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FOREWORD

This issue of the Bulletin contains four substantial pieces with the balance tilted more towards concrete analysis than previously. The discussion of the post war development of German capitalism by Elmar Altvater and his group was a highlight of the January Imperialism Conference, with its use of empirical material within a tight theoretical framework. We hope that Jim Smyth's paper on Ireland, also presented at the January Conference, will spark off an extended debate on this vital subject. Bob Rowthorn's analysis of skilled labour has already been referred to in earlier articles in the Bulletin. We urge non-mathematical readers to take the maths on trust and to persevere with this very important analysis. John Harrison's paper on the U.K. formed the basis of extended discussion at the last Editorial Board. We hope these discussions of current topics will become a regular event at which all CSE members will be welcome to contribute pieces or simply join in the debate (information in Newsletter).

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ON THE ANALYSIS OF IMPERIALISM IN THE METROPOLITAN COUNTRIES: THE WEST GERMAN EXAMPLE

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(translated by Richard Alexander)

I. INTRODUCTION: STAGES OF CAPITAL ACCUMULATION AND THEORIES OF IMPERIALISM

In this paper we shall attempt to outline recent tendencies in the development of capitalist industrial states by tracing the developmental stages of capital accumulation in the Federal Republic of Germany and its position on the world market. However, we must first preface out paper with some fundamental remarks on the traditional political and theoretical discussion of the causes of imperialism. We should also add that we do not intend to summarize each of the various sets of arguments which have been proposed for analysing the phenomena of imperialism. Instead we would like to stress that capital reproduction developed in stages which superseded one another. Each of these stages is separately characterized by particular determining factors, which assert themselves in the individual theories of imperialism within the political currents of the working-class movement.

A. Classical Theories of Imperialism

The classical discussion of imperialism, which came about as a result of the conquest of the world market by the industrial capital of the developed European countries, centres on two questions which we will take up and pursue further without reservation:

1. The classical theories of imperialism start out from the movement of capital, that is the capital reproduction in the industrial countries, in order to explain what immanent tendencies within the national process of reproduction drive the national capital into expansion on the world market, whether this is in the form of commodity capital or (investable) finance capital. These theories assign the international market the role of being the prerequisite for the national process of reproduction.

2. The individual arguments for the possibility or impossibility of extending the reproduction of capital in one country are directly related to the splits in the working class and the controversies within the working class political organization. These theories attempt to base the tactics of the working class movement on a materialist analysis of the reproduction of capital. The decades prior to the First World War saw a historical stage of flourishing capital accumulation with an expanding world market and context of reproduction. An increasing amount of investable finance capital was employed abroad. This was either a result of the fact that reproduction connections were forced on foreign countries (especially overseas colonies) by the development of the means of production in certain industries; or else particular exchange relations arose as a result of the growing unproductive classes and their consumption habits in capitalist countries. It is during this period of increasing reproduction and exchange relations that the structure of the international division of labour and the structure of production and demand on the world market originates (a structure which is caused by the export of commodity and finance capital); it is a function of the requirements of the aggregate social process of reproduction in the imperialist industrial states. It must not be

overlooked that this economic structure on the world market is made possible, supported and expanded by the political and military machine in the individual countries. The development of the means of production and the consequent decline or rise of certain industries has changed not only the structure of production and demand between industrial nations themselves, but the reproduction relations as a whole between the industrial nations participating in the international market and the colonies.
This stage was characterized not only by the ever more dense international relations of reproduction, but also by the increase in the real wages of workers in developed countries and sharper competition between national capitals. The theoretical and political controversy about the ways capitalist industrial nations would go as a result of this historical development was sparked off by the "question of realization", whereby the problem of the national capacity for development of capital was raised - of central importance again today in the context of the industrialization of the Third World. The supporters of an under-consumptionist theory (Luxemburg, Steinberg) combated reformism and opportunism before the First World War, by trying to prove not only that the disguise of capital's continuing prosperity was an illusion without immanent limits to accumulation, but also that a violent confrontation between the imperialist states was un-avoidable as soon as the expanded reproduction of capital in the individual countries was no longer ensured by the realization of commodity capital on the world market. On account of this external constraint national capital would reach its immanent limits and this would have consequences for the tactics of the working class movement.

In what follows we would like to outline the main points of the "classical theories of imperialism" we have mentioned. We cannot rehearse the detailed arguments here and apologize for the abbreviated presentation. Our intention is merely to bring out the historically conditioned nature of the main positions:

1. The under-consumptionist theory (first formulated in its essence by Sismondi) (Hobson, Luxembourg, Sternberg) sees the necessity for the external expansion of capitalism in the limited capacity for consumption of the masses. Its different variants repeatedly make the same error of ignoring the demand for products from Department I (production goods industry) by the capitalist class itself. Hence the conditions for the expansion of reproduction are inadequately dealt with.

2. In contrast to this a "harmonious" view (Tugan-Baranowsky, Hilferding) asserts that in general the reproduction process will expand continually, without the need for disproportionalities to be overcome by crises and the expansion of the world market.

3. A third theoretical variant is Bucharin and Grossmann's criticism of the above mentioned positions which contains an explanation of the expansion of the world market starting from the internal contradictions arising from the process of accumulation. In our view this methodological approach is worth pursuing further.

4. In contrast to this approach, there are attempts to explain the expansion of the world market and the aggressiveness of national capitals on the basis of the rise of finance capital, the growing power of the monopolies and the state apparatus in the industrial nations. These proceed in a selective fashion and do not derive this expansion from aggregate capital reproduction.

B. Theories of Imperialism after the Second World War

After the Second World War the emphases of the theory of imperialism shift. The reason is to be found in the modified historical conditions of capital accumulation. The Second World War, and the associated enormous destruction of capital, is itself the starting point for a development of the means of production of hitherto unknown proportions, the general growth of industrial production and increasing international integration. To an ever increasing extent the intertwining of the international market is a determinant of the growth of international capitals and in particular of their cyclical decline and fall. In this stage forms of international cooperation are increasingly being set up (GATT,OECD,IMF,etc.). The growing capital and commodity flows between the developed capitalsit nations, without the underdeveloped countries being included to the same extent, point towards a tendency to isolationism on the part of the capitalist industrial nations vis-a-vis the countries of the "Third World".

And yet slowed capital accumulation and the phenomena of a recession have become noticeable in the most important capitalist industrial nations since the middle sixties. This indicates tendencies towards a general over-accumulation of capital. (Depending on the state of development of national capitals and their possibility of maintaining an accelerated accumulation by escaping to the world market, these tendencies are differently marked for different countries.) As a result of these general tendencies - which we will deal with in more detail in the case of the Federal Republic - one can assume (without investigation) that the trend over the past few decades towards concentration of commodity and capital flows on the developed countries cannot be prolonged into the future. Instead we must ask whether the high growth rates of capital accumulation in the industrial nations, the achievement of broad cooperation between the industrial nations and the dismantling of trade barriers, which used to prevent flows of capital and goods, are not themselves the expression and special characteristic of the stage of capital development after the second World War. There is no reason why they could not be followed by diametrically opposed processes (consider the case of protectionism in the USA).

The period of flourishing capital accumulation till the middle sixties not only led to an abatement of the West European and US-American working-class movement, but is also not without consequences in marxist theory (in our case concerning the questions of the theory of imperialism). For this hitherto unknown flourishing accumulation and apparently crisis-free development of capital meant among other things that the theories of imperialism of the past decades (for example Baran) - unlike the classical theories of imperialism - no longer derived from the difficulties capital has in extracting surplus value or from the conditions of capital reproduction. The theories did not go on to develop the phenomena of imperialism from this and to draw the conclusions for the working class. Instead the object of the postwar theories of imperialism is the underdevelopment and exploitation of the "Third World". The developments in the industrial nations are hardly analyzed. With reference to the Third World these developments tend to be viewed as "interests": either imperialism is reduced to the interests of the extracting monopolies in the Third World, or else there is talk of imperialism's "interest" in the nations of the Third World, which does not allow independent development. The blocked accumulation of capital in the Third World is not mediated in these theories by the movement of the world-market for capital and developed from the general relations of reproduction. These theories are no longer addressed to the working-class of the industrial nations, but to the peoples of the Third World, from whom revolutionary impulses are expected.

The theoretical contributions from the Third World itself - especially the Latin American scholars - as far as their approach, their theoretical reasoning and their fallacious generalizations are concerned, are the reflection of quite definite social conditions in these countries during this stage of capital accumulation. Thus, for example, the greater part of Latin American social scientists are of the opinion that the following list of factors limit the internal market and also simultaneously the industrialization of the underdeveloped countries:

1. The size of the industrial reserve army or the marginalized labour power contributes to the fact that real wages stagnate or even go down and that the consumption power of the broad masses therefore shows no sign of expanding.

2. Foreign and multinational concerns, which are largely responsible for industrialization, work with "capital-intensive" technology; the consequence being that these enterprises have no or only a slight effect on employment. Thus the greater part of the working class is left to stagnate despite advanced processes of industrialization; and this in its turn inhibits the process of industrialization, insofar as demand on the home market is impaired.

3. The social structures in the countryside together with the extremely unequal income distribution combine to keep down individual consumption.

4. The surplus product which could be used in the process of accumulation is not only diminished by the unproductive classes; the permanent drain of profits, debt payments, flights of capital and of value (mediated by means of the terms of trade) to the metropolitan countries additionally limit the accumulation process in the Third World.

The conclusion drawn from this is that under-development is the lasting structural feature of the capitalist world market and that under-development is reproduced in each case higher up the ladder.

Despite the fact that the factors which have so far been mentioned are indeed relevant for the analysis of under-development, one must nonetheless criticize the argument for having adequately explained neither the delayed accumulation in the Third World nor the capital accumulation in West Europe (one would have been able to put forward similar arguments for capital accumulation here during the initial stage of industrialization). And one can by no means project such an argument into the future.

Rather, the "blocked" capital accumulation in the Third World has to be seen in connection with the development of capital in the developed countries after the Second World War. For if a fundamental turn in the conditions of capital accumulation should come about in the capitalist industrial countries, one can be sure that the Third World will become increasingly important as a sphere of investment for the investable money capital of industrial nations that might be lying idle. And as a consequence the much described "isolationism" of capital reproduction within the industrial nations might even come to an end.

This distinction of historical stages through which capitalist production has developed is based in each case on different historical factors, which were predominant and which in the long run determined the aggregate social reproduction process. Hence one needs to relate the particular factors of the capitalist reproduction process to the phenomena of imperialism which characterize the separate historical stages. To be sure imperialist tendencies are anchored fundamentally in the capital relationship. But they do not have the same importance at each stage of capitalist accumulation and for each capitalist country, nor are they manifested in the same form. To take one example: international production of British and American (US) capital is several times greater again than the volume of exports, whereas the situation is the other way around in the case of the Federal Republic and Japan. Expressing the relation between international production and volume of exports as a ratio, in 1971 it comes to 3.96 in the case of the USA, 2.15 for Great Britain, but only 0.37 for West Germany and 0.38 for Japan. In other words: the USA and Great Britain export for the most part money capital, while so far Japan and West Germany have largely exported commodity capital. But if one considers the rates of growth of money capital in the four countries in the sixties, the annual average for Japan and West Germany lies far above 20 per cent; in the USA and Great Britain, on the other hand, it fluctuates from 5 to 10 per cent. (Figures from UNO, Multinational Corporations in World Development, New York 1973, pp. 146 and 159). It is correct to talk about the system of imperialism. But when one concretizes the imperialistic tendencies of individual countries, one is forced to derive the particulars of each case from the specific conditions of the accumulation process of capital. This is what we shall attempt to do in the case of West German capitalism. It will be seen that the changing conditions of capital accumulation in West Germany have had a decisive influence in intertwining West German capital in the world market.

II. THE STAGES OF THE ACCUMULATION PROCESS OF CAPITAL IN WEST GERMANY

The capitalist world market is nothing more than the specific form of combining national capitals into the system of imperialism. Therefore the explanation of imperialist tendencies in West Germany must proceed both from an analysis of the world market as a combination of the many national capitals and an analysis of West German capitalism itself. In investigating the accumulation process of capital in West Germany in this context we cannot be expected to provide a detailed description of the factors of the capitalist process of reproduction in West Germany. Despite the plentiful literature on the West German economy this task still remains.

An analysis of the process of accumulation of West German capital after the Second World War cannot be undertaken without taking into consideration the result of the Second World War and the East-West conflict which arose. This point appears to be largely uncontested in the literature. However, we consider it to be completely problematical to start the analysis with the year 1945 or even 1949, when the Federal Republic was formally founded. This would imply that fascism and the Second World War had had no influence on West German economic development. For it can be demonstrated that capital accumulation, and at the same time the forms and tendencies of the intertwining of the world market, since the Second World War are functions of the integration of the West since the War and that this was forced by the world economic crisis, fascism, war and political factors.

Decisive for the accumulation of each individual capital is the rate of profit in the past and the rate expected on the advanced capital. In this situation the individual capitalist is completely uninterested in how he obtains a satisfactory or very high rate of profit; the conditions of the production of profit even remain hidden from his view. However, in a materialist analysis it is of central importance to disclose the relationships, by means of which the movement of the profit rate in a concrete period of time can be found out. Initially, we are simply interested in the global relationships, not the differences in the realization of capital which are specific to particular industries. If the rate of profit denotes the relation of surplus-value to advanced variable and constant capital, then it is dependent on the rate of surplus-value, that is, on the relation of surplus-value to variable capital, and it is dependent on the organic composition of capital, that is, on the relation of constant to variable capital. Hence, these two quantities need to be examined in their component parts if one wants to make a statement about the movement of the rate of profit.

We propose the following thesis: in the early years of the Federal Republic the rate of surplus value was so high without increasing the organic composition that the rate of profit of capital was higher than it ever had been in the history of German capitalism. The high rate of surplus value was a direct consequence of the conditions under fascism; the enormous destruction of capital during the Second World War similarly had a positive effect on the rate of profit. At the end of the fifties the rate of surplus value was raised even more, this time by an increase in the productive power of labour, and a lowering of the reproduction costs of labour. However, this was linked with an increase in the organic composition of capital, so that the rate of profit of aggregate capital went down despite an increase in the amount of surplus-value and in the rate of surplus-value. The fall in the rate of profit in West Germany had repercussions for commodity and money capital relations on the world market.

A. The Historical Legacies of Fascism as the Pre-requisite for the West German "Economic Miracle"

The high rate of surplus value in the early years of the Federal Republic did not need to be forced by West German capital itself; the world economic crisis and fascism had already taken care of this. Even though we are not able to measure the movement of the rate of surplus value directly, we can nonetheless have recourse to the movement of individual categories - of relevance both for the state of the working class and the capitalist class - which act as an index of the movement of the rate of exploitation.

In the first place the state of the working class is determined by the extent of unemployment. The function of unemployment in the cyclical process of capital accumulation is always that of pushing down the price of the commodity labour power. Mass unemployment during the world economic crisis had precisely this effect. If we take the nationally agreed hourly wage for a skilled worker in 1928 to be 100, we see that it dropped to 81.9 by 1933. This was nothing unusual when compared with similar developments in practically all capitalist states during the world economic crisis. The peculiar feature of the German development only becomes apparent, if we examine whether wages rose again after the Depression. Even in the years when unemployment had almost completely disappeared, no significant wage increases were achieved. Instead the wages of all groups of workers remained far below the pre-Depression level. A comparison of real gross hourly earnings shows that the pre-1933 level was only reached in 1939 and 1941. In all other years real wages remained below the level reached before the "seizure of power"; and this, despite the fact that the reserve army had been dissolved. All this was in complete contrast to the USA, for example, where wages rose far more quickly although unemployment was much slower in falling. Taking 1929 as 100, real wages in Germany dropped to 98 by 1937, whereas they rapidly rose to 132 in the USA after 1933. At the same time the average working week was lenghthened in Germany. In 1938 men worked over 50 hours a week and a women almost 48 hours on average, and this after the 48 hour week had been introduced after the First World War. So it was no surprise under these circumstances that "the share of wages in the national product" dropped during fascism from 64 per cent in 1932 to 57 per cent in 1938.

The reduction in unemployment is an indication that capital began to accumulate after 1933. It is obvious that, given low wages and longer working hours, together with improved conditions of realization in the form of governmental orders in the context of rearmament, profits were bound to go up. We will mention only one statistic - calculated by Arthur Schweitzer - which could be quoted in support of this claim. According to his calculations the profits of large companies rose to the tune of 433 per cent between 1932 and 1936. A similarly spectacular result is arrived at by relating the figures obtained by W.G.Hoffmann for income going to labour and capital in industry. One must not omit to mention that in the case of the relation between income to capital and income to labour the rate of surplus value is not under discussion; this means that the figures are of little interest taken as absolute quantities. Nonetheless their movement over time is very informative, since the tendency is expressed of the movement in terms of value. The most favourable relation in the twenties between income to capital and income to labour in industry was 16 per cent in 1927, dropping to 1.6 per cent in the crisis year of 1931. In the course of fascism the relation between income to capital and income to labour managed to be raised from 7.5 per cent in 1934 to 43.4 per cent in 1938.

This set of figures clearly brings out the historical function of fascism. It raised the rate of exploitation of the working class extremely rapidly and extensively to a level 300 per cent above that of the Weimar Republic. This led to the rate of profit being increased so much that capital accumulation experienced a new boom. The organized working class had been smashed and every attempt to resist fascist authority ended in the concentration camps. In its actions the state held fast to the logic of capital and created conditions which furthered the accumulation of capital by the compulsive means at the disposal of fascist power. The rate of exploitation was increased and the conditions of realization for produced values and surplus value were improved. By the employment of terrorist means the working class was prevented from raising its wages in struggles, and later in the course of the boom, conditioned by the competition of capital for the commodity labour power, the working class was also prevented even from improving its working conditions back to those of before the big crisis. The result was that the fascist state pushed up the rate of surplus value to a new historical level by means of its terrorist policy. With these more favourable conditions of exploitation for capital which it implemented in a terroristic manner, the state served the necessities of capital without a doubt. For the state abrogated for a time the levelling processes between wage labour and capital, by putting into effect a new form of capital's immanent drive for as much surplus labour as possible.

West German capital reaped the benefit of the fascist form of the fulfilment of the drive for surplus labour, after fascism in Germany had been defeated politically and militarily: the higher level of the rate of exploitation which had been brought about by force was maintained for ten years after the period of fascism. From this quarter at least there were no limits set to the expansion process of capital. Before we demonstrate both that this fascistically compelled high rate of exploitation was retained and the manner in which this happened, we need to indicate an aspect of the fascist exercise of power in Germany of especial importance for out topic. The outcome of the world economic crisis for all countries was the collapse of international market relations; in Germany the value of imports from 1928 to 1933 fell from 14 thousand million Reich Marks to 4.2 thousand million Reich Marks; during the same period the value of exports fell from 12.3 thousand million Reich Marks to 4.9 thousand million Reich Marks. Up to 1938 there was only a slight increase in imports of around 30 per cent; in the case of exports of only 8 per cent. During this stage "autarky" was the order of the day for capitalist economic policy. Even Lord Keynes was a strong supporter of autarky. His injunction that Great Britain should cease to import wine is well-known; the gist being not that Britain should start producing her own wine, but that Britain should cease to consume wine. While this position might have validity for all capitalist countries in the context of the disintergration of the world market, the extent of the possible "self-sufficiency" for individual capitalist countries was indeed very dissimilar. Whereas Great Britain and France possessed their colonial empires, which acted as suppliers of raw materials and markets for industrial goods, and the United States dominated the "Western hemisphere", Germany had no "hinterland" to fall back upon. This is the reason why the isolationist policy of German fascism was considerably more aggressive than that of Great Britain, France and the United States. Isolationist policy in Germany always entailed expansionist policy against other capitalist states and consequently war. Markets, which the disintegration of the world market prevented from being conquered by commodity and money capital, had to be conquered by armies. As far as the working class and their living conditions were concerned, the upshot of this policy was the agitational slogan "guns not butter"; this meant they had to experience privation, while being consoled that they would lead a better existence as the "master race" than the present "nation without living space" was allowed to. Thus isolationist policy and the expansionist policy of German fascism together with the terrorist raising of the rate of exploitation of German capital complement one another.

The state of affairs where the rate of surplus value had been pushed up by fascim was intensified by the war. The level of consumption was not only lowered further - the political and economic situation of the working class deteriorated even more. Almost until the end of the war capital could continue to accumulate and extend its political power whereas, in the literal sense of the word, the working class bled at the front and in the concentration camps. After the West German working class was defeated in its attempts to create a "new order" after the war, all further attempts to change the given political and economic arrangements were likewise defeated. It is true that the European bourgeoisie came out of the Second World War economically, politically and ideologically weakened; so much so that they would never have been able to assert their authority without help from without (from US imperialism) and from within (by splitting the working class and supporting reformist leaders in the unions and the social democratic parties of Western Europe). But the very fact that the contrast with socialism became the decisive factor meant that, in the course of this dispute, the reconstruction of Germany and the stabilization of German capitalism played a key role in the battle against communism. The historical starting point for the development of capitalism in the West Zones after 1945 was characterized by the economic and military predominance of United States capitalism and the influence of the American and British bourgeoisie on the postwar development of Western Europe. The main feature of the political and economic reconstruction of capitalism in the Federal Republic is that the political restoration was preceded by the economic reinstatement of the capitalist mode of production, which took place by means of American supplies of goods and capital and the concrete occupational policy pursued by the Allies. The latter prevented the work of progressive forces, especially the representatives of the working class, in rebuilding the working class as a political and economic power, weakened as it was as a result of fascism, unemployment and starvation. At the same time the policy of the Allies strengthened capital and capitalists as the ruling class. On the one hand, the construction of a "Holy Alliance of Anti-Communism" and the integration of West Germany into this alliance marks the discontinuity between fascism and the Federal Republic. And yet the continuity of German capital from the time of fascism, through the war and until the postwar development is above all borne witness to by the fact that the rate of exploitation enforced during fascim was first maintained and then even increased. For many years capital was not compelled to make any concessions to the working class. This meant that the increased rate of surplus value could be maintained until the sixties; and, even with the speeding up of technological progress and the increasing organic composition of capital which this entailed, a comparatively high rate of profit was still possible.

