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EDITORIAL

This issue of the Bulletin contains substantial pieces on imperialism and underdevelopment, vulgar economy, circulation and the current view in the UK. There is also an impassioned open letter to the 'Friedman School' from Frank, as well as the usual reviews etc. Bradby's piece complements her article in Economy and Society Vol.4 No.2. Fine's piece on circulation takes up an area of political economy which, although it has been discussed with the CSE for sometime, has received little written attention. Berg's article should be of interest to anyone who has ever wondered who the people who appear in the footnotes to Capital really were.

The Editorial Board is anxious to widen the scope of the Bulletin. It would especially welcome application of marxist theory to concrete analyses (countries, industries, firms etc.) and short comments on published pieces which might generate ongoing debates. Manuscripts (up to 12 copies if possible to assist circulation of board members) should be sent to CSE Bulletin c/o Robin Murray, I.D.S. University of Sussex.

BOOK REVIEWS

Members of the CSE who wish to review any of the books on the list at B.R.11, or any book recently published should contact Lawrence Harris, Dept. of Economics, 7-15 Gresse Street, London W1P 1PA

EQUAL EXCHANGE AND THE IMPERIALISM OF TRADE

Barbara Bradby

This paper is intended for all those who think that imperialism and underdevelopment have something to do with the 'unacceptable face' of capitalism, rather than with its ordinary, everyday 'acceptable' face. Under this head I would include not only the liberals who try earnestly to reform the world economy by talking to the World Bank, or by 'choosing techniques' to alleviate unemployment, but also all those who base an analysis of imperialism on theories of unequal exchange or of a relationship of 'dependence' maintained by political power. This does not mean that I in any way want to dispute that the imperialist powers maintain a stranglehold on most of the underdeveloped world, in a political and military sense, nor that international capital at times makes use of 'cheap labour' in the underdeveloped countries. Nor do I wish to deny that Marx talks a lot about usury, extortion, unequal exchange and the role of violence. What I do want to try and do is to situate these facts on a different level - posterior to the analysis of the workings of capital and its self-expansion. Marx showed for capitalism, as a self-contained mode of production, how its fundamental relation of exploitation can arise on the basis of an exchange of equivalent values. Now if surplus-value is created and appropriated on the basis of an exchange of equivalents, then a fortiori, it will be even more so where labour is paid below its value. In the same way, if we can show why and how the typical phenomena of imperialism and underdevelopment arise on the basis of the exchange of equivalents, then we will not only have explained more than the unequal exchange theorists; but also made a point of a more fundamental nature against the system we live under. To put it crudely, the reason why people are dying of starvation in Africa and not here in England, is not because here the capitalists keep to the rules of the game and exchange equivalent values among themselves and with the working class, while when it comes to particularly poor foreigners, they drop everything and just extort as much as they can. The reason must be sought in the operation of the law of value, in concrete cases of articulation of capitalism with other modes of production, or with what remains of them.

This last remark was aimed also at those followers of Marx who have based an analysis of imperialism solely on the economics of capital accumulation in the metropolis. It is not enough to argue, for instance, that the rate of profit is falling at the centre, causing capital to be exported to places where profits are higher. We must have, obviously, an analysis of why profits are higher at the periphery: but we also need to know why capital goes to the particular places where it does go at particular times. To discover this we must analyse both halves of the exchange of values that takes place when commodities or productive capital are exported.

I THE MOTOR OF IMPERIALISM

The first question I shall ask in this analysis is: why does the capitalist mode of production expand to encompass other modes of production, once it has itself become firmly established in its social formation of origin. Now it is obvious that in order to come into existence at all, capitalism must transform the modes of production from out of which it emerges historically. Is there any similar necessity for capitalist relations of production to be extended outside their original birthplace, and if so, is this a permanent ongoing necessity, - one that is essential to the continuing accumulation of capital, - or is it one that emerges only at particular historical moments?

Although this paper owes much to the work of Rosa Luxemburg, I want to reject from the start her idea of the necessity for capitalism of 'realising the surplus' by exchange with pre-capitalist modes.¹ That is to say that out of the commonly found trilogy of labour, markets and raw materials as the motors of imperialism,

I shall be ruling out markets. I have argued this point in a longer paper,² as have more distinguished authors,³ so I shall not go into it again here. Briefly, I see no reason why capitalism should not in general be able to convert into money form and re-invest its surplus-value productively, purely internally, without recourse to any 'external market'. We should not be misled by the growing quantity of use-values that may be embodied in a given exchange-value under conditions of increasing labour productivity into thinking that capital as a whole is incapable of circulating these goods. If Luxemburg's problem is 'Where does the money come from?' (to circulate the surplus value produced by capital) as indeed she often puts it, then it is hard to see how exchange with pre-capitalist buyers could help at all. Either they pay with capitalist money, which they must have got from a previous sale of values to capital, or they pay with some other money which can only serve capital to effect a future purchase from the pre-capitalist producers. If it is not so used, capital will just be giving away the surplus value, not 'realising' it. In either case, money drops out as a mere intermediary in the exchange of values. If on the other hand, the problem is one of the material form of the surplus value, which according to Luxemburg, will incorporate too many wage goods and too few producer goods for expansion with an increasing organic composition of capital, then it is still difficult to see what possible relevance exchange with pre-capitalist producers could have. While it is certainly true that advanced capitalist wage goods may be exchanged for raw materials produced under pre-capitalist relations, this exchange cannot have any bearing on the restructuring of capital, - that is, the growth of the value of productive capital in Department I relative to Department II, - which is the problem in question. Indeed, such a continual restructuring is only another way of expressing a rising organic composition of capital in both departments. But a rising organic composition is not achieved by importing more raw materials, no matter which department they are destined for. Rosa Luxemburg's solution to her 'realisation problem' is a non-solution, because the problem as she poses it is a non-problem. The illusion of a problem arises only through focussing on some aspects of capitalist competition, rather than on the total process of the expansion of value and the creation of surplus-value.

I shall therefore rule out markets as a possible motor of imperialism, holding to the 'naively expressed... characteristic credo of the English manufacturer: "Our commerce with no foreign market is limited by their power to purchase the commodity, but it is limited in this country by our capability of consuming that which we receive in return for our manufactures."' This implies breaking with Marx's own sarcastic underconsumptionist comments on this statement, 'The relatively poor countries, with whom England trades, are, of course, able to pay for and consume any amount of English products, but unfortunately wealthy England cannot assimilate the products sent in return.'⁴ Marx forgets that the ability to produce money acceptable to a capitalist depends, for the poor country, entirely on how great a claim is already held for products of the poor country delivered to capital, and that this depends as much on the capacity of capital accumulation at the centre to absorb these use-values, as on the ability of the poor country to produce them.

The second possible motor of imperialism, - the need to expand the labour-base from which surplus value may be extracted, - is a more complex question. It might be argued in two ways

(i) Capital accumulation necessarily involves employing more labourers at all times, because of the need to increase the absolute amount of surplus-value being extracted. (At a given rate of surplus-value, and given length of the working day, surplus-value can only be increased by increasing the number of workers.) When all pre-capitalist producers in the social formation of origin have been used up and are employed as labourers for capital, the capitalist mode moves into a new articulation with other pre-capitalist modes of production in different geographical locations and absorbs their labour-force. But this leaves open two diametrically opposed sub-cases:

- (a) where labour immigrates to the capitalist metropolis.
- (b) where capital is exported to the pre-capitalist periphery.

A simple concentration on the need to increase absolute surplus-value could not say anything about which of these would be the case. Nor could it explain the vast emigrations of labour that took place historically from the capitalist poles of development; neither could it say how labour ever became free to emigrate and immigrate in the first place.

(ii) Accumulation involves the expansion of the labour-base only at certain times. At other times the creation of a relative surplus population at the capitalist centre may itself provide the labour force for accumulation. The total surplus-value produced by capital may be increased, without employing more labourers, by increasing productivity and so lowering the time needed to be devoted to the production of the necessary wage-goods. This coincides with the individual capitalist's need to increase productivity, and so gain a temporary lead over his competitors. Now there are two theoretically possible ways in which productivity can be increased:

(a) by displacing men by machines, thereby, in the majority of cases, raising the organic composition of capital. The individual capitalist realises a differential rent until his competitors catch up with him. When they do, the rate of profit will fall for the branch as a whole. But in the process, labour will have been made redundant which may be reabsorbed by expansion at the new level of technical composition. Unless the innovating capitalist has expanded his labour-force, his absolute mass of profit will be back where it started, as soon as his competitors catch up and the price of the commodity falls. This is true except in the case where the commodity being produced is an important component of variable capital. And if we extend this analysis to capital as a whole, then the value of v is bound to fall as a result of the technical improvement, so that the rate of surplus-value rises, making possible a purely internal accumulation of capital, without any drawing in of labour from outside the capitalist mode of production. It is important to note, too, that individual capitalists may expand their share of the exploitable labour-force at the expense of others, so that an absolute expansion of the capitalist labour-force is not necessary in order for the total profits received by individual capitalists to grow.

(b) by a reorganisation of labour within the productive process, implying a lowered, or unchanged organic composition. (Although in fact there can be few cases where a reorganisation of labour does not involve an increasing organic composition either because of the increased consumption of raw materials and depreciation of machinery in production, or because the reorganisation is of the kind that spreads labour more thinly over a certain number of machines, I shall assume for the purposes of argument that there are real possibilities of increasing productivity without raising the organic composition.) In this case, as in (ii)(a) above, the individual capitalist gains a lead over his competitors temporarily, until they all catch up and the price falls. But here the possibility of expansion of his labour-force, so that his profits do not fall back to their former level when the price falls, is obviously not given internally, since by assumption no labour is made redundant. Existing labour is simply redeployed and made to pass more constant capital through the productive process in a shorter time. The only hope for the individual capitalist of achieving a lasting increase in profits is to attract labour either from his competitors or from outside the capitalist mode of production. As in case (a) above, when we extend this analysis to capital as a whole, then increased productivity will cause a fall in the value of v , and a rise in the rate of exploitation, with constant real wages, making a purely internal accumulation possible. But as distinct from case (a), the main constraint on capital accumulation will here be the availability of additional workers, whereas in

(a), workers were made redundant by the same process which increased productivity and lowered the value of v.

To summarise this point, we may say that where technical change is achieved by raising the organic composition, then there can be no permanent necessity for capital to expand its existing labour-force. Capital can at times reproduce and expand without drawing in labour from other modes of production. The only case where expansion becomes difficult without recourse to new sources of labour is where technical change is achieved without making any labour redundant within the capitalist mode. But there are obvious limits to the possibilities of increasing productivity by re-organising labour, so that it is hard to think of this as applying to more than isolated historical cases. In neither case do we find any necessity for expansion of the sort envisaged by Rosa Luxemburg. Obviously in the long run, capital accumulation must involve the extraction of surplus labour from a greater and greater number of workers. But the connection of imperialism with this need would have to be established on the basis of an analysis of the historical conditions of employment and unemployment in the capitalist centres themselves. And as under (i) above we are still no nearer to knowing when labour will be imported to the capitalist centres and when capital will itself be exported.

Various authors⁵ have argued recently, that the search for labour is indeed the prime motor of imperialism, but that capital moves to the periphery because labour is cheaper there. This may be because of a more ruthless state control over wage-levels, or because the specific form of articulation with pre-capitalist modes means that the capitalist need not pay the full cost of reproduction of labour-power. Without wishing to deny these facts, I would argue that they still leave unexplained the question of why those particular kinds of labour force have developed in particular places, why they do not exist in the capitalist metropolises for instance, and why capital stays in the metropolis at all, if profits are higher because labour is cheaper in the periphery.

This leaves the search for raw materials as a prime motor of the export of commodities and of productive capital. In putting this forward as a thesis, I certainly do not want to suggest that every industrial or merchant capitalist who does business with underdeveloped countries is altruistically searching for raw materials for his fellow capitalists. But unless he is to give away his capitalist commodities for nothing, he must either find some use-value to exchange them for which can be used by him or other capitalists, or he must find some producers who are already in possession of a financial claim against him (i.e. capitalist money, or a credit in 'hard' currency) because of their sale of use-values to other capitalists. We can now see why the illusion of a 'search for markets' arises in part from the non-coincidence of particular sales and purchases between capitalism and the producers of raw materials. From this point of view, the surfeits of capitalist commodities unable to reach their former markets in India and China in the months immediately preceding the big crises of the last century in England appear precisely because the capitalist demand for raw materials (whether to feed men or machines - whether as constant circulating, or as variable capital) has fallen off at the centre.⁶ It is not therefore because of pre-capitalist resistance to buying capitalist commodities, but precisely because of capitalist resistance to buying the pre-capitalist ones that these gluts on the market and crises arise.

So far we have arrived only at a trading relationship such as might arise between any two producers of commodities, be they capitalist or otherwise. What we now have to establish, is how the typical phenomena of imperialism and underdevelopment can grow out of such a relationship under conditions of capital expansion. We are therefore taking as a starting point for the analysis of imperialist domination not the violent domination of early colonial conquest and plunder, but the basic premise of capitalist production, - the exchange of equivalents. If capital is expanding, and therefore needing rapidly increasing production of some raw materials, the first and most urgent need will be to expand and lower the costs

of production of these raw materials, formerly produced under pre-capitalist relations of production. This expansion need not necessarily be achieved by capitalist methods however. Where there is no 'free' labour-force available, any method, including slavery, is used by capitalism. In this way, while still exchanging equivalent values of capitalist commodities for raw materials, capitalism manages to get a greater quantity of use-values in order to expand production in the metropolis. Later on, when a 'free' labour-force has been created by mechanisms which will be examined in the next two sections of this paper, a truly capitalist transformation of raw material production can take place. Imperialist control of this sector of capitalist production will then have two main objects: the assured supply of raw materials for industry at the centre; and the appropriation of the absolute rent to be had where production is based on a limited natural resource.

Looking now at the other side of our initial exchange relationship - capitalist commodities for raw materials, it will be obvious that once the relationship has been established, capitalist competition will mean that individual capitalists will try to undercut each other's prices in the sale of commodities in return for raw materials. In the case of some commodities, and given a certain development of the 'free' labour-force there, it will be relatively more profitable to produce commodities in the underdeveloped country rather than export them from the centre. Capitalists who manage to do this will obtain a differential rent, or super-profit. Where the quantity of commodities needed in order to obtain the raw materials is small in relation to the scale of production with existing techniques, it may be possible for the capitalist who is first in the field to maintain his differential rent and prevent it being equalised out to the average rate of profit. This might be termed 'imperialist import-substitution'. The bargaining for shares in this differential rent and in the absolute rent outlined above, both of them closely linked to the need for raw materials, may be thought of as the economic basis for the political and military struggle both among imperialist states, and between the imperialist states and the 'dependent' nations. Successful bargaining by the underdeveloped country may lead to the beginnings of indigenous import-substitution. Equally well, this may arise when a crisis sets on in the capitalist centre, causing a sudden cut-off in credits for capitalist commodities to the underdeveloped country due to the fall in capitalist demand for raw materials at the centre (for instance, the Latin American experience in the thirties). If the crisis results in war, the supply of capitalist commodities may be cut off because of lack of transport, again facilitating indigenous import-substitution (Australian industrialization during the world wars may be a case in point). After the crisis, when capital starts to expand again at the centre, with increased productivity of labour, and devalued costs, indigenous manufacture in the periphery is likely to face fierce competition from the now cheaper commodities exported from the capitalist centres. It is especially at such times that we may expect to see the multiplication of protective tariffs and import restrictions by the underdeveloped countries (again, the Latin American experience in the thirties is relevant here.)

This little schema of the development of trade and imperialism has till now left out one vital factor, - the emergence of the free labour force in the underdeveloped country from out of the pre-capitalist modes there. We must now move on to examine the role of force in 'freeing' pre-capitalist producers for wage-labour, undoubtedly stressed by Marx in his analysis of the transition from feudalism to capitalism (sections on primitive accumulation, and on ground rent). Pierre-Philippe Rey draws a parallel between the phase of primitive accumulation and the colonial period in that they are both periods where violence is necessary to create a labour-force for capital.⁷ In the next section, I shall examine his reasons for holding this.

II VIOLENCE AND THE CREATION OF A LABOUR-FORCE BY CAPITAL

Now Marx does not hold consistently to a view of the necessity of extra-economic force in the creation of a working class freed from all pre-capitalist bonds and separated from their direct means of production. This view has somehow to be reconciled with the analysis of the fundamental relationships of capitalism as growing out of the exchange of equivalent values. There is a passage in Volume II of Capital which Pierre-Philippe Rey finds particularly disconcerting, as it seems that Marx is taking a view of the transition from pre-colonial trading relations to capitalism rather similar to that of the bourgeois economic anthropologists who focus only on exchange relationships:

the same conditions which give rise to the basic condition of capitalist production, the existence of a class of wage-workers, facilitate the transition of all commodity production to capitalist commodity production. As capitalist production develops, it has a disintegrating, resolvent effect on all older forms of production, which, designed mostly to meet the direct needs of the producer, transform only the excess produced into commodities. Capitalist production makes the sale of products the main interest, at first apparently without affecting the mode of production itself. Such was for instance the first effect of capitalist world commerce on such nations as the Chinese, Indians, Arabs, etc. But, secondly, wherever it takes root capitalist production destroys all forms of commodity production which are based either on the self-employment of the producers, or merely on the sale of the excess product as commodities. Capitalist production first makes the production of commodities general and then, by degrees, transforms all commodity production into capitalist commodity production.⁸

Rey sees the two stages here outlined by Marx as applying to the pre-colonial trading stage and to the neo-colonial phase of imperialism which we are witnessing at the present. He believes there is an obvious lacuna between these two stages, namely the colonial phase proper. At the end of Marx's first phase, there is still no 'free' labour force, since trade is still confined to commodities; but by the beginning of the second phase, a free labour-force has miraculously appeared. Rey asks how this has come about, since he believes that no exchange process, not even capitalist exchange, is powerful enough to turn labour-power into a commodity. For him, the answer lies in the colonial period, when violence and forced labour are used to inculcate the habit of working for capital into the reluctant natives of the colonies. At the end of the colonial period, those who remain at home in the villages, - the wives and relatives of the forced labourers, have started to sell agricultural commodities to capital in order to feed the labour-force. The circulation of variable capital is complete, and the process is now self-sustaining so that force need no longer be employed.⁹

Rey has missed the point of what Marx was saying in this passage, since Marx specifically says that it is one and the same process that creates a labour-force and transforms all commodity production into capitalist commodity production. But before going on to analyse exactly how this process works, it is useful to see just why Rey is so insistent on the necessity of violence in the creation of a labour-force, both in the transition from feudalism to capitalism, where the violence comes from the internal dynamic of the feudal mode of production which throws out a labour force for capital, and in the colonial period in other countries as outlined above. His difference with Marx's analysis goes right back to the fundamental relations of capitalism. For Rey believes that the exchange of wage-labour for capital is not really an exchange at all, - the exchange if there is one, is only between the capitalists who produce wage-goods and the others.¹⁰ Rey seems to base this point of view on the idea that at the end of a complete circuit of variable capital, the capitalists as a class have in

their hands not only the total product of the working day in commodities, which can be transformed into money and reinvested, but also their original variable capital which they advanced to the workers in the form of wages, since this flows back to them as soon as it is spent on wage-goods.

Rey's idea of what Marx ought to have said about the necessity for violence, in the passage quoted above, therefore springs from a fundamental misconception about the nature of the relationship between wage-labour and capital. Of course there is a sense in which variable capital is continually being advanced by and flowing back to the capitalist class, but this only seems paradoxical because Rey has started from and stopped at the same point on the circuit, namely the money in the pocket of the capitalist, and has said absolutely nothing about the exchange of use-values that this circulation of money has effected. We might equally absurdly start from the wage in the worker's pocket at the end of the week and find that it continually flows away from him and back again at the end of the next week. But money is only a symbol that intervenes in the real exchange of values that is taking place. This is between a certain quantity of use-value - the necessary wage-goods, and the use-value labour-power. Money only enters in as an abstract expression of the quantity of socially necessary labour-time embodied in the use-values on either side of the exchange relationship. Rey has totally failed to grasp the sense of the word 'free' as applied to capitalist wage-labour. Since he believes that the exchange between labour and capital is not merely unequal, but almost non-existent, he needs a theory of the necessity of extra-economic violence to get this wage-labour relationship going. But if labour is allowed to go free under capitalism, as compared to pre-capitalist forms of labour bondage, this is precisely because the exchange that takes place is of equivalent labour-times.

Now in order to get this relationship in motion, a necessary economic pre-condition is that the productive forces should have reached such a level of development that the capitalist can pay the peasant or former serf, for instance, a larger quantity of use-values as a wage than what was received under the former mode of production, and still keep a large enough surplus for himself or for re-investment. This is in no way a sufficient condition for the birth of capitalism, but it is an insight that shows up Rey's theory of the 'resistance' of pre-capitalist modes to penetration by capitalism as rather similar to the psychological theories of the bourgeois colonial economists' analysis of the 'labour problem', which were and are part of the ideology of racism and capitalist (white) supremacy.

III THE DESTRUCTION OF NATURAL ECONOMY

Let us come back to the quotation above from Volume II of Capital, and try and analyse what is the process by which capitalist exchange gradually turns labour-power into a commodity at the same time as making the sale of the product into the main interest, i.e. turning all production into commodity production. The arrival of capitalist commodities which are exchanged against some product of the pre-capitalist economy needed by capital, can quickly cause surplus population in the pre-capitalist society. This can be expected to happen most suddenly where the capitalist commodities provide substitutes for goods formerly produced and traded within the traditional economy, eg. British cloth throwing all the Indian spinners and weavers out of production. It is obviously in capitalism's interest to provide the sort of commodities that will save the pre-capitalist producers' labour-time and set it free for specialisation in production of the good needed by capital. But there is no reason why there should be any equilibrium between the amount of surplus-population created and the possibilities for specialisation in production of the good needed by capital. The amount of land available will be an obvious limit on production, as may its unequal distribution between producers. The extent of capitalist demand for the good produced by the pre-capitalist economy will be another factor bearing absolutely no relation to the amount of surplus-population being created. But where specialisation in the

production of the good required by capital is a real possibility for the surplus population, then we get the typical economics textbook 'gains from trade' situation. However, at some stage, capital will itself move into the production of the use-value it requires, in order to lower costs of production, and because there will be a differential rent to be had by producing in competition with small producers at a lower technical stage of development. This will create a second wave of surplus population by throwing all the indigenous producers of food and agricultural goods out of production. This second wave may be expected to be even larger than the first, since in any natural economy situation, time devoted to agricultural tasks is likely to be greater than that spent on non-agricultural production.

It can be seen at this simple, abstract level, how the levelling process of the law of value can create a large, potentially 'free' labour force from within the pre-capitalist mode. This is only the process of primitive accumulation and its effects on the surrounding English rural economy extended to an international scale. However, this sort of analysis commits one of the errors of which Rey accuses Luxemburg, that of treating the relationship between capitalist and pre-capitalist modes as if it were one between two independent petty commodity producers.¹¹ If we are to study the concrete, historical content of any case of articulation of modes of production, then we must look at the internal conditions of the pre-capitalist mode. We must see what happened to surplus production before the arrival of the capitalist commodities, and see whether there were groups in control of the surplus, who might thereby be enabled to monopolise the external trade as it arose, and ally themselves with the capitalist ruling class. Here we must leave the realm of abstract theory and look at empirical facts. Polanyi's study of Dahomey,¹² and Meillassoux's of the Ivory Coast,¹³ both provide interesting case studies, showing how those who were dominant in the pre-capitalist mode used their power to gain the monopoly of external trade, thereby reinforcing their internal position. But as Rey has observed, this alliance between the ruling classes of capitalist and pre-capitalist modes is typical only of the early stages of articulation. At a certain stage, the dominant pre-capitalist group itself becomes subordinate to the capitalist ruling class, as capitalism takes root in the whole social formation. Only in cases where the interests of the two ruling classes coincide over a long period of time, as he believes was the case in the transition from feudalism, is the complete transition to capitalism likely to occur. In other cases, the transition to capitalism may have to be effected against the interests of the old ruling groups, making it both more difficult and more violent.

As we have rejected Rey's idea of the necessity of violence in the transition to capitalism, we can now see the peaceful side of the destruction of natural economy as what is likely to undermine in due course the position of the pre-capitalist ruling groups. Even though the rulers may themselves appropriate a large proportion of the capitalist imports, some of them are bound to go down through whatever system of pre-capitalist circulation of goods (for instance, bride prices or funeral gifts) exists in the society in question. Although an analysis of this sort of process is hard to find in existing empirical studies, one might hypothesize that even in the unlikely event of the rulers preventing all direct trade by their subjects with capitalists, the entry of commodities in this way would undermine the rulers' position by affecting production relations and the division of labour in the pre-capitalist economy. Their monopoly position would therefore come to have profound contradictions for them. One might suppose, for instance, that if Meillassoux is right that the elders of the Gouro people maintained their position in part at least by the monopoly of certain kinds of knowledge about techniques, to which the juniors did not have access, then the introduction of ready made capitalist commodities might obviate the need for a junior to go about acquiring that knowledge, because, for instance he could devote his time to cash-cropping and himself save up the price of a bride, - the final symbol (and material base) of (male) emancipation. This is just one example of what might happen. In general, we can say that the

introduction of capitalist commodities will gradually weaken the traditional system of production and division of labour, essentially by setting free labour time. Under certain conditions, this potential free labour time may appear as actual redundancy of certain individual labourers within the traditional mode, and it is this fund which can be tapped when some capitalist moves out to produce the capitalist commodities for exchange with the raw material in the geographical place where the raw material comes from.

This analysis has been intended to bring out how the process of destruction of natural economy may occur, not through any malignant intentions of capitalists, but quite unforeseen and unintentionally, on the peripheries of those areas where capital goes to extract raw materials. As labour is gradually made redundant in the pre-capitalist mode with the entry of the law of value, possibilities open up for capitalism of exploiting this labour-power and thereby earning a differential rent compared with production at the capitalist centre and export of the commodity. Costs may be lower in the production of specific commodities, because of closeness to sources of raw materials, 'cheap labour', and transport costs that are lower than those of exporting the final commodity. At first this differential rent will emerge only on the goods that were formerly exported and traded with the pre-capitalist mode (now transformed into 'underdeveloped country'). Because of the small size of the market involved, it is possible for the differential rent to be maintained against competition from other capitalists setting up production in the same commodity. Later on, the process of destruction of natural economy may create a large enough relative surplus-population for the country to be turned into an enclave, producing commodities that even with the costs of export to the capitalist centre, yield a differential rent compared with their price of production at the centre. This is not meant to suggest that import-substitution will necessarily occur; only that the process of destruction gives one of the necessary conditions for capitalist production. Other possible outcomes are unemployment, underemployment, retreat into a self-sufficient subsistence economy, famine and starvation, all of which can be found historically.

There is one further point worth drawing out of this analysis, which takes us back to the role of violence, as analysed by Marx in the section on Primitive Accumulation, for instance. Although I have tried to show how it is essentially capitalist exchange which transforms and undermines natural economy and thereby creates a potential expanded labour-force, this should not be taken to imply that we are falling back into the bourgeois economists' and anthropologists' ideas on the powers of exchange to bring peace, progress and happiness to all contracting parties. It is precisely the development of the productive forces under capitalism, and the extension of this development through the operation of the law of value, that can bring poverty, ruin, and at times proletarianisation, to thousands of direct producers. The 'divorce of the direct producers from their means of production' may therefore be re-interpreted to mean, essentially, that the development of capitalism makes it impossible for former methods and relations of production, and with them, forms of ownership and control over the means of production, to subsist as viable economic ways of existence. The invasion of the law of value may bring first impoverishment and only later wage-labour, so that there is no reason why the wage-labourers should not be literally poorer than they were before the beginnings of exchange with capitalism. In this way one form of exploitation may be changed for another, but the mechanisms of change will not necessarily have involved anything more than peaceful economic exchange.

IV IMPERIALISM AND EQUAL EXCHANGE

It remains to be seen what light this analysis of the destruction of natural economy can throw on the questions of the motor of imperialism and of the role of violence in capitalist expansion, raised in the first two sections of this paper. Firstly, we have seen how the creation of a 'free' labour-force may

occur quite unforeseen and, in a sense, unintentionally, as a result of the exchange of capitalist commodities for raw materials. We may add that when capitalism seeks to expand its labour-force intentionally, as in the days of colonial plantations, it tends to resort to pre-capitalist forms of exploitation, - direct slavery, or the intermediate form of debt-slavery found, for example, in Peru in the nineteenth and early twentieth centuries. But these are cases where the search for labour is obviously subordinate to the extraction of raw materials. The search for labour may have been the motive of the slave-trade but we cannot equate the slave-trade with imperialism.

Secondly, as a corollary of the fact that the creation of relative surplus-population is an unintentional result of capitalist expansion, we may see that it may arise in geographical places where capitalism has no interest in expanding production, or where it is not expanding fast enough to keep pace with the destruction of natural economy. In certain historical circumstances, this population may find an outlet in colonialism, as in the early days of European capitalism. Colonies serve the mother country both as an assured source of supplies of raw materials, and as a way of appropriating the rents to be obtained from control over these sources. In other circumstances, the surplus population may be transferred in a more or less direct manner to places where it can be made use of, for example, when thousands of Chinese were brought to work the sugar and cotton plantations of Peru in the nineteenth century, or again, one might think of the Asians in Africa.

We may therefore conclude that, of the two great needs of capitalist expansion - more raw materials and more labour-power - the need for raw materials has been the prime motor of capitalism's expansion into other modes of production. In this way, we can reserve the possibility that the creation of relative surplus-population at the centre can permit the autonomous internal accumulation of capital, and yet maintain the historical necessity of imperialism as linked to the geographical distribution of raw materials. But the necessity for violence and extra-economic force in the transition to capitalism has disappeared. Capital can, in the first instance, obtain its raw materials by trade, and capitalist circulation then sooner or later converts labour-power into a commodity that can be used in the production of the raw material by capitalist methods, or else in the local production of the capitalist commodities originally given in exchange for the raw materials.

