the uniqueness of the class confrontation today. There is the danger of a direct un-mediated

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class battle with the state, in which money loses its mystical appearance—its so-called independence—and in which the "revolution from above" opens up a new level of struggle "from below." The risk is that short term transitional measures are already taking on the characteristics of a *highly volatile permanent emergency* for the capitalist system as a whole.

THE STATE, MONEY, AND RECESSION

The problem now is to explain why this crisis—a "transitional solution"—might actually become a state of "permanent transition." We must see first what are the constraints which continue to limit the action of the capitalist state in this period of inconvertible money. If the state was able to escape the straitjacket of value embodied in the international monetary system until 1971, why has capitalist reorganization not yet succeeded in becoming a new process of development?

The state's capacity to act upon the money supply through central banks and hence to promote the reorganization of manufacture and circulation has, in every capitalist country, been unable to establish the basis for recovery. Both in terms of financing the industrial sector through banking and other financial institutions, and the public sector through the sale of Treasury Bills and other government bonds, it has not been possible to establish global conditions of productivity capable of relaunching the system. This is because the state, from the beginning of the crisis, has found itself confronted with a widening of the terrain of working class struggle, including a convergence of factory struggles and social struggles as a whole. (For more on the beginning of this process in the U.S., see Paolo Carpiignano's article in *Zerowork* 1.) The struggle for wages

separated from productivity in the factory became a generalized struggle over the *social wage*, involving both waged and unwaged sectors of the class. This made it no longer possible for the state to manipulate the distribution of consumption, using the spur of consumption to control production. From being “distributor in the last instance,” the state became “*lender in the last instance*.” The state was forced to run a debt economy not only for industry, but for the public sector, the cities, etc. Given the pressure on the social wage as a whole, the state, acting in the open market through the issuing of money, continued throughout the crisis to pour more and more money into circulation through the purchase of Treasury bonds, commercial guarantees to cover loans to industry, etc. In other words, the increase in money supplies was increasingly “covered” by the promise of future guarantees of repayment—a practice which continued even when the assets of the banking system no longer corresponded to any real capacity on the part of industry to repay the loans. This is what is at the bottom of the “financial crisis” of the public sector and the so-called fiscal crisis of the state. The point is that we cannot see this crisis merely in terms of inadequacies of the banking system in relation to industry and the public sector. Given the degree of intervention by the central authorities to support the assets of the major banks in cases where institutional investors have been reluctant to provide direct credit, the state is increasingly *the* source of support for the assets of the whole banking structure, thanks to which the banks are (or were) able to continue to finance the debts of industry and the public sector.

It is, of course, true that this state policy represented nothing new in terms of traditional Keynesian policies throughout the postwar period. But there is a crucial difference—the question of the *time lag* in which social capital has to transform the money issued by the state through “deficit spending” into capital. The Keynesian model placed the state above the economy as the distributor of income to the whole of society. But the state can only manage global demand if the money created *ex nihilo* by the central authority succeeds in becoming *effective demand*, only, in other words, if the additional demand created by the state succeeds in stimulating a level of overall production above the existing level. Only on this condition can money become an active motor of development. The politics of “deficit spending” depends on control over the time period in which money becomes money as capital in order to ensure overall balanced “growth.” As Marx put it: “Time is everything, man is nothing.”

It is precisely this time period that has become unmanageable in the present crisis. In the Keynesian system this time period is *subjectively* determined; it depends on the subjective choice and cooperation of social agents—capitalists and workers—having a common interest as partners in growth. Such cooperation was not automatic, and had to be constantly readjusted at new points of equilibrium. Now, not only is this process not automatic, it is not functioning altogether, both at the level of production and at the level of social reproduction. In production, the leap forward in the organic

composition of capital in order to restabilize command over living labor and increase productivity has come up against the real impossibility of using inflation to finance future investments. The cash flow generated during the time of production and circulation of goods has not succeeded in financing on its own the new investments needed, forcing industry increasingly into debt. The resistance of workers to productivity increases and their continuous pressure to push up wages has made it impossible to reduce wage costs relative to new investment projects. As a result, industrial capital has been forced to move further and further along the path of restructuration of more and more investment to reach necessary levels of productivity: this spiral of investment has become an ever increasing spiral of debt. Second, despite the massive attack on employment, the parallel resistance of the unemployed and wageless has forced the state to continue issuing money to back up the banking system and to finance the growing debt of the cities. It has become impossible for capital to use unemployment to any great extent to depress general wage level.