The fascist state had an enduring effect on the movement of capital realization, when it overthrew by terrorist means the levelling processes between wage labour and capital, which would normally take place through the mediation of the business cycle - wage-reductions in the trough and wage-increases during the boom. But the decisive result as far as the later development was concerned was the fact that the state not only suspended the levelling processes with its intervention and stopped the price of the commodity labour-power from going up, it also reduced the value of the commodity of labour-power by reducing the level of consumption. The lowering and then the fixing level of consumption at a lower level can be demonstrated by the per capital consumption of certain vital foodstuffs. In the period from 1930 to 1938, that is from the trough of the depression until the top of the boom, per capital consumption of meat rose by almost 12 per cent, poultry consumption went down by almost 12 per cent, egg consumption went down by 14 per cent, milk consumption stagnated and the consumption as a whole of various fats went down (margarine, oil, butter,and suet); only in the case of butter did it go up by about 9 per cent, and in the case of suet - the least valuable - by 100 per cent. Potato consumption rose by only 5 per cent during this eight-year period, while the consumption of fruit and vegetables fell greatly. (Statistisches Handbuch von Deutschland, Munchen 1949, p.488). The gains which had been fought for during the revolutionary phase after the First World War were thus cancelled out first of all by the effects of the Depression and then by the terror of the fascist state against the working class and its organizations. The Second World War and the conditions in the first years after the War and the destruction of fascism was by no means a timely period for the level of consumption to be improved. Depending on how they do the calculations, different writers come to the conclusion that the level of real wages of West German workers did not reach the level of 1938 until 1950 or even 1956 (Kuczynski, Wallich). If one further notes that the living standard in 1938 was much lower than before the Depression, one obtains some idea of how favourable were the conditions confronted by West German capital when it began to accumulate again. The "West German economic miracle" was pre-programmed in the course of the "thousand year Reich".

B. The Production of Profit and Accumulation in the 50's

The particularly speeded up process of capital accumulation in West Germany which started in 1949 to 1950 was determined by three important factors:

1. The extremely low wages by international standards, long hours and high intensity of labour, pushed up surplus labour and greatly increased the aggregate amount of surplus value that capital acquired. This enormous exploitation of the working class, effected by paying starvation wages, was supported even more by the trade unions renouncing the economic struggle for normal wages. As we saw above this was a result of fascist policies.

2. Far more than in any other capitalist country during this period the bourgeoisie in the Federal Republic made use of the state apparatus, and the monetary and fiscal system to force capital accumulation by means of specially favourable depreciation rates, credits for reconstruction at favourable rates of interest, and programmes of, and finance for investments; in addition they used the state apparatus to suppress the industrial struggles which made

themselves felt after 1951 and 1952. All this took place in contradiction to the official neo-liberal economic theory, which allows the state no direct opportunities for influencing the economic process.

3. From the start capitalist production and capital accumulation in the Federal Republic was developed and at the same time particular branches of production which had been predominant before the Second World War (mechanical engineering, iron and steel, electrical engineering and vehicle construction) expanded in line with the capitalist world market. The achievement of the particular position of the Federal Republic and the above-mentioned branches of production in the fifties was only made possible by the singular conditions of growth and exploitation in the Federal Republic. And yet taken the other way around capital growth was made possible by means of the expanding demand on the world market, and by the increase in productivity and the intensity of labour in the Federal Republic, because the growing quantity of use values which resulted could be sold on the world market and the surplus labour they contained could be realized. Hence the first postwar boom, which began in 1950, had foreign trade to thank for its intensity.

Let us examine the first characteristic factor of West German capital accumulation and how the conditions of exploitation developed against the background of a proclaimed "social market economy". The high rate of exploitation inherited from fascim was one of the decisive prerequisites for the accelerated capital accumulation after the Second World War. When further there are available the "factors" of economic growth, i.e. workers in sufficient number and with high qualifications as well as the means of production; when the realization of the produced values and surplus value comes up against no obstacles on the internal and the external market; and when, above all, the circumstances do not arise to reduce the high rate of exploitation which was achieved by terrorist means - when all these eventualities are met, nothing blocks the way for a rapid economic boom under capitalist conditions. Without a doubt it was the high rate of exploitation rather than the other factors of growth which was the decisive prerequisite for the accelerated accumulation. What use would qualified workers, large amounts of slack capacity and excellent opportunities for sale on the world market have been for capital, if what could have been produced and sold had not been produced with a sufficiently high - and in the Federal German case even extraordinarily high - rate of profit based on the high rate or surplus value? And what would all the government's supporting measures have achieved, if these supporting measures had not set in motion capital that was dependent on the exploitation of wage labour? If the conditions of production do not allow a sufficiently high rate of surplus value and profit, even the best conditions for realization and the most intelligently thought out governmental measures achieve nought: as Lord Beveridge put it: "You can lead a horse to water, but you cannot make him drink." The success of governmental measures in West Germany in boosting capitalist accumulation is based precisely on the fact that by producing the high rate of exploitation the measures of the fascist state had provided the basis so here too, as well as in terms of those involved, one finds an element of continuity from fascism to the society of the Federal Republic.

But how can one explain why the high rate of exploitation created during fascism could be maintained in the first decade after the war and even raised? In our opinion a key factor here was the inflow of refugees straight after the war up until 1961. In the five years from 1945 to 1950 alone, 7.9 million refugees flowed into West Germany; till 1961 between 340,000 and 150,000 annually entered West Germany - on average 200,000 a year. It is not at all true that these refugees were a burden for capital, as the apologies of the economic miracle frequently put it. Nor did they merely augment the workforce as production was expanded. Their main significance lies in that: firstly, they continually filled up the reserve army of unemployed and thus for the most part prevented wage increases and secondly increased the pauperization of the working class, which was already considerable as a result fascism, war and the postwar confusion: that is, they stopped wages from rising and of course without subjective guilt - they were operative in and responsible for the lower value of labour power, which had been brought about by terrorist means, becoming cemented. Sot it was no wonder that, despite the shattering of the West German economy after the war, the pre-requisites for the accelerated accumulation were already there. The high rate of exploitation is documented in the ratio of wage and profit development, in long working hours while there was unemployment and short time and rapidly rising prices, i.e. stagnating or only slowly rising real wages and high rates of growth of productivity (see below), once production was under way. The ratio of profits to wages improved even as compared with the period before the Second World War. Taking 1936 as the base, by December 1948 wages and salaries had risen to 58%, whereas profits had risen 117%. Naturally this development reflects the consequences of the currency reform of June 1948, which Henry C. Wallich describes as follows:

"The six months of boom following the currency reform were of especial significance for the recovery and further growth of West Germany. It was during this period that the foundation was laid for what was to come. Tremendous profits from hoarded supplies were to be gained as a result of the price increases and broad margins looked forward to high takings in the future. Extraordinary opportunities were offered to energetic entrepreneurs. Firms that started from nothing managed to build up a solid foundation. Inflated profits were made with the benevolent approval of otherwise unyielding tax authorities. One consequence of the rapidly growing inequality of income was that savings and investments reached a level one would normally have considered impossible for an impoverished country."

Of course things were not quite as simple as Wallich sees them, although he moves in the direction of the correct way in which things are interconnected. For the enormous profits, which was realized after the currency reform, first had to be produced by wage-labour. The creation of monetary circulation which followed on the caesura of the currency meant that the accumulated capital, which was lying stagnant, in part in mothballs, in part as re-manufactured machinery (as commodity or productive capital), could now be transformed into money. In this way the necessary steps were taken for an expansion of reproduction under more promising conditions of realization. This supports our thesis that the West German state (or rather the United States force of occupation, in the case of the currency reform), could be so directly effective by merely intervening in the sphere of circulation; it was possible because the process of exploitation had been organized in the best interest of capital in the course of fascim, war and the postwar confusion. Only on this analysis can one understand how measures like the re-establishment of money circulation or intervention at the level of fiscal and credit policies could straight away release powerful impulses to the process of capital accumulation.

At all events the accelerated and extraordinary production and accumulation of profit was not limited to the months following the currency reform; it took place all through the decade up to 1960 very extensively and on the foundation of an extremely high rate of exploitation. This latter had been created by governmental repression under fascism and was maintained by particular historical factors such as the inflow of refugees and union restraint in wage claims etc. According to Walter G. Hoffmann income to capital for the period from 1950 to 1959 increased on average yearly at the rate of 11.4 per cent (compare the yearly rate from 1852 to 1913 of 3.75 per cent): income to labour on the other hand increased only at the rate of 7.0 per cent over the same time-span. So with a constant level of employment we find that the share of wages went down over the period from 1950 to

1960 from 58.6 per cent to 53.9 per cent. We see that the ratio between income to capital and income to labour in manufacturing rose from 40 per cent in 1950, to 48.7 per cent in 1954 and settled at around 45 per cent until 1959. Thus one can quite rightly describe the fifties as the years with the highest rate of profit which German capitalism has ever made in its history; the most decisive feature being the fact of the high rate of surplus value extorted by fascism, the war and the period after.

The struggles of the working class could do little to change this - from the hunger strikes in 1947, the struggle for participation in management and against the "Betriebsverfassungsgesetz" (Industrial Relations Act) which was imposed from above, to the strikes for better wages in many regions and industries. What was missing in the struggles was decisive leadership and the necessary mass support and unity of the working class needed to bully genuine concessions out of capital (the unions under Bockler were more inclined towards collaboration rather than towards confrontation, the SPD under Schumacher was firmly in the tow of anti-communism, and the KPD (Communist Party) had meanwhile been completely isolated within the working class).

The high rate of surplus value, which did not have to be produced by increasing the productive power of labour but which had been compelled by state repression, was the essential condition for the accelerated accumulation. Naturally, all the other factors, such as the specific "factors of growth" created the conditions, so that capital could get the best out of the favourable conditions of realization for its accumulation within the framework of an almost uninterruptedly expanded reproduction process. We must briefly consider these factors of growth here.

The first factor of growth is the supply of labour in West Germany, which is composed of the following components:

- i The dissolution of the reserve army of unemployed (the unemployment rate fell from 11% in 1950 to 4% in 1957 and after rising slightly in 1958 reached 1% in 1960);
- ii The migration of refugees;
- iii The increase in the labour force, especially by extending the employment of women.
- iv The natural increase in population;
- v The release of workers as a result of technical progress;
- vi The transformation of hitherto "self-employed people" into wage-workers;
- vii The supply of foreign workers.

On balance all these components had a positive effect on the volume of labour until 1956. The total number of hours worked rose annually by one or two per cent. Thus an expansion of production and of absolute surplus value was possible without the necessity of increasing the organic composition of capital by raising the productiveness of labour. All these components caused the mass of appropriated surplus labour to be raised by simply expanding the volume of labour, without "changing essentially the relation of the labour power employed to the constant capital it sets in motion" (<u>Kapital</u>, vol.3, p.243). Yet the supply of labour was a positive factor of growth only until 1956. From then on the "barrier of employment" made itself felt (Vogt). In the following years capital had to depend predominantly on other "factors of growth". The fact that this was bound to have consequences for the development of the rate of surplus value is quite evident. This will be considered below. But firstly we would like to examine the case of the "material factors of production".

In the first half of the decade after 1950 capital did not only have an abundance of labour at its disposal; from the point of view of the means of production, there were hardly any restrictions in the way of a rapid economic boom. In the first place the war investments, above all in Department I (the production goods industries), had led to significant expansion of capacity. Despite the dismantling and the war damage, the effect of which has always been overestimated, the productive capacity in important sectors was much greater in West Germany than it had been before the war. (Seen from the material point of view about 10 to 15 per cent of productive capacity had been destroyed; whereas about 35 per cent had been decapitalized in terms of value - which also had a positive effect on the rate of profit).

For the most part only slight repairs or initial investments were necessary for the means of production to be put to productive use. And recourse was had to the technology developed during the war. In other words expensive and costly investments were not required to create the capacity to employ the workers, who were available in the early years in sufficiently large numbers. Small investments had large effects on employment. And one must not forget that given a high rate of exploitation every increase in employment implies a further big increase in the absolute amount of surplus value; so West German capital's capacity for accumulation rose still more.

As we have seen the capacity of the West German economy was scarcely restricted by war and dismanteling; thanks to the good conditions for value-expansion and realization on the world market the degree of utilization of capacity, which expanded further within the framework of expanding reproduction, rose from 73 per cent in 1950 to 99.8 per cent in 1956 (according to Gundel, p.295, from 77.8 per cent to 93.8 per cent according to Vogt). New investments of capital took place mostly as extensions of already existent capacity without the technological foundation of production being revolutionized. Hence the organic composition of West German capital did not essentially alter from 1950 to 1955/56. Taking the ratio of capital stock to income to labour as a rough indicator, we find it varies from 3.5 to 4 during the fifties.

The continuous rise in investment - the share value of the product used for fixed capital accumulation rose from 19 per cent in 1950 to 24.1 per cent in 1960 - was only possible because the rate of surplus value was very high, for two reasons we have already indicated. Firstly, the accumulable mass of surplus value rose with the rapid increase in employment and the expansion of the volume of labour at the same and even growing rate (this latter, however, only in the early years). Secondly, as a consequence of the increase in the rate of exploitation, the share in consumption was lowered lastingly. Under fascism the lowering of the share of private consumption was linked to an expansion of the share of investment, but particularly to an extension of state consumption of rearmaments and in conducting the war. When, in the fifties, state consumption contracted (1935/38: 22.6 per cent; 1950/54: 15.8 per cent; 1955/59: 15.0 per cent) it was not private consumption that expanded but the share of investment and also the export share which rose from 15.8 per cent in 1950 to 25.0 per cent in 1960. The share of private consumption was lowered even more. This is not merely an economically relevant factor; it also reflects the dynamics of the social and political balance of power in the Federal Republic. Capital extended its political power base along with its economic one.

C. The Transition from the "Extensive" to the "Intensive" Stage of Accumulation

Production potential increased with the rapidly increasing stretching of capacity in industry and there was an average rate of growth of capital stock of 8.35 per cent from 1950 to 1959. And as a result of the relatively favourable conditions of realization on the internal and external markets the realized product of value increased accordingly. But from the mid-fifties on the already mentioned "limit of employment" made itself felt; the increase in production per invested unit of capital continually got smaller. The IFO study talks of diminishing "capital productivity", i.e. a falling in the ratio of gross national product to the gross invested capital. The "Sachverstandigenrat" (governmental economic advisers) write: "Whereas on average only 2.4 per cent of the gross national product needed to be invested from 1951 to 1955 to achieve an increase of one per cent in the real product, 4.5 per cent of the gross national product was required on average for the period from 1959 to 1963, for the same increase." These figures indicate that capital had reached a limit to the increase of exploitable labour and was thus compelled to revolutionize the technological basis of production and to increase social productiveness in order to maintain or to increase the rate of surplus value. This state of affairs led to a wave of new investments in fixed capital of a modern technological nature (the rationalization investments) after the slight world-wide recession in 1958/59. Labour productivity was raised with the long-term consequence that the organic composition of capital increased. For, when, as the above data demonstrate, capital shows a tendency to become "less productive", this can only indicate one process: the tendency for the organic composition of capital to rise. The reason is not hard to find. When the value product of the productive workers rises as a result of the increase in the volume of labour and when this same value product exhibits falling rates of growth in relation to the input of constant fixed capital, the input of fixed capital per working hour must have risen. In the IFO study we noted above this process is called increasing capital intensivization (gross investment capital in constant prices per completed working hour); it comes about with the increase in labour productivity and the reduction in capital productivity. This "capital intensification" took place until the mid-fifties within moderate limits and then rapidly rose in almost all branches of industry. The extensive character of the growth of production was reflected in the initially very slight increase: capital input per worker and working hour rose slowly as long as

1. the supply of workers was plentiful
2. wages were so low by international comparisons that it was not worth substituting means of production for labour.

The spectacularly high rates of growth of productivity which can nonetheless be recorded just in this phase are due to the fact that, by increasing the load on capacity and reconstructing infrastructures, labour effectiveness, which shows up statistically as rising productivity, was improved relatively quickly. In other words it was not new technologies and a fundamental modernization of the productive apparatus which were responsible for the rise in productivity in the first half of the fifties; it was more effective production structures without a radical revolutionization of the labour process. "Compared to the material-technical possibilities, technical development as a whole progressed at a relatively slow rate" (Neelsen, p.85). To put it differently, once the rate of surplus value had been pushed up West German capital could concentrate on methods of producing absolute surplus value and did not need to depend on a radical revolution in the production process to produce relative surplus value. The statistically proved high productivity-growth-rates conceal this aspect. And despite these high rates the contribution made by productivity to the growth of the gross national product in the fifties was, at not quite 90 per cent, much smaller than in the sixties when it was almost 120 per cent.

The character of labour productivity did not change until the inflow of workers abated and finally became negative, working hours were cut and lastly the flow of highly qualified workers from the German Democratic Republic dried up. Now, in the wake of the accumulation process of capital, the rate of exploitation of the German working class which had been produced by terrorist force - as we saw above - threatened to go down; this was because working hours and the surplus working hours they entailed were reduced (1958 saw the first across the board reduction of working hours in Germany since the First World War) and because wages were considerably raised in the latter half of the fifties. Wage increases (gross hourly wages) from 1954 to 1960 came to 60 per cent. Here we come across a contradiction specific to West German capitalism, which we shall consider before we deal with the development of productivity further.

In the fifties the ideology of West German capitalism, which propagated the "consumer society", "affluence for all", and "capitalism for the man in the street", had both a functional and a dysfunctional side as far as the capital accumulation process was concerned. On the functional side this ideological back-cloth served to bolster up authority; the dysfunctional aspect meant that when the contents of the ideology were appealed to in the course of trade-union struggles the working class level of consumption was actually raised. At first, all that had been missed for the past few decades needed to be made up for ("the wave of gluttony", "clothing wave", "tourist wave", etc.) and in addition entirely new needs and structures of needs had come about and had been produced by capitalism itself in the course of the accumulation process. The basic needs of the working class expanded for the following reasons: the integration of women in the production process required changes in the worker's home, ranging from the motor-car, through kitchen gadgets to the fully-automated washing-machine. The steep rise in the intensification of labour necessarily leads to an extension of the basic needs of the working class, quite independently of the fact that new needs themselves are provoked by the expanded production and new products. Repercussions follow. For if a new, higher level of consumption is maintained over a longer period and if as it were new, inflated structures of needs correspond to it, this new level of consumption has consequences for the development of wages as well as being its result: it has consequences for the reproduction costs of labour, i.e. in the final analysis for its value, given unchanged productiveness of labour or a slight rise in productivity compared to a rise in real wages. Just as fascism protractedly lowered the value of the commodity labour power by reducing the level of reproduction of labour with the slogan "guns not butter", we see that in like fashion the value and not merely the price of labour is raised by the propagation of the "affluent society" and the actual and lasting improvement in the level of reproduction of labour. This was on the basis that real wages grew faster than productivity in the years from 1956 to 1960. The difference between a variation in the price of labour in the course of the business cycle and a change in its value consists in the fact that the new level of reproduction expressed in values itself becomes the centre of gravity around which the price of the commodity labour fluctuates. Marx's statement that the value of labour power contains a moral and historical element has had its economic significance clearly demonstrated in the history of the Federal Republic.

One must conclude from this that the necessary conditions for the high rate of surplus value created by fascism gradually came to be replaced during the process accumulation. If nonetheless capital managed to maintain a high rate of surplus value, then the methods of surplus value production characteristic of capital must have received greater emphasis: namely, the lowering of the value of labour power by increasing the productivity of labour, that is a cheapening of the elements making up the costs of reproduction of labour power and an intensification of labour by reorganizing the labour process. The general conclusion to be drawn from this is that the state was able to create very favourable value-conditions for capital but that they were dissolved in the course of "normal" capitalist accumulation.

Thus the accumulation process of West German capital got rid of its own special prerequisites, which had provided the springboard for the so-called economic miracle. The production of pre-eminently absolute surplus value had to be replaced by strategies involving the production of relative surplus value.

The revolution in the technological base of West German capital at the end of the fifties was motivated by the fact that capitalist accumulation was constrained by the amount of exploitable labour at its disposal. Federal German capital and individual capitals attempted to make extra profits and to increase the amount of profit by increasing the productiveness of labour. The increase of productiveness itself, by introducing more productive machinery, had the following result: the share of value transferred to the individual product was reduced, the social amount of labour necessary for the reproduction of the commodity labour power was lowered, i.e. the value of the commodity labour power went down and the surplus labour appropriated by the capitalist rose. The general forms of extorting surplus value are (a) lengthening of working-hours, (b) increases in the productiveness of labour, (c) intensification of labour, (d) the loss of value of the commodity labour-power, particularly through skills becoming outdated and wear and tear not being compensated. Since the end of the fifties the first mentioned method lost significance. The other methods tended to become more prominent.