The question of exactly what role violence does play is still hanging in the air. Marx, Rosa Luxemburg and Rey are three authors who have argued for the necessity of violence, and they did so, in part at least, from an analysis of the concrete, historical facts of capitalism's violence in transforming other modes. Rejecting the idea of the necessity of violence does not of course imply a denial of any of these historical facts, nor of the continuing use of violence in imperialist expansion today. The use of violence in practice may be linked to three main elements:

- 1 The struggle for control over sources of raw materials, both to get hold of rents and to assure the supply of the resources involved. Historically this involved capital in a struggle against former dominant classes; nowadays it is more likely to take the form of inter-imperialist or inter-state fighting, eg oil.
- 2 The anarchic, uncontrolled form that capitalist expansion necessarily takes, and the fact that the process of destruction of natural economy is to a certain degree independent of the need for increased capitalist production, with regard both to the relative speeds of the two processes, and to their geographical locations. Violence may therefore be resorted to when capitalism has a sudden need for the expansion of production or extraction of some raw material, or a sudden need for an increased labour-force, when the process of destruction of natural economy is working too slowly to satisfy these needs immediately.
- 3 The violence used by capitalists or capitalist-states against their own work-

forces. These may be treated as exceptions to the general rule of the 'free contract' of wage-labour and explained in one of the following ways:

(a) As arising from the inter-capitalist competitive struggle, eg the massacre of Bolivian tin-miners whenever Bolivia faces a falling price of tin on the world market, as a result for instance of discoveries in Indonesia of deposits nearer the surface.

(b) As subsequent to a drastic case of destruction of natural economy, where impoverishment has preceded proletarianisation, and where capital may therefore have been able to employ labour, under a free contract, at less than the subsistence wage.

In none of these cases is the use of violence formally necessary to the continued existence of capitalism. The most we could talk about would be a historical necessity linked to specific needs and particular expansions of capitalism. Nor can any of them be characterised as typical of capitalism's relations with pre-capitalist modes of production, since they may equally well be applied to historical stages where capitalism gets all of its raw materials from other capitalists.

Both Rosa Luxemburg and Pierre-Philippe Rey reach fundamentally absurd conclusions about the role of violence. As Rosa Luxemburg herself noted, you can force people to give up their raw materials and labour-power, but you cannot force them to buy your commodities.¹⁴ But she herself assigned exactly this necessary role to violence in the opening of new markets for capitalist commodities. Similarly, Rey postulates a period of colonial violence which instils discipline and the habit of wage-labour into 'resistant' pre-capitalist producers. But you cannot make people work voluntarily by forcing them to work against their will, however long and bloody is the period of force. Point 2 above may seem close to Rey's position, since it says that at times it is necessary for capitalism to obtain labour-power by force when a sudden expansion is needed in some branch of production. In point of fact it is very far from Rey's position, since force is not operating here to introduce 'free' capitalist relations of production, but simply in order to get hold of increased raw materials, or even labour-power, in circumstances where not enough is freely forthcoming. If force is often present in transitional periods, this should not blind us into thinking that force itself is the cause of the transition. What makes the transition from forced labour to wage-labour possible is not the effect that force has on the minds of the labourers, but the eventual effect on the surrounding economy of the introduction of capitalist commodities and their circulation. If we go back to the case already cited of the introduction of Chinese slaves to work plantations on the Peruvian coast, what makes the eventual transition from slave-labour possible is immigration of Peruvian Indians from the highlands, but the fact that this immigration was not forthcoming until well after the establishment of the plantations is amply proved by the transportation of labour all the way from China.

In conclusion, we may discard the idea that capitalism must of necessity use force when it expands into other modes of production, since the very process of circulation which first takes capitalism to these other modes, itself causes their breakdown and turns labour-power into a commodity. When imperialist violence is not linked to inter-capitalist struggles (which may or may not take place and do not really concern us here) we may see it as resulting from the suddenness of specific needs of capital which cannot be satisfied at once by the, at times, slow process of destruction of natural economy. It is hoped that the way is thereby cleared for the construction of a positive theory of imperialism based on the exchange of equivalents, although this paper has concentrated more on the negative task of arguing against some theories of unequal exchange.

NOTES AND REFERENCES

I wish to thank Robin Murray for much help in writing this paper. I trust the exchange of ideas was equal.

- 1 Rosa Luxemburg, "The Accumulation of Capital" (Routledge and Kegan Paul), esp. Ch.XXV. See also 'Anti-Critique' in "Imperialism and the Accumulation of Capital" (ed K Tarbuck, Allen Lane, the Penguin Press).
- 2 Barbara Bradby, 'The Destruction of Natural Economy in Peru: a Problem of the Articulation of Modes of Production'. Outline of a research proposal presented to Sussex University 1974.
- 3 See especially the criticisms by Bukharin in "Imperialism and the Accumulation of Capital", op.cit. See also "Capital" Vol.II, where Marx treats circulation, and where many of the questions raised by Luxemburg are anticipated and answered.
- 4 See "Capital" Vol.III p487 (Lawrence and Wishart). The statement was made by Gardner to the First Report from the Secret Committee on Commercial Distress, and the comment is by Marx.
- 5 See Claude Meillassoux, 'From Production to Reproduction' ("Economy and Society", Vol.1, No.1), and also Harold Wolpe, 'Capitalism and Cheap Labour in South Africa: from Segregation to Apartheid' ("Economy and Society" Vol.1, No.4). These authors elaborate the view that capitalism extracts an additional surplus from pre-capitalist modes of production where some of the costs of reproduction of labour-power are borne by the pre-capitalist sector.
- 6 See Marx, "Capital" Vol.III, Pt V, for an exhaustive discussion of the crisis of 1847.
- 7 Pierre-Philippe Rey, 'Sur l'articulation des modes de production', contained in "Les Alliances de Classes" (Maspero, Paris), esp. Ch.2, Sec.III (pp82-8 Maspero) and Ch.4, Sec.III (pp156-65 Maspero).
- 8 Marx, "Capital", Vol.II p36 (Lawrence and Wishart).
- 9 Rey, op.cit. esp. pp135-6.
- 10 Ibid., p109, "La circulation apparait telle qu'elle est au sein du mode de production capitaliste), c'est-a-dire échange de marchandises entre les capitalistes eux-mêmes et eux seuls." (emphasis Rey's).
- 11 Ibid., pp146-7.
- 12 Karl Polanyi, "Dahomey and the Slave Trade", A.E.S. Monograph No.42, (Univ. Washington Press).
- 13 Claude Meillassoux, "Anthropologie économique des Gouro de Côte d'Ivoire: de l'économie de subsistance à l'agriculture commerciale" (Paris, Mouton).
- 14 Rosa Luxemburg, op.cit., p396.

VULGAR ECONOMY AND RICARDO'S CRITICS

Maxine Berg

Marx explained the history of economic thought both in terms of the state of the contemporary class struggle, and in terms of the phase of economic development. Thus economic theory changed over time with developments in underlying economic and social realities. With real developments within the capitalist economy went changes in bourgeois economic theory. But if Marx set up a historical method for the analysis of economic thought, it is, however, equally apparent that he identified bourgeois economics as a structure - that is as a system of thought with certain analytical constants. These are two quite different approaches to the history of economic thought, and they are not always kept distinct by Marx. The structural approach is very clearly explained and applied to the recent history of neoclassical economics by Bob Rowthorn. Rowthorn sees recent neoclassical economics as fundamentally the same as the 'vulgar economy' of Marx's own day. The key constants of this vulgar economy or neoclassical economics were subjective individualism, naturalism and the primacy awarded to exchange. In the Althusserian terminology, this economics over the past one hundred and fifty years has acted as an 'epistemological obstacle', which has prevented the emergence of a science of modes of production.¹

Given this structuralist conception, it is, however, also evident that Marx conducted a careful historical analysis of the transitions within bourgeois economics from the classical analysis of Smith and Ricardo to vulgar economy, of the transitions between various phases and types of vulgarity, and of the emergence of forms of socialist economics. That Marx did not keep these two projects - the structural and the historical - separate has led to a certain confusion among Marxists as to the sense in which one refers to and makes use of the history of economic thought. My purpose in this essay will be to take up Marx's historical project. I will examine Marx's analysis of the transition between classical and vulgar economics. I will also look in detail at the economics of one key phase of vulgar economics, that is, the 1830s, to assess both the extent to which this economics fitted into a 'structure' of vulgar economy, and the extent to which it could be explained by its particular economic and social context.²

The use Marxists make of Marx's view of earlier economists should not be separated from the search for a Marxist approach to the history of ideas. The traditional 'Whig historians'³ who dominate the discipline of economic thought have sought the origins of neoclassical economics in certain elements of classical economics and in particular, in the economics of the 1830s. Marxists have criticized neoclassical economics, but they have not fundamentally challenged the approach of neoclassical economists to the historical foundations of economic theory. They too have emphasized the sources of neoclassical economics in this period, only they have described these sources as apologetics rather than 'primitive marginalist' economics.⁴ They too have treated the history of economic thought as a search for precursors - in their case for precursors of neo-Ricardian or Marxist models.

This 'Whig history' is not acceptable. We must ask how Marx conceived of the history of economic thought. Marx distinguished the ultimate determination of the history of ideas by the progress of the forces of production from causation in terms of the class struggle. Marx related the basic assumption of types of economic thought to particular stages in the development of the capitalist economy. The social role of economics and its status as a science, however, he related to phases of the class struggle. The analytical structures of a theory was thus to be explained in terms of this two dimensional historical context.

This essay then is an historical exercise. It is not yet another denunciation

of neoclassical economics. Rather, its purpose will be to discuss the set of theorists who led Marx to identify the 1830s with the "bad conscience and evil intent of the apologetic". Marx did not look at the theorists of this period in England in any great depth. The focus of his critique of vulgar economy was concentrated on those much later economists of the 1850s, F Bastiat, the French heir of Say, and W G F Roscher, the founder of the older German historical school. Marx does make allusions to the vulgar economy of the 1830s, and he certainly sets up the historical conditions for its emergence. The actual analytical definitions of vulgar economy emerge, however, with reference to Bastiat and Roscher, the most extreme of the vulgar economists. It is possible, then, to use what Marx had to say of these later economists to help clarify the picture of economics in the 1830s. This, however, must proceed on two levels. On the one hand, one can derive the analytical definitions of vulgar economics from this discussion. Thus, in a sense, the content of his critique can be directly applied to an earlier period. But this content is always modified by the role of the economic and social context which Marx stresses. Here there can only be a transfer of approach, not content. The economic and social context of the earlier period was obviously quite different. A picture of the historical conditions shaping vulgar economy in the 1830s can be derived by combining Marx's approach to the 1850s with what he actually said of economic and social conditions of the 1830s.

This essay will be primarily concerned with clarifying the empirical foundations for Marx's view that the 1830s was the period of the full disintegration of Ricardian economics. The essay will be best structured in the following way. The first section will point out the analytical and methodological elements of Marx's view of extreme vulgar economy. Much of Marx's discussion of the elements of vulgar economy is connected to his view of the economics of the 1850s. I will, however, refer to the economics of the 1850s purely as a device for illuminating the analytical definition of vulgar economy. From this analytic introduction, I shall proceed to my historical study. I will use the second section to discuss the origins and prehistory of vulgar economy. My third section will deal with the full period of vulgar economy in the 1830s. These historical sections will develop the ways Marx combined the study of the structural foundations of theory with the study of the economic and social context of ideas.

II VULGAR ECONOMY

Marx's critique of bourgeois economics divides into his discussion of certain 'genuine' theorists and his scorn for the vulgar economists. One of the first areas for this division within the critique of bourgeois theory was early 19th century economics. The critique of classical political economy - Smith, Ricardo and their physiocratic ancestors was to be different than the critique of vulgar economists, writing in the first part of the 19th century Marx frequently commended classical political economy for its analytical characteristics. This was an economics that aimed to look behind the categories of theory to the real relationships these categories expressed. He also attempted to make a temporal division in his critique of bourgeois economics. A period when classical economics predominated was to be separated from one where vulgar economy was dominant. He thus described the period from 1820 to 1830 as notable for scientific activity in political economy, and spoke of the 'unprejudiced character' of the polemic of the period.⁵ But he distinguished this period of 'scientific' bourgeois economics quite distinctly from the economics of the 1830s where

It was thenceforth no longer a question of whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In the place of disinterested inquirers, there were hired prizefighters.⁶

Marx distinguished the vulgar economists from the classicals primarily by the former's fetishization of the categories of analysis. The vulgar economists

studied only outward appearances separated from economic relations. Furthermore, from the standpoint of the ruling classes, they had a direct political interest in obscuring these relations. By concentrating on the economic category as a 'thing' and denying social phenomena, they were able to obscure the differences between technical and social causation. On the one hand, they derived social phenomena directly from technical conditions, for example, explaining the ability of capital to yield profit in terms of the technical functions of capital in the role of means of production. On the other hand, they derived technical phenomena directly from social, for example assigning the power to increase the productivity of labour to capital, a specific social form of production.⁷ Marx concentrates his attention on what he sees as the two most complete forms of vulgar economy - the view of production as a problem of sources of revenue - that is, land as the source of rent, capital as the source of profit, and labour as the source of wages - and the concentration on interest bearing capital.

Vulgar economy involved other characteristics, such as: the resurgence of 18th century individualism, the view that economic interaction was a problem of psychology, and the primary interest in the exchange of commodities. But these characteristics generally followed from the concentration on appearances and the attempt to hide underlying relationships and contradictions.

Before I go on to discuss the English vulgar theorists of the 1830s, I think it is important to say something of the political context of Marx's interest in vulgar political economy. The immediate political problem he faced was the obverse of this political economy, that is, vulgar socialism. Marx was preoccupied throughout his critique of vulgar economy with Proudhonian socialism - its doctrine of 'property is theft' and its utopian solutions centering around the circulating mechanism with slogans like 'crédit gratuit'. Where he attacked vulgar economy for creating the fetishism of sources of revenue, he similarly dismissed vulgar socialism for attempting to divide types of profit between types of capitalists.

the kind of socialism which attacks interest bearing capital as the basic form of capital remains completely within the bounds of the bourgeois horizon...it is only a theoretical symptom of capitalist development.⁸

Vulgar economists studied interest bearing capital as the basic form of capital. This was capital in its finished form which yielded a profit without entering the production process. It was a transfer of money from one person to another, and what Marx called, "a relation of things to themselves".⁹ Similarly, superficial socialism wanted to keep commodities, but eliminate money, and fought interest bearing capital without touching on real capitalist production. The money form of capital was regarded as the basic form by political economists since it appeared to emerge as an independent source of revenue and was not in direct contradiction with labour. But simultaneously, the money form of capital was always the first and easiest form of attack by the superficial socialists.¹⁰ These socialists came under even more scathing attack from Marx when they attempted to criticize other bourgeois economists. He denounced Proudhon in the "Poverty of Philosophy" for making his material object the "dogma of the economists, whereas the economists at least had taken as their object of analysis real life activity". He continued

the moment we cease to pursue the historical movement of production relations of which categories are but the theoretical expression, the moment we want to see in these categories no more than ideas...we are forced to attribute the origin of these thoughts to pure reason.¹¹

Marx's critique of these socialists must again be distinguished from his critique of those English socialists who took the elements of contradiction in Ricardo as their starting point. Among these were Thomas Hodgskin, J F Bray, and Percy Ravenstone. The contradictory interests of Landlord, Capitalist and

Worker were combined with a radical approach to the creation and appropriation of the surplus. In the 1820s and 1830s these theorists made certain real advances on Ricardo. It is interesting that Thomas Hodgskin, the most notable of these, was not really a socialist but an anarchist, and yet Marx makes a point of depicting the vulgar socialists who followed him as 'brandishing empty slogans'.

In describing interest bearing capital as the highest object of vulgar economy, Marx understood extreme vulgar economy to be expressing a particular economic phase, one where capital becomes centralized in the hands of big capitalists and production is socialized (though not socialist).

as functionaries of the process which at the same time accelerates this social production and therefore also the development of the productive forces, the capitalists become superfluous, in the measure that they, on behalf of society enjoy the usufruct.¹²

It was a position like that of the feudal lord whose exactions had become outdated privileges with the rise of bourgeois society.¹³ This was the high phase of vulgar economy that Marx identified with Herr Roscher, and which Bukharin some years after generalized to cover the later reaction of the historical and Austrian schools. It was the theory of the bourgeois rentier who found his task in a solution of the problem of consumption.

the ideology of a bourgeoisie which has already been eliminated from the process of production...who has thus immortalized in his scientifically fruitless theory...the peculiarities of his failing psychology.¹⁴

It is thus quite clear why Marx should have concentrated his attention and scorn on Herr Roscher, the last stage of vulgar economics. Where Say had set out vulgar notions, he had still tried to solve economic problems. Where Bastiat simply plagiarized, still his apologetics was enthusiastic. It was in Roscher that Marx saw the highest development of vulgar economy. It was

the academic form which proceeds historically and with wise moderation collects the best from all sources - the heat of apologetics is moderated by erudition.¹⁵

II THE PRE-HISTORY OF VULGAR ECONOMICS

Though Marx found the 1830s to be the best approximation to the heyday of vulgar political economy, he never completely designates vulgar political economy to a definite historical period. The timing and the conditions for its introduction always remain vague. At one point he argues that vulgar economy emerges not after Ricardo, but after Smith. Here he also points out that only after political economy has reached a certain stage, that is, after Smith, does the vulgar element become a general element. He finds J.B. Say setting out the vulgar notions in Smith, and McCulloch and James Mill acting as vulgarizers of Ricardo. But this process is explained not by external conditions, but by the internal logical development of the system. Marx argues that the more economic theory is perfected, the more it develops as a contradictory system, that is, "confronted by its own increasingly vulgar element". Say's superficial views become even more pervasively developed after Ricardo's Principles, because Ricardo's analysis was more highly developed. Disciples and critics like James Mill, McCulloch, Torrens and Bailey introduced the vulgar notions that led to the disintegration of Ricardian economics by the 1830s.

It would be useful at this point to say something briefly of the image of Ricardian theory in this period. Ricardo's key problem was the effect of the natural progress of wealth on proportionate distribution, particularly that between wages and profits. Ricardo was not making specific predictions, but it does seem that he believed his analysis to be fairly close to reality. He abstracted from accidental causes such as harvest and temporary causes such as technical change. His model referred to the permanent state where all short

run influences had been worked out. The assumptions or constant causes behind this model were these: (1) the limited productive capacity of the soil, (2) human fecundity, (3) and the desire for wealth. This model has been generalized by Sraffa. In his schema, considerations of nature, science, technology and the products of past labour have all been subsumed in the technical conditions of production. The key proportion in the Sraffa system, net product to means of production, is taken to reflect these technical conditions, and also acts to determine the production of surplus and the rate of profit. Ricardo's model insulated the laws of population and decreasing returns from criticism by taking as given the state of technology.

This model is generally given certain political connotations by those neo-Ricardians who have revived it. Dobb, for instance, argues that Ricardian economics acted as a critique of the authoritarianism of an autocratic state and of the privileges and influence of the landed aristocracy.¹⁷ But this was a connotation that Ricardian economics just did not have historically. Philosophic radicals certainly used political economy as an exact discipline that enabled the initiate to utilitarianism to see the good of society more accurately. But Tories and Whigs in the period also accepted Ricardian economics. The Tory cabinet ministers of the 1820s espoused liberal economic measures, but used political economy as a legitimation for the cabinet's wish to abdicate responsibility for the economy simply by erecting an autonomous system. Ricardian economics was also a tool in the political process of turning towards the towns and away from the country. Industry versus the land, however, was not the fundamental division. The real split here which this political economy went further to promote was that between the rich and the poor.¹⁸ These political differences among the proponents of Ricardian economics continued through the 1830s. McCulloch was one of the best known examples of this - he continually used Ricardo's ideas as a platform for Whig polemics.

Marx, in fact, was scathing of McCulloch's apologetic political economy. He attributes to him the development of the 'Ricardian mode of coughing and spitting'. And he accuses McCulloch of using Ricardian economics for his own political and careerist advantage - both to acquire a chair in London and for subsequent Whig patronage. His final denunciation of McCulloch is that he drew the 'wages of accumulated labour', between 1826 and 1862 - and he is referring here to a spurious concept developed by McCulloch himself.

apart from his plagiarisms of Ricardo, Mill, Malthus, and Say which constitutes the real basis of his writings, he himself continually reprints and sells his 'accumulated labour' under various titles, always 'largely drawing' upon writings for which he has been paid before.¹⁹

Some of those elements Marx was to criticize in later theorists appeared in the earlier work of James Mill, McCulloch, Torrens and Bailey. Mill tried to achieve formal consistency out of the contradictory basis of Ricardo's theory. Both he and McCulloch attributed 'labour' to natural agents and machinery, despite Ricardo's argument that the services of natural agents and machinery added only to value in use and not to value in exchange. Their description of profits and wages of embodied labour also came under attack from Cannan in 1899 as an apologetics on behalf of capital. Furthermore, Ricardo's formulation of the contradiction that capitals of unequal durabilities resulted in equal surplus values was used by Torrens to argue his view that capital was an independent source of value.

Torrens and McCulloch, both fearing Ricardo's assertion of the tendency of the rate of profit to fall, tried to make capital the creator of value, and described technical change as sufficiently powerful to counteract any decline in agricultural productivity, and thus of the rate of profit. McCulloch developed what Marx described as a crude material fetishism, by eliminating the difference between man and animal and then between living organism and inanimate object.²⁰ There was also discussion in Say, Torrens and particularly in the

young J S Mill of the labour of superintendence. Profit, for these theorists, reduced to a wage for organizing the division of labour, or more aptly put, for exploiting labour. But if industrial profit was defined in this way, then it must be taken into account in the wages of a general manager in a capitalist enterprise. If profit was really only the wages of superintendence, then capitalist production would quickly come to an end. Marx pointedly denied the wages of superintendence. The larger the scale and the more capitalist was production, the more negligible the element of industrial profit reducible to salary.²¹ The other criticism of the period which led into vulgar economy was the denial of the labour theory of value. Bailey rejected exchange value. Only the use values of commodities could be established with reference to a third commodity - money in the market. The effect of this was to give the commodity an independent existence and a property as a thing, rather than as a social magnitude. This, furthermore, allowed Bailey to express commodity exchange relations in terms of psychology. He was able to argue that value was something buyers and sellers 'imagined' in the act of exchange. Market price, furthermore, could be determined by various circumstances that express themselves in the relation of demand and supply and which influence the 'mind' of the operators in the market.²²

This prehistory of vulgar economy must also be related to a historical context. Marx looks at the origins and use of Smithian assumptions in a historical sense. He describes the 18th century literary genre of natural man and the ideal state of the isolated individual - not as a form of romanticism but as an anticipation of civil society. Civil society was the society of freely competitive capitalism. It is Marx's view that this 18th century individual was a basic assumption of Smith and Ricardo. Both projected his existence into the past, and viewed him as a product of nature and not of history. Marx saw the assumption of individualism as only possible in a society of highly developed social relations. As Marx put it, "The human being is in the most literal sense a political animal, not merely a gregarious animal, but an animal which can individuate itself only in the midst of society". Marx attempted here to make clear just how the basic assumptions of economics reflect the various phases of capitalist development. Marx goes on in this same passage to depict the social situation of theory. He relates the use of the assumption of individualism to economics' scientific status. He comments that his only reason for bringing the subject up is because of the vulgar resurrection of the assumption and of attempts at a historico-philosophical account of its source by Bastiat, Carey and Proudhon. In a period of social conflict these economists regurgitated an assumption that was reasonable only to the 18th and early 19th century economy.²³

This analysis does raise certain problems. First, clearly Smith's view of improving society in 18th century England and Scotland was not so naive as the 'natural man' concept implied. Marx was apparently categorizing Smith in terms of popularized enlightenment attitudes. Second, it could be argued that Marx finds it easier to separate the economic context of the vulgar economists from Ricardo than he does that of Ricardo from Smith's context. However, the period between the late 18th century and the 1820s can be broadly characterized as a phase of 'manufactures'. The factory system existed on the basis of an organizing principle rather than any substantial change in techniques. The 1830s, however, can more appropriately be seen as the point of entry to machine based modern industry. Finally, it is difficult to interpret the equation of civil society with freely competitive capitalism. It is difficult to accept that the assumption corresponded to a reality in the 18th century or at any other time. Smith's own attitudes to merchants and capitalists cast doubt on the notion that he saw fully competitive civil society as a reality.²⁴ The early industrial economy in England was not competitive. Early textile entrepreneurs came from a wealthy mercantile background. The large progressive factory was the exception rather than the rule in the early textile industry. But this was equally a situation where a wealthy group of large

textile masters had substantial control over technology, capital, labour, and distribution. The early iron industry was also noted for industry wide price and wage fixing agreements in the 18th century and after.²⁵

These problems are important. The possibility that Marx may have been wrong in his assessment of the economic context of classical economic theory would also cast his assessment of the classicals into some doubt. Marx, however, can only have made the connection between theory and economic context from the historical data available at the time he wrote. It is also certainly true that at the outset industry was less concentrated than in Marx's own day. Thus, in his own terms, and in a relative sense, the connection between assumption and reality was valid.

III VULGAR ECONOMY IN THE 1830s

Marx's picture of the 1830s was one of social crisis and of decline in economic theory. He describes the social role of political economy and its emergence first as a science, then as an apologetic, in terms of the class struggle. In England, the phase of political economy as a science belonged to a period when the class struggle was latent. He explains the unprejudiced polemic of 1820 to 1830 as characteristic of a period when modern industry was only beginning to emerge and when the class struggle had been forced into the background. But Marx sees the 1830s as the crucial watershed in the development of the class struggle - and the decisive turning point of political economy. It is this period that sees the rise of a new group of economists: Nassau Senior, Richard Whately, and W F Lloyd were all Drummond professors in Oxford from 1826 to 1837. Others included Montifort Longfield, professor of political economy at Trinity College, Dublin, Samuel Reade, a Scottish economist, and G P Scrope, tory MP and geologist. 1830 brought not only new economists, but the July Revolution in France and the Swing riots in the English countryside. This, combined with the socialist agitation of the Owenites and the followers of St Simon and Fourier, was enough for Marx - "The hour of vulgar economy had struck".²⁶

Marx, it seems, was not far off the mark. At the opening of the 1830s in the work of the theorists under discussion, we find the fear of social conflict and socialist doctrine almost pathological. With this was combined a sense of void in economic theory, with the success of a gradual undermining of Ricardian economics. The Swing riots were a major concern. The political economy club debated on them in late 1830, and blamed the disturbances on agitators disseminating exaggerations among the agricultural labourers. Senior opened his "Three Lectures on Wages" with an expression of fear of crisis in the country side. He also included a long section on machinery and labour directed not only against the agricultural labourers, but against those paternalist magistrates and landlords who supported them. He typically blamed the riots on a lack of knowledge of political economy among the people. Longfield viewed political economy as a 'defensive science', attempting to prevent the 'interference of speculative legislation'. Senior and Scrope saw themselves as grappling with a new race of visionaries. Scrope commented that there was

a disposition to trace all the evils which afflict [society] to the competition of capitalists and labourers, amongst themselves and with each other.²⁷

The fear of socialist doctrine, as Meek and Dobb have made clear, was primarily a fear of Thomas Hodgskin, one of the socialist founders of the London Mechanics Institute, and one of those socialist theorists who developed the social conflict immanent in Ricardo's model. James Mill spoke of the "mad nonsense of our friend Hodgskin" with his opinions which would be "subversive of civilized societies". A writer in the "Edinburgh Review" in 1831 saw him as an influence more pernicious than Robert Owen. And Scrope identified him with "those declamations against capital as the poison of society, and the taking of interest on capital as an abuse and injustice, a robbery of the class

of labourers."28

But it was more than a flurry of rick burning and metropolitan socialist doctrine that defined the 1830s as a period of social crisis - it was crisis in the country's most advanced industrial sector - the cotton industry. An intractable trend of destabilizing crises in the industry became combined with a concerted offensive on labour. With 1830 came a marked decline in wages in the Oldham cotton industry. The threat of the new poor law, and the government assault on extra legal unionism and its wider political base. Cotton trade unionism acquired a wider economic perspective on the basis of national political campaigns for a shorter working day. The old language of trade union activity was given a new radical twist. At the industrial and the local level, what we have in the 1830s is a context which John Foster has recently described as

an industry whose economics displayed with unique force the contradiction of industrial capitalist production; and a labour movement that developed around those contradictions a campaign demanding a fairly high level of mass understanding. What the new capitalist offensive did was enable radical leaders to transform this existing understanding into a larger commitment against the system itself.²⁹

The bourgeoisie in the 1830s was not only facing a new crypto-socialist rhetoric, but a wider class consciousness at the local level. Indicative of this was a resolution passed at a mass meeting of Oldham workers in March 1838.

Labour is the source of all property; and without a surplus of labour that has been performed and of property produced no accumulation of property can take place...the primary object of all legislation ought to be to secure for the labourer the entire fruit of his labour...the various classes of capitalists have the sole power of making and administering the laws which is almost uniformly done for their own benefit...Until they [the working people] lay their hands and hearts together their condition [bad as it is] will grow gradually worse till they are actually starved or worked out of existence.³⁰

The ability of political economy to offer an intellectual defense of the system was not, however, immediately apparent. What is striking in the early 1830s is the disorientation and sense of loss of authority in political economy. The famous meetings of the political economy club in January 1831 was indicative. Here Torrens posed the question of whether all the great principles of Ricardo's work had been successively abandoned. Samuel Read spoke of political economy's unsettled state, "owing to the admixtures of dogmas and paradoxes of Ricardo and his followers with the plain and luminous doctrines of Smith". And Torrens hopefully styled the 'current controversy' as a 'transitional stage characteristic of any branch of science'.³¹

The vulgar economists continued the critique of Ricardo as a now established approach. They helped to create a sense of void in political economy, yet simultaneously saw their own role as one of filling this void. As I have outlined above, the political economy dominating the 1830s was one obsessed with the fear of social conflict. Yet it is in these years that we find this most political theory increasing couched in terms of a neutral scientific methodology. These theorists sought to deny the ideological connotations of terms in political economy. Whately, trying to escape the political connotations of his theory renamed it 'catalactics', the science of exchanges. Scrope explained the dislike of political economy as due to the 'dogmatism' of the 'hypereconomists', 'to empiricism and to practical men'. But his paternalist conscience revolted against any fashionable 'political mathematics'. Senior identified common sense and the practical man with pure prejudice.³² These theorists sought the science of an abstract model. They combined an evangelism on behalf of capital with an internal debate on the method and scientific status of economics. Senior's essays on "Ambiguous Terms in Political Economy", his essays on Methodology in 1826 and again in 1836 were

echoed in the prefaces of Whately, Lloyd, and Longfield and in Scrope's essay in 1831 "The Political Economists". John Stuart Mill's celebrated essay on Methodology first appeared in 1836 in the midst of a general debate on the issue.³³ Even at the local level, where the criticism of Ricardo's theories of population, diminishing returns, and capital was institutionalised in myriad provincial scientific and statistical societies. The object of these societies was defined in terms of a debate on the scope and method of economics. Value laden premisses were given legitimation behind large scale statistical surveys and the terms of natural science. Science societies, from the Cambridge Philosophical Society to the British Association for the Advancement of Science provided the setting for discussion of a mathematical and scientific economics. The statistical and literary and philosophical societies of the 1830s were a new stronghold of a wealthy local bourgeoisie. The new science was a way of insulating and making dominant the interests of the rich over the poor.