Given these parallel pressures in the factory and in the social factory, the time of transformation of money into capital has become the time of the *working class transformation of money into income*. As the time of capital's transforming of money into capital becomes longer and more uncertain, the working class is more and more able to impose its own needs and shorten the time in which money is taken out of circulation. When money is blocked from becoming capital, it can only remain at the level of simple circulation; instead of becoming capital, it becomes "funny money." It is in this sense that inflation is no longer "controllable," a solution for capital which is no longer a solution, for it has become "runaway inflation" imposed by working class struggle for income.

Seen in this context, the various attempts to restabilize the international system since dollar inconvertibility have failed in their purpose, in so far as they have not provided the conditions for a new basis of international command. To take only the most striking case of this failure: the attempt through the oil crisis after the Yom Kippur war in 1973 to force a new hegemony of U.S. multinationals by draining dollars from Europe and forcing a drastic deflationary movement on the European states did not produce this result. In fact, the oil crisis was not followed by the necessary deflationary discipline by the diminution of reserves in the oil importing countries; it did not slow down the leap-frogging devaluation of currencies and hence the rate of inflation. Nor did it sufficiently increase the surplus of petrodollars in the oil exporting countries to an extent which could make them into a source for the ever increasing demand for investment capital by the multinationals. The condition for this deflationary coup to become effective and to provide for the spiraling needs of investment would have been to provoke a head-on class confrontation, which was not a practical possibility. It has been the new socialized terrain of the struggle that has been the limit of any deflationary counter-attack by capital. The oil coup only served to delay the major offensive against the omnipresent working class demands for income.

The same can be said for the introduction of the floating

exchange rates, which were resorted to precisely to prevent the "permissive" expansion of credit through the purchase of dollars within the framework of the old system of fixed rates. This move was not sufficient for limiting money supplies, given that the regulated movement of exchange rates according to the balance of payments—even within the European "snake"—was counteracted by the continuous increase in money supply by the central banks and flows of speculative capital escaping from the uncertainty of working class struggle, struggle that has forced capital to redefine its strategy, as seen first with Chile, then with New York City, and now throughout the world.

TWO, THREE, MANY NEW YORKS

These elements of the crisis can be concretized if we take the case of the *situation* in New York in 1975-1976, which exemplified the present new line of attack by the capitalist state. The problem of New York was not merely a question of the geographical reorganization of the industrial sector of the U.S.—the abandonment by industry of urban centers in favor of new poles in other parts of the country. The real problem has been the failure to control the demand for income and services: this is what explains why the federal government turned off the tap of subsidies to the big banks, while blaming the crisis of New York on lack of "investor confidence." This use of the argument of "confidence" as a means of political blackmail had, of course first appeared in the monetarist policies imposed in South America, especially Chile. The same discipline was then to be imposed in New York as the testing ground in the battle to cut the

THE TRUTH ABOUT CAPITALISM

Some people think there are many economic systems, namely: Socialism, Communism, Fascism or Capitalism.

This, however, is not true. Socialism, Communism and Fascism are not economic systems. They are political systems.

There is only ONE economic system and that is Capitalism. Russia, China, America and all others operate under the capitalist system, no matter what they call it.

The difference is that in some countries the capital is owned by

the government, and in others by private individuals or groups of private individuals.

Now, when governments own, interfere with or overregulate private ownership of capital, they invariably destroy the initiative of the people and eventually get into trouble.

The only Capitalism that has produced prosperity in the long run is the one that promotes freedom for its citizens.

It is hoped that the world will someday wake up to this important truth.

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social wage in the "metropolis" itself. The important point here is that this strategy was directly imposed by the state in its decision to cut off the flow of liquidity to the banks. To point to speculators and the big banks—finance capital—as the culprit (the mystification which social democracy from Hilferding onwards has always used to cover up the relation between money and the state) is no longer possible. The confrontation was strictly one between the state and the incomes of the working class (especially the unwaged).