The tendency for the volume of labour to fall, which had made itself felt in the latter fifties, persisted in the sixties. The number of persons employed rose in the period from 1960 to 1970 from 26.2 million to only 27.2 million and this again was only possible because the number of "non-German workers" rose over the same period of time from 279,000 to almost 2 million. At the same time these figures conceal the fact that the number of so-called self-employed and unpaid members of the family went down by more than 1.2 million thus filling up the reservoir of the exploitable labour-power of free wage-labourers by the same amount. The transformation of small commodity producers and capitalists, above all peasants and artisans, into wage-labourers continued and this prevented an even greater fall in the volume of labour. But on the other hand working hours were further reduced, even if not very dramatically, by 4 per cent. Of necessity the shortage of the commodity labour power gave rise to wage increases, which were significant, although they varied cyclically,for the whole of the period under consideration. So it is not surprising that the share of gross income coming from "salaried and wage labour" in the national income rose during the years 1960 to 1970 in contrast to the preceding decade: it went up from 60.6 per cent in 1960 to 67.5 per cent in 1970. The improved position of the working class towards capital on the labour market is particularly obvious in the case of "wage-drift", i.e. the gap between nationally-agreed wage rates and effective earnings with the latter, with the exception of the 1966/67 recession, always exceeding the nationally-agreed wages. Why else should capital be prepared to make voluntary wage concessions above the wages the working class has fought for on the national level, if not for reasons of labour shortage on the labour-market? An additional necessary condition needs to be mentioned: that capital is able to "absorb" wage-increases. This was quite manifestly the case; if we consider the ratio of capital income to labour income in manufacturing, we find that just as in the fifties it was around 45 per cent in the sixties. Despite the large wage-increases and a rise in living standards the rate of surplus value does not appear to have dropped in the sixties: it remained constant or probably rose somewhat.

Above, we said that the working class had managed to raise the reproduction level of labour which had been pushed down during and after the period of fascism and that as a result pressure must have been put on the rate of surplus value. We added, however, that, in view of the rise in the level of reproduction and the price of labour, capital was forced to begin producing relative surplus value by increasing the intensity and productivity, and decreasing the value, of labour.

Let us briefly consider the intensification of labour. Intensification of labour, without political pressure such as was exercised under fascism or without the economic constraint a reserve army of unemployed represents, is feasible only if the conditions of production themselves are changed; or alternatively, if the labour process is transformed technologically, so that more intensive forms of labour are permitted with a simultaneous cut in working hours. Technological transformation affects both the means of production and the organization of labour, including the modes of wage-fixing and payment. The means the capitalists have recourse to in intensifying are increased supervision and control over the production process, an extension of the amount of machinery each worker has to attend to and a speeding-up of the work-process. The means of production need to be organized in such a fashion that they demand a speed-up in work-rate and the organization of work has to include a time-keeping system as well as incentives that make the worker work more intensively, more rapidly and take fewer breaks. As far as the means of production are concerned the most important instrument has been the introduction and extension of assembly-line production. As far as the organization of work is concerned the main thing has been methods of time and motion study. The incentives are new wage-structures based on the stopwatch, e.g. the MTM system and work-factor system. So we see that intensification is connected with technological conversions and at one and the same time the reverse side of the economizing on constant capital: the most profitable utilization of machinery possible, at the cost of human material, which is after all the "material" of the free wage-labourer and hence does not affect the individual capitalist at all if it prematurely wears out. The proof is to be found in industrial accidents and enforced retirement through injury. Seeing that as a rule there is an increase in labour intensity linked to the new technology, a portion of the subsequently measured increase in productivity is necessarily due to the increased labour intensity; but this is not separately accounted for in the statistics. This means in the main that the increase or maintenance of the rate of surplus value following on increases in productivity does not come about as a result of the production of relative surplus value due to the rise in the productiveness of labour; rather it comes to a large extent from the fact that labour intensity is raised.

Consider some of the striking tendencies concerning the increase in the productiveness of labour in West Germany.

1. From the point of view of social aggregate capital, part of the increase in the productiveness of West German capital is to be explained by the structural shift in German industry - the so-called "structural effect". It accounts for between 14 and 16 per cent of the productivity increases from 1950 to 1970. However, there is a slight tendency for its significance to diminish: in the first place, structural shifts do not have the same importance in every period and secondly, structural shifts generate costs that have to be financed from the product of value. Included in these costs are especially those for the provision of "infrastructure" and changes in the training and education of labour. At the beginning of the sixties capital and the West German state were faced with the necessity of creating the conditions in the labour process which would bring about a further acceleration of growth in production: they had to create conditions which they had neglected to provide for many years, namely conditions of production required for capitalist augmentation of value (roads, education, etc.). This fact helps to explain first the falling and then in the fifties the constant capital-coefficiency. It fell because relatively low repair and initial costs were sufficient for the plants then to be worn out using the existent labour power. In this way the capital stock was stretched to the full, which showed

up as increasing capital-productivity or a falling capital coefficient. Falling capital-productivity, or the rise in the capital coefficient, since the mid-fifties is to be explained by the fact that higher costs were needed in starting up new productive plant, in the infrastructure sphere too. The governmental economic advisers wrote: "In the fifties labour productivity could be raised as a result of relatively small investments, mainly because bottle-necks caused by the war still had to be overcome. Moreover, investments in infrastructure, which as a rule, had only a small effect on capacity in the short term, made up only a small part of total investments. In the first half of the fifties capital productivity rose only slightly. In the sixties capital-input per place of employment rapidly increased on account of the shortage of jobs and the reduction of working-hours. At the same time investments in infrastructure advanced considerably. Capital productivity fell. "One can formulate the position in another way. Once again the necessary conditions for production gained in significance. The state's share in aggregate investments in construction rose from 17.7 per cent in 1950 to 27.7 per cent in 1967, while the share of private enterprises dropped just as continuously from 33.1 per cent to 28.8 per cent. And secondly, this is no more than an index for the rising organic composition of capital, which goes along with increases in the productiveness of labour.

2. The development of productivity proceeded unequally in different sectors. The unproductive sectors of the economy grew simultaneously. (We shall not deal with this point further here).

3. The development of productivity in the sixties proceeded in a strikingly cyclical fashion; increases in productivity arise in such magnitude following the 1966/67 recession that the governmental economic advisers talk about a "productivity miracle". The analysis of the miracle demonstrates, however, quite clearly that the increases in productivity were the consequence of the increasing intensity of labour ("increasing over-burdening of the fixed elements in the labour force"), multiple-shift-work and overtime, the loss in value of constant capital (closing down old production-plant), concentration in the sphere of production, and rationalization in production and circulation (computers). In this sense technical progress constituted a saving in costs, at the price of a further increase in so-called capital-intensity.

D. The Falling Rate of Profit in the Sixties

The sixties are characterized by the fact that the rate of surplus value could at least be maintained if not raised; however - in contrast to the fifties - this could only be done at the price of a growing organic composition of capital, which was expressed statistically in an increase in capital intensity and a rise in the capital-coefficient. While the high rate of surplus value was (thanks to the special historical conditions) directly linked to a very high rate of profit of capital, the methods employed to maintain and increase the rate of surplus value in the sixties tended towards a lowering of the rate of profit of capital. In this connection the IFO study talks of a "tendency towards a reduction in the growth of returns". The governmental economic advisers identify the same tendency, when they calculate the "real increment" (profits plus interest in relation to the sum of net investment). By 1972 it had sunk to a mere 60 per cent of the 1960 level. If capital does not manage to bring about technical improvements without large increases in capital intensity, relative surplus value rises with the increases in productivity; however, as a result of the growing organic composition of capital the rate of profit falls. This means that cyclical fluctuations in production, such as appeared in 1967, play a larger role. If further more in the seventies West German capitalism is to obtain increases in productivity by utilizing technical developments to a lesser extent, the rate of surplus value will either fall or attempts will be made to prevent this happening. These will entail additional, more sophisticated methods of labour-intensification and the resistance of capital, with the state's support, to wage improvements and even perhaps by means of attempts at lowering the price and value of labour power. We cannot go into it here but the repeated attempts of governmental incomes policy point to such a tendency.

The recession of 1966/67 made it clear on this occasion on the surface of the movement of capital that the "fine days of Aranjuez" are over for West German capitalism and that the heritage of fascism upon which the delusion of the economic miracle could be erected, has been consumed. Once it is delivered up to the methods of surplus value production proper to capital, the proneness to crisis of capitalism thrusts itself forward more intensely with every fresh cycle. The falling rate of profit, which coalesces cyclically with the growth in the organic composition of capital, compels capital to ever more rapid accumulation. What of necessity follows is the classical sequence of phases of crisis and stagnation and then again of over-accumulation.

In connection with the growing amount of use-value, seen both relatively to the capital advanced and absolutely, the intensity of the crisis of West German capital will depend mainly on how far it succeeds, firstly, in realizing on the world market, the value and surplus value, contained in its products, secondly, in realizing surplus-profits on the world market and thirdly, in exporting excess capital as money capital and not merely as commodity capital. During periods of global boom on the world market the latter expands and the intertwining of capital (in the form of international firms) gets more dense. But access to the world market appears to be a direct necessity for internal capital accumulation when national aggregate capital enters into a phase of recession or stagnation. 1967 showed especially clearly that the economic crisis in West Germany could be rapidly overcome with the help of a gigantic surplus of exports and the rapidly increasing export of money capital (portfolio-investments in the first instance). But it is obvious that this can only work as long as the world market itself is expanding. However, the coming years will bring with them a state of affairs which might best be described as "the synchronization of national business-cycles", precisely as a consequence of the growing intertwining on the world market of capitalist centres. This means that in future phases of stagnation an expanding country will no longer be able to give a stagnating country positive impulses. Instead world-wide stagnation at a relatively high level with simultaneous latent and manifest unemployment will be quite probable.

Capital has to respond to these external difficulties by increasing the degree of exploitation of labour at home. The capitalist mode of utilizing machines shows that this by no means needs to be linked with a further increase in the productiveness of labour.

> "Although the companies studied had had plenty of opportunities to step up mechanization technically speaking and hence the substitution of labour for capital, economic considerations clearly held them back from doing so. This leads one to suppose that given the present wage-rate further mechanization of production would be limited." (IFO, p.80)

At the same time, one should not be so naive as to assume that a further increase in productiveness would follow rising wages; for the former is not merely dependent on high wages, but exclusively on the rate of profit which can be realized. Hence it is to be expected that capital will first attempt to increase the intensity of labour, until the workers' physical and mental capacities have been stretched to the full before it expands the productive forces. Capital will always attempt to pass on the consequences of crisis-proneness to the workers.

The integration of West German capitalism into the world market is a function of the specific conditions of accumulation of West German capital. It has brought two tendencies into being which have underlined the growing importance of the export of commodity and money capital: firstly, the sharp rise in the productiveness of labour has strengthened West German capital in comparison with other national capitals, especially the USA - the strong position of West German currency on the world market especially bears witness to this. Secondly, with the development of new methods of production of relative surplus value in the sixties, the rate of profit of West German capital showed a tendency to drop. And for this very reason the investment of excess capital abroad became of increasing interest to individual West German capitals - first of all the form of portfolio investments and then particularly after 1969 as direct investments. These tendencies are considered in the following section.

III ON THE IMPORTANCE OF THE WORLD MARKET FOR WEST GERMAN CAPITAL REPRODUCTION IN THE SIXTIES AND SEVENTIES

As we have already indicated in our introduction, an increase in commodity-exchange between capitalist industrial states and a reduction in the relative importance of the "Third World" made itself noticeable in the course of the postwar development of the world market and the rapid expansion of international exchange that took place. The large increase in commodity-exchange between the industrial nations is largely due to the accelerated accumulation caused by the integration of supra-national markets. The integration of national markets into a world market had particularly stimulating effect on the export of West German commodities: 60 per cent of West German exports were made up of the commodities particularly in demand in the industrialization process - those in Department I (the investment-goods industries and those producing the means of production). One must not forget that the share of exports in production of large capitals included in this department were considerably higher. (In 1968 the export share of Volkswagen was 76 per cent, Daimler-Benz 65 per cent, Bayer 62 per cent and BASF 52 per cent). The following industries constituted the backbone of exports - vehicle-construction, the non-ferrous metal industry, and mechanical, chemical and electrical engineering (in the case of the last-named products belonging to Department I made up the major portion of its exports:). At every stage of reduced or stagnating capital accumulation in the history of the Federal Republic (in the cyclical down-swings) the export-surpluses had a stimulating effect on production. In their analysis, for example, Wagner and Hopp reach the unsurprising conclusion that in every phase of decline since the mid-fifties the export-surpluses had an over-proportional pro-cyclical effect. The world market played an overwhelming role in overcoming the crisis-prone capital cycle. The high export quotas of large individual capitals go back to the historically determined start which German capital possessed in these sectors. Additionally favoured as they were by large reserves of capacity, state promotion and, at the start, by wages which were under the international level, large capitals in the sectors of industry mentioned soon came to play a dominant role on the world market after 1948.

Let us just briefly sketch in the development of sales-markets on the world level and their significance for the accumulation of national capital until the mid-sixties, before we consider the second developmental stage in the sixties.

1. The leading position occupied by a capitalist nation on the world market (in certain sectors) and the particular productivity and intensity of its

aggregate national labour means that in the process of exchange it has an advantage in exchange over other national capitals, that have to produce at a lower rate of productiveness of labour. This raises the amount of profit made by the preferred national capital; but this only happens as long as these national capitals are not forced by the world market competition to sell their commodities at their costs of reproduction.

2. On the other hand expanding demand on the world market (in our case demand for West German commodities) is a necessary condition for the development of the productiveness of labour in the nation concerned. For such an expansion in the opportunity for the realization of commodity capital is a major factor in the following matters: that the rising amount of use-value as a result of growing productiveness and the surplus labour it entails can be realized; that the productivity and intensity of labour can be increased and that as a whole capital-growth can be accelerated. All of which strengthen a preferred position on the world market.

3. Taking the structure of West German exports we can demonstrate that certain disproportionalities between Department I and Department II of the reproduction process no longer act as crisis factors in the concrete course of accumulation, when they can be mediated through the world market.

4. The factors mentioned of a special position on the world market, which capital growth in West Germany had accelerated, meant, on the other hand, that the limits of trade union struggle were extended; they meant that the workers managed to win increases in real-wages without frictions of a crisis nature.

The massive export of commodity capital we talked of was also accompanied by the export of investable money capital in the case of large individual capitals, because these capitals sought to secure and extend foreign markets by such capital exports. Until the end of the sixties (especially after 1966/67) the export of (money) capital as productive investment was a function of the expanding export of commodity capital. We characterized the stage which began in the mid-sixties, by saying that the conditions of profit production changed, that a growth in the organic composition of capital led to a drop in the degree of value-realization and that the wage share increased at the same time. Thus it is not only the case that the increase in exports of commodity capital gains in significance, but also the conflicts originating in the reproduction process can be externalized by means of massive export-surpluses. On the world market this expansion led to heightened competition. This is articulated by the open conflicts between West Europe, the United States and Japan and the growth of protectionist tendencies which endanger the persistent expansion of world trade. But the significance of money capital exports as investments is increasing for West Germany. The motive for the forced export of investible money capital since the end of the sixties is no longer the securing of markets. The motive behind it is the investment abroad of capital which is no longer producing so much profit in the Federal Republic (in particular in the so-called low-wage countries). We find that by 1972 the level of direct investment by West German capital had more than trebled as compared with the period 1960 to 1966. This is reflected in the fact that in recent years direct investment has greatly increased as a share of total export of money capital.

Such a shift was also made possible by the cheapening of capital investments for West German capital abroad following the re-valuation of the D-Mark. The average amount by which the Deutsch mark was re-valued in relation to the currencies of the whole world at the end of November 1973 as against the end of 1969 was 22.4 per cent; in relation to the dollar it was 39.8 per cent and in relation to the pound it was 42.1 per cent. The thesis we proposed at the beginning of our paper appears to hold out in the case of West Germany in recent years; namely that in the second stage of capital accumulation in Western Europe the changed conditions of profit-production and accumulation have brought about a shift emphasis in the relations on the world market from the export of commodity capital to the export of money capital which is capable of, and seeks opportunities for investment.

The reason for this shift is the relative deterioration in opportunities for capital investment in spheres of production which manufacture commodities for the home and foreign markets. This does not at all mean that the production and export of commodities has already become unprofitable for capital. The enormous surpluses in the balance of trade of the Federal Republic in 1973 - despite the high rate of re-valuation - give the lie to this. The Federal German export surplus in the first three quarters of 1973 - at 22.8 thousand million DM, is the highest since 1967 (1970: 15.7 thousand million DM; 1971: 16.0 thousand million; 1972: 20.3 thousand million). Still, we find the following phenomenon in need of explanation: why was it that productive capital found enough investment opportunities in West Germany itself during the fifties and until the mid-sixties, but from then on a latent capital surplus could be noted, with limited investment opportunities in the Federal Republic itself? We have sought to develop the thesis that this phenomenon originates from the (relative) drop in the rate of profit on capital invested in the Federal Republic. Two factors are responsible for the high export-surpluses and the both absolutely and relatively significant production of commodities for the foreign market: (1) profitable conditions of production at home and (2) favourable conditions for realizing value and surplus-value on the world market. Since, as we have shown, the favourable conditions for production have deteriorated as a result of the falling rate of profit, and since the conditions of realization on the world market are still extraordinarily good in spite of the re-valuation of the Deutschmark, in addition to the large exports we find a tendency for surplus capital to be exported in the hope of yielding a higher rate of profit abroad than from investments at home. As such profitable investments of productive capital are bound to meet with difficulties in the industrialized countries of the European Community, the United States and Japan, since the conditions of profit-production and accumulation have deteriorated here too, it appears plausible that in the future growing masses of capital will flow into certain countries in the Third World in search of profitable investment. This would come about as a result (in summary) of the latent over-accumulation tendencies, the rises in real wages as a consequence of the preceding accelerated accumulation and the associated further limitation on profit and the rate of profit, and furthermore as a result of the increasing burden of taxation on accumulable profit caused by the expansion of state activities in the developed countries. Not least, such a shift in tendency is also a result of thedeveloping power of the trade unions and the class struggles in the major capitalist countries (compare England, France and Italy; increasingly this is coming to be the case for West Germany). Precisely the conditions of capital accumulation we have cited are on the contrary more favourable in some countries of the Third World: expanding markets, low wages, a large population for supplying surplus labour, non-existent or suppressed trade unions, a generally low tax-burden on profit and sometimes in individual countries a state apparatus willing to promote accumulation by investment programmes - all these features guarantee the profitability of capital invested there.

In addition to the already mentioned motive for exporting money capital - the securing and expanding of export markets (the setting up of service networks and trading chains etc.) - the seventies have brought with them the tendency for the production process itself to be internationalized: capital-intensive aspects of the production process are carried out at home (research and development, high technology labour) and labour-intensive aspects are carried out in so-called low-wage countries (Singapore, Hongkong, Spain, Tunisia).

As West German capital is no longer able, as a result of specific national conditions, to realize such a high rate of profit as it could until the mid-sixties, it will find itself increasingly constrained to utilize the world market not only as a source of realization for commodities. As we have demonstrated this is proceeding in the form of penetration of low-wage countries by West German capital. One should not, however, overlook a further factor. In the search for the highest profits (or "cash flow") possible, capital attempts to exploit for profit all inequalities of development. This explains the increased tendency in recent years towards the formation of international corporations or towards the integration of individual national capitals into internationally operative capitals. In this way capital manages to reduce its taxes and thus gain larger profits after tax than it can in the case of purely national investments; and, above all, capital manages to take advantage of the differences in the militancy of the working class at the national level and to exploit the lack of organization of the working class at the international level.

We have formulated these features as a tendency of West German capital. But the same tendency is evident in its particular national form in other capitalist metropolitan countries. The following conclusion can thus be drawn, that the tendencies for international capital to become intertwined will increase with the following results: firstly, of heightening competition and secondly of a tendency to an equilibration of the cyclical movement of the process of accumulation. In the course of this process there will be an equilibration of the conditions of value-augmentation of national capitals at a level of profit rate which will assuredly be lower than in previous years. This tendency leads us to conclude that there will be a high level of stagnation on the world market in the years to come.

However, one should by no means exclude the possibility of capital's finding new investment opportunities for excess capital - not only in the "Third World".

The further integration of national capitals into a unified world market determined by the internationalization of production will be a possible consequence of the tendencies described. But the possibility still exists that as competition between the capitalist countries sharpens and as the general conditions for the augmentation of value of national capitals deteriorate, the extent of international intertwining of capital will be reduced. This may come about as a result of state action: restrictions on the convertibility of currency, protectionist trade policy or administrative constraints on the movement of capital etc.