The key interests of the Drummond professors, Longfield, Scrope and Read in this period were abstinence, wages of superintendence, the falling rate of profit and property. These theorists are generally 'credited' by bourgeois historians with being the precursors of marginal utility theory. To them is attributed that shift in the idea of value from one which defined value between commodities in the market as reflections of more fundamental socio-economic relations to one which defined value from psychological relations between men and finished goods. Their ideas became the basis for a theory of distribution which made irrelevant the distinction between income from work and income from property. Thus Lloyd is given credit for the first clear statement of diminishing marginal utility. To him also goes the 'honour' of being the first to term the methodological individualism on which his theory was based, 'a Robinson Crusoe economy'. Even greater honours, however, go to Longfield whose system reached such 'perfection' that all prices given by non-economic parameters had disappeared. Marian Bowley writes of him:

all prices were flexible and explained in terms of economic influences and all quantities were related to prices. Aggregates had disappeared from the theory of distribution and hence the need to determine labour's share in terms of the wage fund.

Another development was that of Nassau Senior who made abstinence a factor of production so that the net yield of capital goods served as payments for the service of saving. Profit became analogous to the wage, as a payment for the psychic cost of saving.³⁵

As noted, the apologetics of these theorists have been exposed by Maurice Dobb and Ronald Meek.³⁶ They have pointed out the ideological foundations of the new theories of abstinence, wages of superintendence, the falling rate of profit, and property. It is important to remember, however, that these theorists did seek some theoretical alternative to Ricardo. They sought to produce a theory of economic growth with fixed capital at its axis. They produced different analyses of population growth; the origins of capital, profits and abstinence; value and the cost of production, the division of labour and invention, and technology and the accumulation of capital.

The critique of Malthusian population theory was general. Hermann Merivale expressed the feeling well,

the doctrine of population is in political economy what original sin is in theology - offensive to philosophical pride and irksome to sanguine temperament.³⁷

The theories of the origin of capital among all of these economists involved the crucial intervention of a capitalist class. Abstinence was established as a key factor of production. Senior defined his new factor thus:

by the word abstinence we wish to express that agent distinct from

labour and the agency of nature, the concurrence of which is necessary to the existence of capital and which stands in the same relation to profits, as labour does to wages.³⁸

Incidentally, Marx's reaction to Senior's abstinence theory was vitriolic. Though he did not say a great deal on Senior's individual development of the theory, he did point out that Senior forgot his notions as soon as he faced practical struggle. Abstinence went by the board in Senior's argument of the necessity of the 'last hour' of unpaid labour time to provide for industrial profit.³⁹ Samuel Read described the origin of profit as the product of land and labour. It immediately united with these to produce its own future profit. As soon as it was accumulated into a mass, capital became a separate and independent instrument. This, however, did not go quite far enough for Senior and Longfield. In Senior's view, the primary origin of production was capitalist abstinence, and all that was produced was in the first instance the property of the capitalist, since it was he who first advanced rent and wages. Scrope spoke of the recompense of trouble and skill, and of the risks of obsolescence. He cryptically slipped in the assertion that the level of compensation was not physically, but socially determined. The capitalist was to receive the standard of remuneration generally expected by his class. Lloyd, however, naively exposed the reality behind the intervention of the abstaining capitalist:

employers, the owners of much fixed capital have a strong and direct interest in overworking their labourers, the smallness of their number joined to the superiority of their intelligence and other circumstances, gives to them a power which throws the workmen at their feet.^{39a}

In these theories was contained the view that Marx was to criticize, that industrial profit arose from the production process separated from its social determination. The industrial capitalist appeared as a worker for these economists. The nature of surplus value was obliterated in this final division of profit into interest and supervisory wages. A quantitative distinction by sleight of hand became qualitative, and allowed for an apologetic interpretation of profit as remuneration for the labour of superintendence.⁴⁰

A fear of the tendency of the falling rate of profit was not only expressed by McCulloch in the 1820s but was a problem faced by this whole range of theorists of the 1830s. Great energy was invested in devising various checks on this. Senior and Longfield described the increase of durable machinery as a new labourer that cost nothing to maintain. They found another check in the greater intelligence, industry, and efficiency among capitalists.

It was these theorists too who made explicit the assumption of private property lying behind vulgar economy. This was an assumption that had before been implicit in Smith and Ricardo since they described the capitalist relations around them as eternal relations. But the challenge to the assumptions of private property by socialist writers forced the economists of the 1830s to justify and make explicit an assumption before taken for granted. The division of labour was viewed as an attribute of capital. The possession and the creation of tools were asserted as a necessary prior condition to this division of labour. Senior sneered at that

rude state of society where everyone owns all the implements.

Whately added that equality of property confined man's possessions to the barest necessities. Scrope objected to the Owenites and listed historical examples of communal societies which "had made no advance in the arts of production or the accumulation of wealth". Longfield described the emergence of those capitalist social relations coincident with the institution of private property.

the idea was conceived of a man working at one part of a number of goods then at another for an employer who pays wages [under this system] the employer assigned work according to aptitude and all

the advantages of the division of labour followed.⁴¹

A key expression of vulgar political economy, and moreover of classical political economy was the separation of science and technology from direct living labour. Not only the functionaries of capital, but science and technology are set opposite in this system to direct labour. This mental labour appears to the manual labourer only in the form of fixed capital, the property of the capitalist. Conversely, manual labour appears to the mental labourer only as the object and mere appendage of that fixed capital, which had become the source of productivity.⁴² This opposition was most highly developed in the economics of the 1840s. In the 1830s, the idea of technology was somewhere in between the earlier focus on the division of labour and the later fascination with self regulating power. By the late 1840s, fixed capital and machinery was not of major interest to those like Senior. Now the real triumph was inanimate power. He no longer described machinery, but rather force, dexterity, and uniformity. By this period, the interest was not the production process, where labour co-operated with fixed capital. The production process was now analyzed in terms of physical forces. The attributes of both machinery and labour were derived from the domination of moving power.

These economists also delineated the highest stage of development as that of the most capital intensive techniques in a society dominated by the accumulation of capital and best practice techniques. With this technical reductionism, however, social relations were also revealed by some as contingent factors. John Rae, for instance, an emigrant to North America, argued in 1834 that it was in the nature of progress to convert the original simple tools into more complex machinery. With the accumulation of capital that went along with this, it was obvious that the former artisans giving up their tools never became the owners of new capital. Machinery and factories came to be owned by a particular class. The artisan was now forced to sell his labour to the owner of the machine and became degraded in social status.

Formerly, he was a small capitalist, now it is the character of his condition to be a mere operative destitute of capital.⁴³

Finally what appears to be the most interesting element of this political economy was what Marx criticized most previous theory for - that is, its naturalism. Earlier economists failed to express capital as a social relation because they could not admit its relative character. Political economy merely expressed the essence of capitalist production and saw this as the eternal form of production. What is striking in the 1830s is the combination of this naturalism with a certain historicity. This was one of vulgar economy's more interesting ideological cocoons.

There is a definite shift in the political economy of the 1830s towards a more historical and comparative approach. There was the favourite contrast of British capitalism and primitive culture. The analysis of technical change and capital accumulation became coloured by images and backed by the hypothetical history and the anthropological findings of the period. It is indeed possible to chart the critique of Ricardo in the 1830s alongside developments in the life sciences and anthropology. Scrope is ideal here, as both geologist and economist. He demonstrated the progressive developments in the earth's surface as compatible with his views of the historical development of capitalist society. In the anthropological dimension the savage represented for many of these economists a type of 'fossil' to 19th century British culture. Senior, Scrope, Lloyd and Whately all used the savage as a contrast to modern man and civil society. The savage was distinguished by his lack of abstinence and of institutions of private property. Because of the lack of capital accumulation in such a society, even the clever savage could advance only so far, and was always a poor contrast to the factory hand. Herman Merivale exposed this facade, but his critique seems to have gone unnoticed. He saw that savages were of great use to political economists. Their culture was "a sort of zero in the thermometer of civilization". The savage gave scientific status to a

theory of the gradual rise towards the perfection of industrial capitalism.⁴⁴

This appeal to anthropology was part of a way of writing political economy in this period. Along with other factors it gave the vulgar economists a more scientific posture. The substance of the anthropological model itself was value laden, but it entered into political economy under the guise of objective judgement.⁴⁵

There were more immediate ideological overtones in these models of capital formation. There was a definite analogy in the anthropology of the period between the savage and labourer in civil society. John Rae had traced the transformation of the artisan into a 'mere operative'. For the vulgar economists the artisan was now the equivalent of the 'ingenious savage'. Both were seen as a poor contrast to the factory hand. The political economy sought to further a new reality, where the skilled labourer or inventive mechanic, like the ingenious savage, was a curiosity of another epoch. The actual analyses of the political economists of the 1830s were superficial. The new image of the factory hand, however, which they did bring to the fore, reflected a real change in industrial organization. The models of capital formation in this period fitted their stage of capitalist development. They were a reflection of that real shift in the work process between the phase of manufactures and that of modern industry.

IV CONCLUSION

Now to sum up, the political economy of the 1830s was a vulgar economy built on the fetishization of the categories of classical analysis. Marx's task was the criticism of this economics, not in itself, but as a phase in the development of political economy. His object was not to add to political economy, but to provide a total critique of it. Lucio Colletti has argued that Marx explained the birth and death of political economy as a science. Initially, the precondition for the emergence of economic reflection was in the process whereby social relations became obscured and objectified as a consequence of their generalization in the commodity. The task of political economy as science was the defetishization of the world of commodities and the revelation of this reified human labour. Vulgar economy is only a phase in a political economy that remains a prisoner of fetishism. Marx's work was a critique of political economy. With the end of commodity production, the political economy born with it would also come to an end.⁴⁶

Marx's close criticism of the phase of vulgar economy, however, tells us more of his view of the actual impact of economic and social change on ideas. The assumptions and images of classical political economy were most adequate to the 18th century and early 19th century economy. Many of the images and assumptions of the vulgar economy of the 1830s, in a similar manner, reflected new underlying economic realities. This political economy dealt only with surface phenomena, yet gave an unprecedented role to the abstaining capitalist at a time when there was a real shift to greater capitalist control of the production process. The very heavy ideological element in the economics of this period was however related to a social situation - a period of class struggle of a particular intensity. Marx's own political context - his own personal interest in the socialist parties and ideology of his own time adds another important dimension. His own criticism of vulgar socialism can have been no small factor in the development of his ideas on the economic and social determinants of economic thought.

To conclude, there are then at least three levels in which we must place any discussion of vulgar economy. In the first place, there is Marx's own background as a socialist. His history was coloured by his confrontation with vulgar socialism. On the next level, there is the relationship of ideas to the development of productive forces and social tendencies within capitalism. On the final level, there is the connection between the characteristic elements of bourgeois economics and the structural constants of capitalism itself.

In the confrontation of Marxists and Neo-Ricardians today with neoclassical economics, there are frequent references to Marx's own critique of vulgar economy. Bearing in mind the structural, historical, and polemical levels of Marx's critique, these references are often unclear.⁴⁷ It seems possible that some advance could be made in the critique of neoclassical economics by using Marx's historical method as well as his analytical definitions of vulgar economy.⁴⁸ We might ask to what extent present day neoclassical economics is related to a specific phase of the class struggle and to a particular stage in capitalist development. These underlying realities are very different today than they were in 1830. Is the reflected economic thought very different?

NOTES AND REFERENCES

- 1 Bob Rowthorn, 'Vulgar Economy', CSEB II 5 ('73), or "New Left Review", July 1974.
- 2 I do not however intend here to go into any theological discussion of 'structure' as against 'historicity'. I am making an ad hoc distinction between the historical and the analytical in order to throw the historical into sharp relief.
- 3 'Whig historians' have a teleological approach to economic thought. More fundamentally, their peculiar type of teleology is grounded on the search for pedigrees in history. The pedigrees are defined in terms of the current predominant theories, and the lines of development mapped out accordingly. This practice is indulged in by Marxist as well as neoclassical economists. It has, however, left us with a series of repetitive histories of economic thought all based on a fruitless circularity. Economists now assume that economists in the past were as separated as they themselves from all other prevailing social and political ideas and realities. The history of economics in the 19th century is much more fruitfully seen in terms of the gradual separation of political economy from moral philosophy, and its reintegration with other similarly emerging social sciences.
- 4 Maurice Dobb and Ronald Meek have exposed the apologetics behind the critique of Ricardo. See Maurice Dobb, 'The Reaction Against Ricardo' in "Theories of Value and Distribution since Adam Smith" 1973; and Ronald Meek, 'The Decline of Ricardian Economics', in "Economics and Ideology" 1967.
- 5 TSV III, pp100,401,501. Also see the afterword to the 2nd German edition of "Capital I, p15.
- 6 'Afterward', p16
- 7 See I I Rubin, "Essays on Marx's Theory of Value" (1928) (Detroit 1972) pp28-9.
- 8 TSV III, p467.
- 9 Ibid., p453.
- 10 Ibid., p467.
- 11 "The Poverty of Philosophy", 1848, p117.
- 12 Ibid., p138
- 13 TSV III, p315.
- 14 N Bukharin, "The Economic Theory of the Leisure Class" (1929), p31.
- 15 TSV III, p501.

- 16 TSV III, p501.
- 17 Maurice Dobb, "Political Economy and Capitalism" (London 1937), p84.
- 18 This case is made by A.J B Hilton, 'The Economic Policies of the Tory Governments 1815-1830', Oxford Ph.D., 1973.
- 19 TSV III, p185.
- 20 Ibid., p266.
- 21 Ibid., pp354-60.
- 22 Ibid., p163.
- 23 'The 1857 Introduction', "Grundrisse", pp83-5.
- 24 For a good survey of Smith's attitudes to capitalists, see N. Rosenberg, 'Adam Smith and Profits', "Journal of Political Economy", 1975.
- 25 See John Foster, "Class Struggle and the Industrial Revolution" (1975): Jennifer Tan "The Development of the Factory" (1972) and T S Ashton, "Iron and Steel in the Industrial Revolution".
- 26 "Capital" I, p596.
- 27 See Mallet's Diaries, "Political Economy Club, Centenary Volume" (1921) p218; Nassau Senior, "Three Lectures on the Rate of Wages" (London 1831); M Longfield, "Lectures on Political Economy" (Dublin 1833) pp8,17-18; G P Scrope, "Principles of Political Economy deduced from the Natural Laws of Social Welfare" (London 1833) ppv-vi.
- 28 For more information on Hodgskin and other 'Ricardian socialists' see Anton Menger, "The Right to the Whole Produce of Labour" introduction by H S Foxwell (London 1899) plxxvi; E Coulson, "McCulloch's Principles of Political Economy" "Edinburgh Review" (1831) p337; G P Scrope, "Principles", pp150-1.
- 29 John Foster, "Class Struggle and the Industrial Revolution" (1974), pp 107-9. It must, however, be emphasized that this view of the situation of the cotton industry is a view of the facts of life of the cotton workers. The actual economics of the cotton industry in this period portray a paradox of crisis and growth. In these years foreign and home markets were growing fast. There was a rapid increase of investment, output, and employment against a background of falling profit margins. The 'crisis' in the cotton industry was, rather, a situation of serious contradictions including large social costs within a framework of rapid development overall. See John Saville, 'Class Struggle and the Industrial Revolution', "Socialist Register", 1974.
- 30 Quoted in John Foster, "Class Struggle", p73.
- 31 Mallet's Diaries, "Political Economy Club", p223; Samuel Read, "Inquiry in the Right to Vendible Property" (1829), pvi.
- 32 Richard Whately, "Introductory Lectures on Political Economy" (Oxford 1831); G P Scrope, "Principles", pp36 & 40-1; Anon., 'Senior's Lectures on Population', "Edinburgh Review", 1828, pp170-3.
It is significant that as far back as this period, there was discussion of and practice of mathematical economics. William Whewell and T Perronet Thompson are key figures. But the ideal was also hotly debated in the London Statistical Society.
- 33 N Senior, 'Ambiguous Terms in Political Economy', appendix to R Whately, "On Logic" (London 1826), "Introductory Lecture on Political Economy" (Oxford 1826), "Outlines of Political Economy" (1836); G P Scrope, 'The Political Economists', "Quarterly Review", 1831; J S Mill, 'On the Definition of Political Economy and the Method of Philosophical Investigation in that Subject', "Westminster Review", 1836.

- 34 Marian Bowley, "Studies in the History of Economic Theory Before 1870" (1973) pp215-20.
- 35 An exemplary text bringing together these bourgeois approaches is Mark Blaug, "Economic Theory in Retrospect" (1972).
- 36 Maurice Dobb, "Theories of Value and Distribution"; Ronald Meek, "Economics and Ideology".
- 37 H Merivale, 'Review of Outlines of Political Economy by N W Senior', "Edinburgh Review" 1837, p95.
- 38 N Senior, quoted in M Bowley, "Nassau Senior and Classical Economics" (London 1937) p161.
- 39 Marx constantly derides Senior's 'Last Hour' throughout "Capital" I see particularly pp224-9.
- 39a W F Lloyd, "Lectures on the Poor Laws", p105.
- 40 TSV III, pp492-3.
- 41 Nassau Senior, "Outlines of Political Economy" (1836) p74; Richard Whately, p133; M Longfield, pp92-3; G P Scrope, p61.
- 42 See M A Lebowitz, 'The Current Crisis of Economic Theory', "Science and Society", Winter 1973-4, pp398-9. He describes this as a Neo-Ricardian position and as the objective theory of the techno-structure.
- 43 John Rae, "New Principles of Political Economy" (1834) p234.
- 44 See Merivale, op.cit., p90; G P Scrope, p88; R Whately, pp105-6 & 113-4; W F Lloyd, op.cit., p17.
- 45 See Gay Weber, 'Science and Society in 19th Century Anthropology', "History of Science" (1975) for details of the development of anthropology and its ideological presuppositions.
- 46 See Lucio Colletti, 'Bernstein and the Marxism of the Second International', in "Marxism and Hegel".
- 47 Note the very eclectic approach of M Hollis and E Nell, "Rational Economic Man, A Philosophical Critique of Neo-Classical Economics" (Cambridge 1975).
- 48 This is roughly attempted by M Lebowitz in his explanation of neo-Ricardianism as the economic theory of the technostructure.

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THE BRITISH ECONOMY SINCE MARCH 1974

Ben Fine & Laurence Harris

PREFACE

This article presents an analysis of the crisis of British capitalism in its development since the end of the Heath administration. However, unlike much other work in this area, Marxist or otherwise, it has not been produced in a theoretical vacuum but rests on an analysis we have tentatively presented elsewhere.¹ Here we can only briefly sketch the conclusions of that analysis as a preface to and explanation of this review of immediate events in the UK economy. The rest of this section should be seen in that light.

First, we consider that in the era of monopoly capitalism the Marxist theory of the State must locate it not only as the central structure for political practice but also as central to class struggle at the economic and ideological levels. In the case of economic practice, the relative emphasis of class struggle (over distribution and employment) is increasingly removed from the point of production to the political arena (whilst not itself in general taking the form of political struggle). This has been particularly important in the UK. Because of this we have focussed our analysis around the State's actions for these are themselves articulated with the current movement of capital. This is not to say that the State plays a determining role but that its actions form a decipherable index of the character of capital's crisis. To decipher this index one must understand the theory of the capitalist State. Our analysis is based on the understanding that the State's role is the preservation of capitalism and that this involves an ensemble of contradictions. On the one hand, since crisis is a necessary interruption to the process of accumulation, the State must tolerate and, at times, facilitate crisis; on the other hand economic crisis must be moderated by the State to prevent its spilling over into a general crisis which threatens the very existence of capital. We therefore reject the Keynesian concept of the State that sees it as solely preserving economic stability, whether the objectives be full employment, balance on external account price stability or whatever. Equally, we reject the view of the State which sees it as having solely the function of moderating economic crisis to maintain political stability and we reject any concept of the State which causes every policy to be seen as a direct attempt to act in the immediate interest of capital.

Implicit in the above is the idea that the State achieves a certain autonomy in moderating class conflict (and this can give it the appearance of neutrality). However, this autonomy neither creates State power nor State interests of its own but itself reflects the needs of capital in the preservation of capitalist relations. It is essential to understand that this relative autonomy of the State is itself in the last instance determined (in its extent and form) by capitalist relations of production. Thus the State remains tied to class struggle and the historic needs of capital.

Second, then, State intervention in the economy is fundamentally determined by the Law of Value and it is bound to conform to it as an agent of its operation. By this we mean that the State conforms to and does not negate the law of the tendency of the rate of profit to fall and the law of uneven development. Simultaneous it promotes the international division of labour that capital as self-expanding value requires in its production of relative surplus value. For Marx the Law of Value resulted in the historical tendency of capitalist accumulation to increase concentration and centralisation. Under monopoly capitalism this increasingly takes the form of internationalisation of capital through the breaking down of international barriers to the three

forms of industrial capital (money, commodity and productive capital) as well as the forms that capital assumes in the sphere of exchange. The State must conform to the process of internationalisation although this clearly poses contradictions within its economic, political and ideological roles. We argue that for the British economy State intervention has been essential for the internationalisation of capital.

Just as accumulation progresses in fits and starts (that is, is interrupted by crises) State intervention too cannot be seen as progressing along a smooth path. Crises occur in capitalist reproduction on an extended scale when crisis free accumulation cannot be based on the production of sufficient surplus value relative to capital advanced. Thus, the fundamental source of crisis is to be found in the law of the tendency of the rate of profit to fall although the actual form of the crisis is complicated by the operation of an interruptions in the circuits of credit and merchants' capital. A complete analysis, however (an analysis which enables us to move beyond the problem of capital in general to a world of many capitals) must also take account of the fact that the operation of the law of uneven development is a source of crisis for particular capitals. These are questions concerning the source of crises. They are fundamental to, but not sufficient for, the analysis of what happens to an economy in crisis. For this we must consider the restorative forces inherent in crisis. What Marx, for the law of the tendency of the rate of profit to fall, called counteracting influences (e.g. cheapening of constant capital, foreign trade) now become restorative forces but they pale into insignificance against the forces of the crisis itself. These include the centralisation of capital based on its devalorisation, destruction (bankruptcy) and reabsorption, and, through an increase in the Reserve Army, downward pressure on the value of wages. We consider that the first of these forces, centralisation and the concentration and restructuring that accompanies it, is dominant. This is not simply because it pertains to the sphere of production, for, while the sphere of production is always fundamental it is not always dominant. Consider our view in contrast to the views of those who see wage struggles and the sphere of exchange as dominant. For us, the posing of the problem of crisis in terms of the Law of Value implies that the expulsion of labour from production does not take place simply to strengthen capital's hand in distributional struggle but as a consequence of the necessity for a relative reduction in capital advanced (of which variable capital forms a part). If distributional struggle alone could restore the rate of profit crisis would have been unnecessary in the first instance. We consider that the economic significance of a distributional struggle which is successful for capital lies as much in facilitating crisis by creating realisation problems as in restoring the rate of profit directly. It is wrong, therefore, to see a successful distributional struggle against labour as being a simple means for restoring the rate of profit without fundamental restructuring in the sphere of production.

In short, distributional struggle is a fundamental contradiction of crisis, linked as it is to the Reserve Army of Labour and the rate of accumulation through the cycles of production. But it is a bourgeois problematic that concentrates on distribution, and simple algebra not Marxism that seeks to analyse the resolution of crises through an increase in the rate of profit rather than through a reorganisation of capital. We conclude, therefore, that it is this process of restructuring and internationalising capital that the State must facilitate and moderate in crisis.

I CLASS STRUGGLE AND THE CONJUNCTURE

The strength of the working class in struggle at the purely economic level has led in the UK to the removal of economic struggle to the political level. This is important for understanding the situation obtaining at the beginning of the Labour administration in 1974. The bourgeoisie's strength in political struggle, however, does not imply that State intervention is always unambiguously to the immediate benefit of capital. When the Labour government came

to power, the working class had won important political victories (defeat of the Industrial Relations Act and National Industrial Relations Court, and the miners' defeat of incomes policy) and the State was forced to make concessions to the working class.

We analyse the effects of this situation upon distribution in Section III, but, although distributional struggles appear to have dominated the economic scene, they reflect more fundamental tendencies and policies. The particular form in which the law of value has manifested itself since the mid 1960s has been an increase in the reserve army of labour resulting from the necessity of rapidly restructuring British capital toward greater internationalisation. We consider that this process has accelerated in the current period, that the State's role in it has been altering, and that the restructuring of capital is the fundamental aspect of the current crisis. We examine its features in the next section.

II THE RESTRUCTURING OF CAPITAL

Capitalism, by crisis, contains its own mechanisms for increasing the production of relative surplus value through the restructuring of capital (concentration and centralisation leading to an increased rate of accumulation). For British capital, this restructuring now has two special features: State intervention to smooth the process of restructuring and to satisfy the specific need to internationalise British capital. We consider each of these aspects in turn. Before doing so it is necessary to note that low investment is an aspect not a cause of the current crisis, similarly that the worsening of the terms of trade occasioned by the oil price rise is merely a distributional effect of uneven development which furthers the internationalisation of British capital by forcing its reliance on foreign loan capital. Finally, workers' economic militancy is a distributional matter that reflects the fundamental forces of the crisis. These effects in which the crisis assumes its form, must be distinguished from the laws of development of capital that pose an overdetermination of contradictions based, in the last instance, on the tendency of the rate of profit to fall.

The State intervenes in the crisis to assist the restructuring of capital. By doing this, the State increases the effectiveness of the production of relative surplus value, traceable to the greater strength of capital at the political rather than economic level of struggle, and simultaneously seeks to soften the impact of restructuring on class struggle. It is able to do this by assisting, supervising, and, where necessary, nationalising those sectors of capital which are weak but which control large segments of productive capital and which can be restructured toward greater 'efficiency' and internationalisation. These policies have been pursued and intensified by the State under the Labour administration. At the same time, the State has intervened by changing the mode of operation of nationalised industries.

Consider the State's policy of assisting, supervising and nationalising segments of capital. Apart from several small extensions of public ownership (e.g., Harland and Wolff; Court Line's shipbuilding and ship-repair interests), the State has put forward its plans for nationalisation of ship-building, airframe and guided weapons industries (British Aircraft Corporation and two Hawker Siddeley companies which comprise 80% of the industry), and, most important of all, British Leyland. In each of these instances concentration and centralisation in private hands (and encouraged by the State through the policies associated with the Industrial Reorganization Corporation) had occurred since the late 1960s (as shown in App.D) but this restructuring had by 1974 shown itself incapable of raising the production of relative surplus value sufficiently. The new development of the State's policy is to further the process and obtain successful results under State ownership. In addition to these plans for nationalisation, the State under the Labour government has expanded its influence in giving financial support to individual capitals: major instances are the aid given to Alfred Herbert (machine tools), Ferranti (electronics; a loan guarantee

of 5M pounds) and Fodens (heavy vehicles; overdraft guarantee). The main characteristic of these instances of financial support is that it is tied to a programme of supervision to increase 'efficiency'.

We consider that, apart from the extension of public ownership in the production and distribution of oil, these instances of nationalisation and financial support find the State intervening in those areas of capital where the production of relative surplus value has been inadequate. The operation of the law of value (complicated by competition and 'liquidity' problems) has created a situation where these capitals must either be closed down (i.e., productive capital devalorised, converted into money form, and reconverted into productive capital in other areas) or operated at a higher level of 'efficiency' under State ownership or supervision. The State will not support all individual capitals, for to do so would negate the function of crises. It will support those where the existing productive capital has the potential for restructuring toward increased internationalisation or where, for political considerations, the expulsion of living labour must be taken more gently in the 'acceptable' form of planned redundancies rather than the immediate unemployment characteristic of the destruction of privately owned capital.

One question to be considered is whether this form of State intervention in restructuring must increasingly take the form of nationalisation. Our view is that, because of the relative balance of forces at the economic and political levels of struggles there is currently a tendency in this direction: it is in the long-term interests of capital for economic practice to be conducted at the level of politics and one of the highest forms of this phenomenon is nationalisation. The rationale for nationalisation is well-illustrated by the Ryder Report (British Leyland: the next decade). In proposing nationalisation, the Report is not suggesting the feather-bedding of a lame-duck: it is centered on proposals to increase the production of relative surplus value. The measures proposed are expected to give

a benefit of 400M pounds cumulative to end September 1982 through improved industrial relations, manning reductions and greater interchangeability and mobility of labour

and, to ensure the co-operation of labour in its own expulsion, the Report proposes stern controls:

the progress of the new capital expenditure programme and the injection of public money into British Leyland should depend, step by step, on evidence of a contribution by the workforce to improving British Leyland's efficiency.

Nevertheless, although restructuring under the form of nationalisation is in the long-term interests of capital, the complexity of political and ideological struggle has caused a weakening at the political level of the tendency toward nationalisation. The industrial policy drafted by the Labour Party's left-wing has had its outcome in the White Paper "The Regeneration of British Industry" (August 1974) and in the Industry Bill (currently in Committee Stage). The Industry Bill, in establishing the National Enterprise Board with powers to extend public ownership by holding equity in private capital and (with the authority of the government) to organise nationalisations, is an instrument setting up the machinery for State intervention. The question is whether it will be a strong instrument. The process of political struggle in the legislature is being won by bourgeois interests and the outcome will undoubtedly be a weakening of the Bill (indeed, this has already been ensured by the amendments already approved in committee). This has led to an outcry from the left wing of the Labour Party who envisaged that the Bill would enable the government to command "the heights of profit-making big business", but the outcry is misplaced. The legislation will undoubtedly enable the State to intervene in the weak sectors of capital in order to restructure them where feasible; this is in the interests of capital, this is what has happened, and this is what will increasingly happen.

Similarly, although the legislation weakens the much advertised 'planning agreements' with privately owned capital by making them voluntary, it is inevitable that financial support to privately owned capital will be accompanied by supervision.

At the same time as intensifying state intervention in the restructuring of privately-owned capital (partly by nationalisation), the State has intervened in the operation of capital by already nationalised industries. Since these industries employ capital, the State's policies toward them are a part of the State's policy toward capital as a whole. To the extent that the State attempts to increase the rate of profit and the rate of accumulation in these industries, we consider it to be a form of State encouragement of the process of concentration.

In the current period the State has adopted two particular policies toward the nationalised industries (policies which are the continuation and acceleration of earlier trends). The first is the policy of eliminating subsidies to nationalised industries. The second policy (which is related to the first) is the policy of increasing the technical composition of capital in nationalised industries in order to increase labour productivity (the production of relative surplus value).