The tactics, which are now becoming familiar on a world scale, consisted of increasing the rate of interest on city notes and bonds, creating in this way a climate of loss of confidence and thus provoking a fall in the value of the issues. Basically, the state, as lender in the last instance, refused to lend. But this managed crisis had an extremely significant outcome: it forced the city unions to use their accumulated pension funds to buy the notes and bonds the banking system could no longer cover. The result was a structural change in the financial system in which a new type of attack on the struggle for income by the working class is discernible. On the one hand, the state assumes direct responsibility for paying forms of social wages in order to try to control and regulate the urban unwaged; on the other, it gradually forces the workers in the public sector to cover the borrowing requirements of social expenditures through the investment of their pension funds. This amounts to a transformation of the social wage into a system of reinsurance, forced savings imposed on the working class itself. Thus the political goal of capital becomes clear: the state attempts to divide by this means the various sectors of the class fighting for more income, for more cash. Moreover, this move is covered by the ideology of "co-responsibility" and co-management in the financing of the public sector—a situation analogous to the co-management, profit-sharing, and other schemes in private industry. It is significant that this attempt to reimpose Say's Law, mobilizing "deferred wages" for investment and consumption, has been called Pension Fund Socialism.

New York showed the way for the I.M.F. strategy that was already being discussed by the Monetary Negotiations Committee in August of 1975. But it was only with the international agreements reached at Kingston (Jamaica) in January 1976 that the full implications of this new strategy were spelled out on a world scale. The agreements included the decisions to : sell the gold held by the I.M.F. in a series of auctions on the free market; create a "trust fund" with the profits from the gold sales to subsidize the poor nations with annual per capita income of less than \$350; abolish the "oil facility," which had been created to cover part of the severe deficits in balance of payments owing to oil price increases; and finally, generalize floating exchange rates to all countries. Not for nothing have these agreements been called "a new Bretton Woods."

The implications of these new conditions became clear immediately with the first big devaluation of the Italian lira in January, followed by devaluations of the Spanish peseta, the British pound, the France franc, and later the Australian dollar and the

Mexican peso. How can the New York crisis be linked to the international monetary coup that we have witnessed in the past year?

Let us take the first of the I.M.F. decisions—the gold auctions: this establishes two clear conditions of attack. On the one hand, the sharp fall in gold prices from the peak of \$200 an ounce in 1974, besides drastically reducing the “trust fund” for the poor nations, devalorized the central reserves of countries like Italy, France, and Portugal—in which gold is a significant component. This means that these countries, when using gold for “collateral agreements,” receive less money in exchange from lenders. Italy, for example, had contracted for a loan of \$200 million from West Germany in 1974 on the basis of a given quantity of its gold reserves. By the summer of 1976 Italy was able to raise only \$150 million on the basis of the same quantity of gold as a result of the fall in gold prices decided by the

The demonetization of gold and the arbitrary, political, nature of decisions and conditions attached to international loans which this implies have removed the residual autonomy that national states could previously maintain by means of their gold reserves in the face of foreign deficits—deficits which are of course, mainly made up of public and social expenditure.

I.M.F. Similarly, Portugal, which had contracted a collateral agreement with the Bank of International Settlements in 1975, faced severe difficulties in February of 1976 when it asked for a new loan from the Bundesbank and the Swiss National Bank. The stumbling block was the “negative pledge clauses” which regulate the Eurobanks, clauses which prevent a country from seeking a loan more than once by means of gold collateral without doubling the quantity of gold already exchanged for the original loan (in this case the previous loan by the B.I.S.). It was only the political role of the Socialist Mario Soares in the negotiations that allowed the clauses to be waived. Thus we have a clear example of the new *selective political use of gold as a weapon* to impose conditions on a country acceptable to the multinational banks. The demonetization of gold and the arbitrary, in short political, nature of decisions and conditions attached to international loans which this implies have removed the residual autonomy that national states could previously maintain by means of

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The second effect of the gold auctions is to create a climate of speculative uncertainty between national currencies now that gold prices are no longer a stabilizing factor. As a result, the flight from weak currencies ends up strengthening the strong ones, but above all becomes a tap for the Euromarket and hence the U.S. multinationals and Treasury securities, thus aiding the U.S. public deficit.