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SKILLED LABOUR IN THE MARXIST SYSTEM

Bob Rowthorn

Ever since the appearance of Capital there has been controversy over the implications of skilled labour for the Marxist system of thought.[1] Following Boehm-Bawerk, critics have claimed that the introduction of skilled labour creates a fundamental and inescapable circularity into Marxist value theory.[2] Skilled labour, they have claimed, can be 'reduced' to an equivalent amount of unskilled labour only on the basis of its relatively higher wages: if a particular kind of skilled labour receives on average x times the wage of average unskilled labour, then the former creates x times as much value as the latter. If this claim is correct then Marxist value theory is, indeed, in a bad way, for it may then be impossible even to define the value of any commodity independently of the relative wages of different kinds of labour or of the average level of wages. It may also be impossible to define the value of the net social product independently of its division between capitalists and workers. If accepted, these conclusions would effectively destroy the distinction between values and prices which plays such a central role in Marx's writings.

Marxist responses to the above criticisms fall into two groups. One group, taking its lead from certain well-known passages in Marx, reduces skilled to unskilled labour by starting from the 'costs of reproduction' of skilled labour-power.[3] These costs are defined as follows. Suppose we ignore differences in the standard of living of various categories of worker and proceed as though every category enjoyed the same (given) standard of living. Under this assumption, the bundle of commodities the capitalist class must pay in return for any particular type of labour-power must be just sufficient to cover: (1) educational means of production such as books and buildings, insofar as these are necessary for the training of the worker in those skills he needs for his job; (2) an average level of subsistence for the worker and his family, both during training and employment; (3) an average level of subsistence for all those employed in the educational sector who have directly or indirectly contributed to the skills he needs in his work.[4] Taken together, these various quantities form the cost of reproduction of this category of labour-power. To complete the reduction to unskilled labour, we need only assume that the value created by the expenditure of any particular kind of labour-power is proportional to the value of the commodities required for its reproduction. In other words, that value created is proportional to the cost of reproduction measured in value terms. It is then a straightforward matter to solve the reduction problem, deriving simultaneously both the values of individual commodities and the reduction coefficients which show the unskilled equivalent of each kind of skilled labour.

Notice that the above method of reduction does not depend directly upon the relative wages of various categories of worker. Higher than average wages imply higher than average costs of reproduction only to the extent that they reflect the costs of a more intensive training. Any differences in wages, merely serving to provide one category of worker with a higher than average standard of living, will not imply a higher cost of reproduction. In this sense, the method is partially free from circularity, for it does not perform the reduction directly on the basis of actual relative wages. On the other hand, there are circumstances under which reduction by this method does depend upon the average level of workers' subsistence and, therefore, upon the division of the net social product between capitalists and workers. Even when all production and educational techniques remain unchanged, alterations in the average level of workers' subsistence will then cause changes in both reduction coefficients and commodity values defined by this method.[5] Clearly, this is a major defect and the method is not entirely free from circularity.

A further objection to the method is its cavalier treatment of the social labour processes involved in the creation of labour-power. As a simplifying device for laying bare certain basic capitalist mechanisms, it is legitimate to consider labour-power primarily in terms of the commodities the capitalist sector is compelled to pay for it. This procedure does not, however, provide an adequate foundation for a proper treatment of the educational sector and its relations with the rest of the economy. To find such an adequate foundation we must turn to the writings of Hilferding and his followers, who have provided an alternative which is both completely free from circularity and takes explicit account of the social labour processes of the education sector itself.[6]

The starting point of this second approach is Marx's observation that the value of any commodity is determined by "the amount of labour socially necessary for its production". If 'labour' is taken to include labour performed in the educational sector, even when it is non-capitalist, one may define the value of any commodity and reduce skilled to unskilled labour as follows. Because skills are themselves products of labour performed in earlier periods, skilled labour may be regarded as the simultaneous performance of two functions. In the first place, the worker expends so much 'muscle, nerve, brain etc.' and, provided these are used with average efficiency, this expenditure will count as the performance of unskilled labour of average quality. In the second place, the worker also makes use of his skills. Provided he works with average efficiency, he thereby converts labour embodied in his skills into labour embodied in his product.

Thus, skilled labour is equivalent to so much unskilled labour currently performed <u>plus</u> so much labour embodied in the skills of the worker concerned. Some of the labour embodied in skills is itself skilled and can in turn be decomposed into unskilled labour <u>plus</u> labour embodied in skills produced in even earlier periods. By extending this decomposition indefinitely backwards in time, it is possible to eliminate skilled labour entirely, replacing it by a stream of unskilled labours performed at different points in time. Each skilled labour is equated to a whole stream of unskilled labours, some performed in the current period, some performed in preceding periods by the trainee and his teachers, some performed even earlier by the teachers of teachers and by workers producing educational means of production, and so on. Naturally, these various labours lead to the creation of value only to the extent that they are socially necessary. A highly trained musician working as a labourer, for example, does not create value commensurate with the labour embodied in his musical skills, for these skills are not socially necessary for his work.

Once this approach of Hilferding is adopted, the reduction of skilled to unskilled labour can be performed quite independently of the level of workers' subsistence and the analysis is thus completely free from circularity. Moreover, from this starting point, it is possible to analyse properly economic relations both within and between educational and non-educational sectors. Before undertaking such an analysis, however, it will be useful to give a more formal exposition of Hilferding's method. For convenience the problem is solved by means of simultaneous equations and unskilled labour is never explicitly expressed as a stream of past and present unskilled labours. This is not, however, a difference of substance, merely of exposition.

1 <u>The Reduction of Skilled to Unskilled Labour</u>

The reduction of skilled to unskilled labour can be approached as follows. Assume that differences in the innate abilities of workers are negligible so that any observed differences in their capabilities are due to training. One unit of skilled labour input can then be regarded as a combination of two parts: one unit of unskilled labour currently performed plus the input of a unit of skill 'produced' at an earlier date. Like any of the non-labour commodities, skills are produced by means of processes which require the use of various labour and non-labour inputs.

Let us assume that there are no joint products and that all processes require the same length of time. Suppose there are m types of skilled labour and that the production of one unit of skill of type s requires on average the input of g_{is} units of commodity i (i=1,...n) plus h_{rs} units of skilled labour of type r (r=1,...m) plus t_s units of labour by the trainee, who is assumed to be unskilled, plus k_s units of other unskilled labour.[7] Also suppose that the production of one unit of commodity j requires on average the input of a_{ij} units of commodity i (i=1,...n) plus b_{ij} units of skilled labour of type r (r=1,...m) plus ℓ_j units of unskilled labour.

Let $\hat{k}_s$ denote the amount of unskilled labour to which one unit of skilled labour of type s is 'reduced' and $\hat{\ell}_j$ the value of one unit of the jth commodity i.e. the amount of unskilled labour it embodies. Then by definition,

$$\hat{\ell}_j = \ell_j + \sum_i \hat{\ell}_i a_{ij} + \sum_r \hat{k}_r b_{rj} \qquad j=1,\dots n \tag{1}$$

or in matrix notation,

$$\hat{\ell} = \ell + (\hat{\ell},\hat{k}) \begin{pmatrix} A \\ B \end{pmatrix} \tag{2}$$

One unit of skilled labour of type s is composed of one unit of unskilled labour plus one unit of skill of type s. To produce this skill requires the direct input of $k_s + t_s$ units of unskilled labour, plus the input of commodities embodying $\sum_i \hat{\ell}_i g_{is}$ units of unskilled labour, plus the input of skilled labour equivalent to $\sum_r \hat{k}_r h_{rs}$ units of unskilled labour. Summing these we find that one unit of skill embodies the equivalent of $k_s + t_s + \sum_i \hat{\ell}_i g_{is} + \sum_r \hat{k}_r h_{rs}$ units of unskilled labour. To arrive at $\hat{k}_s$ we need merely add the one unit of currently performed unskilled labour to give,

$$\hat{k}_s = 1 + k_s + t_s + \sum_i \hat{\ell}_i g_{is} + \sum_r \hat{k}_r h_{rs} \tag{3}$$

or in matrix notation,

$$\hat{k} = (u+k+t) + (\hat{\ell},\hat{k}) \begin{pmatrix} G \\ H \end{pmatrix} \tag{4}$$

where u = (1,1...1).

Bringing together (2) and (4):

$$(\hat{\ell},\hat{k}) = (\ell,u+k+t) + (\hat{\ell},\hat{k}) \begin{pmatrix} AG \\ BH \end{pmatrix} \tag{5}$$

Provided the appropriate matrix is invertible this can be solved for $\hat{\ell}$ and $\hat{k}$,

$$(\hat{\ell},\hat{k}) = (\ell,u+k+t) \left(I - \begin{pmatrix} AG \\ BH \end{pmatrix} \right)^{-1} \tag{6}$$

In this equation we have both solved the reduction problem and calculated values in terms of unskilled labour.

It follows from our method of reduction that the total input of labour <u>directly</u> required to produce one unit of commodity j has an unskilled labour equivalent ℓ_j^* given by

$$\ell_j^* = \ell_j + \sum_r \hat{k}_r b_{rj} \tag{7}$$

or in matrix notation.

$$\ell^* = \ell + \hat{k}B \tag{8}$$

Thus equation (2) can be written,

$$\hat{\ell} \quad \ell^* + \hat{\ell}A \tag{9}$$

which when solved gives,

$$\hat{\ell} \quad \ell^*(I-A)^{-1} \tag{10}$$

This is identical to the conventional formula for value, which is usually derived on the assumption that the reduction to unskilled labour has already been performed.[8] Here, however, no such assumption is made.

Two points should be noted about our method of reduction. Firstly, the reduction to unskilled labour is performed simultaneously with the calculation of values. This is made necessary by our assumption that skills are produced by processes requiring the use of non-labour commodities given by the input-output matrix G. If, on the other hand, we assume that training requires merely teachers but not equipment, then the elements of G are zero and we can calculate $\hat{k}$ directly from equation (4) without needing any information about the coefficients in equation (1). The reduction to unskilled labour will then have been performed <u>before</u> the calculation of values. On the basis of this reduction equation (10) can be used to calculate values

Secondly, the matrix of non-labour inputs G used in the production of skills does not include the subsistence of skilled workers during their training. If it did, then every change in the distribution of income would change our reduction of skilled to unskilled labour and values would, as a result, depend on distribution. This we do not want. Moreover, if we did include the trainees' subsistence, we should be double counting, for included amongst labour inputs in the production of skills is the labour of the trainee himself. To include subsistence means, therefore, including both the trainee's labour and indirectly the labour of those necessary to support him. Hence the double counting.

To illustrate our method of reduction consider the following simple example. For every unit of skilled labour they perform, workers of type s must perform an average of t_s units of unskilled labour training themselves.[9] They have no teachers, and apart from their subsistence requirements, use no non-labour commodities. Thus $k_s=0$, $g_{is}=0$ for all i, $h_{rs}=0$ for all r and

$$\hat{k}_s = 1 + t_s \tag{11}$$

Hence, one unit of skilled labour of type s counts as $1 + t_s$ units of unskilled labour. In this case, therefore, our formula corresponds to the common sense method of reducing skilled to unskilled labour.

So far we have made no mention of wages, rates of return in education or anything else to do with the pricing of skilled and unskilled labour. The reduction of skilled to unskilled labour and the calculation of values are conducted entirely in terms of the vectors and matrices (t, k, G, H) and (, A, B) which specify the average conditions under which skills and non-labour commodities are produced. As Marx says,

> We are not speaking here of the wages or the value the labourer gets for a given labour time, but of the value of the commodity in which that labour-time is materialised. Wages is a category that as yet, has no existence at the present stage of our investigation.
> (Capital, Vol.I. p.44)

This contrasts with Samuelson's view that time, i.e. time-preference or the rate of interest, will affect the reduction of skilled or unskilled labour, presumably by affecting the relative wages of the various categories of skilled labour.[10] Samuelson is not alone in his view. Many Marxists and non-Marxists alike have believed that skilled labour must be reduced to unskilled labour on the basis of the wages it receives: if a unit of skilled labour is paid x time as much as a unit of unskilled labour then it must be reduced to x units of unskilled labour.[11] As we have seen, however, for the analysis of value this is not so. Values can be calculated and the reduction to unskilled labour performed without any knowledge of wages, prices or any other magnitudes from the sphere of circulation. Marx is therefore justified when he says

> Skilled labour counts only as simple labour intensified, or rather, as multiplied simple labour, a given quantity of skilled being equivalent to a greater quantity of simple labour. Experience shows that this reduction is constantly being made. A commodity may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definite quantity of the latter labour alone. The different proportions in which different sorts of labour are reduced to unskilled labour as their standard, are established by a social process that goes on behind the backs of the producers, and consequently, appear to be fixed by custom. For simplicity's sake we shall henceforth account every kind of labour to be unskilled simple labour; by this we do no more than save ourselves the task of making the reduction.
> (Capital, Vol.I, p.44)

But the social process going on behind the backs of the producers is not, as is widely assumed, the competitive process of wage determination.[12] It is the production of skills as we have analysed it above.

2. Surplus value and exploitation

Having reduced skilled to unskilled labour and therefore defined the value of any commodity or bundle of commodities, we are now in a position to discuss exploitation and the creation of surplus value.

The first difficulty we face is the possible presence of more than one set of production relations. Unless education is organised on a capitalist basis, teachers and other workers in this sector will stand in a different relationship to capital from those employed by the capitalist firms of the non-educational sector. To use Marx's term, they will not be 'productive' workers, they will not be directly employed by capital. Under these circumstances, it would be misleading for us to talk of educational workers as creating surplus-value. We can, however, talk of them performing surplus labour. Surplus labour is a quite general category which can be applied to any mode of production. A worker performs surplus labour when the labour content of the products he receives is less than the labour he actually performs. The form and significance of surplus labour will, of course, vary from one mode of production or set of production relations to another. The surplus labour of a personal servant, for example, takes the form of a direct use-value for his customer. The surplus labour of the productive worker on the other hand, takes the form of surplus value which accrues initially to capital.

In the present case we need to consider the surplus labour performed by two groups of workers: those employed in the non-educational sector, assumed to be capitalist, and those employed in the educational sector which may or may not be capitalist.

Let us consider first skilled workers of type s employed in non-educational industry j. Suppose the average worker receives in return for a unit of skilled labour a bundle of commodities (c^s_{ij}) or in vector notation c^s_j. Any payments he receives during his training are assumed to be included in this bundle. The bundle contains the equivalent of $\sum_i \hat{\ell}_i c^s_{ij} = \hat{\ell} c^s_j$ units of unskilled labour, where $\hat{\ell}_i$ it will be remembered is the value or unskilled labour content of the ith commodity. Let us call this sum the 'paid' labour of the worker and denote it by the symbol v^s_j,

$$\text{paid labour} = v^s_j = \hat{\ell} c^s_j \tag{12}$$

As a rule the worker will work longer than is necessary to produce the commodities he consumes. He will perform 'surplus' or 'unpaid' labour. The amount of this unpaid labour is given by the formula,

$$\text{unpaid labour} \equiv \text{actual labour} - \text{paid labour} \tag{13}$$

To define actual labour we need to consider the skilled worker's labour both during his training and afterwards. He performs t_s units of labour acquiring his skills and 1 unit of labour making use of these skills. Thus,

$$\text{actual labour} = (1+t_s) \tag{14}$$

Using the symbol u^s_j to denote surplus or unpaid labour, we get

$$\begin{aligned} \text{unpaid labour} &= u^s_j \\ &= (1+t_s) - v^s_j \end{aligned} \tag{15}$$

Finally we can define the rate of surplus labour e^s_j as the ratio of unpaid to paid labour, i.e.

$$e^s_j = \frac{u^s_j}{v^s_j} = \frac{(1+t_s) - \hat{\ell} c^s_j}{\hat{\ell} c^s_j} \tag{16}$$

Our method is a simple generalisation of that normally used when all labour is unskilled. The two processes of training and production have been combined into a single integrated process. In the integrated process the labourer performs $(1+t_s)$ units of labour (regarded as unskilled) and receives a bundle containing v^s_j units of unskilled labour. In the case of the unskilled labourer $t_o=0$ and definitions (12) to (16) take on their usual meaning.

It is clear that the above method can be applied to the educational worker even when education is not a capitalist sector. The average worker of type s in educational industry r performs 1 unit of labour in this industry and t_s units during training, making $(1+t_s)$ units in all. For this he will receive a bundle of commodities (c^s_{ir}) containing the equivalent of $\sum_i \hat{\ell}_i c^s_{ir} = \hat{\ell} c^s_r$

units of unskilled labour. Using this information we can apply the definitions (12) to (16) to workers in the educational sector. The only change we need make is to replace the subscript j, denoting an arbitrary non-educational industry, by the subscript r denoting an arbitrary educational industry. For example, we can define the rate of surplus labour e_r^s of workers of type s in educational industry r as

$$e_r^s = \frac{u_r^s}{v_r^s} = \frac{(1+t_s) - \hat{\ell}c_r^s}{\hat{\ell}c_r^s} \tag{16a}$$

3 The Conversion of Surplus Labour into Surplus Value

What happens to labour performed in the educational sector and in particular to surplus labour? Initially it is embodied in the skill of the skilled worker. If education is a capitalist sector labour is there directly embodied in a capitalistically produced commodity, embodied labour takes the immediate form of value, and surplus labour the immediate form of surplus value. Educational labour is then 'productive' in the sense understood by Marx.[13]

When education is not a capitalist sector, however, educational labour is not productive in this sense. Surplus labour does not take the immediate form of surplus value, nor does the educational worker perform his labour under the control of the capitalist. Nevertheless, surplus labour performed in education may be transferred to the capitalist sector where it appears as surplus value, apparently originating there. In reality, however, this surplus value is merely the converted form of surplus labour performed outside of the capitalist sector.

To illustrate the process consider the following simple example. Education is run by the State and financed by taxes on the capitalist sector. The entire educational sector is devoted to the formation of skills used by capitalist firms. In each sector labour is the only input and in education all labour is unskilled. Trainees acquire their skill effortlessly and as a result perform all their labour within the capitalist sector. Suppose L_c units of labour are performed in the capitalist sector and L_s units in the State sector: the real wage bill in the capitalist sector contains the equivalent of V_s units. According to our earlier definitions, workers in the capitalist sector will therefore perform $L_c - V_c$ units of surplus labour and those in the State sector $L_s - V_s$. Denote these amounts by U_c and U_s respectively.

Using the method of reduction proposed earlier we can determine the value of capitalist output as follows. Because the capitalist sector uses no constant capital, the value of output is equal to the amount of labour performed in this sector reduced to its unskilled equivalent. Since L_c units of (skilled) labour are performed in the capitalist sector and L_s units of unskilled labour in education, the average unit of labour in the capitalist sector makes use of skills requiring the input of L_s/L_c units of unskilled educational labour. As a result each such average unit is equivalent to $1+L_s/L_c$ units of unskilled labour. Since there are L_c average units the value of capitalist output is $L_c(1+L_s/L_c)$ which is, of course, equal to $L_s + L_c$.

Capitalist output may be divided into two parts. One part L_c represents the value actually created by the labour of workers in the capitalist sector. The other part L_s represents educational labour converted into value when workers in the capitalist sector put their skills to use. This is shown in the first part of Table 1.

Capitalist output is distributed in various ways. A part V_c goes to workers in in the capitalist sector and another part V_s goes to workers in the State sector. The rest $U_s + U_c$ remains as surplus value in the hands of capitalists. This is shown in the second part of Table 1.

If we look at flows of embodied labour, independently of whether they take a value form or not, it is clear that there is a net flow from the State to the capitalist sector. Embodied labour L_s in the form of skills is transferred to the capitalist sector. It is converted into value L_s and then an amount of V_s is returned to the State sector. The residual U_s remains as surplus value. (Fig.1)

If, on the other hand, we look only at value flows the picture appears quite the reverse. It is the capitalist sector which appears to be supporting the State sector by paying V_s in the form of taxes. There is no corresponding flow of value from the State to the capitalist sector.

TABLE 1: CAPITALIST PRODUCT (SIMPLE REPRODUCTION)

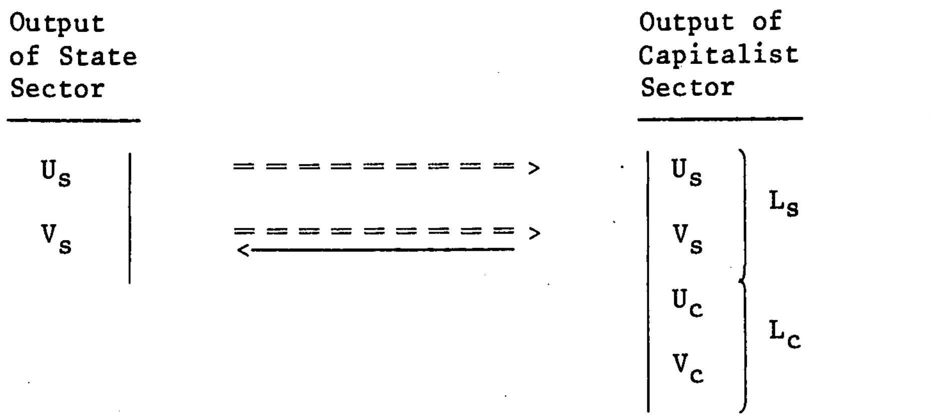
Value of Output of Capitalist Sector	$L_s + L_c$
Source	
Labour in state sector	$V_s + U_s (= L_s)$
Labour in capitalist sector	$V_c + U_c (= L_c)$
Total:	$L_s + L_c$
Destination	
1 Costs of reproduction of labour power:	
taxes paid by capitalist sector	V_s
wages paid in capitalist sector	V_c
2 Surplus value retained by capitalists	$U_s + U_c$
Total:	$L_s + L_c$

Net transfer to Capitalist Sector from State Sector = U_s

This example is, of course, quite trivial. The point of including it is to dispel some of the confusion surrounding the notions of 'productive' and 'unproductive (capitalist) sector. Naturally, not all State activity can be viewed in this light. Much of it really does represent a subtraction from capitalist surplus value.