The policy of eliminating State subsidies to nationalised industries was first made explicit in the Budget of November 1974. The chancellor announced that the current subsidy of 1 billion pounds per annum was to be turned into a surplus (of 2% of turnover or 10% of net assets) in the year 1975/76 although this was not a definite figure. In the April 1975 budget the quantitative aspect of this policy was made more precise: to reduce the public corporation deficit in 1975/76 from 550M pounds to 70M pounds.

The two methods by which this elimination of subsidies could occur are: a change in pricing policy and an increase in 'efficiency' or labour productivity. Consider each in turn. A change in pricing policy has an immediate effect on the industries' surplus and was stated by the Chancellor to be the sole means by which the deficits were to be quickly reduced. Its effect is primarily at the level of distribution and the distributional impact of this policy is analysed in Section III. But, to the extent that a distribution of value toward capital facilitates a higher rate of accumulation the policy is aimed toward a higher rate of accumulation in the nationalised industries and for capital in general. The policy of increasing the rate of profit in nationalized industries by increasing the production of relative surplus value (which is feasible given control of nationalised industry prices) is a long-term policy which we consider below. The Chancellor in his budget speech emphasised the role of price increases in eliminating the deficits of the nationalised industries, but longer term measures toward increasing labour productivity are being pursued simultaneously. In addition, the government has encouraged the nationalised industries to borrow on foreign private markets, specifically, the Euro-dollar market. The effect of this policy is to facilitate the growth of the State sector without appropriating surplus value directly from domestic capital.

The second aspect of the State's policy toward the nationalised industries is an increase in the rate of investment. As we show in Appendix C, as measured by the ratio of fixed capital formation in nationalised industry to that in manufacturing industry as a whole, the proportion of investment carried out by nationalised industries has fallen since 1970, the end of the last period of Labour government. Nevertheless, since the mid 1960s there has been a continuing trend toward an increase in the technical composition of capital in these industries. Evidence of this is the reduction in manpower in railways, the development of major new plants such as the Anchor works in steel, and the development of major new fields such as Selby in coal. In the current phase, the State is pushing these trends forward with a new urgency, although, given the State's role in moderating class struggle, its precise policies are tempered by political considerations. The relative expulsion of living labour from the

production of coal and steel is to be facilitated by finance from the European Coal and Steel Community and, although the Labour government presents itself as having won a 'victory' over the Steel Board in preventing it from increasing the reserve army by 20,000 (May 1975) it has in fact simply sequenced the policy of redundancies through 'natural' loss of jobs rather than preventing redundancies.

We now turn to consider the basis and implications of these aspects of State intervention in the re-structuring of capital: concentration and centralisation (in part by nationalisation, financial support for and supervision of private capital) and policies toward nationalised industries.

These policies must be understood as particular aspects of the nature of crises in the law of development of capital. The dominant aspect of crises is the furthering of concentration, centralisation and (given the law of uneven development) internationalisation of capital. At the present stage of the UK economy it is necessary for the State to intervene in this process, to facilitate it and ensure that it results in the increased production of relative surplus value. In other words, the State rather than being the saviour which overcomes, or postpones crises, participates in the creation of crises. This process necessarily involves an increase in unemployment at any given rate of accumulation, for, to be fruitful, it involves an increase in labour productivity.

Thus, the crisis itself and its consequences make themselves visible in the statistics of unemployment and unfilled vacancies. As is shown in Appendix A unemployment (including short-time working), has been rising since March 1974. In fact, the unemployment statistics alone show the fastest 6 month increase (Nov. 1974 to April 1975) since the war. This reflects the specific direction of State policy toward restructuring during this period and, moreover, is a continuation of the upward trend of unemployment which started in 1966 - the beginning of the major State-encouraged post-war restructuring of British capital. Rising unemployment is the result, not only of the restructuring of capital, but also of distributional struggles in which the State intervenes through 'demand management', but we argue that the restructuring of capital is the fundamental and dominant factor in the current trend. That the restructuring of capital rather than 'demand management' is the primary factor is confirmed by aspects of the labour market other than overall unemployment figures. Until 1966 manufacturing industry accounted for a decreasing share of total employment, but an increasing absolute amount: since 1966 the absolute level of manufacturing employment has been decreasing. The numbers of men in employment has been decreasing since 1966 while the number of women has grown. The average duration of unemployment has risen since 1966. The relationship between unemployment and unfilled vacancies is now proportionately lower than in the earlier period. Of course, the level of output influences the level of unemployment, but our view is that the period since February 1974 represents a continuation and intensification of the trend started in 1966 whereby a lower level of employment is associated with a given level of output. Moreover, a decline in output (as has occurred since June 1974) is itself a phenomenon of the crisis and not simply the result of neutral 'demand management'.

The next question to be faced is: what is the qualitative nature of the current restructuring of British capital? The analysis can take place at two levels. At one level the restructuring of British capital can be seen as the restructuring of that portion of capital which is operated in Britain so as to increase the production of relative surplus value. In this context, State supervision of privately owned industry, the extension of nationalisation, and the policies of nationalised industries can be easily appraised. At another level, and we consider this to be the dominant factor, one can see the restructuring of British capital as an acceleration of the internationalisation of British capital. What we mean by this, is not that British capital was in earlier periods nationally owned and operated within the nation, but that the operation of the law of uneven development has created a new structure of world capital and it is necessary for

British capital in its internationalised form to adjust to this.

The internationalisation of a nation's capital comprises many elements. It concerns the appropriation of surplus value across international boundaries (e.g. foreign borrowing and lending); second, it concerns the ownership and control of productive capital across international boundaries (e.g. the multinational corporation); and, third it concerns the ability to compete for world markets (either within or outside the nation state in which the productive capital is operated). The restructuring of British capital involves an increase in the ability of those capitals whose interests are protected by the British State to develop each of these aspects. It is, of course, a policy which requires the overcoming of contradictions: the conflict of interests between internationalised British capital and the purely national sector of capital; conflict of interests between productive capital and finance capital; and an intensification of the conflict between labour and capital. Hence, the process does not work smoothly, but moves in fits and starts. Our view is that the present period is a period of one such forward surge. It is reinforced at the political and ideological level by ratification of EEC membership as well as direct State intervention with Labour governments.

In this section we have examined economic policy in the UK from the perspective of structuring the internationalisation of capital. Yet, paradoxically in this, we have emphasised two aspects of reorganisation which apparently impose national limitations on capital: the reorganisation and expansion of existing public corporations and the extension of nationalisation to previously privately owned capital. In both cases, there is no limitation involved in the export of capital in commodity form and even control of productive capital not located in the UK can be exerted (e.g. British Leyland's foreign operations). Nevertheless the increasing intervention of nationalisation in UK capitalism warrants some explanation as a form of internationalisation.

Basically we would argue that to view nationalisation as a barrier to internationalisation is to confuse the form in which capital's laws operate with the needs of capital. An analogous error would be to base an analysis of capital on the separation of ownership and control. From the perspective of capital, public corporations have all the potential that is enjoyed by multinational corporations with which they would presumably be contrasted. Indeed their power can be even greater, backed as it is by political if not always ideological considerations. There is no limitation on their exporting or importing commodity-capital, other than that imposed by the nature or use-value of the product concerned (e.g., public utilities). Private capital is subject to precisely the same constraints. The barrier that is formally imposed on public corporations is the operation of foreign productive capital, so characteristic of multinational corporations. However this barrier is only formal. This can most easily be seen by recognising that capital, that is the appropriation and operation of surplus value, moves freely across national boundaries to public corporations. We have already argued implicitly that the appropriation and distribution of surplus value from public corporations is also unconstrained, being achieved by state policy on pricing. In the UK, the movement of capital into the public corporations is manifested by their borrowing from international capital markets, and also from central governments and banks which may in turn be running a foreign deficit.

Nevertheless there still remains the difficulty of public corporations' limited ability to control overseas productive capital and expand production across national boundaries to internationalise the process of competition at the level of production as well as exchange. However, it must be realised that nationalisation often takes place now, precisely in those circumstances when private capital has been unable to internationalise (lame duck policies), and the state must either phase the capital out or restructure the industry accordingly. On the other hand, those corporations that have been nationalised for some

time, either by their nature are not subject to internationalisation (except in the movement of capital, rather than production), or are increasingly being integrated into an internationalisation of nationalisation. This often arises at the political rather than directly economic level as reflected in planning agreements for agriculture, cars, steel etc. This is one significant aspect of the EEC. The crucial question we have to ask is not: to what extent has nationalisation curtailed the development of the international division of labour? To our mind, it is rather how does nationalisation develop and conform to this process.

III DISTRIBUTIONAL STRUGGLES AND STATE INTERVENTION

When the Labour government came to power in March 1974, this represented the culmination of a series of defeats for the bourgeoisie following the concerted and temporarily successful attack on the working class' economic strength and living standards by the Tory government as reflected in the Industrial Relations Act and three phase incomes policy. At the time of Labour's electoral victory, Britain was caught in the tension of the miners' strike and the three day week, which posed working class struggle so profoundly at the economic, political and ideological levels. It was imperative that 'normal service be resumed as soon as possible': distributional struggles cannot for long be carried to the point of limiting the production of that surplus value whose appropriation is the subject of the struggle. This depended upon negotiating the miners' victory, retreating from direct confrontation in class struggle, and undermining working class strength by the implementation and rhetoric of social reformism.

Not surprisingly, the first six months of the Labour government seemed like a reformist utopia - a rent freeze, food subsidies, plans for a wealth tax and a social contract providing for reform in exchange for pay restraint. In addition, real wages rose by more in this six month period than they had since the Labour government lost office in 1970. (See App.B) This honeymoon period was, however, short-lived, forming the basis for launching the severest of attacks on living standards and a drastic reversal of the distributional policies that had been necessary to moderate class conflict.

Over the past six months there have been two Budgets, one in November 1974 and the usual Spring Budget in April 1975. Both of these were characterised by a striking change of emphasis, made explicit by Chancellor Healey in April:

It has been traditional in Britain for many years to make the centre piece of the Spring Budget the so-called Budget judgement... conventionally seen as an estimate of demand which the Government should put into the economy or take out of it in order to achieve the optimum use of resources in the short run. For many reasons I do not propose to adopt that approach today... I must seek to strike a new sort of balance between the tactical needs of the immediate future and a strategic attack on the long-term structural problems of our economy.

Thus, the traditional focus on demand management has been rejected for a long term strategy of structural reorganisation and resource allocation, tempered by a 'tactical need' but not a 'central problem... of getting the rate of unemployment down as fast as possible'.

We have already examined how state economic policy is geared toward internationalisation and why it must be so. It is significant that Healey in his Budget judgement is explicitly unconcerned with unemployment which he forecasts will top one million. In this section we will examine how the Budgets are intended to reflect State intervention in the distribution of value between labour and capital. It cannot be stressed too strongly how this struggle is frequently and variously furthered in capital's interest by its clothing in euphemistic disguises such as controlling inflation, increasing competitiveness, reducing balance of payments or budget deficits, increasing liquidity.

In the November Budget there was the over-riding consideration of restoring the drop in profitability that capital had suffered during the pacification of the working class in the previous six months. The measures for dealing with this were presented as measures to increase company liquidity (relax the price code and alter the rules for tax payments on profits nominally produced by stock appreciation - i.e. a reduction in taxes on profits (pure and simple). It was estimated that the net effect of these would be an increase of 1600M pounds in profits over the year, to be compared, say, with the gross trading profits of private companies in 1974 of 9865M pounds (16.2%). This together with an increase of VAT on petrol to 25% were expected to put about 2% on the RPI, and the only other important policy was the provision of 1000M pounds medium term funds for British industry over the next two years through Finance for Industry (FFI). What was not made precise was the source of this relief for industry, although Healey mentioned plans to reduce subsidies to nationalised industries and the necessity for consumption to grow slowly.

However, the source of the distribution to capital appeared over the next six months in the form it must take: real wages were successfully held down, as inflation rapidly accelerated. The rent freeze was removed in March and this made way for the hammer blow of the April Budget, delivered in a tone of austerity and accepted with inevitability and resignation. If a Labour Chancellor took these measures, surely they were necessary?

Before moving to consideration of this Budget, it is revealing to stress the emphasis of the Labour strategy by reference to the Government Public Expenditure estimates to 1978-79, published in January 1975 and including a projection of intended expenditure shares by the orthodox division of the economy. Although it should be realised that nobody takes these estimates seriously, the government is inevitably coerced to overspend, they are nevertheless an expression of government policy which has been reiterated again and again in other contexts.

% SHARES OF GDP

	Actual 1973	of Increase to 1979
Private Investment	13	22
Public Investment	8	9
Private Consumption	53	36
Public Consumption	32	9
Oil Deficit*	-5	24

*Here the balance of payments deficit of 5% of GDP is to be corrected by taking 24% of the increase in GDP

These figures speak for themselves. The sacrifice in the growth of private consumption (i.e. wages) and public consumption is supposed to make way for private investment and the balance of payments deficit (i.e. to switch the appropriation of surplus value from the world to the domestic economy).

Against these plans the April Budget cannot be seen as a surprise. To cut the Government deficit by 1000M pounds from 9000M pounds, maintain the stock appreciation tax relief to the private sector for a further year (800M pounds) and finance investment aid to industry, the Budget included a package of minor cuts in planned Government expenditure, the phasing out of subsidies to nationalised industries, housing and food, and the increasing of tax revenue.

In short the measures tending to cut the value of wages, were as given overleaf. We would calculate that the impact effect of these changes on real wages is a reduction through inflation and direct taxation by about 5%, but we stress that this is purely an impact effect and the outcome can only be analysed by reference to future developments in the balance of forces in struggle. What actually happens to real wages depends upon the rate of wage increases and the rate of inflation, the latter deflating the value of wages through reducing purchasing

Measures affecting value of Wages (£m)

Reduction on subsidies to:	
Nationalised Industries	480
Food	150
Housing	65
25% VAT on 'luxuries': 2p on Beer, 24p on wine, 64p on spirits, 7p on 20 cigarettes	965
£40 vehicle licence duty (commercial vehicles are taxed separately)	209
Direct Taxation increases	225
	<u>2094</u>

power and take home pay.

The weight of the Budget measures that cut real wages will come through increases in the Retail Price Index. Whilst this will also generate tax revenue, Healey nevertheless anticipates a Budget deficit of at least 80000M pounds and a borrowing requirement of 90000M pounds (the difference represents government lending) in 1975/76, with a decrease in borrowing requirement by a further 2000M pounds in 1976/77. Irrespective of the realism of this last plan, the inevitable conclusion is that the rate of inflation in the U.K. will continue to be exceptionally high for it results from the intensification of distributional struggles in a period of restructuring of capital. By the same token, the U.K. balance of payments deficit will remain large until the production of Scottish oil reduces the visible trade deficit. This will hardly bring about the restructuring of U.K. capital's internationalisation by itself, but merely postpone the worst effects of the failure to do so. The same must be said of reductions in wages based purely on distributional struggle. U.K. capital requires more than a restoration of profitability. It requires that restoration be based on a restructuring of capital, and over the past ten years and for longer, it has been proved again and again that this will depend upon massive unemployment. For it is not simply a question of cutting wages to restore profitability to the private sector nor of reducing the state's budget deficit and expenditure of surplus value by cutting public sector wages and social services. It is a question of the destruction of that capital which is not viable in the intensified international division of labour. Whether the state encourages private capital to undertake its own reorganisation or undertakes it itself, there can be only one solution to the crisis, crisis itself.

IV CONCLUSION

That the present period is one of crisis is uncontroversial. There is, however, general confusion over the main features of the crisis and disputes between Marxists over its underlying nature. In the general popular view, inflation, the exchange rate, low investment, unemployment and a perspective of progressive decline in some sense are the components of the crisis. Such a confused view is, of course, the product of bourgeois ideology. Unfortunately, however, Marxists themselves are not in agreement over the concept of crisis or the analysis of this particular crisis. It is necessary to locate our own analysis by comparing it with that of others.

Yaffe² presents a theory of crisis situated within the Law of Value, but he is only able to consider capital in general rather than the competition of many capitals: the Law of Value in his analysis is identical with the law of the falling rate of profit and ignores the law of uneven development. Thus, Yaffe is unable to consider the restructuring and internationalisation of capital and is unable to make the leap from theory at a high level of abstraction to concrete analysis of the conjuncture. His theory falls into a type of Hegelian Marxism with the laws of capitalism unfolding relentlessly in the

realm of theory and the concept of capital taking the role of the idea. In his analysis of the crisis he is perforce reduced to a simple Keynesian view of inflation and employment. Mandel³ presents a confused theory of crisis which stems fundamentally from an underconsumptionist view and which leads him to concentrate on the mechanics of the credit system as being a crucial feature in the laws of development under monopoly capitalism. Glyn and Sutcliffe⁴ consider that wage inflation and international competition are the sources of the current crisis in British capitalism.⁵ Each, in turn, claims to represent Marxist analysis: Yaffe by retaining the concept of capital as self-expanding value as his central concept (to the extent that he cannot move beyond it to complex, concrete reality); Mandel by making obeisance to "the fundamental internal contradictions of the capitalist mode of production" (which he forgets have to be analysed in the sphere of productive capital as well as, or rather than, realisation and credit); and Glyn and Sutcliffe by their situating the analysis within the context of class struggle (which, in economic practice, appears to them to justify an almost exclusive concentration on distributional struggle). Fundamentally, each of the three types of concrete analysis is reducible to a Keynesian problematic.⁶

Our analysis differs from all three of these examples. Being situated within Marx's problematic it takes the Law of Value as fundamental or determinant in the last instance on a terrain where competition between capitals and between labour and capital also have an effect. Thus, it analyses the crisis at its centre - the operation of productive capital - whilst not neglecting the structured mutual relationship between production and distribution. We therefore isolate the restructuring of British capital and its internationalisation as the key to an understanding of the current crisis and examine the distributional struggles which are occurring concomitantly.

The approach we are taking is open to misinterpretation, for to emphasise our points we have concentrated on the main features of the crisis and have ignored others. We have ignored the complex and contradictory relationships between financial capital and industrial capital (and hence the booms and slumps of the stock market and property market); we have ignored the effect of the internationalisation of capital on the balance of payments; and we have ignored the question of inflation as such. These omissions do not mean that we think such problems are not worthy of consideration. We have omitted them partly because we take the view that as usually defined they are problems only within a bourgeois problematic, and partly because even when thoroughly reworked within the Marxist problematic they are of a second order of importance - they may have a dominant role at certain times but never a determinant role.

In locating our analysis we should, lastly, note that our analysis differs from bourgeois analysis not least in employing a Marxist concept of the State instead of an idealist concept. Whereas we see State intervention as conforming to the Law of Value and, in its structured contradictions, both encouraging and moderating crises, the Keynesian analysis of, for example, the National Institute of Social and Economic Research implies a view of the State as neutral 'saviour' rather than as a capitalist State. They express surprise at the fact that the Chancellor of the Exchequer expects unemployment to rise but takes no measures to counteract it (indeed does the contrary) in his April budget. They attempt to explain this by the Chancellor's supposed concern to protect the balance of payments and, for reasons of foreign confidence, to curb inflation.⁷

Finally there remains the question of the lessons that the labour movement can draw from our analysis of the crisis. At a general level it is valid to conclude that since the crisis contains within it the seeds of its own capitalist solution the only true working class solution is the seizure of State power and the building of socialism. To echo Glyn and Sutcliffe: "However obvious its failures or however deep its economic crisis, the capitalist system is not going to just collapse - It needs therefore to be dislodged by conscious and organised political action".⁸ The very fact that we reach our conclusion by

a different route from that adopted by Glyn and Sutcliffe illustrates the inadequacy and vacuousness of this conclusion if it stands by itself. It must be located within Marx's theory of crisis and the State: in this, the theory of conjunctural economic analysis can be only one part (a hitherto neglected part) beyond which we cannot proceed here.

Moreover, simple reading of the conclusion that the only solution is Socialism can lead either to reformism or adventurism. To avoid such deviations it is necessary to consider what policies can be adopted by the labour movement in the crisis. In a limited sense there can be a working class solution to crisis insofar as the recovery from crisis can be based on a more or less favourable distribution. For such a solution it is essential that any attempt to impose an incomes policy must be resolutely fought; our analysis of the crisis makes clear that it is not caused by wage inflation and that any attempt to dress up incomes policies as means to cure an inflation-induced crisis is simply a mendacious manipulation of bourgeois ideology. Equally important for the labour movement, given that restructuring of capital involves an increase in the Reserve Army, is determined struggle for the protection of jobs. Whilst these policies may appear defensive they do, in addition, raise the level of political consciousness and struggle - all the more so in an era where economic struggle has been raised to the level of the political.

In the light of this we see struggles over incomes policies, nationalisation, taxation, and import controls etc. as significant and valuable. But they become significant and dangerous if they are seen as cures for the crisis: an understanding of their role must be based on an understanding of crisis and the theory of the State. Regrettably, the theoretical work necessary for this exhibits serious confusions and lacunae: for example the theory of nationalised industries has yet to be constructed and the analysis of import controls which sees them as merely a chauvinistic response which seeks to protect a particular national capital considers the sphere of exchange while ignoring the Law of Value. Our analysis, supported by our theoretical conclusions, provides a beginning for an economic analysis from which the labour movement can draw Marxist political conclusions. We will build on it in the future.

APPENDIX A EMPLOYMENT & UNEMPLOYMENT

Since the middle 1960s there has been a decline in employment in the U.K. which appears to have levelled off in the 1970s. What this aggregate picture conceals is that this decline has been much more at the expense of male workers as the absolute and relative size of the female workforce has increased. Over the past six months, indeed from the beginning of 1974, unemployment has been increasing and now stands at 817,000 (3.6%) for Great Britain seasonally adjusted. Over a longer period, it can be seen that since 1966, the percentage rate of unemployment has never been below 2% (about 1/2M), whereas before 1966 it was rarely ever above 2%. For male workers the figures are more striking (and it should be noted that female unemployed will tend not to register as such), with an estimated percentage rate of unemployment of 4.8% in May. Also over the past six months there has been an increase in short-time working whether through part-week working, being stood-off for the whole week or loss of overtime. For February 1975 over November 1974, this has been equivalent to an increase in the number of unemployed by 100,000

Female % of Labour Force		Unemployment Percentage			Employment (Million)				
1948	.34	Average		1975	1948	20.7	1971	22.1	
1958	.35	1955-1966	1.5	Jan.	3.0,	1958	22.3	1972	22.1
1963	.36	1967-1970	2.3	Feb.	3.1	1966	24.1	1973	22.7
1968	.37	1971-1974	30	March	3.2	1970	22.9	1974	22.6
1974	.40			April	3.3				
				May	3.6				

APPENDIX B

Over the past six months the Retail Price Index has shown an annual rate of increase in the region of 30% with the last three months increase being at a rate of 34% p.a. This together with a marginal tax rate of 33% means that money wages have to increase by far more than 30% p.a. to maintain the value of wages (or more exactly the real wage bundle in case values change).

	<u>1974 & 1975</u>	<u>RPI</u>	<u>Manual Wage Rates</u>	<u>Crudely Estimated Post- Tax, Real Wage Rates</u>
1974 October	100	100	100	100
November	101.8	103.5		101.1
December	103.3	106.2		101.8
1975 January	105.9	107.4		100.3
February	107.8	108.7		99.5
March	109.8	113.2		101.1
April	114.0	113.4		97.5

Thus we see that over the past six months money wages, let alone post-tax real wages, have scarcely kept up with an accelerated inflation. In this context we should note that over the previous six months the RPI moved up by only 6.7% (an annual rate of 14%) whilst money wage rates increased by 16.5% (an annual rate of 36%) so that there was an unambiguous increase in real wages (even if we assume that an entire one third of the increased money wages were paid in taxes - we would estimate that real wages in fact increased by about 6.7%). This has to be seen against the extremely slow growth rate of real wages under the Tory 'phases' policy which led to their political defeat following the three day week. Indeed the increase of real wages over the first six months of the Labour Government appears to be greater than the increase for the entire four years of the Tory Government.

APPENDIX C

Capital formation

	(1) <u>Public Corporations</u>	(2) <u>Total Manufacturing</u>	(3) <u>= (1) (2)</u>	(4) <u>Total Manufacturing (Index at 1960 prices)</u>
1963	1024	1068	.96	96.8
1964	1187	1232	.96	109.2
1965	1293	1423	.91	120.5
1966	1453	1517	.96	123.8
1967	1661	1485	1.12	120.8
1968	1619	1593	1.02	124.9
1969	1482	1868	.80	141.1
1970	1673	2130	.79	148.2
1971	1857	2191	.85	138.9
1972	1776	2123	.84	125.4
1973	2029	2510	.81	133.6
1974	2678	3294	.81	148.0

Thus we see that the share of public corporation capital formation rose during the Labour administration up to 1969 and declined during the following Tory Government.

APPENDIX D

The table below measures the process of centralisation in the private sector by an index of the percentage share of gross profits realised by the largest firms over a ten year period. Subject to the reservations given, the data indicate an extraordinary trend of centralisation particularly with the largest 50 firms and since 1967 rather than between 1963 and 1967.

THE SHARE OF THE LARGEST PRIVATE INDUSTRIAL COMPANIES IN
GROSS PROFITS BEFORE TAX AND INTEREST (%)

Largest	Share								
	* 1963	* 1967	1968	1970	1971	1972	1973		
1-50	85.1	36.6	41.7	48.2	53.0	54.0	65.2	* Firms ranked by capital employed	
50-100	6.4	8.9	10.5	13.7	13.9	14.7	14.4		
1-100	41.5	45.5	52.2	61.9	66.9	68.7	79.6		
100-150	4.9	4.8	4.7	5.8	6.4	6.6	7.4		
1-150	46.4	50.3	56.9	67.7	73.3	75.3	87.0		
150-200	3.4	3.7	3.9	5.2	4.8	5.0	5.0		
1-200	49.8	54.0	60.8	72.9	78.1	80.3	92.2		° Firms ranked by sales
200-250	2.7	2.5	3.0	4.0	4.3	4.0	4.5		
1-250	52.5	56.5	63.8	76.9	82.4	84.3	96.7		
250-300	2.0	2.2	2.1	2.7	2.5	2.8	2.5		
1-300	54.5	58.7	65.9	79.6	84.9	87.1	99.2		
300-350		1.7	1.6	1.8	2.0	2.3	2.4		
1-350		60.4	67.5	81.4	86.9	89.4	101.6		
350-400		1.2	1.7	1.7	2.0	1.9	1.6		
1-400		61.6	69.2	83.1	88.9	91.3	103.2		
400-450		1.4	1.3	1.6	1.6	1.6	1.7		
1-450		63.0	70.5	84.7	90.5	92.9	104.9		
450-500		1.2	1.0	1.3	1.4	1.1	1.5		
1-500		64.2	71.5	86.0	91.9	94.0	106.4		
500-550				1.5	1.3	1.4	1.3		
1-550				87.5	93.2	95.4	107.7		
550-600					1.2	1.3	1.4		
1-600				88.3	94.4	96.7	109.1		
600-650					1.1	1.2	1.1		
1-650				89.4	95.5	97.9	110.2		
650-700						1.0	1.1		
1-700				90.4	96.3	98.9	111.3		
700-750							1.1		
1-750				91.1	97.2	99.8	112.4		
750-800									
1-800				91.9	97.9	100.6	113.2		
800-850									
1-850				92.6	98.7	101.5	113.9		
850-900									
1-900				93.2	99.3	102.1	114.6		
900-950									
1-950				93.8	100.0	102.7	115.3		

The sources for this table were "The Times 1000" etc. and "The Blue Book".

Note that accounting differences and difficulties probably lead to a systematic overstatement of firms' shares but understatement of total gross profits. This weakens interpretation of absolute percentages (although that the largest 950 firms in 1973 made 115% of gross profits could be explained by suggesting that the rest made a 15% loss!) In addition trends could also be systematically biased by inflation and other influences.

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AN OPEN LETTER ABOUT CHILE

To Arnold Harberger and Milton Friedman at the Center of Latin American Studies and Department of Economics, University of Chicago.

From Andre Gunder Frank of the Max-Planck-Institut zur Erforschung der Lebensbedingungen der wissenschaftlich-technischen Welt. Dated 6 August 1974 and amended 24 February 1975

As a former graduate student of yours, I was naturally interested to read the interview you, Arnold, gave to "El Mercurio" of Santiago, Chile. Knowing the kind of work you have devoted to the economy and the economists of Chile for nearly two decades, I was not overly surprised to read your declaration that under the authority of the present Military Junta

the country has been able to overcome so great an economic chaos in so short a time and at relatively little cost.

"El Mercurio" announced that you too, Milton Friedman, are going down to see the 'miracle' at work. I would like to examine this spectacular success, and especially its cost to the people of Chile, more closely with you.

Your interview brought back long-forgotten memories. Suddenly, I remembered when the first contingent of Chilean economics students arrived in our economics department in the mid-1950s. They had been brought under the terms of a long-term agreement negotiated (by you, Arnold, as I recall) between the Catholic University of Chile and the Department of Economics of the University of Chicago. Suddenly, Chile and its economy became a topic of daily conversation in the

Department of Economics. I remember well how you and others of my wise and foresighted professors reported on your trips to Chile and told us of its absurd attempts to live beyond its underdeveloped means by maintaining much too big a public sector (anathema in the Department of Economics of "Capitalism and Freedom" by Milton Friedman), much too weighty a bureaucracy and much too overgrown a medical and social security system.

Many of the new recruits and recently arrived Chilean graduate students, like myself also, were apprenticed and put to work as research assistants in so-called 'workshops'. The most important of these was the 'money workshop', directed by Milton Friedman and whose collective work was later published under his editorship as "Studies in the Quantity Theory of Money."

This work claims to have measured and proved that, historically, the supply of money and the level of prices have changed proportionally and simultaneously (or with a small lag) in accordance with the so-called Quantity Theory of Money and Irving Fisher's 1920s formulation of the same in the formula $MV=PT$, or the quantity of M(oney) multiplied by the V(elocity) of its circulation = P(rices) multiplied by T(ransactions of the quantity of goods and services). Since, according to the theory and Friedman & Co's measurements, the velocity of money turnover and the production of goods and services do not change much or rapidly, prices are necessarily determined by the quantity of money, hence the name 'quantity theory'. The 'technically necessary', that is 'not political' policy conclusion, which you, Milton Friedman are still trying to impose on us all, are is that inflation has nothing to do with the dictation of price increases by monopolies (which you, Arnold Harberger, measured and 'proved' not to exist at least in the USA), but simply by too much money, and especially too much money created through government spending, whose reduction, in turn, was the main object of concern in your Workshop on Public Finance, Arnold Harberger. And that, remember, is where you put me to work. The task you assigned to me was to measure the rate of profit earned by capital in the United States, which you thought should turn out to be between 6% and 10%. But I immediately found a profit rate of over 30% in one industry (drugs and cosmetics), and you thought I must not be measuring right. Our workshops, and many of us graduate students, Chilean and otherwise, were suitably installed in the basement of the Social Science Building at 1126E 59th St., Chicago, Illinois, on whose cornerstone above our heads was inscribed, and is presumably still legible, 'Science is Measurement'.