Finally, we should not ignore the extremely important effect of these measures on the role of the Soviet Union and the Comecon countries. From 1974 onwards the USSR had a mounting debt to Western countries, especially to West Germany and France for machinery imports and to the U.S. for grains. This accumulation of debt has been the result of the level of internal class resistance, which prevented the achievement of the goals of the Five-Year Plan. The first phase of detente in the 1960's which allowed the modernization of industry—the "Third Phase" of Soviet planning—ran up against a hidden inflationary push resulting from working class use of the limited labor mobility that was permitted. The profound effects of the Western monetary measures was due to the fact that gold has always been used in the Soviet Union to settle accounts with the "outside world"—ever since Lenin established the rule. Thus the USSR has become increasingly bound by the conditions of its Western creditors, and has thus been pushed into a frenzied quest for higher productivity from its workers—which has resulted in a greatly increased intensity of class confrontation.

If these are the effects of the demonetization of gold, there are also limits within which gold prices have to be managed. If the price is allowed to fall too far, the struggle of the black workers in South Africa would escalate into an open and overall crisis of political control in all of southern Africa. Upon the maintenance of gold prices depends the future of the mining industry, and hence the control of African labor-power. This is the diplomatic constraint (that was represented by Kissinger) within and against which the strategy of the I.M.F. on gold prices has to operate. Indeed, the wave of struggles in South Africa in 1976 was the major "disequilibrating" element in the entire world monetary strategy adopted at Kingston. The margins of maneuver for U.S. policies that this situation imposes are very narrow. If the black struggles cannot be defeated, the choice will be either increasing the price of gold—and hence abandoning the entire deflationary strategy based on demonetization—or the loss of control over southern Africa. Here we can see how the "pure" policies of the monetarist coup at the world level—the illusion of pure money which must always be used to exorcise the class struggle—have been met by their "opposite pole": hence the narrow and treacherous channel between money and politics through which U.S. global strategy has to steer its course today.

Given these effects and limits of gold prices as a means of international control, what is implied by the system, or better,

non-system, of floating exchange rates? Here again, in spite of the fact that from a purely monetary point of view there are no limits to the fluctuations of the various currencies, this devaluation-revaluation movement in 1976 has encountered political obstacles, and if carried through according to pure monetarist logic, it could jeopardize the entire strategy of the restructuring of capitalist command—the only long-term way out of the crisis for capital—as well as undermining the basis of the state and the international order.

The operation of floating exchange rates in 1976, with the enormous devaluation crises and the increasing indebtedness of local authorities and the public sector which have resulted, has narrowed in an unprecedented way the margins of maneuver—the “relative autonomy”—of national states, to the extent of dramatically reducing the area of choice within which national politics has to operate. All governments and their oppositions have in this sense been pulled into the narrow area of choice imposed by the logic of international monetary austerity. And the first consequence has been a loss of autonomy of national states and a *shift of state power to the world level—the level at which monetary terrorism operates*. At the same time, however, the downward movement of weak currencies and the upward movement of interest rates has been accompanied by the increasing *regionalization* of monetary control over local authorities,

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cities, etc.—which in recent years have become more and more dependent on the multinational banks as opposed to state subsidies. In the period from 1974 onwards, in fact, the state (for example in Britain, France, and Italy) has actively promoted this increasing indebtedness of local authorities. In this apparent decentralization of state power (in the form of devolution, regionalization policies, etc.), the conditions are being created for the multiplication of “New Yorks” on an international scale; what we are witnessing is *centralization of a new kind: the centralization of multinational state power*. The devaluation imposed on countries with large public sector deficits and borrowing requirements—even where cuts have not been drastically and immediately applied—has meant that the local authorities and the public sector as a whole are increasingly caught in a scissor movement between soaring costs and upward interest rates on debts: *they thus have to implement their own cuts* and become increasingly dependent on the selective decisions of the multinational centers of power. And when, in addition, these mounting debts have

to be paid in devalued currency, it is possible for capital to create "two, three, many New Yorks" at virtually 24-hour notice.