This conclusion seems less surprising when one remembers that Marx used the word 'productive' quite specifically to describe workers employed directly by capitalists. In this sense other employees can never be productive - no matter

FIG.1 FLOWS BETWEEN SECTORS (SIMPLE REPRODUCTION)



Key: value flows ———> , non-value flows = = = = = >

How much surplus labour they perform indirectly for the capitalist class as a whole or for some section of it. Even when they perform a crucial economic function they are not productive.

So far we have considered the relationship between State and capitalist sectors only in the case of simple reproduction. Let us now see what modification must be made in the above example when we allow the State sector to expand.

Because the scale of production is changing over time it will be necessary to specify the date at which labour is performed, and wages and taxes paid. Let L_s^t denote the labour performed in the State sector during period t, V_s^t the labour content of wages paid at the beginning of period t, and the surplus or unpaid labour performed in this sector during period t as $U_s^t = L_s^t - V_s^t$. Let L_c^t, V_c^t, and U_c^t denote the corresponding quantities for the capitalist sector.

The output of the capitalist sector has value determined as follows. In period t workers perform L_c^t units of (skilled) labour in the capitalist sector. To educate these workers required the input of L_s^{t-1} units of unskilled educational labour in the preceding period. Thus the average unit of labour in the capitalist sector makes use of skills requiring the input of L_s^{t-1}/L_c^t units of unskilled educational labour and each such average unit is therefore equivalent to $1 + L_s^{t-1}/L_c^t$ units of unskilled labour. Since there are L_c^t average units employed in the capitalist sector, the value of output in this sector is

$$L_c^t(1 + L_s^{t-1}/L_c^t) \text{ which is equal to } L_s^{t-1} + L_c^t$$

The value of capitalist output may be divided into two parts. One part L_c^t represents the value actually created by the labour of workers in the capitalist sector and the other part L_s^{t-1} represents educational labour, converted into value when workers in the capitalist sector make use of their skills. This division is shown in the first section of Table 2.

Capitalist output is distributed in various ways. A part is necessary to reproduce the labour power used up in the production process. Some of these 'costs

TABLE 2: CAPITALIST PRODUCT (EXPANDED REPRODUCTION)

Value of output of capitalist sector (time t)	$L_s^{t-1} + L_c^t$
Source	
Labour in state sector (time t-1)	$V_s^{t-1} + U_s^{t-1} (=L_s^{t-1})$
Labour in capitalist sector (time t)	$V_c^t + U_c^t \ (=L_c^t)$
Total	$L_s^{t-1} + L_c^t$
Destination	
1 Costs of reproduction of Labour Power:	
taxes paid by capitalist sector	V_s^{t-1}
wages paid in capitalist sector	V_c^t
2 Surplus value retained by capitalists	$(U_s^{t-1} - \Delta V_s^{t-1}) + U_c^t$
3 Expansion of state sector	ΔV_s^{t-1}
Total	$L_s^{t-1} + L_c^t$

Net transfer to capitalist sector from state sector = $U_s^{t-1} - \Delta V_s^{t-1}$

FIG.2 FLOWS BETWEEN SECTORS (EXPANDED REPRODUCTION)

Output of State Sector		Output of Capitalist Sector	
$U_s - \Delta V_s$	- - - - - - - - >	$U_s - \Delta V_s$	L_s
ΔV_s	<———————— - - - - - - - - >	ΔV_s	
V_s	<———————— - - - - - - - - >	V_c	
		U_c	L_c
		V_c	

Key: value flows ——>, non-value flows - - - >

of reproduction' are paid directly to workers in the capitalist sector as wages (V_c^t and the rest are paid to the State as taxes V_s^{t-1}). Taxes are in their turn paid to State employees who spend them on consumer goods produced in the capitalist sector. After the payment of these costs of reproduction there is left surplus value $U_s^{t-1} + U_c^t$ which consists of U_s^{t-1} and U_c^t representing surplus labour performed in the State and capitalist sectors respectively. In the case of simple reproduction this entire surplus value remained in capitalist hands. This time, however, a part is returned to the State sector to cover expanded educational expenditures. Total taxes must be sufficient to pay the wages V_s^t of all workers employed in the State sector during period t. This represents an increase of $V_s^t - V_s^{t-1}$ over the taxes necessary to replace the existing skilled labour power. Denoting this additional taxation by ΔV_s^{t-1}, we find that capitalists are left with surplus value equal to $(U_s^{t-1} + U_c^t) - \Delta V_s^{t-1}$. These various distributional components are shown in the second part of Table 2.

If we look at flows of embodied labour, independently of whether or not they take a value form, it is clear that there may be a net flow from the State to the capitalist sector. Embodied labour L_s^{t-1} in the form of skills is transferred to the State sector at the beginning of period t. It is converted into value L_s^{t-1} and at the end of the period a part $V_s^{t-1} + \Delta V_s^{t-1}$ is returned to the State sector in taxes. The residual equal to $U_s^{t-1} - \Delta V_s^{t-1}$ remains in capitalist hands. It is positive when $U_s^{t-1} > \Delta V_s^{t-1}$. Thus, there is a positive net transfer from the State to the capitalist sector, provided the costs of educational expansion ΔV_s^{t-1} are less than the surplus labour U_s^{t-1} performed in the State sector. In this sense the State sector may subsidise the capital sector even under conditions of expanded reproduction.

If we look only at value flows, however, the situation appears to be quite the reverse. The capitalist sector appears to be supporting the State sector by paying taxes for which there is no corresponding value flow from the State. This is illustrated in Fig.2 where value flows from the capitalist sector are shown with continuous arrows and embodied labour flows from the State sector with broken arrows. For clarity the superscripts denoting time have been omitted.

Until now we have considered the impact of the State sector only from the point of view of its direct effect on the amount of surplus value remaining in capitalist hands. This is not, however, the only way in which the State can affect the ability of capital to accumulate. To expand his production the capitalist must be able to convert his surplus value into productive capital, he must be able to purchase the appropriate use-values. In particular, he must be able to purchase labour-power. Now, other things being equal, the greater the amount of labour-power purchases by the State sector, the smaller the amount available for purchase by the capitalist sector. Potentially, therefore, State activity constitutes a limitation on the accumulation of capital. When labour power is in plentiful supply this limitation is inoperative. Mass immigration or the destruction of precapitalist modes of production in the domestic economy, for example, may provide capital with all the labour power it needs. Under these circumstances, the ability of capital to accumulate will be determined by such factors as the quantity of surplus-value at its disposal and the post-tax rate of profit, both of which may be increased by the kind of State activities we have been discussing. Thus, under conditions of labour surplus, those 'unproductive' State activities which result in a net transfer of embodied labour to the capitalist sector may help capital accumulate.

When labour-power is in short supply the overall impact of these same activities, however, may be quite different. They will, of course, continue to subsidise the capitalist sector in the way we have described. On the other hand, in employing workers, the State is reducing the labour power available to the capitalist sector, thereby inhibiting the accumulation process as capitalists find themselves unable to expand because of the labour shortage. To some extent capitalists may be able to overcome this problem by investing in machinery and other forms of constant capital. However, to the extent that these measures fail to reduce the demand for labour power, capitalists will be forced to look for new sources of labour power. If they cannot find these new sources, the accumulation process will be held back and the system may enter a period of crisis.[14]

It is against this background that shifts towards more 'capital' intensive methods of teaching, medicine, and other activities of the State sector must be considered. The replacement of teachers, doctors and other State employees by machinery affects the accumulation of capital in two ways: it may reduce the cost of the goods and services provided; and it may reduce the number of workers employed in the State sector, thereby releasing labour power for exploitation in the capitalist sector. At times of acute labour shortage the latter effect may be the more significant.

It is, unfortunately, not possible for us to discuss this problem any further within the confines of the present paper. We have, however, said enough to show that educational and certain other State sectors, although 'unproductive', may compel workers to perform surplus labour, some or all of which is transferred to the capitalist sector where it appears as surplus value in the hands of capitalists. The extent to which this process helps or hinders the accumulation of capital depends upon the amount of labour power available. When labour power is in plentiful supply State activities of the kind we have described may be of unambiguous benefit to capital. When, on the other hand, labour power is in short supply this is not the case, and the pre-emption of labour power by the State may seriously inhibit the accumulation of capital.

4. The Distribution of Surplus Value Amongst Capitalists

Our discussion so far has shown that Marx's analysis of value and surplus value creation can be extended to take explicit account of skilled labour. As in the case of unskilled labour the sources of surplus labour can be identified and the degree to which any group of workers performs surplus labour can be calculated. Let us now examine how this surplus labour, in the form of surplus value, is distributed amongst capitalists, i.e. who are the beneficiaries of the process we have examined. Since the distribution of surplus labour under commodity production is mediated by exchange, this means that we must examine prices and wage rates.

The analysis of value assumed a given technology of educational and non-educational production (ℓ, t, k, A, B, G, H). It was extended to an analysis of surplus labour by assuming workers of type s received a real consumption bundle c_j^s in return for each unit of skilled labour performed in non-educational industry j. In educational industry r the corresponding bundle was c_r^s. These assumptions are consistent with a variety of price-wage vectors. Corresponding to each price wage vector there will be a specific distribution of surplus value amongst capitalists. Moreover, any non-negative price-wage vector which just enables workers to purchase their consumption bundles is formally consistent with the equations (12) to (16) defining surplus-labour and rates of surplus labour. To determine which of these vectors is appropriate it is necessary to specify more closely the institutional framework of exchange and circulation. If education is part of the capitalist sector, for example, and capital can flow freely between industries there will be rates of profit in education which tend towards the average rate of profit. If, on the other hand, education is part of the State sector, or rests upon private tuition, no such equalisation may take place. Indeed, the very notion of profit may be inappropriate under these circumstances.

Some illustrative examples

To illustrate the determination of prices when skilled labour is explicitly recognised let us examine some simple cases. We shall assume throughout that all employers of labour of type r pay the same wage rate w_r, that unskilled labour received a uniform wage w_o, and that the rate of profit in non-educational production is uniform and equal to Π. Under these assumptions prices p_j will be given by,

$$p_j = (1+\Pi)(w_o\ell_j + \sum_r w_r b_{rj} + \sum_i p_i a_{ij}) \tag{17}$$

or in matrix notation,

$$p = (1+\Pi)(w_o\ell + wB + pA) \tag{18}$$

where w is the vector of skilled labour rates (w_r). Denoting the vector of relative wage rates (w_r/w_o) by w/w_o, we can rewrite (18) as

$$p = w_o(1+\Pi)(\ell + (w/w_o)B)\ (I - (1+\Pi)A)^{-1} \tag{19}$$

Let us compare this with the equation usually regarded as the corrected version of Marx's price calculation,

$$p' = w_o(1+\Pi)(\ell^*(I - (1+\Pi)A)^{-1} \tag{20}$$

where ℓ^* it will be remembered is the vector of direct labour inputs reduced to their unskilled equivalents, i.e., $\ell^* = \ell + \hat{k}B$.

Subtracting (20) from (19) we get,

$$(p-p') = w_o(1+\Pi)(w/w_o-\hat{k})B(I-(1+\Pi)A) \tag{21}$$

For a given Π, these two price vectors coincide when $w = w_o\hat{k}$, i.e. when the wage of each kind of skilled labour is proportional to the unskilled equivalent of this labour. If this is not so p' may not coincide with p and the usual 'corrected' version (20) of Marx's price calculation may itself be wrong.

Under what circumstances will wages be proportional to unskilled labour equivalents? One condition sometimes mentioned in this context is that 'time is ignorable' in education.[15]

(a) Ignorable time

If time is ignorable in education the implicit rate of return on educational expenses is zero. This implies that the wage of skilled labour must be just sufficient to cover the cost of its various components evaluated at current prices. The components of one unit of skilled labour of type r are $1+t_r$ units of unskilled labour by the worker himself, k_r units of unskilled labour by others, h_{sr} units of skilled labour of type s(s=1,...m) and g_{ir} units of commodity i (i=1,...n). Evaluating these at market prices we get,

$$w_r = w_o(1+t_r) + w_o k_r + \sum_s w_s h_{sr} + \sum_i p_i g_{ir} \tag{22}$$

or in matrix notation

$$w = w_o(u+t+k) + wH + pG \tag{23}$$

Rearranging and making use of equation (4) we get,

$$(w - w_0\hat{k}) = (p - w_0\hat{\ell})G(I-H)^{-1} \qquad (24)$$

The right hand of this equation will not in general be zero. Thus, even when time is ignorable, w will not necessarily equal w_0k. For equality some extra condition must be imposed. One such condition is a zero rate of profit (=0) which ensures that $(p-w_0\hat{\ell}) = 0$. More significant economically is the condition $G = 0$. This means that the only inputs used in the education process, other than the subsistence of its participants, are various kinds of skilled and unskilled labour. No non-labour commodities are used.

We can conclude that the usual 'correction' of Marx's price calculation is correct under two conditions: time is ignorable in education and inputs to this kind of production consist entirely of labour. If either of these conditions is not satisfied, wages may not be proportional to unskilled labour equivalents.[16]

It is clear that very restrictive assumptions are needed to ensure that time is ignorable in the pricing of skilled labour. Consider the following example dealing with State education. Suppose the trainee must pay for his entire education at cost, i.e. no interest is charged on school buildings or other durable equipment. Moreover, the State provides interest free loans both to cover the cost of education and to provide a subsistence income equal to the wage of the average unskilled worker. Then, provided there is free access to education, perfect competition in the labour market, complete certainty and workers exhibit no preference for any particular kind of labour, the wage of the skilled worker will be just enough to repay what he owes the State and to provide him with a residual income equal to the wage of the average unskilled worker. Under these stringent conditions, the implicit rate of return will therefore be zero and time will be 'ignorable' in education.

A zero rate of return might also arise in the case of private tuition where parents pay the teachers directly, buy the equipment and provide subsistence for their children. On becoming adults these children in turn pay for the education of their children and so on. Provided parents are prepared to accept a zero rate of return on their expenditures and all are rich enough to pay for education, this system may yield the required results. These conditions are, however, very restrictive. In normal circumstances many families are not able to afford heavy educational fees. Moreover, even if all families had sufficient money, they would be financially 'irrational' to spend it on education if the consequent rate of return was zero. They would do better to invest it in the capitalist sector where the rate of return is normally positive. Children would remain unskilled workers, receive the corresponding wage and draw interest on the invested funds. By doing so they would get a higher total income than they would receive as skilled workers. More generally, if families behave rationally from a purely financial point of view, they will choose between educational expenditure and investment in the capitalist sector according to which yields the highest return, and the rate of return in education will not as a result be zero. The extent to which this particular kind of 'rational' behaviour exists depends on how far the capitalist mode of production has come to dominate the behaviour of individuals and its practice of maximising financial returns has become internalised as subjective motivation.

(b) Education as part of the capitalist sector

Let us now consider what happens when education is part of the capitalist sector. To simplify the discussion let us assume that there is perfect competition in the labour and capital markets, free access to education, no uncertainty, and workers exhibit no preference for any particular kind of labour and finally that the rate of profit is uniform. Let us also assume that workers receive the normal unskilled wage w_o during their training.

After the repayment of the expenses of his education and subsistence (including profit at the normal rate), the skilled worker will be left with a residual income. Under the assumptions we have made about competition and access to education, this residual income will be exactly equal to the unskilled wage w_o. Thus, the wage w_r of the rth kind of labour must be just equal to the unskilled wage plus the costs of education including profit at the normal rate:

$$w_r = w_o + (1+\Pi)(w_o t_r + w_o k_r + \sum_s w_s h_{sr} + \sum_i p_i g_{ir}) \tag{25}$$

or in matrix notation

$$w = w_o u + (1+\Pi)(w_o(t+k) + wG + pH) \tag{26}$$

Bringing together equations (22) and (31) we get,

$$(p,w) \left\langle \left(I - (1+\Pi) \begin{vmatrix} AG \\ BH \end{vmatrix} \right) \right\rangle = w_o \left\{ (\ell, u+t+k) + \Pi(\ell, t+k) \right\} \tag{27}$$

This is the correct version of Marx's price calculation when education is part of the capitalist sector.[17]

(c) Free State Education

In the first example the State provided education at cost, charging no interest. Let us now consider the case of completely free State education in which all costs are borne by the State, including the subsistence of the trainee, whom we assume receives an income equal to the wage of the average unskilled worker. The State budget is balanced by means of a uniform proportion tax Θ on wages. Once again assume there is free access to education, perfect competition in the labour market, complete certainty and indifference between various kinds of labour. Then all wage rates will be the same,

$$w_r = w_o \tag{28}$$

for all r.[18] In vector notation,

$$w = w_o u \tag{29}$$

where u as usual is the vector (1,1,...). Substituting in (19)

$$p = w_o(+\Pi)(\ell+uB)(I-(1+\Pi)A)^{-1} \tag{30}$$

It is interesting to note that relative prices are affected by the costs of education only to the extent that the tax rate affects the rate of profit Π. The appropriate value of Θ is itself determined by the structure of production and the real wage rate.[19]

5 Unequal rates of surplus labour, and rates of profit

The above examples have been chosen to illustrate how specific institutional assumptions about the educational sector will lead to different prices and wage rates, and consequently to different allocations of surplus value between one capitalist and another. In each case we assumed perfect competition in the labour market, equal access to education, indifference between various kinds of labour and complete certainty. Moreover, to remove any problems about subjective time preference we assumed that all trainees received the same income as the average unskilled worker. Provided all workers have the same consumption pattern these assumptions ensure that rates of surplus labour are uniform and equal to

$$e = \frac{1-\hat{\ell}c}{\hat{\ell}c} \tag{31}$$

where c is the real wage of the unskilled worker and $\hat{\ell}c$ is the unskilled equivalent of the labour embodied in this wage.

In practice rates of surplus labour will not be uniform. Unequal access to education will give certain groups of workers considerably higher levels of personal consumption than others and they will perform correspondingly less surplus labour. Certain trades or professions will be more strongly organised than others and they too will perform less surplus labour. This was recognised by Marx when he said,

> The distinction between skilled and unskilled labour rests in part on pure illusion, or, to say the least, on distinctions that have long since ceased to be real, and that survive only by virtue of traditional convention; in fact on the helpless condition of some groups of the working-class, a condition that prevents them from exacting equally with the rest the value of their labour-power.
>
> (Capital, Vol.I. p.198)

It would be possible to modify the examples given to allow for unequal rates of surplus labour. We shall not, however, do so.

The analysis also assumed that the distribution of surplus value was determined by the competition of capitalist and that the rate of profit was therefore uniform. It would be a simple matter to modify the examples to allow for various kinds of monopoly and privileged access to services provided by the State.

6 Natural talents

The above analysis has rested on the assumption that differences in the observed capabilities of individuals are all due to differences in training. If this is not so, the analysis still holds provided that natural abilities are randomly spread so that they occur fairly evenly amongst each type of worker and in each type of industry. When this is the case the average values and surplus values upon which the analysis is based will be unaffected. Marx himself assumed such a random distribution of abilities.

If, on the other hand, individuals with particular natural talents crowd into particular jobs, observed averages no longer correspond to the averages necessary for the calculation of values and surplus values. The problem should not, however, be exaggerated. Mechanisation, automation and other changes in methods of production have already reduced dramatically the importance of such special capabilities as great physical strength or manual dexterity, and further changes in this direction will continue to occur in the future. Specific intellectual and artistic natural abilities will doubtless remain important in certain restricted areas of economic activity. But their overall significance is not and probably never was very great.

It is strange that economists such as Samuelson should make so much of these supposed defects of Marx's Theory of Value, when they rely upon even more violent abstractions in their own work on such topics as income distribution and economic growth.[20]

Appendix: Reduction based upon costs of reproduction

To calculate costs of reproduction we ask what would the capitalist class have to pay for each category of labour-power, if every worker, in educational and non-educational sectors, enjoyed the same standard of living? For any particular category the answer is a bundle of commodities just sufficient to: (1) provide the individual worker, during training and employment, with a standard of living equal to that of the average worker and (2) pay for his education, assuming that all who educate him enjoy the average standard of living. Costs of education can themselves be resolved into means of production used up in the educational sector plus costs of reproduction of labour-power employed in this sector.

Thus, by assuming all workers enjoy the same living standard, we arrive at a set of hypothetical costs showing what capitalists would have to pay for each category of labour-power if living standards were uniform. In reality, of course, workers' living standards vary and the capitalist class pays more than the reproduction cost for others. Taking all categories together, however, it follows as a matter of definition that the capitalist class must on average pay exactly the cost of reproduction for its labour-power.

From the above discussion it follows that the cost of reproduction of unskilled labour-power is exactly equal to the bundle of commodities required to provide the worker concerned with the average standard of living. This bundle we call the average subsistence, or level of subsistence.[21] As a rule, of course, unskilled workers, being a disadvantaged group, will enjoy a below-average standard of living and the capitalist class will purchase unskilled labour-power at less than its cost of reproduction.