I also remember I left your workshop prematurely because I could not swallow the necessary measure of your scientific standards; and that you told me when we parted company I would never do as an economist, or at least your kind- and I would do well to go look for a job teaching somewhere in a small liberal arts college. This gratuitous advice reflected more than your mere personal judgment. It reflected and coincided with that of the Department of Economics at the University of Chicago under the lead and direction of Milton Friedman and Ted Schultz ('Transforming Traditional Agriculture' into 'Agri-Business'), who have sought to inculcate upon generations of students the conviction that they should not read to inform themselves about the world (or not beyond Chapter 3 in Adam Smith's "Wealth of Nations" or read anything but the footnotes in Alfred Marshall's "Principles of Economics") and instead should only acquire and master the kit of tools required to measure the world in partial equilibrium. Already a couple of years earlier, upon taking the qualifying exams in economic theory (Milton Friedman's field) and Public Finance (Arnold Harberger's field) after nine months instead of the usual two years, the Department's official notification that I passed these exams at the PhD level had been accompanied by a letter from the Department advising me that, in my own interest as well as theirs, I would do better not to pursue my studies in the Department, because in the long run, I was not expected to measure up. Later the Department approved the project of my proposed thesis as acceptable but privately offered the opinion that I should not attempt to carry it out because I would surely be unable to do so satisfactorily. In the opinion of the Department, the project was all right, but the candidate for a PhD in the Department of Economics at the University of

Chicago was not. He did not measure up.

I also remember Arnold, that after we had both gone to Chile and there met and married our respective Chilean wives, we once met at an economists' luncheon at Santiago's businessmen's club. I recall how, after lunch, going by car to the Catholic University, where you were again officiating, and which I had by then learned to be not the University of Chile but the reactionary university bastion of the bourgeoisie and the upward mobile there, you tried to persuade me that the price of municipal bus fares in Santiago was not equal to the marginal cost of transportation services in a free market and was therefore inefficient and against the public interest. It was a micro-argument that was part and parcel of the larger one I had already heard back at the University of Chicago, to the effect that social security and other popular conquests signify distortions that interfere with and disequilibrate the freedom of the market. My answer to you, that these few populist measures restore to the people only a small part of the exploitation they suffer through the normal operation of the capitalist market system, no doubt confirmed your several years earlier parting judgment of me that incorrigibly I was and am simply incapable of finding the for you and yours normal measure of equilibrium.

Our ways parted more and more. You continued to preach the glories of the 'free' market to generations of students from the already most reactionary department of economics in Chile and organized the training of 'technical' experts in the departments of economics at the Catholic University of Chile and the University of Chicago (each the most reactionary in its respective country) with a view to hopefully rendering the former capable of transmitting your wisdom to others without the continued technical advice of the latter.

I, on the other hand, devoted myself to the study of the development of underdevelopment in Chile and Latin America through their dependence on foreign, especially American, capital, and the complicity of the monopolizing local bourgeoisies. In contrast to yours; my political economic work brought me into increasing contact with the people and forces that subsequently composed Allende's government of Popular Unity between 1970 and 1973 as well as with the extra-governmental and non-parliamentary left opposition to the same. Thus, for instance, it was Clodomiro Almeyda, later Foreign Minister, who in 1967 arranged my return to Chile to work in the national (not Catholic) University of Chile. It was Pedro Vuscovich, later Economics Minister, and Salvador Allende, then President of the Senate, who came to the airport in the middle of the night to obtain entry to Chile for me after, upon my arrival in 1968 with an official United Nations passport, I was immediately detained and brought before the head of the political police, who, while interrogating me, showed me his thick, CIA-supplied file on me, and then ordered me to be immediately taken to the airport and put on the next plane out. I have also been unable to visit you and tell you any of this personally, because, since I left the United States for Latin America in 1962, the Government of the United States has consistently refused me reentry to the freedom of God's country on the grounds that in my graduate student days, I had refused to 'serve' in its Armed Forces during its war against Korea (my generation's Vietnam) and that since then I had written, published (and unpublished!) things, all of which proved to the satisfaction of the Attorney General of the United States of America that my presence there would not be in the best interests of the country and, what's more, might constitute a threat to the national security of the United States of America!

So I am writing you, prompted now by the interview that you, Arnold Harberger, recently conceded to "El Mercurio" of Santiago, Chile, published in its edition of July 14 and reproduced in its international edition of 15-21 July 1974. The coincidence between your views and those of "El Mercurio" is of course, no coincidence. Your scant twenty years of work devoted to a common cause is, of course, only modest compared to that of "El Mercurio", which was founded in 1827 and has defended the interests of the Chilean (but also British and now American) ruling class ever since then. Its present owner, Augustin 'Dunny'

Edwards, is vice-president of the Pepsi Cola Company, to whose offices in the United States he fled immediately after the election of Allende. Dunny's grandfather, Augustin Edwards, propagated and financed the military counterrevolution of 1891 against Balmaceda's then relatively progressive government in Chile, which had threatened to nationalize its then important British-owned saltpetre (salitre) mines. Dunny's appointment as his replacement as Director of "El Mercurio" during his years of absence after 1970, Fernando Leniz, worked hard to overthrow Allende and has since been duly appointed by the Military Junta as their Minister of the Economy.

Shortly before Leniz' appointment, on November 2, 1973, "The Wall Street Journal" had editorialized in its 'Review and outlook' column: "a number of Chilean economists who studied at the University of Chicago, who are known as the 'Chicago School' in Santiago, are champing to be unleashed. That would also be an experiment we would watch with academic interest." Minister Leniz brought them into the government with him and unleashed them on the Chilean economy. Since they are only 'technocrats' of course, they had to form a harmonious team with the political advisors and ideologists of the Military Junta. According to the "Financial Times" of 19 October 1973, the chief of these is the member of the fascist and terrorist 'Patria y Libertad' organization and professor from the Universidad Católica, Jaime Guzman, who drafted the generals' first decrees declaring the government of Allende to be 'illegitimate', and who was then appointed to the commission charged with drawing up a new constitution for a corporate state. He and his fellow ideologues were not trained at the University of Chicago but instead had been prepared for their new duties by Opus Dei, the notorious semi-secret society of Franco's fascist Spain. Another 'adviser' to DINA, the Junta's Gestapo is Walter Rauff, whose extradition Germany demanded but did not get, because of his Nazi activities as SS captain and commander of two concentration camps. According to "El Mercurio", editorializing under the titles 'Constitutional Statute', 'Reconstruction of the State', and 'An Efficient State' in June 1974

One of the most delicate and transcendental tasks of the Government Junta is precisely the reconstruction of the state, which means giving the country political powers with well-defined attributes and with the authority necessary for the achievement of the common good. This is the fundamental role of the Government Junta and it excludes [as General Pinochet also declared in his own interview to the same paper] by itself the idea that the power of the actual regime be transitory...The foremost requirement of a more executive, coordinated and effective governmental action is precisely the inflexible carrying out of the economic and fiscal policy of the Junta.

So there is both a long tradition and a present rationale to the coincidental interview you so graciously granted and which "El Mercurio" so proudly published and headlined in four columns across its entire page.

Arnold Harberger, what measure, not to mention science, do you use to arrive at your statements to "El Mercurio" that

I am really surprised that the country has been able to overcome so great an economic chaos in so short a time and at relatively little cost...The minimum wage is now at the level it was in 1970, in real terms, which is higher than it was during the last period of the previous government...The present unemployment rate is normal, if we consider the moment out of which the country is emerging...To my mind, there was no alternative to [the immediate establishment of] freedom of prices.

Price control in Chile was not invented by the previous government. It was established thirty years ago in the governments of Pedro Aguirre Cerda and Juan Antonio Rios and had been maintained and used by all civilian governments, however rightwing, since then. 'Freedom' of prices has meant a price rise of over five times since September, according to the present military government itself (yearly percentage rates of inflation have become altogether meaningless); and prices of mass consumption necessities, especially of foodstuffs, have risen ten and fifteen times. The price of bread, for which demand in-

creased as the price of other items rose beyond consumers' reach, rose to 22 times its September 1973 level. In March 1974, for a family with one 'subsistence wage' (sueldo vital), bread cost 40% of its income. Bus fares, one of our favourite prices, had, by February 1974, risen to ten times their September 1973 price and in May were doubled again, so that one month's normal home-to-job municipal bus transportation (on four buses daily) now costs about 6000 escudos, or between 33% and 50% of the official 'subsistence minimum' (sueldo vital) to sustain a family. Thus bread alone and the bus fare to earn it take up about 80% of such a family income, leaving the remainder for 'living' expenses!

The 'minimum' wage, as you know, is, in Chile as in most underdeveloped countries the world over, no measure at all of the real wage and still less of the income received by those not covered by the legislation or, in this case, decree. We may recall the careful calculations of Michel Chossudovsky (also at the Universidad Católica, mimeographed there in January 1974, and therefore probably known to you!) and the conclusions he derived from his estimates of the income at November 1973 prices that would have been necessary to restore to a family at the lowest income level its purchasing power of the year 1968/69, that is, after its decline since 1966 during the Christian Democratic administration and before the increases in income it enjoyed during the Unidad Popular government of Allende:

In other words, the total income of E 31,210 would permit a family of five people (in Greater Santiago), and considering the prices of November 1973, a standard of living of a family of the same size that received the indispensable minimum (sueldo vital) plus family [social security] allowances in the year 1968/69. While this [would] amount to a readjustment[increase] of the minimum family income amounting to nearly 100 per cent of its present level of E 16,320, it would not offer a solution to the problems of malnutrition and poverty in the lowest income range (emphasis Chossudovsky's)

And in November 1974 Chossudovsky writes:¹

In other words, the lowest income bracket experiences in October 1973 a fall of 48 percent in its real purchasing power with respect to 1968/69. In view of the substantial increase in purchasing power of the lower income groups under the Popular Unity government, the fall in real purchasing [power] was in October 1973, well in excess of fifty per cent with respect to its January 1973 level.

Arnold Harberger, you, also, seem not to have had it from the horse's mouth - Fernando Leniz, Minister of the Economy and ex-Director of "El Mercurio", who explained to his interviewer from "Ercilla", "The root of the problem is that during the years of the UP they gave wages that resulted in a level of consumption that the productive capacity of the country could not maintain." And to "Ercilla's": "The fact is that the decline in purchasing power is so great that it ended up below the levels of 1970." Leniz replied: "Yes, because the expenditure was carried to such an extreme that it was impossible to maintain the consumption of [19]70."

The Chilean Jesuit magazine, "Mensaje", published an article by Ruiz Tagle, according to which the price increase for essential consumer goods during the first three months of the Military Junta's rule was estimated at 400% to 500% and the increase in money wages at only 67%, notwithstanding the legal 'minimum' wage. The CEPCH (Confederation of Private Employees of Chile) complained on 7 December 1973, that its members had suffered a 60% decline in their purchasing power under the Junta's rule. Then came the Junta's 'adjustment' of money wages in January 1974. Disentangling the government's contradictory percentages, indexes and multiplications (after the Junta had replaced the conservative

¹"The Neo-Liberal Model and the Mechanisms of Economic Repression - The Chilean Case", (Department of Economics, University of Ottawa, Canada, Nov. 1974 mimeo, pp.20-21)

old functionaries of the National Statistical Institute with new 'technical experts'), Franz Hinkelammert (admittedly now ex-) professor at the same Catholic University of Chile, calculated the loss in the newly decreed real wages at 37% compared to those after the last previous adjustment in October 1972.

The new adjustments were immediately followed by the skyrocketing of prices in February and March - the official inflation in the first four months of 1974 was 87% and most of that in foodstuffs - so that even the fictitious moneywage increase was quickly wiped out.

By March 1974, Chossudovsky reported in terms of the incomes' policy implemented in the private and public sectors, our results suggest the following tendencies: (1) The real income of the lowest income group has fallen by more than sixty percent. (2) The real income of the middle income groups has fallen by 75 percent. (3) The real income of nearly all income groups of the public sector has fallen by approximately sixty percent. These results suggest that the wages and salaries group has experienced an overall decline of at least 60-65 percent in its purchasing power as a result of the Junta's policy of 'freeing prices and freezing wages'. (Neo Liberal Model, pp23-3)

In view of the estimated fall in the real purchasing power and the drastic decline in the real value of the minimum wage (sueldo vital), our estimates would suggest that 85 percent of Chile's population was in March 1974 below the threshold poverty level whereas the lowest income bracket (less than two minimum wages) which represents approximately 60 per cent of all households (primarily blue-collar workers) is currently in conditions of extreme poverty and malnutrition (ibid. pp30-1)

Given the estimated decline in purchasing power which affects more than 80 percent of income recipients, we can safely infer from the underlying data...that at least 25 percent of total income has been transferred from the lower and middle income groups to the upper 5 percent income bracket. In other words, the upper five percent income bracket has increased its participation from 22.7 percent (CEDEM 1967) to approximately 50 percent of total income. (ibid. pp27-30)

No wonder that, while the construction of public housing for low income receivers declined sharply in 1974, private (high income) housing construction increased over the previous year (Mercurio, 8 Feb. 1975). No wonder that the items whose importation increased most were motorcycles, hi-fi equipment and various luxuries - excepting of course for military equipment to sustain the repressive apparatus.

In your interview for "El Mercurio", you said the wage was still "above the level of equilibrium". You were right, Arnold Harberger: by February 1975 this equilibration had raised money wages by about 10 times - but meanwhile prices had risen 50 times since the coup! The new price of bread in Santiago is 650-680 escudos per kilo ("El Mercurio," 14 Feb. 1975). The new minimum wage for January-February 1975 is 112.5 escudos in Santiago. That is one kilo of Bread costs six hours of work. A kilo of bread a day for a family for a month (30x650 or 680) costs 20,000 escudos. The subsistence salary (sueldo vital) for January-February 1975 is officially 27,000 escudos in Santiago. 'Normalized' and 'equilibrated' bread consumption thus costs 74% of such a subsistence wage! Perhaps the equilibrating artists you trained to serve the Military Junta in Chile can help it equilibrate the wage still better on the points of its bayonets. You will no doubt agree with the good advice given to an employer in a small textile mill who reported that

"in my factory, we haven't had one important order in the last three months. By the end of last month, I hadn't any money to pay Friday's wages, so I asked for credit from a bank. I was told credit was suspended, but that I could ask for advice from the Ministry of Economic Affairs. So I did, and I received a visit from a Colonel. I explained that I had no money to pay wages, to which he replied: 'Well, tell them to sell the television sets their precious Allende

gave them. And if that does not satisfy them, let me know - we'll shoot a few and you'll see how they obey'." (quoted in Chile Monitor 3, 1974)

I know that you have been working nearly two decades to achieve this 'normalcy' also in the level of unemployment. During the conservative government of Alessandri, from 1958 to 1964, the average annual rate of unemployment in Greater Santiago varied between 5% and 9.5%. In the Christian Democratic government of Eduardo Frei, it rose from 5.5% in the years 1964-66 to over 6% in 1967-69, and reached 8.3% in 1970. The government of Allende brought the rate of unemployment down to 3.8% in one year and to 3.6% for two years after that. By February 1974, unemployment among the affiliates of CUT, the national labor congress since prohibited by the Junta, had risen to 24.6% and the average rate including unaffiliated workers was over 18%. The lowest quoted rate of unemployment in Chile since the takeover of the Military Junta, which does not exactly encourage worker registration or response to surveys, is 15%. Current estimates are of 20 to 25% unemployment. The Junta, of course, does not count as 'unemployed' the tens of thousands of workers and employees that were dismissed for political reasons. According to the Director of the Budget, 19,200 people were thrown out of government employment in the first three months alone (and replaced by 19,000 others that came from private employment, while those fired were left with no employment and only the blacklisting of being on the Junta's blacklist). At the same time, being neither employed or 'unemployed', they also lost all unemployment, social and medical security, and retirement benefits. But the head of the Junta, General Pinochet, promises still more 'normalcy' to come: he has prohibited the hiring of any new person by the government and has announced the reduction of public employment by 20% or 100,000 additional wage and salary earners by the end of 1975 - so they may be free to work in the private sector! How will these government jobs be eliminated? One way is to accelerate and extend still further than in the past ten months the dismantling of Chile's public, social and medical insurance system, long the most advanced in Latin America, just as you have been recommending for twenty years. The end of chaos is in sight; your dream of normalcy is coming true, and in so little time! Excluding the political dismissals between September 11 and 30, 1973 between the latter date and May 31, 1974 the official reduction in public employment was 47,198 (El Mercurio, Dec. 10, 1974). Do your employment, and particularly normal public employment calculations include the vast increase in military draft and the previously unheard of incorporation of women in the armed forces?

What about the little cost? The main item in the low income budget, food expenditures and consumption, has declined drastically, no doubt in search of 'equilibrium'. On the supply side, this is easily explained by the decline in agricultural output occasioned first by the truckers' strike and then by the military terror in the countryside during sowing time last spring (which in the southern hemisphere begins in September), and by the sharp decline of government and private food imports in the name of the equalization of internal and external prices - but not wages - to achieve 'external equilibrium'. On the demand side, the decline in food purchase and consumption is, of course, not derived from any dietary equilibrium but from the simultaneous increase in food prices and decline in mass income. Since government food subsidies are also 'disequilibrating', they must be eliminated also, as "El Mercurio (May 18) suggests. As for meat, whose import was restrained by previous governments through periodic meatless days or weeks, imports have ceased; and General Pinochet has declared that sale prohibitions are no longer necessary because supply and demand are now in market equilibrium! That is, there is no more 'demand' because people can no longer afford it. The previous government's programme of a daily pint of milk for every child was stopped immediately after the military coup.

Some of the 'relatively low costs' are that an increasing number of people in Chile are now literally starving to death. The rate of infant mortality has shot up to levels not previously known for many decades. In agreement, evid-

ently, with your belief, Arnold Harberger, that Chilean social and medical security is much too developed (which you repeated in your Chilean press conference as reported in "El Mercurio", 10 July 1974). And like you, Milton Friedman, the Junta's Minister of 'Health' proposes that medicine should be fully integrated into the free market and the National Health Service - and apparently also the public cemeteries - put on a users' 'pay as you go' self-financing basis. Again the Ministry of the Interior, as also reported in "El Mercurio" proclaims a surprised alarm that the number of murders (excluding those committed by the armed forces and the by them armed civilian fascist goon squads) has risen, and the rate of assaults and robberies still more, since September. This to the Ministry is especially surprising in view of the fact - it says - that the Junta has maintained the strictest nightly curfew (which, in turn, has strangled all night-life services) ever since the 11th September 1973!

And what about other aspects of the relatively little cost? Two weeks before your interview, "El Mercurio" (25 June reproduced in the weekly edition of 24-30 June) published revealing data on industrial production in Chile in April 1974, compared with April 1973. Production in petroleum refining, iron and steel, metals and machinery, etc., the domains of big and increasingly foreign-related capital, had supposedly risen substantially:

On the other hand, the largest declines are observable in printing and publishing (-40.3%) [the books burnt in front of the television cameras have apparently not been replaced!], beverage industries (-19.7%), rubber products (-13.2%), fabrication of paper [which had been artificially held in short supply by the Alessandri-owned company to create political difficulties for the previous government] (-12.7%), and electrical appliances for household use (-10.7%). In the first four months of this year...only two sectors show a negative result: goods of everyday consumption...and the sector of various manufactured articles.

That is, the production and consumption of manufactured articles destined for the masses (and, as in appliances, even for the middle class) has fallen off significantly! Relative to the average for 1973 - which had itself been already diminished by the Junta - SOFOFA and "El Mercurio" (8 Feb. 1975) themselves calculate a further decline in industrial production: of 5.1% for goods of 'habitual' consumption and of 18.9% for beverages.

According to "Business Week" of 17 November 1973, a large supermarket chain (there are only two in Chile) reported that its sales, valued in Escudos, had risen 200%; but the physical quantity of the goods it turned over and sold had declined by 40%! The newspaper "La Tercera" reported on 5 December 1973 that AMPICH (The Association of Medium and Small Industrialists and Craftsmen, including perhaps the above-cited textile producer) had complained of declines of up to 80% in its members' sales. I remember reading even in "El Mercurio" that the storewindows and shelves are full of goods again after the 'scarcities' of the Allende times, but that, unfortunately, their turnover of clothing, for instance, had declined to a third of what it had been during the 'times of scarcity', since people now have only big eyes but no money with which to buy. The Camera de Comercio Detallista (the Association of Retail Merchants of Chile), whose President Rafael Cumsille, with Leon Villarin, the leader of the truckers, had been one of the principal organizers of the strikes and boycotts destined to bring down the Allende government, has complained to the Junta, and your disciples Arnold Harberger, that the new economic policy imposes 'the law of the jungle' and 'benefits to the big and not the little ones' and is driving numbers of its members into bankruptcy. Even Orlando Saenz, former President of the Sociedad de Fomento Fabril (the Chilean national association of manufacturers), has resigned from his directive post and from his immediate post-coup job of Economic Advisor to the Foreign Ministry. As a representative of medium-size capital in Chile, Saenz has since gone into semi-opposition to the Junta's economic policy:

I at least entertain doubts about what Milton Friedman says. In an economy managed only through monetary and market mechanisms, there is no way to avoid a brake on inflation from causing stagnation and high

unemployment. And these will be even more severe in a country like Chile...I have very little doubt that the force of the facts will conduce everybody to this conviction...we have come dangerously close to an economic stagnation that is already visible in the industrial sector. There are those who think that the zero or almost zero industrial growth that we will have this year does not matter in the face of the agricultural and mining upturn. This is a serious mistake... (Saenz in "Que Pasa" 182, 17 Oct. 1974)

Again

If one answers this question [about the Junta's 'anti-inflationary' policy] with honesty and realism, one finds that the cost has been a sharp increase in unemployment, a considerably lower share of the wage and salaried sector in the national income, and very low economic growth derived essentially from the increase in mining production and its better average selling price in 1974 relative to the previous year. And, in the face of that cost, it seems to me that there can be no doubt that the inflation of the last year represents one of the greatest failures of our economic history. Being of this opinion, evidently I favour important changes in the present economic policy... (Saenz, *ibid.*, 195, 16 Jan. 1975)

Saenz's change of heart has not gone unheeded by the Junta. After beer sales had already fallen sharply because of the decline in consumer income, the Junta decided to apply its 'anti-monopoly' law to the brewery of which Saenz is director!

These statements and resignations are reflections of the increasing dissatisfaction and concern of sectors of the middle classes and the bourgeoisie (though not, of course, of the masses of the people whose opposition is reflected in other ways). For this reason, perhaps, and because the Junta is preparing 'public opinion' for new measures to come, the Junta and its spokesmen have mounted a 'campaign of explanations' in which your interview is but one, albeit a very well-fitting, piece of the jigsaw puzzle. Thus Raul Sahli, Orlando Saenz' successor as President of the Sociedad de Fomento Fabril, was asked by "Ercilla": "Why did Orlando Saenz leave the Presidency of the SFF? It is said that it was because of the discontent of many businessmen...?" "Ercilla" received only 'half' an answer: "He wanted to devote himself to his private activities again." Then to "Ercilla's": "But after this seven months the balance is for many unsatisfactory?" Sahli replies "No, it's not so bad." And to "Que Pasa" he answers:

We industrialists are for the social market policy. We have been asking for a free economy for 50 years. And that is what this Government is implementing, in decreeing first the freedom of prices, which all of us applaud, and then freedom of competition, which is necessary so that the first one functions. We understand that in a small country like Chile, the competition has to come from abroad...In the search for new lines of production, in the coordination of various factories for the production of one product, or in the development of big producers of high efficiency, which can come out of the union of several small ones, or in cooperatives - Monopolies? Yes, quite so. Only with monopolies can we compete with foreign markets. Inside the country they would not operate as such, since they also would be subject to the competition of imported products.

And again to "Ercilla"

The worst of it is that neither the businessman nor the consumer have adapted themselves to the new reality. What is missing is the mentality of the North American public. It's only a problem of mentality.

Fernando Leniz, the ex-supervisor of production at the Alessandri and Edwards paper monopoly, then ex-Director of "El Mercurio", and now the Junta's Minister of the Economy, is not far behind in his 'explanations':

"Ercilla": After eight months, can we speak of success or failure of the present economic policy?

- Leniz: No, one cannot speak of failure. And to speak of success already would be pretentious. The results will only become noticeable after a fairly long delay...
- "Ercilla": Speaking of delays...the results [of the economic policy] could already be called 'juntistas'. Nonetheless, you continue to talk of the inheritance from the UP. When will the Junta assume its own responsibility?
- Leniz: When all the effects of the inheritance of the past, of the work of the UP, disappear. It might be two years, I don't know...For two years it is necessary to maintain the levels of consumption below the curve of the gross national product.

Arnold Harberger, you also say "I have quite clear vision, because I know the Chilean economy...I think the strongest guarantee, for a small economy like the Chilean one, to protect itself from monopoly situations is the competition of the world markets...The inefficiencies and internal costs [of social security] reflect themselves in the exchange rate. The equilibrium rate will be higher if these problems exist...From now on, I see the possibility of a continued rise in production and of the economy in general in Chile...For me, the problem is whether the Government and the population will be capable of observing and maintaining the necessary attitude." Well, so far, the Government, at least, is giving both evidence and further promise of measuring up quite well. The exchange rate has been brought towards 'equilibrium' by increasing thirteen times and severalfold the Escudo/Dollar exchange rate to make the corresponding import prices for foodstuffs ten times, and for other necessities (manufactures) five times, higher while reducing the 'parallel' and tourist exchange rate to make high income travel abroad cheaper and the remission of foreign profits abroad greater. The International Monetary Fund and the Interamerican Bank in Washington as well as the American and European governments, banks and firms have applauded this equilibrating act with loans and credits of over US \$1,100M by end 1974 for the Military Junta that they withheld from the Allende government on grounds of its 'irrationality'.

The new government has handed back two hundred state-owned or controlled enterprises to their former private owners - and Minister Leniz has offered to put up one thousand (so many never existed) state-controlled enterprises for sale at bargain basement auction prices to any comer, whether he was a previous owner or not ('Süddeutsche Zeitung' 28 May and 20 Oct.). CORFO and 'El Mercurio' (23 Jan. 1975) announce that of the 480 enterprises under state control in September 1973, 220 have been returned to their owners, 26 are in process of being returned, 56 were sold, 59 are under negotiation or for sale, 51 are under analysis, 18 under study, and 20 will temporarily or permanently remain public. To 'protect itself against monopolistic situations', the government has removed all kinds of import restrictions and opened the doors to the monopolies in the world market to compete freely in the Chilean one. The Military Junta has just removed the clauses from the statutes which protected Chile against certain abuses by foreign investors, thereby contravening its international obligations under Article 24 of the Andean Pact with Bolivia, Ecuador, Colombia, Peru and Venezuela, because of which the latter countries are registering strong complaints. Thereby, the Military Junta in Chile, like the martial law government of Marcos in the Philippines, is now removing the controls on foreign investment in its country, which UNCTAD and now also the Economic and Social Council of the United Nations are recommending to other underdeveloped countries the world over. This measure, and the 'mutually satisfactory' agreement with the international copper companies to pay just 'compensation' (Kennecott \$69M for El Teniente mine - book value \$49M and a debt to Chile of \$223M for excess profits; Anaconda \$236M which had a similar debt of \$78M) for the nationalized copper mines (after the Allende government had already taken over and incorporated into the national debt the private debts of these companies amounting to more than their book values!) and to pay the notorious ITT for 'services rendered' are part of an equilibrating act by the military government on the occasion of a meeting of multinational corporate executives organized in Chile by Bus-

iness International at the end of June (or about the time of your visit also, Arnold Harberger). Your friendly interviewer, "El mercurio", editorializes on 24-30 June):

The presence in Chile of an important group of foreign businessmen has made the topic of foreign investments and the treatment they should receive the order of the day...The decision, often repeated by the authority [government] to the effect that any sacrifice will be made with a view to achieving economic stability, guarantees that the country will slowly but surely approach a situation of normality that is highly appreciated by foreign investment...The political tranquility and the maintenance of the norms dictated today will in future have the effect of an additional guarantee for the investor which one gets only a very few times but which the Chilean military government now offers, as you say, Arnold Harberger, at very little cost.

With more time, space and patience, "El Mercurio" can afford to devote a whole page to 'explain' these 'economic topics' every Saturday and in between fill in with editorials and other fillers for those unfortunate ignoramuses who, unlike myself and others of your graduate students, did not previously have the opportunity to learn these self-evident truths in the Departments of Economics of the University of Chicago and the Universidad Catolica de Chile:

Why is inflation produced? It is not out of place to repeat for the nth time that prices rise only if the purchasing power of the community is higher than the supply of goods and services. The purchasing power depends on the quantity of money in the economy and the number of times this money is spent in a period of time. The supply of goods depends on the domestic production and the net inflow of goods and services from abroad...The price level only changes if there is a change in the quantity of money, in the velocity of circulation or the supply of goods and services. Normally, the supply of goods does not change much...The velocity of circulation, or the number of times an escudo is spent, also does not change much in normal conditions...So we inevitably arrive at the same thing as always and that is that there can only be inflation if the quantity of money increases. Money is the only pertinent variable... Besides, the empirical evidence in Chile and the rest of the world during all known times [that is, those measured in the basement workshop at the University of Chicago and its sub-contractors] confirms the clear correlation between the increase in the money supply and the rise in prices. Despite all this being said, one frequently hears different explanations, especially in the Chilean case. Concretely speaking, it is said that inflation is due to increases in the rate of exchange, to increases in wages, to exorbitant profits of the capitalists, to rises in international prices, to increases in raw materials prices, etc. All these explanations are partial... (18 May 1974)

The so-called structural explanation maintains that inflation is due to some real phenomena that have nothing to do with the quantity of money... Other structural kinds of explanations, like attributing inflation to social pressures or to the class struggle, are of no importance, since it is obvious...As has often been said [since all other things only deal with the symptoms], only attacking the causes of the monetary emission permits a reduction of the inflation, and the causes of the emission come from the deficit of the public sector. This is the only correct position, and though it be called monetarist, it does not cease being correct, especially if we consider that there are no coherent alternative explanations... (June 8, 1974)

Monetary reform consists in expropriating a part of the money in the possession of enterprises and persons. The part that is taken away from them is the part that is necessary to eliminate the excess of money that exerts pressure on the prices and makes them rise. But what is gained in the end by eliminating the excess liquidity if the emission of money

continues to rise as a consequence of the fiscal disequilibrium?...