To summarize: the downward spiral of devaluation and the upward movement of interest rates have resulted, first, in the regionalization of power, promoted by the state itself, which ceases to operate as lender in the last instance; and second, in the shifting of *power as lender* to the selective controls exercised by multinational centers of decision making. The political implications of this are enormous. Behind the system of floating exchange rates decided upon at Kingston lies a strategy of austerity by means of forced devaluations that impose self-reduction of spending on local authorities, narrowing the political choice to the point at which *the only choice is the distribution of the cuts*. The room for bargaining over the distribution of income is no longer open and expansive from the class point of view; it is reduced to a restrictive field in which bargaining becomes a purely divisive and disaggregating instrument in the hands of the state. By shifting the selective power to impose

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the blackmail of crisis to the international level, the entire framework of consensus through the distribution of income—the basis of the Keynesian state—is thrown into crisis. The mediations on which state power has depended—the party system, the distribution of income via local authorities, partnership with the unions for "planned development", etc.—are undermined. Their self-justification increasingly relied on the illusion that there is still room for bargaining. The new "justification" of the state, the rebuilding of its consensus, depends increasingly on the selling of this monetary terrorism by the official organizations of the working class, primarily the parties and the unions. They not only become directly implicated in the running of the crisis, but indeed become *direct agents* in the divisive and terrorist politics aimed at containing blocking any widening of the class front. It is increasingly up to the official class organizations to *create* conditions allowing the relative autonomy of the state—by imposing the logic of austerity while fostering the ideology of deferred, future growth. This is the real function of the new social democracy in the crisis; its "left" component is confined to tilting at windmills. The monetarist blackmail has forced social democracy to become *the national government of austerity*: whether it is the "government" or the "opposition" is unimportant. To cite two obvious examples: the Italian Communist Party, fresh from electoral

victories, above all at the regional and local level, now finds itself trapped in a political impasse. *From being the party of guaranteed income, it now has to transform itself into the administrator of cuts in local spending.* In Britain there has been a similar dramatic change in the physiognomy of the Labour movement: the "social contract" of 1974 has become the means by which government and the unions impose the deflationary regime, exploiting the monetarist blackmail to the full while externalizing responsibility for the crisis to shadowy and ill-defined "international financial operations." The real power and initiative in selectively imposing austerity is hidden behind the smokescreen in which money supposedly obeys its own laws outside and beyond the sphere of political choice—where "man is nothing."

The experience of New York is also a paradigm for the likely consequences of this overall strategy of austerity for the so-called developing countries. The loan arranged for New York to cover its immediate liabilities was on the condition of *no moratorium*. The loan had to be repaid within the time specified. The ending of moratoria also appeared at the United Nations Conference on Trade and Development meeting in Nairobi in the spring of 1976, where the "developing" countries met to discuss a common policy for confronting their enormous debts abroad and regulating the pricing policy for raw materials. A large part of the debt of these countries has been increasingly held by the commercial and investment banks of the Euromarket. It is estimated that just over half of these are financed by official agencies—the World Bank, the OECD, OPEC, the socialist countries, etc.—while almost half are from the private banking sector. The total amount of credit required by the poorer countries has been calculated at \$40 billion for 1976, while about 50 percent of the profits of the major U.S. banks now come from loans to these same countries—a situation which makes it unlikely that moratoria will be widely permitted. To do so would lead to an open-ended system of "international welfare". The refusal of moratoria on the part of the "advanced countries indicates the strategy of privatization of aid on a world scale by means of conditional, fixed-term credits provided by the multinational banking system, with the result being the proliferation of the "debt economy" on a global level. As in the cases of New York and the Western European countries, the poor countries—the debtors par excellence—can only repay their debts by devaluation, which in turn lowers the purchase price of their raw materials—while their imports from the Western countries have to be paid for in dollars.

A NEW LEVEL OF CLASS CONFRONTATION

If this monetary strategy arising from the restructuring of the financial system represents the general line of deflationary attack on the working class internationally, to what extent can it provide the *solution* for capital? How far can it succeed where previous deflationary attempts have failed? Rather than providing a solution—that is, a way out of the "open-ended transition" that capital has been faced with—the application of the monetarist policy contains its own inherent and unavoidable contradiction. Monetarism