Let us now derive reproduction costs measured in value terms, i.e. in terms of the labour (unskilled equivalent) embodied in these costs. Let v_s denote the reproduction cost in value terms of labour-power of type s and v_o the corresponding cost of unskilled labour-power. By definition v_o is equal to the labour embodied in the average subsistence bundle. Using the notation of the main text, we may express the cost of reproduction of labour power of type s as follows. For each unit of skilled labour he performs, the worker performs t_s units of unskilled labour during his training, making a total of $1+t_s$ units of labour in all. If he were paid at the average rate for this labour, the worker would receive subsistence containing $v_o(1+t_s)$ units of labour. This is the first component of his reproduction cost. Next come the costs of reproduction of his educators, who between them have performed k_s units of unskilled labour and h_{rs} units of skilled labour of type r (r=1,...m) in educating him. Adding together the reproduction costs of his educators, we arrive at the second component $v_o k_s + \sum_r v_r h_{rs}$. Finally we must include means of production used up during the worker's education, which consist of g_{is} units of each commodity i (i=1,...n). Between them these have a value of $\sum_i \hat{\ell}_i g_{is}$ where ℓ is the value of one unit of commodity i. Adding together these three components we get,

$$v_s = v_o(1+t_s) + (v_o k_s + \sum_r v_r h_{rs}) + \sum_i \hat{\ell}_i g_{is} \tag{1}$$

where the three main terms represent in value terms: the subsistence of the worker at the average level, the reproduction costs of his educators, and the means of production used in educating him.

Rearranging, we may write equation (1) in matrix notation as,

$$v = v_o(u+k+t) + G+vH \tag{2}$$

where u is the vector (1,...1), v is the vector $(v_1 \ldots v_m)$ and other symbols have the obvious meanings.

To derive reduction coefficients from these reproduction costs, let us assume that every category of labour, skilled or unskilled, creates value proportional to the reproduction cost of the corresponding labour-power. Denoting by $\hat{k}_s$ the value created by one unit of labour of type s, it follows that, for some e yet to be determined,

$$\hat{k}_s = (1+e)v_s \tag{3}$$

for s = 1,...m. In vector notation,

$$\hat{k} = (1+e)v \tag{4}$$

Moreover, since the average unskilled labour by <u>definition</u> creates unit value, it also follows that

$$1 = (1+e)v_o \tag{5}$$

To determine e we need only note that v_o is the labour (unskilled equivalent) contained in the average worker's subsistence bundle. This enables us to give e an immediate economic interpretation. In return for each unit of time he spends in employment or training, the average worker, taking all categories together, receives a subsistence bundle containing v_o units of labour. Thus, for each unit of time a part v_o is 'paid' and another part $1-v_o$ is 'unpaid'. Rewriting (5) therefore we get,

$$\begin{aligned} e &= \frac{1-v_o}{v_o} \\ &= \frac{\text{unpaid labour}}{\text{paid labour}} \end{aligned} \tag{6}$$

and e is seen to be what we have called in the text the average 'rate of surplus labour' for the economy as a whole.

It is important to note that the reduction coefficients and values given by the method used in this appendix may differ from those given in the main text. When this is the case, the proportion of workers' time considered to be paid may vary also. As a result, the magnitude of e given by equation (6) may not be the same as that given by equation (31) of the main text.

Combining (2), (4) and (5) we may express the reduction coefficients in terms of values:

$$\begin{aligned} \hat{k} &= (1+e)v \\ &= (1+e)v_o(u+k+t) + (1+e)\hat{\ell}G + (1+e)vH \\ &= (u+k+t) + \hat{\ell}(1+e)G + \hat{k}H \end{aligned} \tag{7}$$

When G is not zero, this equation is not sufficient to determine the reduction coefficients as the values themselves are unknown. As in the text, however, we can express the value of a commodity as the sum of labour currently performed in producing it plus the labour contained in the means of production used up, both amounts of labour being reduced to their unskilled equivalents:

$$\hat{\ell}_j = (\ell_j + \sum_r \hat{k}_r b_{rj}) + \sum_i \hat{\ell}_i a_{ij} \tag{8}$$

where ℓ_j, b_{rj} and a_{ij} have the meanings given to them in the text. In matrix notation this can be arranged to give,

$$\hat{\ell} = \ell + (\hat{\ell},\hat{k}) \begin{pmatrix} A \\ B \end{pmatrix} \tag{9}$$

This is, of course, identical to equation (2) of the text. Combining (7) and (9) we get the required equation, determing both values and reduction coefficients;

$$(\hat{\ell},\hat{k}) = (\ell, u+k+t) \begin{pmatrix} I- & A(1+e)G \\ & B \quad\quad H \end{pmatrix}^{-1} \tag{10}$$

Note that values and reduction coefficients are, as in the text, usually determined simultaneously. Only if G is zero and therefore no means of production are used in education, will it normally be possible to perform the reduction without knowledge of the matrices A and B, i.e. independently of values.

Comparison of the two methods of reduction

Equation (6) of the text gives values and reduction coefficients based directly on the educational and non-educational labour processes, without reference to the subsistence of workers. The two methods are compared in the following table, where for convenience the equations are relabelled.

TABLE 1

	Reduction based on	
1	Combined labour processes(text)	$(\hat{\ell},\hat{k}) = (\ell,u+k+t) \left[I-\begin{pmatrix} AG \\ BH \end{pmatrix}\right]^{-1}$
II	Reproduction costs (appendix)	$(\hat{\ell},\hat{k}) = (\ell,u+k+t \left[I-\begin{pmatrix} A(1+e)G \\ B \quad H \end{pmatrix}\right]^{-1}$

It is clear that there is only one difference between the two equations. In equation II the matrix G is multiplied by the factor (1+e). When no surplus labour is being performed, e is zero, and both methods yield the same result. Less trivially, when no means of production are used in education G = 0, and the two methods again give the same result. Thus, when no means of production are used in education, we may reduce skilled to unskilled labour on the basis of reproduction costs and arrive at a result identical to that obtained on the basis of labour performed in educational and non-educational processes. As we have seen, this latter method yields reduction coefficients and values which are quite independent of the average level of worker's subsistence, and of the division of the net product between workers and capitalists. When G = 0 the method of this appendix shares these properties and is, therefore, completely free from circularity. This can be seen directly from equation II. When G = 0 the result is independent of the rate of surplus labour e, and therefore does not depend on the average level of workers subsistence V_o.

When G is not zero, however, means of production are used in education and values and reduction coefficients derived from reproduction costs will depend upon e and, therefore, upon V_o the average level of workers' subsistence. Any change in V_o will cause e to change, and, as equation B shows, the result will be a new set of values $\hat{\ell}$ and reduction coefficients k. This outcome is quite definitely contrary to Marx's general intention, which was to define the value of commodities quite independently of the average rate of surplus labour e, or the average level of workers' subsistence V_o.

Marx himself does not seem to have been aware that reduction based upon reproduction costs may differ from reduction based upon the educational and non-educational labour processes. He frequently talks as if the two methods were identical, as indeed they are when means of production are not employed in education. This oversight is hardly surprising as he did not consider education in any detail and nowhere discussed the significance of educational means of production. There are two reasons for this. In the first place, Marx was concerned to understand and lay bare the basic mechanisms of the capitalist system. From this point of view the educational sector is of secondary importance. In the second place, when Marx wrote Capital the role of educational means of production was not very great and education, such as it was, consisted largely of the labour of trainees and teachers. In a comprehensive treatment, however, which takes explicit account of the massive present-day expenditures on educational means of production, it is no longer legitimate to regard the two methods as identical, and Hilferding's method of reduction based on the educational labour process is unquestionably superior.

NOTES

1 For a survey of this controversy see Harry Meier 'Historiches zum Reduktionsproblem' in Wirtschaftswissenschaft Heft 12/1965, Berlin.

2 E. Boehm-Bawerk Zum Abschluss des Marxschen Systems, Berlin, 1896.

3 This approach is followed by most of the writers in Materialen zur Politischen Oekonomie des Ausbildingssektors edited by E. Altvater and F. Huisken, Erlangen 1971. An exception is the article in this collection by Infetveen and others, which follows the alternative and superior approach of Hilferding.

4 The word 'subsistence' is used here as a synonym for consumption and no attempt is made to relate this subsistence to any historically determined minimum. For convenience, it is assumed that all consumption consists of goods and services produced by the capitalist sector, and that the consumption requirements of workers are unrelated to the jobs they do. It is also assumed that education and consumption are the only inputs needed in the production of labour-power. The argument in the text could be modified without much difficulty to allow for a different set of assumptions.

5 For a detailed discussion of this method see the Appendix to the present article. Circularity can only arise when means of production are used in education. When no means of production are used, education consists entirely of the labour of trainees and their educators, and reduction based on reproduction costs yields results which are quite independent of the average level of subsistence. Indeed, under these circumstances, the two methods discussed in the present article are equivalent.

6 R. Hilferding Boehm-Bawerk's Marx-Kritik Wien 1904. For a mathematical treatment see N. Okishio 'A methematical note on Marxian theorems', Weltwirtschaftliches Archiv. Heft 2/1963, pp.287-298.

7 For convenience it is assumed that all production processes require the same length of time. As a result, t_s cannot strictly speaking be regarded as a measure of the length of time spent in training, but rather as a measure of the intensity of labour performed by the trainee. It would be a simple matter to modify the analysis to allow for different lengths of time spent in training, but this would needlessly complicate the exposition. Throughout the text we shall refer to t_s as the 'time' spent in training.

8 Cf. P.A. Samuelson in the Journal of Economic Literature, June 1971, p.402.

9 See note 7.

10 Samuelson, op.cit., p.404

11 A representative collection of authors who have claimed that reduction must be based on wages is: Luca Mendolesi, Piero Garegnani, Fernando Vianello, Paul Samuelson, Joan Robinson, Michael Kidron, Eduard Bernstein, Eugene Boehm-Bawerk.

12 The given quotation from Marx is, of course, ambiguous. It suggests that he may have thought perfect competition in the labour market would cause relative wages to correspond to relative unskilled labour equivalents. As we show in part 4 of this paper, however, this is not always the case. The 'social process going on behind the backs of the producers' must be interpreted as the production of skills and not as the competition between workers.

13 A survey of Marx's writings on productive labour is given by Bischoff and others in Altvater and Huisken op.cit.

14 Classically, this crisis will be caused by a falling rate of profit, as the organic composition of capital rises or rising real wages cause the rate of surplus value to fall.

15 Samuelson, op.cit., p.404.

16 The phrase 'time is ignorable' can be given a rather wider interpretation than that given in the text. Suppose we define the 'integrated educational sector' to include not only teaching and other educational activities, but also the production of means of educational production, means of production for these means of production and so on. The only external input to this integrated sector is unskilled labour. If time is ignorable in the integrated educational sector, then wages will, indeed, be proportional to unskilled labour equivalents. The meaning of this new and stronger condition is that the implicit rate of return is zero in education and in all production indirectly needed to sustain this sector. It is possible that Samuelson had in mind this stronger condition.

17 The same prices would hold if the State organised education and financed it by charging the student (or the employer) enough to cover both costs of education and subsistence, together with the normal rate of profit.

18 This example is not intended to be realistic. It is designed to illustrate the opposite extreme from the situation portrayed in the second example, where all educational expenditures yielded the normal rate of profit.

19 Suppose all workers have the same consumption pattern and that their real wage is given by a vector c. Then,

$$w_o(1-\Theta) = pc \qquad (1)$$

Next suppose that the private sector has gross output levels specified by the vector x and the State sector gross output levels y. Then the total wage bill is $w_o((\ell+uB)x + (k+t+uH)y)$. Total tax is Θ times this wage bill. The expenses of education are $w_o(k+t+uH)y + pGy$. Since taxes just cover educational expenses,

$$\Theta w_o((\ell+uB)x + (k+t+uH)y) = w_o(k+t+uH) + pGy \quad (2)$$

Combining (1) and (2) with equation (30) of the text, we can determine Θ and relative prices p as functions of x,y, and the real wage c.

20 Cf. Samuelson, op.cit., pp.404-5.

21 See note 4.

BRITISH CAPITALISM IN 1973 AND 1974
THE DEEPENING CRISIS

John Harrison*

A. BACKGROUND - THE SITUATION AT THE END OF 1972

British capital was facing an acute economic crisis at the end of 1972:

1. Accumulation and profitability were both seriously hit. Private investment had fallen from 10% of the Gross Domestic Product in 1960 to only 7.9% in 1972. Pre-tax company profits fell from 16.0 to 10.4% of GDP over the same period.[1] The proportion of output commanded by profits and devoted to investment had thus fallen by about one third over the previous 12 years.

2. The Heath government had suffered a serious defeat in the toughest period of class strugle in Britain since the war, and thus faced a strong and undefeated working class.

The crisis was well under way when the Tories came to office in June 1970 (private investment was down to 8.7% of GDP in 1970, pre-tax company profits to 10.3%). Heath set about applying traditional Tory remedies in a determined way. He went into the EEC, to give British capital some 'healthy competition', dismantled Wilson's mechanisms for direct intervention in industry (the Prices and Incomes Board and the IRC), and introduced the industrial Relations Bill - aimed at controlling the Trade Unions by force of law, rather than by direct government intervention at the economic level.

While waiting for the IRB to get through parliament (it took 20 months) he let unemployment grow till the official figures went over the million mark in early 1972. (The real loss of jobs was probably nearer 2.5 million.) He announced the withdrawal of state support for lame capitalists (officially closing UCS in July '71) and began to implement the N-1 norm in the state sector (each wage settlement with public employees to be 1% less than the previous deal). Post Office workers early in the year, and later Municipal workers, settled within the norm.

It was by no means a conclusive victory for the bourgeoisie. There had been considerable working class resistance to the new government. A wave of occupations followed those at UCS and Plessey's in the summer and 13.5m working days were lost through strikes in 1971 - the most in a single year since the war. Average working class post tax real income had risen faster than in recent years (2% against an average of 0.75% p.a. from 1964-70, for men manual workers) and accumulation had continued to fall behind (private investment fell to 8.1% of GDP).

Nevertheless the tide did seem to be turning. The decline in profitability had been halted (pre-tax company profit rose slightly to 10.4% of GDP) and the working class had failed to win any of the major wage claims of the year. With their major weapon - the IRA - due through parliament in a couple of months the Tories looked poised for a successful offensive.

In fact 1972 turned out to be a bad year for British Capital and the Heath Government. It began with a miners' strike in January which smashed through the N-1 norm with an award worth nearly 30%. The use of the IRA to impose a cooling off period and a strike ballot on the Railmen produced a 6-1 vote in favour of strike action and they won nearly their full claim of 14%. The next use of the Act was in the containerization dispute. The jailing of the dockers in July led to the remaining major Unions de-registering under the Act, and to widespread strike action and the TUC fixing a date for a general strike. The government backed down and released the dockers. The Act was put on ice for a while.

With the failure of the policy of law, laissez-faire and unemployment Heath had to look for another solution to the crisis. After 3 or 4 months of abortive talks with the TUC and the CBI he imposed a compulsory freeze and began working on criteria and machinery for a longer-run income policy. It was back to the days of Wilson.

Its success in the class struggle brought the working class real economic gains in 1972. Wages and salaries per head grew by about 16% in money terms over the year (by the 3rd quarter just before the freeze they were growing at an annual rate of 20%). The retail price index rose by 7¾%, so that real pre-tax earnings grew by about 8%. (The retail price index underestimates the real rise in the cost of living because some important items of expenditure which have been rising faster than the average rate of price increases are not included. The most important of these are interest payments, notably on H.P. debt and mortgages. It is used here because it is the most convenient single index for year to year comparisons but its limitations should be born in mind.) In most years a significant proportion of this increase would have gone in higher tax (as the increase in money wages pushed workers into higher tax brackets) but Barber's tax cuts meant that real take-home pay grew as fast as real pre-tax earnings.

This big rise in real take-home pay fueled a real increase in consumer expenditure of 6¾%. Since output grew by less than 4% over the year this meant that the increase in consumption exceeded the total increase in production. In a closed economy this would have meant that investment plus government expenditure would, by definition, have had to fall in absolute real terms. In fact government expenditure rose, while private investment fell, and some leeway was provided by allowing the balance of payments to run from a surplus in 1971 (equivalent to 0.6% of NDP) into deficit (equivalent to 1.2% of NDP) in 1972.

In all company profits pre-tax remained constant at 10.4% of GDP and private accumulation fell from 8.1 to 7.9% of GDP. The Heath government had suffered a serious defeat in a period of intense class strugle (24m working days were 'lost' through strikes in 1972) and it had completely failed to impose the increase in the rate of exploitation that British capital needed so desperately.

B. OPTIONS OPEN TO THE BOURGEOISIE FOR 1973

1. To solve British capital's difficulties and create the conditions for an adequate rate of accumulation the bourgeoisie needed to impose a substantial increase in the rate of exploitation on the working class.

2. The failure to achieve this during the first two years of the Heath government showed that, given the balance of class forces, individual capitals were not powerful enough to impose such an increase (either by holding back wages or increasing productivity), even with the support of anti-Trade Union legislation and high levels of government fostered unemployment. More direct state intervention was needed. Laissez-faire policies and the 'rule of law' had failed and Heath was now forced to intervene directly to control wages.

3. Direct controls, like an incomes policy, could be used in either of two broad strategic approaches.

a. <u>The hard line approach</u>. This involves cutting real wages by allowing prices to rise faster than money wages. The advantage of this approach is that it would raise the rate of exploitation, and release resources from consumption, quickly. The disadvantage is that, because of the reduction in workers' living standards, it would almost certainly provoke massive working class resistance and involve a major confrontation with the Trade Unions.

b. The soft line approach. This involves either holding real wages constant or allowing them to rise by less than the rate of growth of productivity. This would only achieve results slowly and would need to be applied for a number of years to bring about a substantial rise in the rate of exploitation. The advantage is that, since workers' living standards are not actually cut, it may provoke less of a reaction from the organized sections of the working class.

C. DEVELOPMENTS DURING 1973

1. Heath chose the soft line approach. Phases II and III of the incomes policy were designed to either hold workers' living standards constant or allow a small rise. With a high rate of growth of output expected this would allow some redistribution to profits and accumulation.

This strategy can be seen very clearly in the terms of Phases II and III and in the forecasts made at the beginning of 1973. Phase III, for example, has a basic norm for wage increases of £2.25 or 7%, with the chance to negotiate 'threshold agreements which give a 40p (i.e. about 1%) wage increase for every 1% rise in the retail price index over 6% from the October level. This norm would hold real pre-tax earnings about constant. Real post-tax earnings would fall as workers paid a higher proportion of gross earnings in tax. However Phase III includes provisions for higher wage increases based on correcting anomalies from the freeze, movement towards equal pay for women, productivity deals, and premiums for working 'unsocial hours'. The combined effect of these was estimated to add around 4% to the rate of growth of pre-tax earnings and hence would offset the tax effect, so that real post-tax earnings would remain constant or rise a little.

The National Institute (NIER Feb. 73) forecast a rate of growth of real personal disposable income of only 1% for 1973 (against a rise of 9½% in 1972). Three-quarters of this would result from tax concessions to the rich, so that most workers' real incomes were clearly expected to remain more or less constant. Output was forecast to grow at 5%, which would allow capital to reap the benefits from higher productivity.

2. The government's incomes policy met far less working class resistance than the IRA had. By and large only the lower paid and less well organized groups of workers took any serious stand against the policy during 1973, and they were all defeated (e.g. Hospital workers under Phase II). In all 16.4m workers settled within the terms of Phase II at an average level of increase of 7¾% and over 6m settled within Phase III. Only 7m working days were lost through strikes in 1973.

3. The effective implementation of the incomes policy drastically hit the rate of growth of working class living standards. During 1973 average money earnings grew by 12.7%, and the retail price index rose by 10.2%, so that real pre-tax earnings grew by 2.5%. Since a married manual worker with two children would have lost about 2.4% more of his income in higher taxation, this means that real living standards barely rose at all (against a rise of over 8% the previous year). In addition average hours worked in 1973 were about half an hour a week more than in 1972, so that people worked longer for the same real income (or, if we take account of the fact

that the retail price index underestimates the rise in the cost of living, for a slightly lower real income.) It would thus appear that Heath had been successful with his soft-line approach.

4. However quarterly figures for 1973 show clearly that the policy was really only effective for the early part of the year. During the first quarter prices rose faster than money earnings, so that pre-tax real earnings fell, and output grew very fast indeed (an annual rate of nearly 12%). However, after the first three months of the year output ceased to grow (it rose by less than 1% in the third quarter and fell by 0.5% in both the second and fourth quarters) so that, although wage increases were held back to not far short of the rate of growth of prices, there was no extra output to go to capital.

5. The failure of the policy after the first quarter is reflected clearly in the behaviour of profitability and accumulation. Company profits net of stock appreciation rose sharply from 10.4% of GDP in 1972 to 11.6% in the first quarter. They then fell back to 11.1% in the second quarter and to 9.6% in both the third and fourth quarters. This is the lowest level they have reached since the war.[2] Since then the 3 day week is certain to have reduced profitability still further, at least in the short run. Accumulation fared a little better; gross investment for the year as a whole was 6% up in real terms in 1972. However investment was very uneven (rising at an annual rate of 25% in the first quarter and falling at a yearly rate of 25% in the second quarter) and, at what must be regarded as the 'high' of the recent boom, remained about 10% below the 1970 level.