For these reasons, the reduction of inflation is fundamentally a problem of the fiscal budget and requires a program of reducing public expenditures and of revising the income of the public sector...For this reason, it does not seem advisable, if one wants to reduce the costs of inflation to a minimum, to postpone such fundamental decisions such as the statute of the investor, the reform of the capital market and the measures designed to reduce the cost of hiring workers...The reduction of the public deficit must be immediate and the urgency of the rest of the measures is obvious (8 June 1974).

The public expenditures must be reduced and this can only be done through a program which combines the following measures: (a) a significant reduction in the number of public employees; (b) readjustment of low salaries in the public sector; (c) closing down of public activities and institutions of little productivity for the country; (d) transfer of certain activities to the private sector. The Treasury can also improve its situation by selling off the most diverse types of properties, from automobiles to productive enterprises...Many of the state enterprises should be transferred to the private sector (May 18, 1974).

Therefore, although it turns out to be unpopular, the salaries in the public sector...must, for the most part, fall and increase only in the minority of cases. Normally, the popular thing to do is not the correct thing to do...With respect to the private sector, it seems obvious that you don't get very far with direct controls...There should be some control over prices [but] the correct way to do it is not to fix prices but to permit free importation...This puts an automatic and impersonal ceiling on prices (25 May 1974).

The new President of the Sociedad de Fomento Fabril, Raul Sahli, seems to agree: "The social market economy should be applied in all its breadth. If there are industrialists who complain because of this, let them 'go to hell'. I won't defend them. As an industrialist, I do not have a glass roof, and that is why I accepted this presidency. Even though, when I finish, I will have more enemies than Salvador Allende" (end of his "Que Pasa" interview).

"El Mercurio" continues, devoting its attention now to 'the private sector' and 'the perfecting of the labour market': "The longer the entrepreneur takes in understanding the logic of the anti-inflationary economic policy, the greater will the tendencies toward unemployment be. In [neo-classical Chicago] theory, at least, unemployment could be zero if the entrepreneurs and the workers behaved within the logic of the stabilization program. For that to occur, it is, however, necessary that the economic authority explain that logic and that it always behave within it." "El Mercurio" itself helps to explain on the same page: "A good part of the unemployment that is traditionally observed in our country is due to imperfections in the labour market." Milton Friedman wrote a book about that, too, and so did his colleague Albert Rees! "The perfecting of the labour market is urgent...Some of the things to consider in this regard are the following: (a) the cost of hiring labour must be reduced substantially in relation to that of capital...social security, and, in some cases, very high minimum wages due to monopolistic labour union practices... If these sources of expensive labour are eliminated, the incentive to employ more labour is evident and employment should rise. Hiring additional workers involves, moreover, other problems that must be resolved. The existence of a no [that is, certain protection against] dismissal law protects the employed worker but inhibits the employment of new workers. This obstacle to the increase in employment must be immediately revised. Hiring an additional worker for a private enterprise has, in recent years, been very adventurous. In addition to the high cost, the worker cannot be changed and is a permanent source of disturbance and problems. This last aspect has disappeared [thanks to the military government], but the high costs and immobility remains. The elimination of these impediments should result in an increase of employment" (1 June 1974). "When the minimum wage is fixed above the level of equilibrium, the demand for workers is below the equilibrium and effective employment is also lower. In other words, minimum wages protect the employed workers, but they

castigate those who most need protection, that is, the one who is unemployed" (25 May 1974)!! "There is no justification for the importance given to the so-called arbitrary firing...The entrepreneur hires a worker only if the value of the product he delivers is greater than the cost of hiring him; similarly, when the opposite begins to happen, the entrepreneur tends to get rid of the worker ...Decline in sales, technological change, end of production, little dedication or irresponsibility in work are generally accepted as logical causes for firing. They all imply that the worker begins to deliver a lower value of production ...It is true that there can exist atypical entrepreneurs who fire workers for trivial reasons...An entrepreneur who were to commit such affronts would have higher operating costs than the competition...through which he would be the object of an automatic punishment."

Of course, this punishment is only automatic if the market is competitive. But what if there are labour unions, not to mention monopolies, since "only with monopolies can we compete", as Raul Sahli said.

"Ercilla": Do you think that a dialogue is possible [between capital and labour] while the entrepreneurs unite and express themselves as organizations and the workers cannot do the same?

Sahli: That there is not any more global organization of the workers [since the Junta's destruction of the General Trade Union organization, CUT] is due, obviously, to the excessive politization that affected the union camp. When the depolitization is completed, there will be an entrepreneur-union relation that is free of all demagogery.

"Ercilla": And the employers' organization is free of all political influences, even though it does not express itself through the action of political parties [whose existence or function is also prohibited]?

Sahli: Yes, since the SFF does not represent entrepreneurs, but rather enterprises. And with this concept, I want to support my position against the no-firing law (ley de inamovilidad).

What is the object less of all these 'explanations'? You say, Arnold Harberger, that, with 'a little bit of luck', internal production in Chile will rise 4% or 5% this year and perhaps 10% next year. After that, your 'sufficiently clear vision' foresees the 'possibility of a continuously increasing growth'. Well, on May 8, the day after explaining about the 'unarbitrary' unemployment, "El Mercurio" has a few words of its own to say about 'resource allocation' through 'market incentives' and the resulting 'Selfsustained Economic Growth':

The change in relative prices and the tariff policy have a tendency to provoke favourable conditions in some branches of industry and unfavourable ones in others...Among those that should have less incentives are those in the very high cost import-substituting industries and, in general, the over-protected lines of industry; all of these latter should go on to a rapid reallocation of their investments so as to obtain the maximum product of the capital and labour resources they use today.

Often, it is thought that the unemployment derived from an anti-inflationary policy tends to be permanent. The evidence everywhere shows that this is not the case and that economic activity and employment recuperate rapidly. [Of course, everywhere else in Latin America and the underdeveloped world, where an anti-inflationary policy, though, of course, not yours, has been in vogue for decades, the amount of structural unemployment has been increasing more and more.]...The recuperation of the private sector begins to be observable in some areas such as agriculture, mining, construction and the export sector in general. The recuperation of these sectors implies the absorption of labour that tends to compensate the decline of employment in the depressed activities like the industry and services that suffer from the impact of the decline in internal demand (June 1, 1974)

The important thing is to create conditions so that new activities rise

rapidly to replace those that must disappear...In this line, the most important thing is to have a system of prices that incentivates production and especially an exchange rate that promotes exports...Since the domestic bank finance is restricted by definition [as the small textile producer found out], it is indispensable to open oneself up to foreign finance as a way to minimize the costs of the lack of internal resources. In this regard, it is urgent that there be definitive clarification of the situation of foreign capital through the decree of an investor's statute and a clear policy of external indebtedness. External aid is the key... (18 May 1974)

Devoting several editorials and supporting stories to the Junta's policy of de-industrializing and mining/agriculturalizing Chile, which has evidently raised a political problem of major proportions, "El Mercurio" launched a new explanatory campaign in February 1975:

The present policy of economic normalization and achievement of greater stability involves sacrifices of [sic!] the population and therefore gives cause for criticisms of various kinds. The changes in the structure of prices that are intended primarily to give incentives to agricultural development [for export], the policy of tariff reduction designed to end the indiscriminate protection of certain [industrial] sectors, and the maintenance of an exchange rate designed to equilibrate the balance of payments and to stimulate exports produce resistance and criticism...The economic policy of the present government has proposed the necessity to specialize our production in those activities in which the country has competitive comparative advantages...in which our costs permit us to compete favourably in world markets...The issue is little by little to eliminate the inefficient lines of [industrial] production that had been built up under a model of development 'toward the inside' that was based on the discriminating protection of activities in which the country clearly did not have advantages. The new policy is not easy to understand, especially for the affected sectors. Therefore no effort of clarification is in vain...The Department of Economics has published a manual...In what follows, we will present some ideas based on this manual, which turns on the topic of international trade and comparative advantage

...
The object and the object lesson could hardly be clearer, thanks to your, "El Mercurio's", its ex-Director's (now Minister), and the Sociedad de Fomento Fabril's (literally, Society for Industrial Development, sic!) 'explanations'. But if any shadow of a doubt about the objective of it all should remain anyway, it is dispelled by the following list of sectors in which Minister Fernando Leniz and his advisor Raul Saenz, now Minister of Economic Coordination (the same one who negotiated the 'Chilenization' give-away of the copper mines for ex-President Frei, and not to be confused with Orlando Saenz) offer the most attractive opportunities to American businessmen at their 4th February 1974 meeting with the infamous Council of the Americas, which, under the leadership of Mr Rockefeller, groups together the principal North American monopolies with business interests in Latin America: 'mining, petroleum, natural gas, chemical industry, iron and steel, coal and possible derivatives, agriculture, merchandizing of agricultural products abroad, reforestation and cellulose industry, tourism, etc.' In a word, the raw materials in which Chile again becomes a 'comparative advantage' just when they again receive imperialism's priority attention during this new major crisis of accumulation just as they did during those after 1873 and 1929. Even Mr Kissinger, who not so long ago could not care less if Latin America disappeared below the sea because it did not tilt his balance of power, now rushes to Tlalteloco to show his renewed interest and, no doubt, to announce a third 'noche triste'.

You, Arnold Harberger, and the President of the Sociedad de Fomento Fabril, Raúl Sahli, say it is all only a question of 'attitude' and 'mentality'. That being the case, of course, you should not have been surprised to see that it

was possible to change so much, in so short a time and at so little cost. The military government and the 'people' represented by "El Mercurio" have amply demonstrated that they already 'observe the necessary attitude'. What about the attitude of, and costs to, the rest of the people, including workers, peasants, middle class employees, small businessmen, some industrialists, and their families and children, If they, like Mr Sahli's consumers, do not know enough to observe the necessary attitude of their own accord, what has the military government done to change and 'maintain the necessary attitude' for them, and at what cost to them,

Some of these few costs, beyond the hunger and starvation of the population, are well known and have been publicized by the press around the world: the labour unions, of longstanding tradition and combativity, have been prohibited; new yellow dog unions have been 'established'; but their representatives, sent by the Military Junta to the United Nations International Labour Organization in Geneva were denied credentials to the recent meeting there by unanimous vote, including that of AFL-CIO, of all the world's labour organizations. In Chile, in the meantime, all strikes have been prohibited since September 1973; wildcat strike leaders in ports, construction and factories have been shot; and the workweek has been increased by ten percent - but no increase in pay for the additional work and reduced takehome pay for the regular workweek - because everybody has to sacrifice a little for the reconstruction of equilibrium.

Freedom of the press (which during the Allende government had flowered to proportions elsewhere unknown) has been completely abolished and many major newspapers and radio stations, including Christian Democratic ones, have closed down by order. Total newspaper circulation has declined by 60%. No wonder the output of printing and publishing has declined 40%. The universities have all been reorganized by military presidents. Your ex-graduate student, along with all but a couple of his colleagues and most of the non-academic personnel, including his Chilean librarian wife, in the Research Centre des Estudios Socio-Economica of the University of Chile, was relieved of his post on the grounds 'that it is of public knowledge and notorious that the below-named academics have, as shown by the evidence in the hands of this public attorney, incurred the charges of ...inobservance of moral duties, inconsistency of extra-university conduct with that sustained in class according to the existing curricula.'

Arnold Harberger, you will be glad to know, I am sure, that the Military Junta in Chile now confirms your evaluation of my research aptitudes and conduct of two decades ago. Six students were shot on sight in the main entrance to the School of Economics to offer an object lesson to the remainder and others - including the visiting economics student and US citizen Frank Terucchi - were tortured and shot to death.

Several university faculties were closed down altogether; in others, such as the social science and other faculties suspected of having substantial numbers of left inclined students, enrolments were cancelled; and students who dared to appear - and face arrest if they were not unable to present themselves because they were already under arrest - were re-enrolled if they passed the military muster. The curricula were equilibrated accordingly: students are to study, and no nonsense!

All left of center political parties, whether 'Marxist' or not, have been prohibited; and the remaining ones are effectively prevented from functioning. The voter registration rolls have been burned because they were 'fraudulent', and when the time is ripe, the Military Junta will draw up its own new ones, with those voters, willing and able to register, who the Junta thinks should be on the rolls. The Military Junta says it insists on 'de-politizing' the country on popular demand!

Given the 'mentality' and 'attitude' of the people of Chile, half of whom voted for Allende and an increasing number of the remainder who are economically more and more adversely affected by inflation, unemployment, bankruptcies, etc., and

politically increasingly estranged by the Junta's methods, none of these 'equilibrating', 'normalizing' and 'de-politizing' measures can be imposed or carried out without the twin elements that underlie them all: military force and political terror. The United Nations High Commissioner for Refugees Office, the Red Cross, Amnesty International, the Catholic Church, diplomats such as the Ambassador of Sweden, the Russell and other tribunals, international missions of independent jurists and recently even the Organization of American States, as well as, of course, the press, including such organs as Newsweek and the Washington Post, now called part of the conspiracy of 'international communism' by the Junta and its spokesmen, have all testified innumerable times to the hundreds of thousands of detentions; the 'living' conditions in the camps of detention in the northern poisonous salt desert and the southern antarctic reaches; in a population of ten million, only half of them adult, and half of these adult males, the 20,000 murdered (10,000 according to a Ford Foundation representative not long after the coup, and 15,000 according to the Swedish Ambassador Edelstam before he left Chile several months ago), the bodies hung, or sent down the river, or just left for display to terrorize the population in populous neighborhoods; the systematic torture: systematic in the use of the most modern equipment, techniques, instructors and even interrogators imported from Brazil and the American experience in Vietnam; systematic in the selection, tracking down, and interrogation unto death and insanity of the most experienced political cadres in the labor unions, political parties, etc., that were declared 'illegal'; systematic in the combination of physical torture with psychological and moral, such as the physical torture of in all respects innocent spouses, children and small babies in front of the simultaneously ridiculed person under interrogation; and systematic also in the construction of torture camps and chambers at Tejas Verdes and elsewhere including - symbolic irony - in the Parliament building, used not only for the interrogation of political cadres, but destined and used even more for the 'processing' of literally hundreds of thousands of people that are detained at the slightest or no pretext in order to soften them up before dumping them exhausted, bruised, lamed, or unconscious and always terrorized at the roadside, railway station, or in their neighborhoods with the warning 'not' to tell their families, neighbors or work and unemployed mates about their experience. Far from abating after the first period of military rule, this process of terrorization has continued, is still increasing, and has recently been again accelerated (this week, the press, 'Le Monde' of 1.8.74, reports over 10,000 detentions - half of them for 'drunkenness' - in a few days). Still, in 1975, there are days of more than 500 detentions, and these now include near and distant relatives, young and old, that the Junta takes as hostages in its attempt to surpress the resistance.

Arnold Harberger, these are some of the relatively little measures of the cost of this program of equilibration and normalization. No one knows their rationale and their provenance better than you do. Not in vain have you, your Centre of Latin American Studies, and your Department of Economics at the University of Chicago devoted two decades to organizing the Department of Economics of the Universidad Católica de Chile, training generations of students and professors in the equilibrating use of your kit of tools, and brainwashing them to believe in the 'normalcy' you and those you work for yearn for. Finally, carried on the bayonets of the military men trained by the Pentagon and advised by the CIA, whose activities in Chile have now been partially revealed in public, who also sent them a team of US Air Force flying acrobats on 7 September 1973 (it is not clear whether to help celebrate the National and Armed Forces days, which were never celebrated on September 18 and 19, or to help precision bomb the Presidential Palace, La Moneda, which was successfully done on September 11), and carried by a stream of the blood of the Chilean people, your trainees and disciples have floated into the government to take up the key positions of the ministries, central bank, and other offices of the Chilean Military Junta concerned with the 'equilibration' of the economy, where your trainees are now engaged as the 'technical experts', known as 'The Chicago Boys'. You have ample reason

to be proud of them, like Al Capone of his 'Gang' and those of your professional colleagues who trained and formed the notorious 'Berkeley Mafia', which took over the governmental reins of the Indonesian economy after the US-supported Suharto military regime had bathed the islands in the blood of Indonesians - estimated to have been between one-half and one million 'donors'.

Arnold Harberger, you agree with Economics Minister Leniz that your joint program is not a failure but that it cannot, without being presumptuous, yet be called a complete success. After all, the President of the 'Chilean' industrialists says they have been asking for it for 50 years; you have been preparing for it for 20 years; and your executors and executioners, Leniz with his team of Chicago Boys and Pinochet with his troop of assassins, have been putting your program into practice for only ten months now. They need more time to let more blood. After all, the Indonesian model - which was announced all over Chile already in 1971 by splashing 'Djakarta' on the walls in red ink - and the model of Brazil (which, excepting some oil sheikdoms, now has the world's most unequal distribution of income) also required more time to implement their models on their native soil, as Leniz and your disciples are the first to point out. Moreover, however attractive you may find the models of political economic equilibrium of these countries of a hundred million each, each ten times more than Chile, not to mention size and resources; your Swiftian 'modest proposal' for Chile must be somewhat different, especially if it is to serve as a model as well for other smaller underdeveloped countries in Latin America and around the world. It takes more time to organize an efficient 'perfecting of the labor market' through union busting, more unemployment, further wage depression, and longer workweeks to permit not the simple exploitation that the workers have always suffered, but a degree of super-exploitation that does not even permit the recomposition of the labor force, part of which is, in any case, dispensable in your modest proposal; to concentrate the distribution of income sufficiently to generate an 'internal market' for a few capital goods and their derivatives and services - some of which can be produced in Brazil but hardly any of which in Chile; to centralize and concentrate capital enough, letting the 'inefficient firms go to hell' and uniting the remainder into - or with - monopolies strong enough to compete in the world market, as the President of the SOFOFA says, and if that is not possible, to go on to accumulate again as integral parts of world monopolies; to restructure the Chilean economy, re-allocating its capital and labor resources and rechanneling their fruits in accord with world imperialist 'market' incentives to the production, with foreign owned albeit not supplied, capital to produce the raw materials for export for which Chile has a 'comparative advantage' in imperialist capitalism's crisis-ridden time of need; to use that basement toolkit to forge the 'anti-inflationary' and 'free market' monetary and fiscal policy necessary to create and direct the 'price incentives' so that industrialists and farmers will want to produce and consumers will refrain from consuming in accord with this modest proposal, irrespective of their mentality and attitudes; and, inasmuch as practice stubbornly refuses to permit what is 'possible in theory', the ignorant Chileans, whose retrograde mentality and attitude has not been enlightened at the University of Chicago, must by the tens and then hundreds of thousands and millions be shot, tortured, hungered, diseased, exiled and emotionally disequibrated to permit the rock-bottom equilibration of the Chilean economy. The public sector has to wither away, but the state has to be reconstructed to exercise brutally efficient authority for the care and feeding of the private - and foreign - sector.

Arnold Harberger, Milton Friedman & Co. Inc., your modest proposal of partial equilibrium for the general good is not without its own internal contradictions. Moreover, you cannot take complete credit for this program of equilibration. Although you and your colleagues and disciples of the Department of Economics of the University of Chicago may have dedicated two decades to the design of the program and the technical training of its executors, it took the approach of another major economic and political crisis of capitalism, analogous to

that of the 1930s, to mobilize the political support and the military force to install a government prepared to put your program of equilibration and your equilibrating experts to work in Chile - and you Milton Friedman are still waiting to put your part of the same program, complete with Brazilian style indexing, into practice at home for the glory and benefit of the bourgeoisie in the USA, whom you so faithfully serve as paid executors and executioners.

I was interested to read in 'El Mercurio' of 18 December 1974 that you Mr. Harberger, made a second visit to your model dreamland and that 'five months later, he lamented that his diagnosis of the present Chilean situation is completely different from what it was during his previous visit...He said that Chile is the first country which successfully and in a short time came out of a quasi-hyperinflation...without violence...[Nonetheless] external circumstances will make it difficult for the [previously predicted 5%] growth rate to continue... It is important - according to the professor - to understand that the difficulties are not due to the application of the principles of the social market economy nor to the actions of the managers of the economy. [It is] the external crisis..." Perhaps with your Chicago toolkit the world crisis was not predictable half a year ago. Or is it that you mistakenly predicted that Messrs. Friedman, Harberger and Co's social market crisis management principles would find timely application elsewhere in the world as well?

As for your ex-graduate student, how right you were indeed, Messrs Harberger, Friedman & Co. Inc. in the USA, when you observed and predicted twenty years ago that I did not measure up to your expectations of normality; that I lack the attitude, mentality and morality you share with the Junta; that I could not be made either to measure the equilibrium conditions of mass murder and genocide or made to the measure of your bloody executioners. Venceremos!

Signed: Andre Gunder Frank, PhD in Economics
University of Chicago 1957

PS Lest we think that you and yours, Messrs Harberger, Friedman & Co, have worked so long and hard only to see your model society flourish in Chile alone, which General Pinochet has several times reminded of its 'luck' in being a quiet isle in a sea of storm, it may be well to take seriously the opinions of the Junta and its spokesmen about the relevance of your model and Chilean experience to world affairs. Here is a small sample of their opinion and advice, in which perhaps they do not speak only for themselves alone:

Under the title 'Administrative Effectiveness', "El Mercurio" (14-20 October 1974) editorializes: "A panorama of strikes that annihilates the economy of countries, like Italy, that were prosperous until a short time ago, and a climate of impure and generalized terrorism in the world, make one appreciate the climate of work and public tranquility that reigns in Chile. If thereto we add that President Ford is denouncing the risk of 'parliamentary dictatorship' in the country that is the cradle of presidentialism, the conclusion emerges that demagogery and the seed of marxist hate lead the politically liberal regimes to destruction in politicking and immorality. Without the shadow of a doubt, Chile has made the timely and effective choice of the best possible system in the face of the profound destructive crisis..."

The member of the Junta, Air Force General Gustavo Leigh, observes: "France has been brought to ruin, which has it two or three votes away from Marxism; Italy is in a state of commotion in which nobody understands anything; and England is mixed up in a socialism that nobody understands. The world is in convulsion; there is at present economic crisis and politization in extreme degree. By contrast, in this out of the way corner of the world we have one last opportunity which our Supreme Maker has perhaps granted us...We sincerely believe that this may be the last opportunity for this country. This government may be the last one that has the tools to eliminate the possibility of a Marxist government. After the Armed Forces, Gentlemen, let us say it in all

frankness, there is nothing else in Chile. It hurts me to say so, because I do not at all like to say so. But, you tell me, if I am not right. What remains after the Armed Forces of Chile? This last card and this last reserve was played on September 11. We won, but..." ("El Mercurio", Oct. 19, 1974)

Jaime Guzman, member of the fascist Patria y Libertad and of the Commission drafting the new Constitution explains the "fundamental characteristics of the new state": "If by 1985 present day civilization has not been destroyed by war, which is a danger that I regard as much more immanent than many, I think that the libertarian system of life on which western democracy rests can only preserve itself if it is able to break with the false dogmas that are bringing us to ruination. Among the most serious ones I would allow myself to cite: (a) the myth of an 'absolute liberty of expression'... (b) the anachronistic formulas that govern labor relations. The practice of collective bargaining and the right to strike are in need of redefinition in accord with the times... I cannot in 1975, and still less in 1985, conceive of the unrestricted right to strike as being acceptable... (c) the use that Communism is making of the international organizations...(d) the belief that democracy should accept the co-existence of Marxist-Leninists and Democrats in civic life...because democracy must protect itself." ("Que Pasa", No.193, 2.Jan. 1975, p.43).

"For Francisco Orrego, Director of the Institute of International Studies of the University, the Third World is where our future is. 'Chile (he says) can act as a bridge between the developed world and the developing world, because it is in between...Chilean action could assume leadership characteristics - in a Third World with many military governments - if there were a policy designed and defined in that direction. I would like to see General Pinochet made into leader of the Third World; and the Third World will be able to understand and benefit from the Chilean experience'." ("Que Pasa", No.196, 23 Jan. 1975 p13). Amen! A.G.F. 24 Feb. 1975.

THE CIRCULATION OF CAPITAL, IDEOLOGY AND CRISIS*

Ben Fine

There are three sections to this paper. The first considers Marx's circuit of industrial capital and the second contains a critique of orthodox views of capital's circulation. The final section uses the circuit of capital to examine the form of economic crisis. The purpose of the paper is to establish the importance of Volume II of Capital as a contribution to Marxist economic theory. It not only bridges the value analysis of Volumes I and III by revealing the dialectical unity between production and circulation upon which the price categories of Volume III implicitly depend,¹ but also lays the basis for locating many phenomena of capitalism in a Marxist framework. This we only illustrate here in terms of ideology and crisis. Throughout references to Capital give the volume and then page number. The editions used are detailed at the end.

1 THE CIRCUIT OF INDUSTRIAL CAPITAL

In Volume I of Capital, Marx characterised the general formula of capital by the scheme M-C-M', buying in order to sell dearer. This definition applies to all types of capital, whether it be commercial, interest-bearing or industrial. However, this formula, as it stands, relates most specifically to merchant

This is a revision of the paper (Fine 1975a) presented to a C.S.E. Dayschool on circulation. I have benefited from the comments of the participants and also Laurence Harris, Sue Himmelweit and John Weeks. I first wrote on the circuits of capital in Fine (1975b)

capital, since it excludes the process of production but includes commodity exchange.²

"Buying in order to sell, or, more accurately, buying in order to sell dearer, M-C-M', appears certainly to be a form peculiar to one kind of capital alone, namely, merchants' capital. But industrial capital too is money, that is changed into commodities, and by the sale of these commodities, is reconverted into more money. The events that take place outside the sphere of circulation, in the interval between buying and selling, do not affect the form of this movement...M-C-M' is therefore in reality the general formula of capital as it appears prima facie within the sphere of circulation." (I p155)

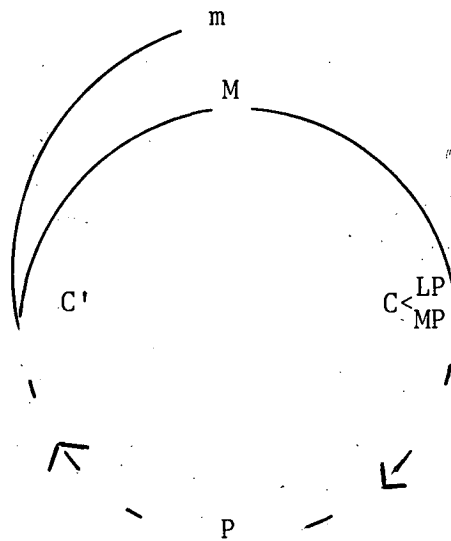
For Marx, it is the movement of industrial capital that is fundamental, since this includes the process of capitalist production. In Volume II, the circulation of industrial capital in particular is examined in detail as the dominant form of capital in general.

Central to this analysis and its starting point is the circuit of industrial capital. This involves an examination of the process whereby the purchase of commodities M-C and the sale of commodities C-M' at unchanging values can result in the transformation of advanced money M into a greater quantity M'. If M-C and C-M' both represent value-equivalent exchanges, then for $M' > M$, the two Cs must represent different values and consequently different commodities. Logically the two sets of commodities must differ in quantity if they do not differ in type. For capitalism, however, they must differ in type, the first C including, but the second excluding the commodity labour-power. This is because it is the free exchange of labour-power that is the key to the value-expansion of industrial capital. Thus, the transformation of M into M' in the general formula of capital contains in the industrial circuit of capital the transformation of one set of commodities, including labour-power, into another set of commodities, excluding labour-power, of greater value. This transformation comes about by production.

The unification of production and exchange in the movement of industrial capital can be indicated by the circuit of money-capital. M-C...P...C'-M'. As we shall see, this circuit is one form of the circuit of industrial capital. It can be described in brief as follows. Money M is advanced by the capitalist to purchase commodities C composed of produced means of production (MP) and labour-power (LP). On purchase these inputs leave the sphere of circulation and enter the sphere of production as productive capital, P. After labour has been exerted, the outcome is commodities C'. These form commodity-capital since they embody the surplus value created in the production process by the addition of value by labour above the value of labour-power. On completion of the production process, the products, as commodities, re-enter the sphere of circulation and realise their value in money-form, $M' = M + m$.

The circuit of industrial capital can best be represented as a circular flow diagram (see overleaf). If the circuit is repeated, there is a continual renewal of the production and realisation of surplus value, as m is thrown off. If m is capitalised and advanced as an increased money-capital, the circuit grows in a spiral form.³ For the moment, we are interested only in simple reproduction.

With this diagram we can make our definitions more precise. Industrial capital must follow the flow prescribed. This entails the purchase of labour-power, and therefore presupposes the existence of a 'free' class of labourers. Through the repetition of the circuit, industrial capital alternately takes on the three forms of capital: money-productive and commodity-capital. Each form has its function, in the abstract, as money (medium of exchange), means of production and commodity (embodiment of exchange value). But these functions are united by the circuit of capital and become inseparable from their functions as capital, purchaser of labour-power, creator of surplus value (and



preserver of value) and depository of surplus value respectively.

"It is therefore wrong to attempt to derive the specific properties and functions which characterise money as money and commodities as commodities from their quality as capital, and it is equally wrong to derive on the contrary the properties of productive capital from its mode of existence in means of production" (II p83).

We can also clearly identify the sphere of production, between C and C', and the sphere of circulation, between C' and C. Marx used a broken line between C and C' to contrast the two spheres through which the circuit moves.

Once the circuit is presented in circular form, it is seen that it becomes arbitrary to open and close it with money. Marx also considers the circuits of productive capital (P...C'-M'-C...P) and commodity-capital (C'-M'-C...P...C').⁴ When the circuit is repeated, so is each and every form of it.

"In a constantly revolving circle every point is simultaneously a point of departure and a point of return. If we interrupt the rotation, not every⁵ point of departure is a point of return. Thus we have seen that not only does every individual capital presuppose (implicite) the others, but also that the repetition of the circuit in one form comprises the performance of the circuit in the other forms. The entire difference thus appears to be a merely formal one, or as a merely subjective distinction existing solely for the observer...The reproduction of capital in each one of its forms and stages is just as continuous as the metamorphosis of these forms and the successive passage through the three stages. The entire circuit is thus really a unit of its three forms." (II p104)

One might wonder why C, the fourth node in the circuit, does not form the basis for a fourth individual circuit of capital. This is because C is never all capital, and so cannot be the basis for a circuit of capital. Whilst the means of production MP contained in C may be the commodity-capital of some other capitalist, labour-power is never capital (until it is purchased and becomes productive capital).