and policies deriving from it presuppose a relation of class forces completely subordinated to money as capital. But such a relation cannot be assumed the present situation. The prerequisite for this strategy to provide the solution, and not merely a response, to the already existing level of international class attack is an ability to exorcise the class struggle, not only in theory but in reality. Yet this strategy is premised upon the already existing open-ended crisis, but contains in itself no inherent capacity to solve the political confrontation which its application implies. On the one hand, it subordinates politics, the arena of subjective decisions and class forces, to the dictates of money: when Milton Friedman says, "Last year New York and Chile, this year Britain," he assumes that the political conditions are already everywhere favorable to monetary attack, that the battle is already won. On the other hand, these conditions are clearly not given: politics cannot be eliminated by a voluntaristic solution to the problem of power. Earlier deflationary attempts failed to solve the political problems of the resistance of the working class—a specter which cannot be exorcised. Equally, monetarist strategy can only establish the basis for the relaunching of the capitalist system by eliminating this contradiction, or else the crisis remains open-ended and the contradiction is merely pushed up to a higher level of class confrontation.

It is against this threat that the state must measure its use of terrorist measures to isolate potential vanguard sectors in order to avoid a generalized class confrontation: the only political "solution" in sight for capital is a long, drawn-out process of (hopefully) eroding working class power, of "holding the fort"—in short, a war of position. Hence capital once again faces the political "limits" that ultimately represent the "limits" or contradiction of the money-form itself. To return to Marx: "From the fact that capital posits every such limit as a barrier and hence gets *ideally* beyond it, it does not by any means follow that it has *really* overcome it." In subjecting the state to international monetary dictates, there is a grave risk for capital that these "limits" may not only create a vicious circle in which the contradiction within monetary policy is constantly reproduced, but that they may escalate the crisis of money into the crisis of the state itself.

In October 1976 representatives of the member-countries of the I.M.F. met in Manila to re-examine the world situation in the wake of a new wave of devaluations. What soon became clear was that the general strategy would not change—not until wages, income, and social discipline have been brought back under capitalist control. The terrorism imposed by money will continue, checked only when the political price is too high. The attack on employment will continue, as will the dependence of industrial development, local government, and the public sector on the selective political controls exercised more and more by the multinational banks. In short, each crisis leads on the next, and the monetary transition threatens to become more and more a permanent state of international emergency. This undermines the entire system of mediations on which the state has relied in the

past: from the state as distributor, to the state as lender, to the state as distributor of cuts—what comes next?

What is clear is that the longer this period of transition lasts—the more permanent the monetary attack becomes—the more it can develop into the terrain of a subjective reorganization of the working class. While the overall dimensions of this new cycle of struggles are not yet clear, its characteristics have begun to emerge in confrontations ranging from the uprisings of black youth in Soweto and London, to the food price riots in Poland and Egypt, to the pitched battles between students and police in Italy and Britain. What seems to tie these struggles together is that in a crisis situation in which capital is forced to abandon the Keynesian form of money as mediator of class relations in order to maintain its power, the working class—whose very struggles generated that crisis—is pushing forward with demands that aim at the elimination of work altogether and appropriation of social wealth as a whole.

This is not a dream of a future society; rather it is the practical requirement posed by the present situation of class confrontation. And it is not the planning of a party central committee, but the expression of the new needs and new demands of the various sectors of the working class. For, given the new forms of capital's attempt to reimpose command through centralized multinational state power and regionalized implementation of austerity, these very struggles over money, work, and all the conditions of life *are immediately struggles against the state*. To speak of attacking the coercive power of the state can no longer mean the coup d'état, the storming of the Winter Palace. It means an attack on the "social contracts" and incomes policies in Western Europe, an attack on the fiscal crisis in the U.S., an attack on "socialist discipline" in the Eastern bloc—in short, generalized resistance to capital's plans everywhere for the erosion of working class power.

The overriding question before us now is one of determining the forms of organization which can carry out these attacks. This is not a matter of establishing a party that attempts to manage the struggle from above and "lead the working class to socialism". Rather it is a matter of analyzing the successes and failures of the modes of working class organization in the previous cycle of struggle, primarily the organizations of the unwaged in the struggles against the state over the social wage. Only then can we begin to grasp the mechanisms of the *circulation of struggles*, both across geographical areas and among different sectors of the class, and thus organize ourselves in ways that accelerate that circulation. And it will be only then that we may see what it truly means for the working class not just to *have* power, but to be *in* power; and what it means for us not just to *fight against* capital, but to *destroy* capital in all its forms.