(Investment abroad[3] remained at a high level, although falling off a bit from the almost astronomical levels of the previous year - £776m for the first nine months of 1973 against £1472m for the whole of 1972 and £875m for 1971. Acquisitions and mergers ran at an annual rate of about 2% of company capital stock in the first half of 1973, against 4.1% in 1972 and an average of around 3% in the late sixties.)

6. The central problem, for the bourgeoisie, of the rate of exploitation and accumulation was intensified by the end of 1973 by the acute deterioration of the balance of payments. In the short run an increasing balance of payments deficit alleviates the problem because it allows national consumption to rise faster than output. (To the extent that price not volume changes are responsible for the increased deficit no additional use - values are available, and the effect of the deficit is rather to allow consumption to grow as fast as output. - If the current account was to be kept in balance with the terms of trade deteriorating more resources would have to be devoted to exports to obtain the same volume of imports and national consumption could not grow as fast as output.) A current account deficit intensifies the problem in the longer term, however, because it's correction requires the diversion of resources into exports, or a reduction in imports, and hence an overall reduction in resources available for domestic consumption.

The U.K. current account had gone into deficit in 1972 and the situation had worsened considerably during 1973. The deficit on current account for the year as a whole was roughly £1500m and by the end of 1973 it was running at an annual rate of around £2500m.

This huge increase in the deficit was largely the result of price, as opposed to volume, changes. The volume of imports grew by 4% during the year while the volume of exports rose by 3%. The terms of trade (export price index divided by import price index) fell by 16.1%. This sharp deterioration in the terms of trade was a result of the depreciation of the pound (down about 18% against a weighted average of other currencies since December 1971 and about 8% on December 1972) - which was itself a reflection of the deteriorating competitiveness of British capital - and the sharp rise in the world price of raw materials.

By the end of 1973, then, Heath's soft line incomes policy had, despite its success in holding down real wages, run into two major difficulties.

a. The economy had stopped growing, so that holding real incomes constant would not produce any redistribution to capital.

b. There was a very large balance of payments deficit which would require at some stage a reduction in domestic consumption to correct it.

D. PROSPECTS FOR 1974

Whether the soft line remains a viable approach for 1974 (if it can be effectively imposed) clearly depends crucially on both the prospects for achieving a reasonable rate of growth of output and the possibility of running a massive balance of payments deficit. If output cannot be expanded then profitability and accumulation cannot be improved without reducing real living standards. If exports must be increased (and/or imports reduced) to redress the balance of payments deficit then investment cannot even be maintained without either a substantial increase in output or a reduction in workers' living standards. It is therefore essential, in assessing the options open to the bourgeoisie in the coming period, to look at the possibilities for rapid growth and for sustaining a large balance of payments deficit.

1. All the evidence suggests that output is almost certain to fall in 1974.

A. Demand is likely to be at a relatively low level, and so provide little stimulus to production.

(i) Demand was reduced considerably at the turn of the year by Barber's budget and the rise in oil prices. The credit restrictions and public expenditure cuts constitute a straight forward deflationary policy while the oil price rises reduce effective demand because they entail a higher expenditure on imports. The National Institute calculates that the combined effect of these two factors will be to reduce demand by around 4%. This is about equal to the average growth of demand over a year.

(ii) Demand for investment goods is likely to be particularly low in 1974.

a. Production grew fairly slowly in 1973 as a whole and what growth there was took place in the first quarter. Output in the fourth quarter was 0.5% lower than in the third.

b. Investment levels though up a bit on 1972, were still substantially below the level of a few years earlier.

c. Business confidence had reached an all time low for the post-war period by the beginning of 1974. The CBI industrial trends survey for January showed the lowest level of business confidence since the survey began 16 years ago. Less than one quarter of firms expected to invest more in 1974 than they had done in 1973 and only 3% felt more optimistic about the general business situation in their industry than they had done 4 months before. The FT monthly survey for January produced similar findings - the lowest level of confidence since the survey began 7 years before.

By the new year the FT ordinary share index had fallen by about 45% from an all time high of 543.6 in May 1972. (share values have in recent years gone through 3-4 year 'cycles' but the troughs have always been higher than on previous cycles. In January the index fell below the previous trough level of 305 and then through what the FT described as 'the psychologically important 300 barrier'.) Share prices are now about the same as in 1966. Since there has been about 50% inflation since then this means that they are roughly ⅓rd lower in real terms, and still falling fast.

(iii) The possibilities for export led expansion are very low. All the major capitalist countries will have large balance of payments current account deficits (OECD estimates are US £1750m, Germany £440m, France £1550, Italy £2400m) and will not welcome increased imports of UK manufactures. An international recession is also very likely, with little or no growth in the advanced capitalist world as a whole (OECD estimates of growth rates for 1974 are US zero (5.9% last year), Germany 0.75% (5.5%), France 4.25% (6.3) and Italy 5.0 (5.2). Output in the U.S. which constitutes a high proportion of total capitalist world output, fell by 2.1% between November 73 and February 74. It is also possible that governments will go in for major deflations to help deal with the balance of payments and hold down the rate of price increases, which would hit output levels and further reduce the demand for U.K. exports.

The only offsetting factor is the effect of the three day week. However the 'excess' demand generated by that was probably soaked up by increased imports, rather than stimulating demand for future output. The state could, of course, raise demand levels by means of a reflationary budget but it is unlikely to do this in view of the balance of payments situation. The present situation provides, in this respect, a very clear example of the limitations and contradictions of Keynesian policies.

B. <u>On the supply side</u>, it is far from certain that industry could produce as much output as last year even if demand levels were high enough to absorb it and business confidence improved drastically.

(i) The 3 day week has already substantially reduced output levels for the first 2 months of 1974. NEDO estimates that industrial output ran at 75-80% of the normal level in January. The CBI estimates for early February are 70-80%. With industry back to a 5 day week in early March, then, if industrial output is to be as high for 1974 as a whole as for 1973, there will have to be an annual rate of growth of around 4% for the last 10 months of the year.[4]

(ii) It is extremely unlikely that industry has returned to normal output level with the miners' settlement and the return to a 5 day week. There are almost certain to be severe shortages and bottlenecks resulting from output dislocations caused by the 3 day week. BSC, for example, was producing only 30% of normal output by the end of the Miners' strike and does not expect to be back to full production until June. Steel enters, directly or indirectly, into the production of almost all commodities.

(iii) Although there is a good supply of unutilized labour power (likely to grow as unemployment rises at least through the first half of the year) there is in general little excess capacity in plant and machinery. There was a high level of capacity utilization in 1973 and capital was complaining of widespread capacity shortages before the NUM overtime ban.

(iv) With low levels of investment for the last few years there is not much chance of significant increases in labour productivity resulting from the introduction of new machinery.

(v) Possibilities for increasing productivity by raising the intensity of labour (by speed-up, abolition of 'restrictive practices' etc.) are probably low given the balance of class forces and the need to hold incomes down (which limits the possibilities for making high productivity deal payments). On the basis of these kinds of factors the OECD is projecting a fall in GDP of 2.5% for the UK in 1974.

2. The balance of payments situation is rather more complex.

A. The scale of the problem. The current account deficit was running at an annual rate of about £2500m by the end of 1973. Estimates for 1974, taking account of increased oil prices, are in the order of £3500m. (This is obviously rough as future oil prices are very uncertain - tax-paid cost prices rose at the turn of the year from around \$3 a barrel to about \$7.)

Further this estimate takes no account of the 3 day week. Contrary to the assertions of most of the left-wing press, the 3 day week had an inflationary effect because output was cut by more than demand. This was especially true for the first few weeks when many workers were guaranteed lay-off pay, but continued to apply throughout as workers received dole, ran up debts, etc. (The treasury estimates that output fell by about 10% while incomes fell by only 5%.) This demand pressure worsened the balance of payments situation. The effects of the NUM over-time ban began to show up in the December trade figures where the value of exports fell by 5% against the average for the 3rd quarter, while the value of imports was 3% up. With the imposition of the 3 day week the current account deficit reached an unprecedented £800m in Jan and Feb 74.

£3500m is about 6-7% of the UK's NDP or 10% of consumption. Thus if the deficit were to be wiped out in one year, without affecting the level of investment or government spending, consumption (and hence real post-tax earnings) would have to fall by over 10%. Or, if it were to be corrected over a 5 or 6 year period, consumption would have to be held constant for that time. Neither of these are necessarily realistic policy options (certainly not the first!), but they illustrate clearly the order of magnitude of the deficit.

B. Oil and non-oil components of the deficit. If oil prices had remained at mid-73 levels then the deficit for 1974 would probably have been in the order of £1500-1800m (say 3% of NDP, 5% of consumption). Thus about half of the expected deficit can be attributed to increased oil prices.

It is important to distinguish between these two components of the deficit because the objective possibilities for dealing with them are very different (although not entirely independent of each other). Also both Labour and Tories' stated policies for dealing with the balance of payments draw a sharp distinction between the oil and non-oil deficit.

Possibilities for dealing with the deficit.

1. The oil deficit. The major oil importing countries have agreed, in principle, not to try and correct the oil component of their current account deficits for the moment. (They clearly could not all correct them, other than by an enormous increase in exports to the oil producers, since most of their non-oil trade is with each other. An individual country might be able to cover the increased cost of oil imports by selling more exports, but this would be transferring, in effect, its part of the total oil deficit to another country). Since oil has to be paid for, usually in foreign exchange, reserves are being rapidly eroded.

The UK reserves stood at about £2800 at the end of January. (A considerable part of this sum is money borrowed on the Eurodollar market by the nationalised industries. Since last March the public sector has borrowed over £1300m in this way, of which around £1000m has gone into the reserves.) Unconditional IMF drawing rights are worth about £1500m so, that, taken together, the government has immediately available foreign exchange about equivalent to the total expected deficit for 1974 - or over twice the oil deficit.

The reserves cannot be anywhere near fully run down, however, given the vulnerable position of sterling. (The reserves plus IMF are also about equal to foreign holdings of sterling in London which can be switched to other currencies.) So that the oil deficit will almost certainly be covered, for the moment, by more Eurodollar loans. Barber said before the election that he intended to cover at least the oil component of the deficit in this way.

In the short run this costs no real resources and hence entails no drop in domestic consumption. The problem is, of course, that the money has to be paid back sometime, with interest. Whether this can be done without any cost in real resources depends, in the medium and longer term, on how the oil-producing countries use their increased revenues.

The chances of the oil producers wanting to spend a large proportion of their increased revenues on goods and services are low. The sums involved are so enormous (combined OECD countries' oil deficit for 1974 will probably be about three-quarters of the UK's NDP) that they literally couldn't absorb them. This is not to say, of course, that none of the money will be spent on importing capital and consumer goods, which will cost the oil importers real resources.

Probably most of the money will be invested in various bills of exchange and forms of fictitious capital (government bonds, shares) within the oil importing countries. There is little point in rehearsing all the possible scenarios for this that the press has been drawing up lately, but a couple of basic points should be made.

A. If the oil producers invest sums equal to the increased cost of oil to the UK in the UK in this way then no cut in British domestic consumption is required (in so far as the oil states buy shares then a transfer in the ownership of certain real resources - the real assets of the companies - takes place.)

Portfolio investment of this type would generate an income stream accruing to the oil producers (dividend payments in the case of shares, interest in the case of government bonds). If this income is spent on goods and services then real resources have to be channelled into exports and domestic consumption reduced. If current earnings from bonds or shares are reinvested in further bonds or shares, on the other hand, no cut in domestic consumption is required. The ultimate logic of this process is that the oil producers end up owning all British capital.

B. If the oil producers invest in US, rather than UK, fictitious capital then the situation is rather different. In this case there is no inflow of foreign exchange on capital account to offset the oil deficit on current account. The UK government then needs to obtain the foreign exchange somehow.

One way to do this would be to run a non-oil current account surplus. This would correspond, on a world level, to a US current deficit financed by the inflow on capital account of the British oil deficit revenues of the oil producers. This involves a cut in UK domestic consumption equivalent to the case where the Arabs spend their extra revenue from higher oil prices to the UK on British goods and services. The difference is that the Americans get the extra consumption not the oil-producers (they get the ownership of US capital!)

Another alternative would be to finance the oil deficit by an inflow of American money on capital account. That way no cut in consumption is required. The Americans end up owning British capital, while the Arabs get American capital.

2. The non-oil deficit. Both Barber and Wilson have said that they will correct the non-oil current account deficit. The Government probably have very little choice anyway as loans to cover it in the short run, e.g. from the IMF, will probably only be given on condition that firm action is taken to bring the non-oil current account into balance within a short time.

It is not clear what mechanisms the government will use to try and achieve this. Direct controls or export subsidies would be very difficult politically, especially given both the delicate state of the EEC and the deficits faced by other countries as a result of the oil price rises. Allowing the exchange rate to fall further would encourage exports but the resulting rise in import prices would cut workers' living standards, and hence make wage controls more difficult. It might also spark off a round of competitive devaluations, given the balance of payments, and more general economic, problems of the other major capitalist countries. (The exchange rate has stabilized recently, and even picked up a little, as a result of the oil crisis since some oil producers are traditionally paid in sterling, which has increased the demand for pounds. This in no way reflects any underlying improvement in the UK's competitiveness and will probably be short-lived.) Deflation would have the desired balance of payments effect but would hit output levels disastrously and create high levels of unemployment. Barber's December 1973 public expenditure cuts of £1200m are the beginning of such a deflationary policy, and will lead to a serious loss of jobs in the construction industry (about 15% of construction output will be lost as a result of the cuts, at a time when private house-building is falling off fast).

Whatever mechanism is chosen the basic point is that, if the non-oil deficit is to be wiped out, home consumption will have to be reduced. Either exports must rise or imports fall. Either way domestic consumption will have to fall (or its rate of growth be reduced) by at least 3 or 4%. This is a minimum figure because certain mechanisms, most notably a vicious deflationary policy, would entail an additional fall in consumption to offset the fall in total output.

In conclusion then, the soft line approach does not seem to be on for the coming period. The increase in productivity which it relies on for increasing profitability and accumulation is unlikely to be forthcoming. Further the need to deal with at least the non-oil component of the current account deficit entails diverting resources from domestic consumption. Clearly a little more time can be bought by borrowing abroad but basically working-class living standards have to be reduced to release the resources needed to correct the balance of payments and raise the rate of accumulation.[5]

E. HEATH, THE MINERS AND THE ELECTION

Heath's tough stand on the NUM claim, beginning in the tail-end of '73, appears on the face of it to be absurd. He imposed the 3 day week at a relatively early stage in the overtime ban to conserve coal stocks so that he could ride out an overtime ban for months and an allout strike for quite a few weeks. He was thus prepared to sacrifice any hope of growth in the economy for many months in order to defend a policy - Phase III - which would only work towards solving the crisis if the economy grew fairly fast.

In fact, as we have seen, by the turn of the year Phase III was inadequate anyway. The lack of growth since the 1st quarter of 1973 and the rapidly worsening balance of payments situation meant that a policy that allowed wages to rise as fast as prices was too soft. If profitability and accumulation were to be restored real wages had to be cut. Further, by the beginning of 1974, the rate of price increases was accelerating fast. Output prices rose by 12¾% between January 1973 and January 1974. Between July 1973 and January 1974 they rose at an annual rate of 19% and during January 1974 they rose at an annual rate of 31% (part of the enormous rise in January is seasonal, but the trend is clear). Material input prices rose by 17% in the single month of January. This will show through in final output prices within the next few months. By February the retail price index was already rising at an annual rate of 20%. With over half the wage settlements made under phase three including threshold agreements, and any future settlements almost certain to in conditions of extremely rapid inflation, this means that, even within the terms of phase 3, British capitalism could very soon be caught in an extremely rapid wage-price inflationary spiral.

Heath's decision to take on the miners was thus not primarily an attempt to defend an outdated Phase III, already rendered objectively inadequate to the needs of the bourgeoisie by events. Rather it was a decision to take on the organised labour movement (and the most organised section to boot - the section that had inflicted such a humiliating defeat on him in 1972) and inflict a clear defeat on it, so that he could replace Phase III with a tougher follow-up embodying real wage cuts. It was not Phase III that Heath was defending, but his power to impose Phase IV.

POSTSCRIPT: THE SOCIAL DEMOCRATIC 'ALTERNATIVE' - LABOUR AND THE BUDGET

1. The credability of Social Democracy depends on its ability to grant reforms to the working class without endangering the reproduction of capital. If it cannot improve workers living standards it will, eventually, lose its political base as its actions continually give the lie to its rhetoric. If its reforms eat into accumulation too much, on the other hand, the resulting economic crisis will both damage workers living standards and necessitate a redistribution to capital to promote accumulation.

It is sometime's possible to walk quite a way along this tightrope without toppling off. In a sustained boom, when the economy is growing steadily, workers living standards can grow absolutely, and can even be improved relatively by cutting capitalist's consumption or running down the rate of accumulation a little, without damaging profitability too much. This is one reason why reformism is such a powerful ideology - it works. Sometimes.

A period of crisis is not one of these times though. The central requirement then, if capitalism is to survive, is an increase in the rate of exploitation, to provide the resources and incentive for further accumulation. Any attempt to implement major reforms will deepen the crisis. Failure to grant them, on the other hand, will lose the party its political base. This is the essential contradiction facing a reformist party in a capitalist crisis.

2. Coming to office in the midst of a crisis Wilson's main priority, like Heath's, had to be wage control. Only his approach to implementation was different. Because of Labour's strong working class base and link with the trades unions he went for a policy of negotiating voluntary controls with the TUC rather than a Heath-style confrontation. In exchange for the TUC

In exchange for the TUC agreeing to a system of voluntary control, and the maintenance of Phase III until agreement on details could be reached, he offered repeal of the IRA and the Housing Finance Act, a rent freeze and a major redistributive budget. Foot and Benn were the packaging.

(3) The budget did embody a considerable redistribution of income, but not between capital and labour. It was primarily a redistribution within the working class. There were some small increases in tax for the bourgeoisie (e.g. on unearned incomes) but the only major tax increase for capital, higher National Insurance contributions, is an allowable cost under Phase III and so will, in general, be passed on in higher prices. Higher pensions, food subsidies and lower income tax for the worse off will be paid for by higher income tax for better paid workers and higher prices generally (resulting from tax increases and the passing on of employers increased National Insurance contributions).[6]

(4) If the TUC accept Labour's deal and can impose it on the labour movement then Wilson will have bought himself some time. The budget was fairly neutral in terms of demand (perhaps mildly deflationary) and so the earlier comments on output and the balance of payments in 1974 still hold. Healey has put some further control on capital outflows and negotiated a huge loan to help finance the deficit, so it looks as if he may not be intending to do much about correcting it this year.

A further six months of phase III would not be catastrophic for British capital but equally it would not do anything towards solving its basic difficulties. Wilson might win an election in a few months in an atmosphere of reduced class conflict but he would then face the same problems in an intensified form. The fundamental contradiction, between the economic need to increase the rate of exploitation and the political need to reduce it, will still be there.

APPENDIX: MEASURING PROFITS

Figures for profitability reported in the press show very large increases in 1973. The Financial Times analysis of 639 industrial companies reporting before the end of January 1974, for example, showed profits up 42.1% on the previous financial year (FT 22/2/74). These figures are very misleading for a number of reasons.

(1) Inflation and growth.

The rate of increase is in money profit. Since there was roughly 10% inflation over the year profits would be lower in absolute real terms if they did not rise by 10% in money terms. Further, if profits remained the same in real terms they would fall as a proportion of output because production grew by about 3% over the year. For the proportion of output commanded by profit to have remained constant therefore (the price equivalent of a constant rate of exploitation) profits would have had to have risen by about 13% in money terms.

(2) Capital Consumption (depreciation)

(a) Profits reported by companies are sometimes gross profit before making provision for capital consumption (i.e for replacing that part of fixed plant and machinery worn out during the course of the year). Capital consumption is a cost of production, like raw materials and labour power, not a component of profit. It should therefore not be included in profit figures.

Where capital consumption is excluded from profits it is usually calculated on the basis of historic cost (what the machine cost) rather than replacement cost (what the machine would cost now). The latter is clearly the real cost to the firm, as machines do have to be replaced at current prices, and so is the measure of capital consumption that ought to be used when calculating net profits.

In a situation where the price of machinery is rising fast estimating capital consumption at historic cost will lead to a significant overestimation of profitability. More importantly, when looking at changes over time, in a period when the rate of price increase is rising (as in the U.K. recently) estimates based on historic cost will increasingly understate the real cost of depreciation and thus increasingly overstate profitability. This may seriously distort the trend.

(b) When the price of machinery is rising in line with the general price level the increase in the money cost of depreciation is not an increase in the real cost. Similarly the increase in the monetary valuation of the total capital stock is not an increase in its real valuation. (If the capitalist were to sell off his assets he would get a larger sum of money for them but would only be able to buy the same quantity of use values as before, because the prices of other goods would have risen as fast as the price of his assets.) This has been the case in the UK recently.

If the price of machinery rises faster than the general price level then the increased money cost of depreciation is an increase in real costs, and the increased monetary valuation of fixed capital is an increase in its real valuation. (If sold the money obtained would command more use values than before as the prices of other goods would have risen less fast.) This 'capital gain' can be realized by an individual capitalist but not by capital as a whole, since capitalists as a class cannot sell off their fixed capital - or there would no longer be a capitalist class.