"...MP may be C', hence capital, in the hands of its seller, if MP is the commodity form of his capital, while LP is always nothing else but a commodity for the labourer and becomes capital only in the hands of its purchaser as a constituent part of P. For this reason C' can never open any circuit as a mere C, as a mere commodity-form of capital-value." (II p91)

This demonstrates that, whilst capital may be self-sufficient in the reproduction of produced means of production, beyond the value relationship between

capital and labour, the reproduction of labour-power depends upon other social relations than those of capitalist production.⁶

2 IDEOLOGY

In his presentation of the circuit of industrial capital, Marx's major pre-occupation, other than the presentation itself, seems to be a critique of other views of the movement of capital. This critique takes the form, so typical of Marx and essential for Marxism, of showing how capitalist relations tend to conceal themselves on the one hand, yet how they positively suggest alternative interpretations of themselves on the other hand, whether they be in a false perspective or with a partial truth.⁷

Above we have already quoted Marx to the effect that the function of the forms of capital should not be distinguished from their functions as capital. Also capital should not be seen as one or more of these forms in abstract, but as a unity of all three, connected by the circular movement of capital and only possible because of historically realised relations of production.

"Capital as self-expanding value embraces not only class relations, a society of a definite character resting on the existence of labour in the form of wage-labour. It is a movement, a circuit describing process going through various stages, which itself comprises three different forms of the circuit-describing process. Therefore it can be understood only as motion, not as a thing at rest." (II p108)

Note the importance that Marx gives here to the circuit of capital. To err from this perspective is to conceive of capital as money, means of production or commodities. These can exist and function in non-capitalist societies. However, for bourgeois theory it can be money which creates the relationship, peculiar to capital, of labour-power as a commodity, rather than this relationship which allows money to function as capital. This is like arguing that slavery is caused by the purchase of slaves by money, and not that the existence of slavery makes this purchase by money possible (see II p.32).⁸

Thus, the movement $M - C \xrightarrow{IP} M'$ presupposes class relations, the separation of labour from the means of production, and is based upon them and not vice-versa.⁹ This movement not only demonstrates this separation, but also shows the bringing together of the elements of production in the fashion that distinguishes capitalism from other modes of production.

"The specific manner in which this union (of labourers and means of production) is accomplished distinguishes the different economic epochs of the structure of society from one another" (II p36)

However, this essential relation for the creation of surplus value is preceded by the intervention of production, in which the creation takes place, before the surplus value first appears as value embodied in C'. By the time C' is realised as M', the link that the process has with production has been lost, since M' is universal equivalent, whereas C' has the same value but also a physical form which maintains its links with the production process. To work back from the appearance of profit (the money-form of surplus value) to the relations of production that make it possible can prove an impossible barrier to political economy.

Because there are three united individual circuits of capital, it is arbitrary or more exactly subjective to see the circuit of capital from the perspective of only one of these circuits. The tendency exists in bourgeois economics not only to base the character of capitalism exclusively on one of these circuits, but also to emphasise as central the particular activity with which the circuit opens and closes. Thus, corresponding to each of the three circuits of capital as analysed by Marx, there exists an ideological concept of capital which is a pale reflection of the totality of three unified circuits in which production and exchange are integrated.

For the money circuit, abbreviated to M...M', it is an unavoidable conclusion, in contrast to the other circuits, that expanding exchange value is the motive of the movement. On the other hand, in the movement, the process of production interrupts the sphere of exchange, and it is exchange that appears to create profit M'-M. Thus, production can be seen theoretically as some necessary evil in the pursuit of money-making. When this unavoidable link is ignored in practice, so that profits are generated by a feverish speculation, unbacked by production, the inevitable consequence is an eventual crisis when the 'bubble bursts' (II p58)

The productive circuit P...P (P' for extended reproduction) generates a view of capital as production for the purpose of production. In the circuit, the process of maintaining or expanding the productive apparatus is interrupted by the process of exchange. This appears as an unavoidable and evil link in the pursuit of the motive of reproducing production. In the real world, the sphere of exchange can only be ignored for more than a short period at the peril of running down working capital, accumulating unsold commodity-capital and leaving money-capital idle. But, in theory, it is the easiest of abstractions to ignore the market, to ignore the need to buy and sell, and concentrate exclusively on the technical conditions of production. Marx identified classical political economy as tending to fall into this school, but it now clearly characterises the neoclassical, von-Neumann and closed Leontief models of growth (II pp 88 & 95).

Finally, the circuit of commodity-capital, C'...C', suggests that the purpose of capital is consumption. It begins with commodity-capital in which surplus value and commodities are already created and ready for consumption. This is also the point of return, the reproduction of net product. Neither the sphere of circulation interrupts the sphere of production nor vice-versa. Rather the one follows the other, creating the illusion of a harmonious interaction of supplies and demands, reflected most obviously in partial and general equilibrium theory, and the open Leontief model. Marx considered that "C'...C' is the groundwork for Quesnay's Tableau Economique, and it shows great and true discretion on his part that in contrast to M...M' (the isolatedly and rigidly retained form of the mercantile system) he selected this form and not P...P." (II p102) Marx's praise of Quesnay seems to be based on the fact that by starting with C', many of the characteristics of the circuit of capital cannot be pushed aside. C' presupposes a surplus, and also the unity between the production that precedes and the circulation that follows. C' also poses the question of consumption and the division of production not only by distribution between classes, but also as between final consumption and investment.

3 CRISIS

Whilst an analysis of ideology accompanies the presentation of the circuit of industrial capital, the latter's most important use is the basis that it provides for extending the analysis of capitalism to more concrete phenomena. In volume II, Marx can move to a systematic consideration of the turnover of capital¹⁰ and the reproduction and circulation of the aggregate social capital. In volume III, the analysis of merchant's capital depends upon the circuit of capital as do many parts of the "Theories of Surplus Value". We will only be concerned with these in passing, rather concentrating on the insight that the circuit gives to an analysis of crises, for which Marx did not give a systematic treatment.

Before doing this it is crucial to understand that the circuit of capital adds to the understanding of the concept of value. On this Marx is quite explicit, value is only created in the sphere of production as defined by the circuit of capital.

"Time of circulation and time of production mutually exclude each other. During its time of circulation capital does not perform the functions of productive capital and therefore produces neither commodities nor surplus value." (II p127)

This concept of value relies of course on abstraction and as such must raise particular problems, which require further analysis, such as transportation, gold production and supervision.¹¹ However, the worth of this abstraction rests on its seeing that the production of value and surplus value, as defined, is the centre-piece of capitalism on which all other economic forms depend rather than with which they interact with equal status.¹² Now these dependent forms, exchange, distribution and the state etc., have a certain autonomy and their historical development can have a profound effect on production in general and the production of surplus value in particular. This would seem to suggest that Marx's abstraction is inappropriate since, for example, the money rate of profit would appear to be equally affected by reduction of labour-time in the sphere of circulation as in the sphere of production.¹³ However, a method based on such reasoning must be rejected since it reduces to a sort of economic eclecticism, in which the historical process of capitalist production is not given priority. In crude deterministic terms, it is not changes in production and other social relations which equally determine society, but changes in production which place strains on other social relations.¹⁴

The importance of this perspective for crisis theory is that it suggests that whilst crises may arise apart from the process of production, such crises are liable to be limited or solved should production be crisis free. Conversely, crises in production will generate crises for other relations in society, and further may appear to have originated outside the sphere of production, as market, credit or even 'non-economic' breakdowns. Central to such a theory of the cause of crises is a theory of the movement of values, and in particular of the rate of profit. This corresponds to an examination of the overproduction of capital as opposed to the description of crises which corresponds to an actual or potential overproduction of commodities.¹⁵

"The general possibility of crisis is the formal metamorphosis of capital itself, the separation, in time and space, of purchase and sale. But this is never the cause of the crisis. For it is nothing but the most general form of crisis, i.e., the crisis itself in its most generalised expression. But it cannot be said that the abstract form of crisis is the cause of crisis. If one asks what its cause is, one wants to know why its abstract form, the form of its possibility, turns from possibility into actuality. The general conditions of crises, in so far as they are independent of price fluctuations (whether these are linked with the credit system or not) as distinct from fluctuations in value, must be explicable from the general conditions of capitalist production."
(TSV II, p.515 Last emphasis added)

This being a paper on the circulation of capital, we will be concerned with the form of crises and not the tendency of the rate of profit to fall. Further we consider the appearance of crises in a limited and formal fashion only, excluding the revolution in values brought about by the crisis itself through the centralisation of capital.¹⁶ Thus, we follow Marx who assumes throughout volume II that "it is therefore taken for granted here not only that the commodities are sold at their values but also that this takes place under the same conditions throughout. Likewise disregarded therefore are any changes of values which might occur during the movement in circuits." (II p26)

Marx is quite explicit that the circuit of capital pertains to the activity of a single capitalist: "But in both the first and second Parts (of Volume II) it was always only a question of some individual capital, of the movement of some individualised part of social capital." (II p.357). Clearly in describing crises, we have to examine the movement of the aggregate social capital. However, the breakdown of the aggregate movement of capital presupposes the interruption of the circuits of individual capitals. To begin with it is useful to consider the breakdown of an individual circuit.

An individual circuit may be broken in any of its links. Such a break may be voluntary or involuntary on the part of the capitalist. In the former case,

this implies that the capitalist is attempting to create or exploit a monopoly or monopsony situation, or that an earlier¹⁷ break in the circuit makes a later continuation pointless. We do not deal with speculative hoarding here, although note that, in this context, this includes hoarding of money-capital instead of labour-power purchase, i.e. lock-outs. In effect, we are considering involuntary breaks of a circuit to be an inability to exchange at value, but voluntary breaks to constitute a refusal to exchange at value. Further, we abstract from the latter speculative behaviour.

Involuntary interruptions of an individual circuit presuppose a force of disturbance external to the circuit itself. This could be due to the intervention of some influence from outside the spheres of exchange¹⁸ and production, or must otherwise depend upon a previous break in one of these spheres. This is important because it shows that, within the movement of total social capital, crises can only be generated by changes in values, not by the process of circulation itself. For the interruption of one circuit must presuppose an interruption already existent in the system and this interruption presupposes another and so on.

"The general, abstract possibility of crisis denotes no more than the most abstract form of crisis, without content, without a compelling motive...The factors which turn this possibility of crisis into an actual crisis are not contained in this form itself; it only implies that the framework for crisis exists." (TSV II p509)

If an involuntary interruption occurs in the link $M - C \xrightarrow{MP}$, this means that C has not be reproduced, or its owners are unwilling to sell. We leave aside strikes, monopsony of labour, and the reproduction of LP other than by wage advances and the production of wage goods. If MP is unavailable this can be because there has been a general underproduction of commodities, or because there has been a particular underproduction of the commodities concerned in this instance but an over-production of some other commodities. The first case I will call a crisis of underproduction and the latter case a crisis of disproportionality.

The purchase of C implies their transformation into productive capital and their movement into the sphere of production. Interruptions here can be natural or human ('labour-relations'),¹⁹ and are well illustrated in Marx's discussion of the labour-process as part of the turnover of capital (the distinction between the working and production periods). Finally, in the link $C' - M'$, interruption implies the inability to sell. This can be because money is not available or the wrong commodities have been produced, an excess here a shortage elsewhere. In this last case, we have again a crisis of disproportionality which is the opposite side of the coin considered earlier. The other case I will call a crisis of underconsumption.

For disproportionality there is simultaneously overproduction of some commodities and underproduction of others. We could consider this to comprise underconsumption of some commodities and (desired) overconsumption of others respectively. Indeed we would argue that crises of underproduction and underconsumption are essentially identical, although the distinction remains important for understanding the appearance and generalisation of crisis.²⁰ This is because for either form of crisis to persist, the other must exist. There cannot be permanent underconsumption without permanent underproduction and vice-versa. Such a situation can be maintained by the failure of distribution by exchange. One capitalist wishes to buy what another wishes to produce and sell, but neither activity takes place until they both do.²¹ In this perspective we can see the limited understanding that we have developed of crises. Indeed we have moved little beyond the reinterpretation of Keynes' economics associated with Leijonhufvud and Clower.

According to our definition of underconsumption and disproportionality, each involves a realisation crisis in the sense that exchange becomes impossible.²²

However, the conceptual distinction that we can draw between these two forms of crises is rapidly eliminated in the process of exchange. In case of disproportionality, curtailment of production of the over-produced commodity will interrupt commodity and capital flows elsewhere in the economy and can generate underconsumption, alternatively restoring the economy to 'equilibrium' as resources are shifted to the underproduced sectors.

"If over-production has taken place not only in cotton, but also in linen, silk and woollen fabrics, then it can be understood how overproduction in these few, but leading articles, calls forth a more or less general (relative) overproduction on the whole market" (TSV II p523)

"Because absolute overproduction takes place in certain spheres, relative overproduction occurs also in the spheres where there has been no over-production" (TSV II p532)

What is apparent from this analysis is that at an aggregate level, crisis free reproduction requires the co-ordinated interlocking of the individual circuits of capital.

"The movement of the social capital consists of the totality of the movements of its individualised fractional parts, the turnovers of the individual capitals. Just as the metamorphosis of the individual commodity is a link in the series of metamorphoses of the commodity-world - the circulation of its commodities - so the metamorphosis of the individual capital, its turnover, is a link in the circuit described by social capital...However the circuits of the individual capitals intertwine, presuppose and necessitate one another, and form precisely in this interlacing, the movement of the total social capital." (II p.355-7)

According to laissez-faire ideology this co-ordination is provided by beneficial market forces, rather than through the law of value and the anarchy of capitalist production. In the circulation of the aggregate social capital the process of reproduction is confronted with varying turnovers of capital, fixed and circulating, as well as the revolutions in value that we have ignored. Clearly the interruptions in individual circuits will be frequent, but they will only become extensive and serious when changes in values bring a fall in profitability. It is the production of sufficient surplus value and not the circulation of value that is the ultimate necessity for capital.

In our treatment of crises we have generalised from an individual circuit to a crisis in general in a loose and unsatisfactory fashion. We conclude by rectifying this.

An individual circuit of capital presupposes the existence of simple commodity exchange outside the circuit of that capital. This is because labour-power is paid a money-wage which is spent on commodities for consumption and not as capital.²³ Similarly, any surplus value that is spent for non-productive consumption forms a movement of simple commodity exchange outside the circuit of capital from which that surplus value originates. Nevertheless, if we abstract from intermediaries in exchange, each commodity exchange involves at least one capitalist (if he sells to a worker or consuming capitalist or buys labour-power) and may involve two (an exchange between capitalists as producers). Thus, the aggregation of the individual circuits of capital includes the movement of the aggregate social capital. However, this is a one-sided view of the aggregate, since it ignores exchanges by those not acting as capitalists. It does not treat every sale as a purchase and vice-versa, but only considers each as a capitalist exchange in which simple commodity exchange becomes a passive and unexplained process. Thus, in the movement of the aggregate social capital, unlike an individual circuit, we must account for the exchange of commodities in general, since the movement of the aggregate capital includes and depends upon the aggregate movement of commodities.

"The circuit of the individual capitals in their aggregate as social capital, hence considered in its totality, comprises not only the cir-

- culation of capital but also the general circulation of commodities. The latter can originally consist of only two components: (1) the circuit of capital proper and (2) the circuit of the commodities for which the labourer expends his wages and the capitalist his surplus value (or a part of it). At any rate, the circuit of capital comprises also the circulation of the surplus value, since the latter is a part of the commodity-capital, and likewise the conversion of the variable capital into labour-power; the payment of wages. But the expenditure of this surplus value and wages for commodities does not form a link in the circulation of capital, although at least the expenditure of wages is essential for this circulation... Just as in the simple circulation of commodities the total metamorphosis of a commodity appeared as a link in the series of metamorphoses of the world of commodities, so now the metamorphosis of the individual capital appears as a link in the series of metamorphoses of the social capital. But while simple commodity circulation by no means necessarily comprises the circulation of capital - since it may take place on the basis of non-capitalist production - the circuit of the aggregate social capital, as was noted, comprises also the commodity circulation lying outside the circuit of individual capital, i.e., the circulation of commodities which do not represent capital."

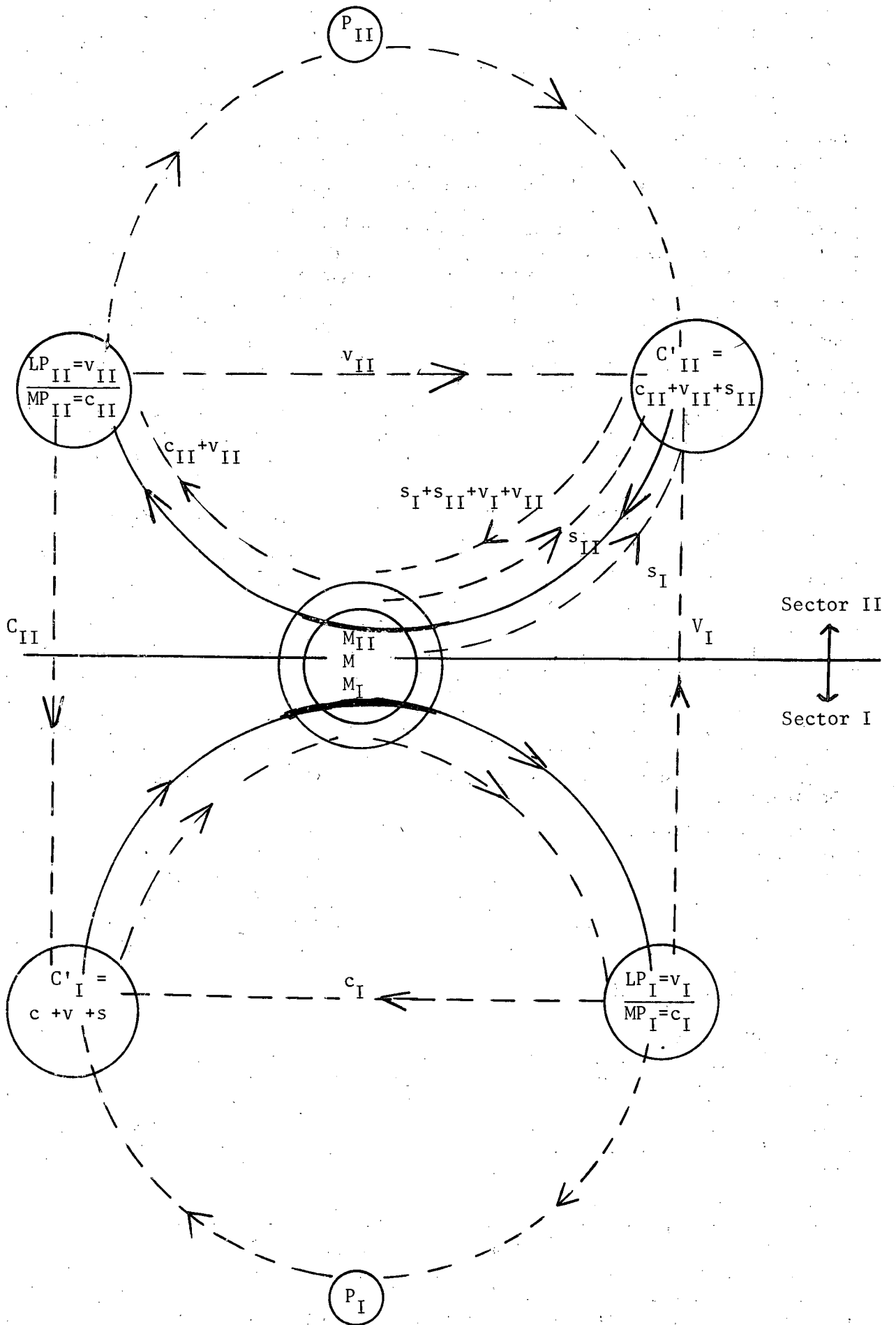
In the diagram on the following page, by disaggregating the economy into the two sectors of Department I and II, we can illustrate the total circulation of capital, commodities and money. Movements of capital are shown in continuous and dotted lines. Movements of money are shown in broken lines. The movement of the ownership of commodities is in the opposite direction to that of the movement of the ownership of money. Note that because the purchase of produced means of production is simultaneously a realisation of commodity-capital in Department I, we have linked MP_I and MP_{II} to C_I as a money-flow. In contrast, the links from LP_I , LP_{II} and M to C'_{II} represent simple commodity exchanges which do not already have representation as movement of capital. $M = M_I + M_{II}$ is the money-capital advanced in aggregate, but money is distributed around the circuits and there is a continuous flow of money in and out of M , so that the 'pool' does not remain of constant size. For individual capitalists, money is advanced, but at a later time, more returns.

As it stands, the diagram represents simple reproduction, with surplus values s_I and s_{II} purchasing consumption goods as revenue, and simultaneously realising part of commodity-capital C'_{II} . (The rest of C'_{II} is realised by sale of consumption goods of value v_I plus v_{II} to workers). At each of the points C'_I , C'_{II} , M_I and M_{II} , we can derive the sectoral equation of equilibrium for simple reproduction by contrasting the commodity/money flows and capital flows (e.g. for C'_I , $c_I + v_I + s_I =$ commodity-capital = $c_I + c_{II} =$ means of production bought and sold: this yields $C_{II} = s_I + v_I$.) For expanded reproduction, the structure of the diagram remains unaltered, but surplus values s_I and s_{II} are diverted away from consumption (C'_{II}) to the enlargement of money-capital advanced and the purchase of an increased means of production including labour-power. This will clearly alter the flow of quantities concerned (it is easy to see that $s_I + v_I$ becomes greater than c_{II}), as the whole edifice expands.

The following should be noted:

1 Each and every movement, whether of capital, commodity or money, presupposes other movements. Hence the breakdown of some movement issues in a crisis of the types we have described.

2 Marx's lengthy descriptions of the circulation of aggregate capital can be traced on the diagram with ease. Consider the turnover of the variable capital of department I. Labour-power is purchased by a portion of M_I . This leaves money in the hands of workers who purchase consumption goods from department II. This realises part of commodity-capital C'_{II} , and becomes money in the hands of capitalists of department II. The return of this money to the capitalists of department I for the renewal of the whole process depends upon the



purchase by means of production by capitalists in department II, thus realising a part of department I's commodity-capital $C'I$.

3 As we have remarked, in our earlier consideration of crisis from the perspective of the circuit of an individual capital, we necessarily took a one-sided view of aggregate exchange relationships, since non-capitalist simple commodity exchanges are accorded a purely passive role. However, those who developed a theory of crisis based on disproportionality usually locate the imbalance between aggregate investment and aggregate consumption, whilst theories of underconsumption have tended to emphasise the limited purchasing power of workers. Our expanded diagram allows us to identify disproportionality and underconsumption in terms of the aggregate circulation of commodities (e.g. underconsumption in sector II includes workers' demand). We would argue, however, that for the purpose of demonstrating the possibility of crisis, the division of the economy into investment and consumption sectors is arbitrary. Sectoral imbalance is logically just as possible for any other division of the economy. Thus, a theory of crisis cannot be based on underconsumption or disproportionality with this division rather than any other in mind.²⁴ On the other hand, to analyse the capitalist solution to crises, this division is important. For example, consider a disproportionately large production of investment goods, which can be realised by a redistribution of income to capital.

4 An individual circuit of capital presents an apparently puzzling problem. How can an individual capitalist advance an amount M into circulation and withdraw a quantity M' , and yet circulation be maintained (see II ch.XVI)? The answer is that for simple reproduction the capitalist throws M' and not M into circulation, but only M of it is thrown into the circuit of capital and the rest into simple commodity exchange. This can be seen once the circulation of capital and commodities are integrated. For expanded reproduction (or if gold money wears out), gold must be produced to circulate the value produced.

5 All economic activity appears to be concentrated in the sphere of exchange rather than in production, its sine qua non. An analysis of orthodox economics flow diagrams would find them concealing and confusing the flows of commodities money, capital and the peculiar way in which labour participates in the production process.

6 We have not examined capitalist activity in the sphere of exchange, other than the exchange itself. Of particular importance, especially for crisis theory, is the process of converting realised surplus value into money-capital (all here contained in the central pool of money). This involves a study of interest-bearing finance capital, the credit mechanism and the determination of the rate of interest.²⁵ We have also ignored the importance of the turnover times of capitals.

CONCLUDING REMARKS

It has been my intention to show that the circuit of capital is necessary for Marxist economics, and in particular for the analysis of ideology and crisis. It could be argued, however, that, since both ideology and the form of crises have changed considerably, the analysis here is out-dated and the circuit of capital is redundant. This seems to me to be wrong, simply because capital and its circuits remain, even if ideology and crisis take on a new relation to them.

Of particular importance in this is the role and rise of Keynesianism (both as ideology and in policy, a consequence of crisis) and the credit mechanism (both nationally and internationally). A proper understanding of these must situate them in relation to capitalist production. This requires a concept of value, a distinction between production and distribution and exchange, and necessarily an understanding of productive and unproductive labour. These all depend upon the circuit of capital for their characterisation and therefore so must Marxist economics.

NOTES

- 1 See Lebowitz (1975).
- 2 If we treat a bond as a commodity, then M-C-M' also represents interest-bearing capital. In this case, capital itself becomes a commodity rather than existing in the form of a commodity. See below and also III, ch.XXI.
- 3 In I p.581 we find: 'From a concrete point of view, accumulation resolves itself into the reproduction of capital on a progressively increasing scale. The circle in which simple reproduction moves, alters its form, and to use Sismondi's expression, changes into a spiral.'
- 4 For extended reproduction, where M' becomes capitalised, the closing point of both these circuits must indicate an expanded value. This contrasts with the circuit of money capital which must always close with expanded value, simple reproduction or not. It is precisely for this reason that this circuit is the most expressive of the nature of capital, its general formula. Logically, M must close with expanded value, since no value leaves the circuit until its completion, whereas for the other circuits, capitalist consumption can comprise an outlet.
- 5 Possibly 'no' for 'not every' would improve the point being made.
- 6 See Gardiner, Himmelweit and Mackintosh (1975). In the Grundrisse p282, Marx argues that the quantitative wage relation cannot be determined from the qualitative relation. Similarly, the production of wage-goods and the payment of wages cannot determine the reproduction of the labourer.
- 7 Clearly this poses an analysis of ideology beyond the crude 'dialectic' between reality (as revealed by Marx) and appearance (as studied by others), which has been suggested by appeal to Marx's criticism of vulgar economy: 'But all science would be superfluous if the outward appearance and the essence of things directly coincided' (III p817). In volume I, Marx's brilliant criticism of commodity fetishism is instructive: 'The relations connecting the labour of one individual with that of the rest appear, not as direct social relations between individuals at work, but as what they really are, material relations between persons and social relations between things' (I p73) (Italics added)
- 8 All of this may seem a trivial and obvious point, but the history of the concept of capital tells another story.
- 9 'What lies back of M - C^{IP}_{MP} is distribution; not distribution in the ordinary meaning of distribution of articles of consumption, but the distribution of the elements of production itself, the material factors of which are concentrated on one side, and labour-power, isolated, on the other.' (II p33)
- 10 This includes developing a theory of fixed and circulating capital of considerable importance, not least for its expose of the classical theory for its inability to distinguish constant and variable capital, necessary for identifying the differentia specifica of capital (See especially II ch.XI). This chapter contains some clues to the treatment of the transformation problem which have escaped recent writers.
- 11 See II p48, p54, Chapter VI and Fine (1973). See also Grundrisse p194, 'What money circulates is not commodities but their titles of ownership', and elsewhere.
- 12 See II p57.
- 13 This is the argument of Harrison (1973), see also Harrison and Gough (1975). Nevertheless they do not deal with the arguments that I present here and that I also presented less clearly in Fine (1973).

- 14 A fuller treatment of methodology in general and unproductive labour in particular cannot be given here. Note that the methodology hinted at would have the value rate of profit (S/C+V) as central, since distributional considerations would come second and not be dominated by the transformation problem, rather than by rent, taxation, exchange activity, etc. Distribution theory is concerned with the relations by which value is distributed rather than prices. See Baumol (1974). The changes in these relations are dominated by the value and surplus value produced.
- 15 See Itoh (1975).
- 16 For a brief statement of the process of capitalist crisis, see Fine and Harris (1975).
- 17 Earlier by time e.g. the inability to realise commodity-capital discourages continuing production and advancing money-capital.
- 18 The sphere of exchange or circulation in general includes the sphere of circulation of capital but not vice-versa. The sphere of exchange contains the purchase and sale of all commodities, but the sphere of circulation of capital involves only exchanges in the movement of capital. This should become clearer later.
- 19 That is, class struggle at the point of production
- 20 For example, underconsumption due to general market failure (credit restriction) can lead to underproduction, and underproduction due to general production failure (3-day week or power strike) can lead to underconsumption.
- 21 It is important to stress that we have only considered the needs of capital in the sphere of exchange. This should be clear from the use of the terms underproduction etc., which apply neither to profitability on the one hand nor the needs of a rationally ordered society on the other.
- 22 'Crisis results from the impossibility to sell' (TSV II p509)
- 23 It will become clear that capitalist circulation appears to depend upon at least two independent capitalists. This sheds doubt on the concept of state capitalism as an economic formation.
- 24 See the discussion of crises in Chapter XVII of TSV II, where disproportion and underconsumption are considered in terms of spheres and not departments of production. We would also argue, with Marx, that such theories of crisis are at best descriptive and never fundamental.
- 25 See Itoh (1975)

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BOOK REVIEWS AND LIST

THE CRISIS: SOCIAL CONTRACT OR SOCIALISM

Reviewed by David Purdy

Tony Cliff, Pluto Press, 75p

INFLATION AND HOW TO FIGHT IT

Matthew Warburton, 'The Discussion Group' (2 Hereford House, Rushcroft Road London SW2 1IQ), 20p

The onset of the most serious economic crisis in the capitalist world since the 1930s has produced no shortage of analytical and programmatic statements from the Marxist left. Two things have by now become painfully obvious: first, and perhaps predictably, that Marxists are just as divided in their analysis of the situation as their bourgeois adversaries; second, and more importantly, that the development of a strategy and programme which would enable the working class to master the crisis and intervene decisively in the historical process, lags far behind what is required. The title of Warren and Prior's recent pamphlet, "Advanced Capitalism and Backward Socialism" (Spokesman Publications No.46) aptly summarises our predicament.

The two works under review contain major defects of analysis and strategic orientation. Cliff's book scarcely ranks as an analysis of the crisis at all. It is more in the way of an updated manifesto for the I.S. group with the standard clarion calls for the building of a rank and file workers' movement under the direction of I.S. The first chapter purports to explain the phenomenon of stagflation. After a fleeting glance at diminishing industrial profitability, rising interest rates, administered pricing, currency and commodity speculation and government spending and taxation policies, it is revealed in all of one and a half pages that the underlying cause of the current crisis is the rundown of the Permanent Arms Economy, which has 'weakened the springs of growth'. I.S. appears to be impervious to the many criticisms which have been levelled against this hoary doctrine (see e.g. CSEB II.7 ('73)). Since neither the underconsumptionist nor the falling rate of profit version of this 'theory' provides a tenable account of the post-war capitalist boom, it is reasonable to reject it as an explanation of the current slump.

The remainder of the book deals in more depth with the issues of incomes policy, unemployment, cuts in social services, authoritarian tendencies within the state, the role of the trade union leadership and the policies which are needed for the working class to overcome the attacks it faces. Three main weaknesses are evident. First, the argument is redolent with moralism. A whole chapter is devoted to the 'exposure' of incomes policies as unfair in their treatment of wages and profits. Now this may have some propaganda value, but it is essentially subsidiary to the main point that working class acquiescence in capitalist incomes policies, no matter how seemingly fair, flexible and generous the rules of the policy, amounts to an exercise in responsibility without power. Without directive power over the economy, for the working class to accept capitalist incomes policies deals a fatal blow to its ability to assert its own priorities in the ongoing struggle for command over real resources, and legitimizes its subordination to capital.

Second, the argument oscillates between militant economism and revolutionary utopianism. Thus women enter the picture only as oppressed workers, never as oppressed mothers, wives or sex objects. Similarly the development of the class struggle is assessed solely on the basis of strike statistics and the size of money wage increases. Then an otherwise quite useful section offering general guidance on the conduct of factory occupations, concludes with the observation that 'if the bosses cannot run the system without sackings, the workers can'. Cliff evinces no recognition that it might be necessary to demonstrate, or at least consider, how and by what alternative policies in the concrete circumstances of today, a fully employed economy could be maintained. Just seize the factories, eject the management and utter the magic formula, 'Nationalization without compensation under workers' control!', and you've cracked it.

Third, the analysis completely overemphasizes the repressive functions of the state. The argument is that since reforms are decreasingly possible, the ruling class's traditional integrationist strategy towards the working class and its organizations will fail, leaving brute force as the only resort. Allied to this view is an essentially insurrectionist conception of socialist revolution. Space forbids a full critique of these ideas. Suffice it to say that the central problem of revolutionary strategy in the advanced bourgeois democracies is not how to conduct factory occupations, build a vanguard party or organize an insurrection, important though these may be, but how to dissolve the ideological structures of bourgeois rule through which mass consent to the continued domination of capital is perpetually reproduced.

Warburton's short pamphlet offers a more serious analysis of the particular problem of inflation. The main cause of this modern scourge is seen as the rapid expansion of State intervention in the economy in the post-war period. Briefly the argument is that the falling rate of profit on private capital compels rationalizing state intervention to achieve an offsetting increase in

productivity. Assuming that real after tax wages are maintained by working class pressure, the burden of any extra taxes raised to finance the necessary expenditures falls on the profitable part of the private sector. This necessitates an even larger growth in productivity than would otherwise have been required and increases the pressure for state intervention. The associated expenditures eventually have to be financed by expansion of the money supply as the limits of the private sector's taxable and lending capacities are reached. In addition price increases resorted to by capitalists unable to preserve profitability by boosting productivity are ratified by further expansion of money and credit. The continual repetition of these processes leads to an ever accelerating rate of inflation, which can only be halted by severe cutbacks in state spending. The rate of profit falls, accumulation ceases and the economy relapses into a slump.

It is not made clear what causes the initial fall in the rate of profit Warburton simply asserts without theoretical justification that 'periods of economic expansion are normally accompanied by a rising productivity of labour and a falling rate of profit'. Elsewhere we find theorizing with no supporting empirical evidence. His blinkered view of state intervention entirely ignores the rapid growth of social services, environmental and infrastructural expenditure in all the major capitalist countries during the 1960s. More importantly the argument misconstrues the qualitative shift represented by the expanded rôle of the state since the war. State intervention is depicted as a graft on to the organism of the economy which at first nurtures its survival and health, but later grows into a malignant tumour as the organism continues to obey its own autonomous laws of development. The limits of state intervention cannot be derived from the innate dynamics of the capitalist mode of production, except in the most abstract sense that the ruling class will not allow its own voluntary liquidation. An extension of state functions which at one time or place is intolerable to the ruling class will in another conjuncture be welcomed.

The programme Warburton advocates for the labour movement centres round the insistence on trade union autonomy and the demand for a sliding scale of wages. Added to these are some potentially useful, but ill thought out proposals for the formation of workers' Prices Committees to monitor price increases and prise open the secrets of the big monopolies. These latter suggestions do, however, tend towards a standpoint diametrically opposed to the prevailing attitude on the left towards the crisis, that it is entirely the concern of the ruling class, that the working class is not involved in its causes and is not obliged to offer or enforce solutions. This perspective, as Warren and Prior spell out, leaves the working class in a permanent defensive posture, fated to assert its rights to higher wages, job security, social improvements etc., but never destined to lead or control. The labour movement lacks a credible and effective alternative programme covering the whole range of social and economic policy, supported by serious study of existing conditions and elaborated with careful attention and sensitivity to the levels and variety of popular consciousness. There is much work to be done.

MARX'S ECONOMICS: A DUAL THEORY OF VALUE AND GROWTH
M. Morishima (Cambridge University Press 1973)

Reviewed by Ben Fine

From Marx to Morishima (All change at von Newmann)

Morishima's book (1973) falls exactly into the treatment of Marxist economics that has been labelled neo-Ricardian. This involves an economic theory based on technical and distributional relations. It cuts away the labour theory of value as a method to leave it either as a sociological backdrop for polemical purposes (e.g., to expose exploitation) or as a special case for mathematical simpletons of a more general theory. I cannot here develop fully a critique of

the neo-Ricardian school, but I will try to indicate where its method has led Morishima astray in interpreting Marx's economics, if such was his intention rather than rewriting Marx in the light of contemporary analysis.

Neo-Ricardians have always marched into battle to the tune of the transformation problem. But a tune has never been a weapon, although it may boost the morale of the troops. The Neo-Ricardian weapon is a lyric to the tune, the solution to the transformation problem, and it is sung with the frequency and monotony of the latest 'hit'. This solution is based on the bourgeois principle of distribution governed by analysis of market and price: that identical commodities must command identical prices and that equal capitals¹ advanced must command identical returns in profits. As we have observed this means rejecting the Marxist principle of production governed by the analysis of labour expended and value. Intellectually, Ricardo groped to bridge the gap between these two contradictory principles, production by labour and distribution by capital, value and price. This is to his credit. The neo-Ricardians simply ignore production, labour and value and concentrate on distribution and price. Thus, far from solving the transformation problem, they fail to confront it.

This is not to suggest that Marx solved the transformation problem either. He merely posed it as a contradiction between the production of surplus value according to labour expended and the distribution of surplus value according to capital advanced.² Neither Marx nor Morishima can solve this contradiction, this problem, since it is the expression of the material contradiction between production and distribution peculiar to the capitalist mode of production. Socialist revolution can remove the contradiction from the level of value and price to the level of scarcity and need, but neo-Ricardianism cannot remove it from the real world and solve it in the head or on paper.

Morishima is 'sympathetic' to Marx. Nevertheless, his reading of Marx's Capital is 'in the light of the present-day advanced level of economic theory' and for Morishima this means essentially von Neumann growth theory. His purpose is 'not to recapitulate his (Marx's) economics but to give it vigorous expression'. This he does not do, but tries to discover what elements in modern economics can be found in Marx. It is in this sense that he is sympathetic.

The first seven chapters (half the book) are devoted to the static transformation problem and establishing Morishima's dual dualities between values, prices and outputs. We find, given vigorous expression, the remarkable result that the rate of profit is positive if and only if the rate of exploitation is. Within the neo-Ricardian framework, the transformation problem is solved and Marx's 'solution' interpreted as correct under special conditions and as a first approximation otherwise. We also find that Morishima believes 'that Marx would have accepted the marginal utility theory of consumer's demands if it had become known to him'. This is an imposition of neoclassical demand theory on Marx's analysis of the production and distribution of values (rather than use-values) backed up by the distortionate interpretation of a few well chosen quotations. The inevitable and logical path to take, once the supply and demand of particular use-values are introduced at this level of abstraction to complement the theory of value, is the one toward a neoclassical general equilibrium model of distribution and exchange. The path is old and well-trodden and Morishima stumbles across the first few historical steps. Unfortunately he is not retracing the path to root out its origin, but is being sucked into its quicksands of irrelevance.

After a treatment of the problem of aggregating many sectors into departments, Morishima moves onto reproduction. Marx's theory of business cycles can be considered to be based on the movement of fixed capital, the expansion and contraction of the reserve army and economic crisis and reorganisation generated by the law of the tendency of the rate of profit to fall. In this, the two sector model of simple and extended reproduction plays no part. It was developed by Marx to show that crisis free reproduction is logically possible but dependent upon the undisturbed aggregate distribution of capital and commodities.³ Morishima, in contrast, uses the well known instability properties of two sec-

tor models to generate a business cycle. Further he draws attention to Marx's assumption 'that the rate at which capitalists reserve the surplus value for accumulation has so far been assumed to be determined exogenously' merely pointing out that 'in any economy where commodities are traded through the medium of money no capitalist makes a decision about accumulation in terms of the surplus value measured in labour time' Morishima is concerned here that Marx has made his constant saving assumption in value rather than money terms. Implicit in this is one aspect of the neo-Ricardian method: to adopt the behavioural principles of individual capitalists as the basis for analysis. Surely, however, Marx was correct to adopt the simplest of saving assumptions in his reproduction schema since he was interested in the logical possibility of reproduction and not the complexity of possible saving patterns? On the other hand, Morishima should not, in his cycle theory, have been concerned about the value/price nature of the saving assumption, but about the constancy of the saving rate. Indeed, Marx, in his cycle theory, could not have made his intention about saving any clearer to a mathematician, when he spoke of the rate of accumulation being the independent and not the dependent (or constant) variable. Not surprisingly, however, the adjustment of the savings assumption to monetary terms does not change the results of Morishima's model significantly, as he shows in his study of the dynamic transformation problem.

Clearly in using constant savings rates, Morishima assumes away the coercive force of competitive accumulation, and the dynamic behind an increasing organic composition of capital and falling rate of profit. Thus, in his treatment of the falling rate of profit, Morishima's separation from Marx takes on phenomenal proportions. He shows that the rate of profit will fall if the organic composition of capital rises but the values of all commodities, including labour-power, remain unchanged. This, in fact, assumes that capitalists deliberately choose a lower rate of profit by their choice of technique, unless we revert to the Ricardian paradigm of accumulation and diminishing return to scale.⁴ Morishima also finds a 'counter-example' to Marx's breakdown theory on the assumption of exogenous technical progress, that real wages remain constant and become cheaper to produce, and that capitalists save a constant proportion of their income. The result is hardly surprising.

Morishima concludes by suggesting that Marxists reject the labour theory of value for the greater generality of von Neumann growth theory. Exploitation can still be revealed⁵ and account may be taken of joint production, fixed capital, etc. This is not a surprising conclusion since it has been assumed from the beginning. Whatever was Marx's contribution to von Neumann's economics, it would have been better had he rejected the labour theory of value for input-output tables. Morishima's implicit assumption is that von Neumann growth theory is the economics of capitalism. This is nowhere justified or even discussed. The critics of the labour theory of value rarely get to grips with its essence, the embodiment and expression of the relations of production specific to capitalism, in which labour-power becomes a commodity in particular and commodities in general contain a two-fold character of use-value and exchange value, creating the categories of abstract labour and value. Rather than analysing values they stress, on an equal footing with the relations of production, firstly the relations of distribution, secondly technical relations and eventually subjective demand relations. In conclusion, Morishima, one of the most gifted of mathematical economists, with a sympathetic heart and dedicated eye, has been unable to make a significant contribution to Marxist economics and further has failed to represent Marx's own theory.

NOTES

¹ For the inadequacy of the neo-Ricardian concept of 'capital', see Rowthorn 1974.

² For the clearest statement of Marx's treatment of the transformation problem as an analysis of the relations by which surplus value is distributed see Baumol 1974.

³See Fine 1975.

⁴Samuelson (1974) makes this point, conceded by Morishima (1974).

⁵Note that capitalist exploitation is revealed by the existence of profits, not by von Neumann growth or the labour theory of value. What is important is not revealing, but understanding the conditions in which it takes place and the consequences of these conditions.

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MARXISM AND EPISTEMOLOGY: BACHELARD, CANGUILHEM AND FOUCAULT
Dominique Lecourt (New Left Books 1975)

Reviewed by
Laurence Harris

This collection of essays by Lecourt centres on an exposition and appraisal of the work of Gaston Bachelard and, since one can identify connections between all three, it also discusses the work of Canguilhem and Foucault. But to describe Lecourt's work as one of exposition and appraisal is to take a superficial view (although it is these things as well). Fundamentally, it is a materialist reading of the works of these non-materialist epistemologists, and it is a symptomatic reading: it is analogous to Marx's reading of the Classical economists. As such, it is exciting reading and essential to the production of a materialist epistemology, although in this work Lecourt does not himself proceed to such a construction.

To start at the beginning. Lecourt in a lucid but unremarkable Introduction written for his Anglo-Saxon readers situates his work. He brings to our attention (and this, in itself, is invaluable) the existence of French developments in epistemology by his three writers and he situates that encounter between epistemology and Marxism which took place in the 1960s on the site of Althusser's work. It was an encounter which was to produce for Marxism the concept of epistemological break or rupture - the concept which proved to be the red rag to Marxist humanists and neo-Hegelians. A related concept of epistemological break is found in the works of Bachelard, Canguilhem and Foucault. Its existence together with the associated concept of epistemological obstacles and with Bachelard's study of the materials and division of labour of scientists has led some to see a convergence between Althusser and the Bachelard tradition on the one hand, and the work of Thomas Kuhn on the other. In this Introduction Lecourt makes clear the divergence between the Anglo-Saxon developments around Kuhn and the French developments: despite superficial appearances they are fundamentally distinct in that a materialist reading of French epistemology is possible (as the remainder of the book demonstrates) whereas in the case of Kuhn only a materialist rejection is possible.

At the centre of the book is Bachelard's concept of rupture and break. Anyone who has read and puzzled over Althusser's 'Letter to the Translator' at the end of Reading Capital will find Lecourt's exposition invaluable. He reads to us

Bachelard's concepts from his "Essay on Approximate Knowledge" (1928) to "Rational Materialism" (1953), constructing Bachelard's problematic and raw material and demonstrating the materialist (but confusedly materialist) basis of Bachelard's work. In the process we learn of Bachelard's rejection of the philosophical (non-) epistemology of Meyerson and his embracing of mathematical physics as the queen of sciences -- a queen which in Bachelard's time experienced (but did not understand) its own revolution or rupture. Despite the strength and significance of Bachelard's work and the fact that it has given to Marxism a central concept with which to understand itself, Lecourt does not shrink from explaining the limit of Bachelard's work - a limit which is serious - Bachelard's inherent psychologism which becomes most evident in Bachelard's treatment of epistemological obstacles.

In the two last essays in the book Lecourt considers the development of Bachelard's concepts in the works of Canguilhem and the later Foucault ("The Archaeology of Knowledge"). The latter is probably the more interesting to English readers, both because his other works (especially "Madness and Civilization" and "The Birth of Clinical Medicine") are already well known and because in the "Archaeology of Knowledge" an attempt is made to grapple with some of the problems in Althusser's work. Of particular interest is the implicit discussion between Lecourt and Foucault of Althusser's couple ideology/science. In Althusser's early work at least, ideology is the opposite of science - it is what science is not - and the two are separated by a rupture. For Foucault, science separates itself from ideology not by a rupture but by an irruption. There is no simple break between a theoretical ideology and a science, and any attempt to characterize the break by a comparison of the objects of practice must remain purely descriptive. Instead, the limits of theoretical ideologies circumscribed by practical ideologies can in some circumstances allow for movement which enables a science to burst out of the pre-existing ideology. Foucault's failure is that he is unable to situate this thought within a class analysis. For Lecourt this appears to be a minor problem, one which could easily be rectified, but any comparison between (Lecourt's exposition of) Foucault and Althusser's rich essays in "Lenin and Philosophy" makes clear how great the gulf is between Foucault and materialism.

In the midst of Lecourt's tour de force we find a discussion of several issues of immediate interest to academic economists (although of course, all the issues raised should be of interest to economists). In his explanation of Bachelard's psychologism, Lecourt hints at the correct analysis of the question of the problems of teaching. In his discussion of Bachelard on the role and nature of scientific instruments - the concept that they are themselves the product rather than the datum of science - we are taught lessons which could well be drawn by neo-Ricardians.

One finishes the book wishing that more had been done. One wishes that Lecourt had dealt more fully with the so-called 'problem of knowledge' and concept of truth (if only because Althusser in Part I of "Reading Capital" is, at great length, so incomplete); one wishes that his analysis of Bachelard's rejection of Meyerson's 'common sense' were compared with Gramsci's concept of common sense; and one wishes that Lecourt had written more on the direction to be followed from here. But those questions are not what the book is about; it is about a materialist reading of an important French tradition and, as such it is extremely good and very readable.

MONEY AND EMPIRE: THE INTERNATIONAL GOLD STANDARD Reviewed by David Fishman
1890-1914. Marcello de Cecco, (Basil Blackwell, Oxford 1974)

In this book Professor de Cecco shows the paucity and distortions of existing analyses of this period. Using almost entirely existing source material de Cecco has made a start towards a full economic and political analysis of this period. The question that is posed is what has allowed this transformation and

rewriting of history to take place.

The book begins with a useful summary of the existing literature concerning the gold standard, beginning with Smith and Ricardo, going through List, the Cunliffe Committee, Keynes, and ending with contemporary sources. De Cecco establishes his position as being anti-classical on the basis that the classical mechanism is unrealistic due to its assumptions of homogeneous nations, of perfect competition and of the quantity theory. Thus Keynes is seen as being 'inside criticism', imparting some realism in showing the deficiencies of the mechanism which needs to be bolstered by State intervention, while leaving the foundations of the analysis unchanged. This in contrast with List who is seen as representing the, as yet undeveloped, national bourgeoisie. Thus protectionist measures are necessary in order to develop large-scale industry and to further capitalist development. The weak position of the bourgeoisie necessitated State intervention in order to speed the process of development.

The old theme of the decline of Britain's world economic position is treated with clarity by de Cecco. The loss of world markets and of competitiveness is documented, and the resultant near-monopoly of Empire markets is shown to be the direct result of colonial policy. However, colonial policy did not stop at preference for British goods, but also embraced monetary and financial control. Thus a whole chapter is devoted to Indian monetary policy, which was key to the world role of sterling. De Cecco relates the struggle over the form of money in India to the different class and thus economic positions of the parties involved. The adoption of a gold standard would have aided India to pursue a path of independent development.

The impressive thing about the analysis here is that, whereas to bourgeois theory the choice of a standard is seen to be merely one of ensuring that prices are not affected by the standard, de Cecco knows that the choice of standard affects production and distribution and thus involves class positions. An interesting and correct feature is that de Cecco treats the prices of the monetary standards as being due to supply and demand conditions with the added determination that these are subject to the functioning of national and international economic policy. This analysis is also applied to the choice of the form of money of each country. De Cecco describes the historical factors determining the choice in each case, but in doing so he doesn't develop the theoretical foundations of this analysis. This involves looking at the creation of money as a distribution relation between and within classes. In this way the question of the stability of the standard is secondary to the knowledge of the institutional framework of money creation.

De Cecco rightly pinpoints the role of the London markets and international confidence in them as the key factor ensuring stability of the system. We are thus led firmly away from the classical analysis which focusses on the necessary 'real' factors for equilibrium. Instead the analysis is conducted at the level of national and international relations of economic and political power. However anti-classical this approach may be, it does lack any explicit theoretical foundations. Thus in characterising the British financial system de Cecco does not establish the position and role of each unit and thereby offers no explanation for the change of the system. The main event of the period is the rise of the joint-stock banks which culminated in the crisis of 1914. That crisis is given distinctive treatment by de Cecco due to new source material being available. De Cecco shows that the crisis was heightened by the joint-stock banks in order to destroy the Acceptance houses and to ensure some flexibility of Note issue. De Cecco does not establish why the joint-stock banks should have favoured these measures, nor does he establish the importance of the joint-stock banks as regards credit creation for the functioning of the financial markets. It is necessary to see the intertwined development of the financial markets and the joint-stock banks in order to appreciate the international role of London and her financial markets and institutions. The stability of these markets was due mainly to the role bills played in a bank's portfolio and to the policy of support

pursued by the Bank of England. These are things which de Cecco does not mention.

One further point is that in treating of the role of gold and of convertibility de Cecco correctly doesn't ascribe any intrinsic or fantastic properties to gold. The question of the monetary standard is for each country to settle. Moreover, de Cecco questions whether a meaningful gold standard existed at all. Thus the question of standard is taken from the never-never land of classical analysis and becomes a question of whose interests each form of money serves and the strengths of the parties involved.

Even in this brief view of this important book it is noticeable that de Cecco runs counter to accepted monetary and historical analysis. But what is the status of this opposition? I feel there is a deficiency in that he doesn't concretise the theoretical implications of his analysis. This omission also has effects on the nature of his analysis in that it remains at the level of description without registering the conditions and dynamic of the financial system.

Specifically the theoretical analysis of the functioning of money and credit is not developed. This shows up lacunae in Marxist theory with respect to the analysis of prices and the form of money. More importantly the role of credit-money and of credit creation is not detailed. These are necessary to know if we are to characterise a financial system and also in order to analyse the types of capital and their interrelations. Inasmuch as de Cecco is undertaking historical analysis, it is necessary to uphold the specificity of each historical period, and thus the specificity of historical analysis. But it is also essential to make visible the theoretical framework that underlies the analysis in order to challenge the level of bourgeois analysis that sees history as mere description of events and personages. Thus, understandably, the review of the book in the "Economist" (26.4.75) makes no mention of the class analysis that is essential to understanding the book. For them the book is just an interesting reinterpretation of the historical events seen in terms of the people involved in those events. The serene sleep of empirical and historical analysis, which is descriptive, and of theoretical bourgeois economics, which is abstract and ahistorical, is untroubled.

BIG BUSINESS: THEORETICAL AND EMPIRICAL ASPECTS OF CONCENTRATION AND MERGERS IN THE UNITED KINGDOM
 Sam Aaronovitch and Malcolm Sawyer (Macmillan, London 1975) Reviewed by Pat Devine

There can be no doubt about the importance of 'big business'. The process of competition turning into monopoly is central to all Marxist analysis of contemporary capitalism; and the evils of monopoly are central to the liberal critique of bigness. Yet beyond very general qualitative statements, little progress has been made in analysing the characteristics of an economic system dominated by relatively few absolutely large units. What is lacking is a theory of the competitive process as a whole in which the various aspects of business behaviour are exhibited as integral parts of the modus operandi of advanced capitalist economies.

Sam Aaronovitch and Malcolm Sawyer are acutely aware of the theoretical challenge and have also both undertaken extensive empirical work in the sphere of business behaviour and industrial structure. One opens their new book, therefore, with a sense of heightened anticipation.

The longest and most technical section of the book is concerned with the measurement of concentration and the role of merger in post-war Britain. After a very full discussion of the relative merits of alternative measures, the most up to date statistical evidence on the extent of concentration in various sectors and the post-war merger movement is summarized. Not surprisingly, the conclusions drawn are that in general concentration is high and has been in-

creasing sharply and that merger has been the most important single factor in this increase.

As already indicated, the real challenge is theoretical. The authors start with a critical review of the response to the existence of big business of the now traditional approaches of orthodox theory - the neo-classical theory of the firm, the structure-conduct-performance and workable competition approaches, the 'managerial' theories. Although there is much of interest here the treatment is frequently superficial so that the theories under discussion are not always presented at their strongest. Nevertheless, the conclusion is sound enough: the concept of equilibrium (industry or firm) must be abandoned and replaced by an approach based on blocs of capital seeking expanded reproduction and therefore engaged in a never-ending process of rivalrous interdependence. Expanded reproduction is of course growth and requires profitability. If some blocs of capital are stronger than others, perhaps typically because of advantages associated with size, concentration and centralization are to be expected. But increasing concentration and centralization of capital are not necessarily associated with increasing product (market or industry) concentration, although in fact for the most part they have been.

This very general approach provides the basis for an attempt to develop a theoretical framework which will enable us to understand the forces giving rise to the empirical findings. After some brief observations on the ownership-control controversy, the evidence on the relationship between merger and firm-specific characteristics is examined. No support is found for the proposition that merger activity can be 'explained' in terms of the ownership characteristics of firms. The only firm-specific characteristic which emerges as of general significance is size. The position with respect to scale economies and technical change is similar; neither appears to be closely related to concentration or merger activity. In contrast with these approaches the authors develop their own analysis by means of a distinction drawn between the costs of competition and the costs of rivalry. The former comprise all costs arising from decentralized decision-making coordinated via the market, irrespective of where they fall. The latter are costs generated by the process of oligopolistic rivalry which fall on the firms themselves and which would be reduced if rivalry were reduced. It is argued that many costs arising at the firm as opposed to the plant level are primarily costs of rivalry and that it is the ability to sustain such costs that constitutes the principal advantage of firm size.

The scene is now set for an attempt at an historical analysis of post-war changes in Britain's industrial structure. An earlier phase of post-war recovery is seen as giving way by the mid-50s to a period of sharpening inter-imperialist rivalry, with British capitalism in an increasingly exposed position. The result of this was a build-up of 'destabilising' pressures, upsetting the pre-existing structure of market shares, the balance of oligopolistic power and greatly intensifying oligopolistic rivalry. And of course, merger feeds on itself; any given merger creates new destabilising pressures and adds a further twist to the spiral of merger activity. The approach appears in some ways very similar to that of Newbould and it is surprising that no reference is made to his theory (as opposed to his empirical work which is extensively quoted).

This is not an easy book to read, and it is sometimes difficult to assimilate the main lines of the argument. Partly this is due to the unusual mixture both of content and of theoretical positions. The content ranges from detailed technical discussion, e.g. of measures of concentration and economies of scale, to critical discussion of existing theories and original speculative theorising. The theoretical position adopted is mainly that indicated above but this is interspersed with disconcerting references to externalities, the divergence between social and private benefit, the misallocation of resources - concepts associated with orthodox welfare theory and necessarily retaining that connotation in the absence of very careful alternative definition. Partly the difficulty may be due to inadequate attention to presentation - at £10.00 there are far too many works

cited in the text but not included in the list of references, tables referred to in the text but nowhere to be found, sentences which do not make sense as they stand.

However, the main reason for the book's difficulty is almost certainly the great difficulty of its subject matter. The sterility of most orthodox theory in this area has encouraged a tendency to mindless empiricism, while Marxists have largely been content with vague generalisations. The value of this book, on one reading at least, is that it attempts to develop a Marxist analysis of contemporary business behaviour in the light of the empirical evidence. That it represents only a beginning is hardly surprising. But it is a beginning well worth having.

BOOKS RECEIVED

EMPLOYMENT TECHNOLOGY AND DEVELOPMENT	Amartya Sen	Clarendon Press:OUP 1975 3 hardback, 1.25 paperback
EXPLOSION IN A SUBCONTINENT	Robin Blackburn (ed.)	Penguin Books 1975, 95p
MONEY AND EMPIRE	M. de Cecco	Basil Blackwell 5/75, 6
BIG BUSINESS	S. Aaronovitch & M. Sawyer	Macmillan Press 1975, 10
THE ECONOMICS OF INEQUALITY	A.B. Atkinson	Clarendon Press:OUP, 5/75 1.90 paperback, 5.50 hardback
MARX ENGELS COLLECTED WORKS Vols 1 & 2		Lawrence & Wishart 1/75 & 3/75, 3 each
FIRST MODELS OF THE SOCIALIST ECONOMIC SYSTEMS	L. Szamuely	Akademiai Krado, Budapest, 1974
BILATERALISM & STRUCTURAL BILATERALISM IN INTRA CMEA TRADE	van Brabant	Rotterdam University Press 59.50 florins
ESSAYS ON PLANNING TRADE & INTEGRATION IN EASTERN EUROPE	van Brabant	Rotterdam University Press 59.50 florins
POLITICAL UNDERCURRENTS IN SOVIET ECONOMIC DEBATES	Moshe Lewin	Pluto Press 6/75
SOCIAL DEMOCRACY & THE WARS OF INTERVENTION IN RUSSIA 1918-21	Leon Trotsky	New Park Publications 6/75 1 paperback
THE MATHEMATICAL REVOLUTION IN SOVIET ECONOMICS	A. Zauberman	Oxford University Press 5/75 45p
INNER CITY	N. Falk & H. Martinos	Fabian Research Series 320 Fabian Society 5/75, 45p
VILLAGE LIFE AND LABOUR	Raphael Samuel (ed.)	Routledge & Kegan Paul 5/75 6.95 hardback, 3.50 paperback
THE LABOUR MOVEMENT IN EUROPE	Walter Kendall	Allen Lane, 6/75, 10 hardback 5 paperback
PATTERNS OF DEVELOPMENT 1950-1970	H. Chenery & M. Syrquin	Oxford University Press 5/75 4.50 hardback, 1.50 paperback
BEYOND THE SOCIOLOGY OF DEVELOPMENT	I. Oxaal, T. Barnett & D. Booth (eds.)	Routledge & Kegan Paul, 3/75 6.95 hardback, 3.95 paperback

CONFERENCE OF SOCIALIST ECONOMISTS

The CSE was formed in 1970 with the aim of bringing together socialist economists in order to develop an adequate political economy within the socialist movement. We aim to include not only 'professional' economists, lecturers, researchers and students, but also all trade unionists and others actively interested in questions of socialist political economy. Although the CSE is based in Britain, we are developing links with similar groups elsewhere, and a third of our membership is overseas.

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All membership runs concurrently with the calendar year. At present the subscription is at the rate of £4.00 per annum, or £1.50 for students and others on very low incomes. Overseas membership costs the same if payment is made in £ sterling; otherwise add £0.50 for bank charges. Spring and Autumn 1974 back numbers of the Bulletin are available, at one third of subscription cost each. No back numbers before 1974 are available. They will be reissued in a collection available to members. Details will be forthcoming. The cost of a library subscription is presently £6.00 per annum.

Correspondence should be addressed to C.S.E. Newsletter, C.S.E. Membership or C.S.E. Library subs (whichever is appropriate)

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