(c) We can see what is really happening in these cases more clearly if we look at capital consumption in value terms. (i) If productivity is constant over time in all departments then it is clear that capital consumption is a part of constant capital not surplus value. It is the part of the total value of fixed capital (K) which is transferred to the product in the course of the production period. It is not new value created. (ii) If productivity is constant in all industries except the gold industry where it is rising (and which employs a negligible amount of total social labour) then the cost, in gold terms, of replacing the value of that part of K which is transferred to the product will increase over time. However if capitalists only invest enough to maintain K in terms of use-values (i.e. to cover depreciation) then no increase in the value of K will take place. This is the simplest instance of the price of machinery rising in line with other prices.

If productivity is constant in all industries (including gold production) except those producing machinery, where it is falling over time, then the increase in the cost of capital consumption represents an increase in the value of machinery. If capitalists maintain the same physical quantity of machinery over time then the value of K will rise, since it now represents a larger quantity of current social labour. This increase in dead labour results from an upward revaluation of fixed capital (due to relative productivity changes between departments), not from an accumulation of currently produced surplus value. This is the simplest instance of the price of machinery rising faster than the general price level.

This last point should be clear enough in relation to that part of K which is not transferred to the product, but is perhaps less clear in relation to the part that is transferred. It might appear that if the value of depreciation last period was less than this period then the difference constitutes accumulation out of surplus value. This is incorrect. The entire depreciation provision only replaces that value which has been transferred to the product in this period. To argue otherwise entails holding that the same use value (a portion of the machinery) can have two different values at the same point in time (the end of the current production period). This makes nonsense of value analysis. (On this point see the Glyn/Murray debate on the devaluation of constant capital in the CSEB)

A revaluation of constant capital is the reverse of a devaluation and has the opposite effect on the organic composition - causing it to rise. Unlike the devaluation of constant capital, though, it is not an immanent tendancy of capitalist development. It could be called a reinforcing tendency, analogous to non-immanent counteracting tendencies like a fall in the value of labour power.

(d) To sum up: capital consumption, calculated at replacement cost, should always be excluded from profits. It is never a part of surplus value. When it is increasing at a faster rate than prices in general that part of the increase which is the result of the relative price changes should be regarded as an increase in the capital stock, if it is the result of differential productivity growth between departments, not deviations of market price from price of production.

(e) The Central Statistical Office produces a series for capital consumption at replacement cost. This is calculated by assuming a fixed asset life and assigning the relevant proportion of the replacement cost to depreciation each year. The assumptions about asset lives have not been changed for some years and so, to the extent that machinery becomes obsolete quicker today than 20 years ago, the CSO figures may be an underestimate. They are, however, the best figures available.

Capital consumption is not subtracted from the profit figures in the paper because the CSO only produce their series annually and it is not yet available for 1973. Leaving capital consumption in makes very little difference to the trend, whereas taking it out on the basis of historic cost estimates would seriously distort the trend.

(3) Stock Appreciation

Profits reported by companies include stock appreciation (i.e. the increase in the monetary valuation of stocks resulting from price increases only, not from changes in the physical quantity of stocks held). Stocks are a part of physical assets, just like machinery, and changes in their prices should be treated in the same way as changes in the price of machinery. So that:

(i) When stock prices are rising faster than other prices a capital gain is made in the real valuation of assets. This cannot be realized for capital as a whole.

(ii) When the price of stocks is rising at the general rate of inflation capital makes no real gain as stocks have constantly to be replaced at current prices.

(iii) Stocks are a part of K and, when they are used in production, a part of C which transfers their value to the product.

(iv) If productivity is constant in all industries (including those producing goods held as stocks) except gold production, where it is rising, then stock appreciation in terms of gold does not alter the value of K or C.

(v) If productivity is falling in the production of goods held as stocks but constant in all other industries then K, C and the organic composition will tend to rise because of the revaluation of stocks.

(vi) Stock appreciation should always be excluded from profits. It is never a part of surplus value. It should be included as an increase in the capital stock to the extent that it results from differential rates of productivity growth between industries, rather than general inflation or deviations of market prices from prices of production (In the UK in 1973 stock appreciation began to rise faster than the general price level for the first time in recent years. It is more likely that this was a deviation of market prices from prices of production than a change in relative productivity.)

Stock appreciation is now about 30% of reported profits. It is running at three times the 1971 level and about five times the level of the late sixties. Failure to exclude it from profits figures thus leads to very serious distortion.

The CSO produce quarterly stock appreciation figures and so it has been taken out of the profits figures in the paper. The ratio of profits to GDP used is the CSO estimate of profits - derived from company reports but adjusted to a national accounts basis - net of stock appreciation but gross of capital consumption, all divided by the CSO estimate of GDP net of stock appreciation but gross of depreciation. The degree of distortion produced by not excluding stock appreciation and taking out capital consumption estimated at historic cost can be seen by comparing these figures with the F.T.s (which are faithfully reproduced by most of the left wing press) and by consulting an interesting article in 'Accountancy' (March 1973) which calculates that I.C.I.'s real profits, for example, were only 1/10th of those reported for the previous financial year and that BLMC actually made a loss equivalent to over twice its reported profits.

NOTES

* I should like to thank Andrew Glyn, Bob Sutcliffe and the other members of the Editorial Board for helpful comments and suggestions.

1 Investment includes a small amount of state investment (in iron and steel) but excludes dwellings. Ratio of investment to GDP is in constant prices. See the appendix for a discussion of the measure of profits used.

2 See appendix.

3 Direct plus portfolio.

4 Total production of goods and services, or real GDP, fell by about 10% according to the Treasury.

5 This conclusion is reinforced by the latest National Institute forecast for 1974. Carefully buried behind an almost endless discussion of effective demand is a projected fall in pre-tax real incomes of 2.4% on their 'optimistic' (!) forecast. (Average money earnings are expected to rise by

11.4% between the fourth quarters of '73 and '74 and the consumer price index - which incidently underestimates the rise in the cost of living by more than the retail price index - by 13.8%). This is supposed to release resources for exports (consumption falling by 3.2% and exports rising by 12.3%) which will reduce the current account deficit to a mere £908 m in the second half of the year (£3285 m for the year as a whole). Accumulation is expected to rise a little. This rosy picture is based on the assumption that government (pre-election) policies remain unchanged, oil prices fall by 25% from the first of April and the miners going back to work two weeks earlier than they did.

6 Strictly an increase in pensions should be seen as a diversion of resources into Dept III production. Since OAP's are neither present nor future workers their subsistence is not part of the value of labour power. An increase in resources devoted to their maintenance is, from the point of view of the reproduction of capital, equivalent to an increase in capitalists' consumption or arms production.

CHANGING NATURE OF IMPERIALISM IN IRELAND

Jim Smyth

I. INTRODUCTION

There exists no coherent attempt to explain the nature of imperialism in Ireland. Although the basic feature of imperialism, the constant absorption of the surplus of one area by another remain common to all manifestations of the phenomena, the mechanisims by which this process is carried out differ both in time and space. The internal dynamics of an imperialist relationship can - and do - differ from area to area. For instance, US imperialism in South America differs structurally from German imperialism in the periphral areas of Europe, such as Southern Italy or Greece. German exploitation of the regions periphral to the EEC core areas has as one of its chief manifestations the drawing off of labour: while in the case of the US exploitation of South America control of raw material production and monopolies on the home markets predominate. Such structural differences, in both their present day form and in their historical development, are of crucial importance for the political and economic development of a dependent area and for the type and nature of the class strugle there.

The structural differences between imperialist relationships reflect not only the needs of an imperialist power at a particular time - for example the present attempt of the most powerful imperialist nations to dominate world and local markets has gained an importance which it did not have during the classical phase of imperialism - but also reflect the political and social structure of both the imperialist and the dependent nation. Other more random factors can play an important role in structuring the relationship, competition between the imperialist power at the end of the last century for instance, led to the colonisation of areas on the basis of getting there before ones' rivals.

Thus a general theory of imperialism is no more than a framework which must be fleshed out by the analysis of the factors particular to the dependent area in question. This article is an attempt to define the factors specific to the changing relationship between Ireland and Imperialism and to outline the changing pattern of imperialist domination. Due to historical circumstances, imperialism has shown a different face in the Northern and Southern areas of the island. This article confines itself to the main to the developments in the South, and particularly to the developments in the last 20 years.[1] In such a short article many factors will inevitably be handled in a cursory manner: others may be neglected completely. It is hoped, however, that the beginnings of a framework will emerge.

II. BACKGROUND: THE 19th CENTURY

Ireland has been the object of colonial exploitation for centuries and indeed its whole history until very recently can be seen as a reaction to the attempts of one imperialist power in particular, England, to dominate it.

Imperialism has many faces, and to say that its basic element is the exploitation of one area by an economically stronger one is to say nothing about the complex political, social and economic forms it assumes in its search for profit. The moving force of British imperialsim in Ireland has changed historically in response to changes in the structure of British capitalsim itself. The first phase, beginning with the Tudors, was a by product of the conflict between rival imperialist powers bent on expansion. . England feared the collusion between imperial Spain and the corrupt remnants of the native Irish aristocracy because of the possibility of a Spanish invasion via

Ireland. This strategic consideration along with general expansion tendencies motivated English interest in Ireland during this period. Later Ireland became a means of dispelling possible conflict at home, since Irish lands could be nonchalantly granted to goups liable to cause trouble at home. Cromwell's confiscation of Irish land to pay off his servitors and army whose assistance was no longer required being a case in point. As the threat of invasion through Ireland receded, and England moved towards internal stability, Ireland became more and more a provincial adjunct to the mother country, its economic and financial institutions interwoven with those of its neighbour and its political life dominated by a middle class whose interests did not substantially differ from those of their counterparts across the water. Essentially, 19th century Ireland became a province of industrial Britain. It supplied cheap labour and food and was a convenient repository for surplus capital which was for the most part invested in non-productive spheres such as banking, insurance and the railways. In 1850 more than half the capital invested in Irish railways was of British origin. On the other hand, the Irish middle classes preferred to invest their capital in England: the £20m on deposit in Irish banks in 1860 was offset by £40m which was invested in British stock. The alliance between the Irish and British bourgeoisie was at best an uneasy one, distorted on one hand by the avarice of the imperialist relationship, yet cemented by the fear of both of social revolution emanating from the Irish masses.

Post famine Ireland saw the consolidation in social and political terms of the differing economic development of North and South. The pro-imperialist majority in the North was strengthened by the integration of the North East into the Clyde and Liverpool industrial complex, a development which integrated the economy of this part of the country directly into that of industrial Britain. The class structure of the South in the post famine period was dominated by the rise of a native catholic middle class, both urban and rural. The power of the landlords receded, and the peasantry, decimated by the famine and emigration and pacified by sucessive Land Acts, gradually ceased to be an autonomous force. Politics moved gradually away from the pattern of spontaneous peasant uprisings led by the militant sections of the emerging national bourgeoisie,towards constitutional methods, dominated by the new catholic middle classes, who had perhaps most to lose from social revolution. The decline of the revolutionary potential of the peasantry was gradual and uneven but inseparable from two factors which were to be of crucial importance for the developments in the latter part of the 19th century and the beginning of the 20th. These factors were the changes brought about by sucessive Land Acts, and the effects of the famine.

As a result of the famine large scale demographic changes took place in Ireland. The rural population was decimated by famine and emigration leaving the way open for the organization of agriculture into larger units. Depopulation and the Land Acts - which were aimed, often in a piecemeal and tardy manner, at introducing peasant proprietorship - brought about significant changes in the class structure: the emergence of a prosperous farmer class led in turn to an upsurge of fortune for the (mainly catholic) urban professional and business class. The grip of the landlords over the economic and political life of the country began to lessen: in the years immediately following the famine land ownership was almost completly in the hands of large landlords. Of 32,610 landed proprietors just over a half (18,100) owned 2.3% of the land (474,000 acres) a quarter (8,010) held 1.9m acres and the remaining 6,500 landowners held 88% of the land (17.7m acres).[2] By 1871 fully one half of all tenants had a holding of 15 acres and over whereas in 1841 (shortly before the famine) only one in seven were in this category.

The decline in power of the landlords and the emergence of the native middle classes was also reflected in the composition of the Irish MP's at Westminster. In 1868 70% were landlords but by 1874 they made up no more than 51% of the total. These changes were reflected even more obviously in the composition of the Home Rule Party with 60% of its membership coming from the urban property-owning middle classes.[3]

The re-emergence of the Catholic Church was nothing short of astonishing. The rapid rise in the numbers of clergy was accompanied by an increasing control over education and social life in general.[4] British leaders such as Gladstone saw the necessity of an alliance with the Irish middle classes, even at the risk of alienating sections of the English ruling class. This uneasy alliance formed the essence of the "Irish Question" which had, by the middle of the last century, become an integral part of British politics. Often the balance of forces in British politics hinged upon matters relating to Ireland and this interdependence was one of the crucial elements in the relationship of Imperial Britain to Ireland. The Act of Union, (1801) and the consequent presence of Irish representatives in the House of Commons, made Ireland part and parcel of the internal British political scene. It soon became difficult, if not impossible, to apply special legislation to Ireland and constitutional advances in England implied similar, if delayed, advances in Ireland. In economic terms, and in terms of its own internal social structure Ireland was a colony, but because of its political integration with Great Britain it proved difficult to treat it as such. Repression, the normal way of dealing with turbulent colonies, could not be unreservedly applied in Ireland, an element of compromise, commensurate with liberal democratic institutions was always necessary. Thus British policy was one of repression when absolutely necessary combined with a attempt to win the 'moderates' thus taking the steam out of incipient social revolt. These 'moderates', in the latter half of the last century, were the catholic middle classes, who, although at least latently nationalist in outlook, had as much - if not more - to lose as the British from social revolution in Ireland.

The Imperial domination of Ireland in the post famine period imposed a tragic pattern upon the development of the working class. The economic development of the North East was carried out in the ideological context of secretarianism embraced by the protestant working class as a means of preserving their priviliges arising from the direct imperial link. The privileges of the protestant industrial worker consisted for the most part in control over jobs in industry particularly in the shipbuiling and heavy engineering sectors in and around Belfast. In a situation of rural depopulation and large scale migration into Belfast during the 19th century these privileges were very real and the protestant worker saw any attempts to weaken the link with Great Britain as a prelude to a catholic dominated Ireland where his privileges, and with them his job, would disappear. In the South, the ideology of nationalism was gradually suffusing through the class structure leaving no group free from its effects. No one sums up its function more concisely than Strauss:

> Nationalism was therefore the uniformly valid political creed of every Irish party, and active nationalism invariably involved hostility towards England. But as far as any special group enjoyed a privileged position within Irish society, which needed the English connection for its maintenance, its professed nationalism was limited and qualified to an extent sufficient to enable this group to combine the advantages of unfettered development for its members with the security only English support would guarantee.[5]

The working class in the South was small and fragmented. It consisted for the most part of transport workers, engaged in the handling of imports and exports, with a sprinkling of artisans and craftsmen. There was no broad industrial basis on which a strong working class movement could be built.[6] This fragmentation, combined with the power of nationalist ideology in a colonial situation, hindered the development of revolutionary consciousness and made it extremely difficult to develop common ground between workers North and South. During the latter half of the 19th century the momentum of the anti imperialist struggle in Ireland, for so long an incoherent resistance to foreign occupation and exploitation, became in part a struggle between the British and native Irish bourgeoisie over the claim of each to be the exploiter of the Irish people. The intensity of this conflict was diluted by the uncommon fear of an emergent mass movement: the native Irish middle classes feared the radical potential of the peasantry, but nonetheless were prepared to use the threat of this potential to blackmail the British government: the latter, secure in its mantle of imperial power was nonetheless forced to give grudging concessions for fear of revolution in its own backyard. Gradually, as the land question was solved, the peasantry ceased to be a revolutionary force: both it and the working class seemed incapable of transcending their own immediate situation.

This phase of British imperialism in Ireland, which was characterised economically by an almost total integration of the larger Irish industries, such as they were, and banking and financial institutions into the British system, was politically dominated by an uneasy alliance between the native catholic bourgeoisie and the English ruling class. The delicate balance of compromise was upset by the nationalist and separatist movement, which in the last decades of the 19th century began to emerge as the predominant ideology of sections of the Irish class structure.

The class structure of the South at the beginning of the century differed in some important respects from that of other countries dominated by imperialism. There existed a relatively complex plurality of social groupings, and a relative prosperity among the middle and farmer classes who were in a position to accumulate on a considerable scale. The class structure as a whole gained its coherence from the ideology of nationalism. All but a few elements of the population saw themselves as having something to gain from separatism in one form or another and this gave a political and cultural homegeneity to the majority of the population in the South. The hope, which was current in the South, of concrete economic gains from independence was matched in the North by a determination to retain the imperial link with its advantages for the industrial North East. Thus the domination of imperialism imposed a false consciousness both North and South: for historic reasons a transformation of the predominant ideologies proved impossible. Movements which contained the germ of transcendence were brutally dealt with both by the forces of the crown and their Irish allies. The tentative moves towards working class unity in the North, spearheaded by Larkin and Connolly, and the strikes and lockouts in the South, were both defeated by the united forces of Britain and the Irish bourgeoisie.

At the beginning of the century the class structure of Ireland reflected differing attitudes towards the British link. Three main factions existed: Unionists, Home Rulers and Separatists and the class groupings of 19th and early 20th century Ireland could be distinguished by their leanings towards one or the other of these factions. This pattern was however complicated by the widely different patterns of allegiance between North and South. Unionism predominated in the North where all but the catholic small farmer, the catholic working class and some sections of the urban bourgeoisie, were staunch Unionists. In the South Unionism had the support of large industrialists and farmers, the service and rentier class - and practically nobody else. The attraction of Home Rule were twofold: in the first instance it would increase the hold of the native catholic bourgeoisie in the South over the Irish economy and the political life of the country and it would serve the important ideological function of taking the steam out of more radical movements. The urban professional and property owning class, small industrialists, middle sized farmers, with a section of the working class, formed the class background of the Home Rule movement. Separatism was a much less clearly defined force, gaining its appeal more from petit bourgeoisie romantic dreams of an independent Ireland than from promises of concrete economic gain. In strict economic terms it went little beyond the home rulers: instead it promised itself much from the symbols of political independence. It found its main class support among the petit bourgeoisie, the small farmers, and the working class. The opposition of the middle classes to the Separatists was not so much based on opposition to their concrete demands (such as they were) but upon fears of the social forces which might be unleashed by a separatist movement.

The strengthening of nationalist ideology in Ireland was paralelled by a decline in traditional British opposition to Home Rule for Ireland. The dependence of industrial Britain upon Irish agricultural produce, crucial in the last century, declined as alternative sources of supply were made available by improvements in transport. The costs of running the country were also proving prohibitive with expenditure running ahead of taxation. It was ironic, that the introduction of state pensions benefitted Ireland, with its large percentage of aged, more than anywhere else.[7] Again the impossibility of imposing special legislation upon Ireland was demonstrated. The decline of the level of direct exploitation of Ireland, in the form of rents etc., was paralelled by a rise in the level of indirect exploitation in the form of British investment in railways etc., and their control over most of the financial institutions. The fact that the Irish bourgeoisie tended to accept the financial dependence upon England, and to invest their capital there seemed to make them possible guardians of British interests, and indeed their behaviour during the lock out of 1913 displayed their common interest with Great Britain in keeping down radical working class movements.

III. THE INDEPENDENCE STRUGGLE

The struggle for national independence was fought against the background of a divided and defeated working class. The industrial working class of the North East was ideologically pro-imperialist, dependent upon the integration of the industries there with British heavy industry: nationalism or separatism meant for them a necessary weakening of the British link which they saw as an essential element in their economic survival. The working class in the South, never a cohesive force, had suffered a crushing defeat in the strikes and lockouts of 1912-3 and even a leader of the stature of Connolly was unable to counteract the rising tide of nationalism which was to engulf all other movements. Connolly was aware of the dangers inherent in Sinn Fein, whose policies were a straightforward blueprint for the rehabilitation of the Irish middle classes, and expressed his fears when he wrote:

> If you remove the English Army tomorrow and hoist the green flag over Dublin Castle, unless,you set about the organization of a Socialist Republic your efforts would be in vain. England would still rule you through her landlords, through her financiers, through the whole array of commercial and individualistic institutions she has planted in this country (Labour in Irish History)

But the doctrine of national independence through the medium of physical force was a seductive one and Sinn Fein, with its dream of national freedom as a first priority soon became the dynamic of Southern politics.

It is probably impossible to unravel the economic and ideological motives behind the armed struggle against England : it may be in a colonial situation such as that in Ireland that ideology becomes a force almost independent of the economic base, the consciousness of real economic interests becomes confused and diffuse, subordinated to a movement which gains its force from acceptance of a distorted reflection of reality, which nonetheless is coherent in the minds of those concerned. Nonetheless, although ideology may to some extent transcend concrete economic interests, and sometimes come into conflict with them, it always retains a concrete link with the interests of specific classes or a specific class who in historical perspective can be seen as the manipulators of a particular ideology.

The ideology of nationalism in Ireland benefitted the middle classes to a greater extent than any other, although the movement towards separation from Great Britain went a little too far for some of them.

The leadership of the independence struggle soon fell into the hands of the native middle classes, and this was clearly expressed in the composition of the first Dail in 1919. It was composed of 65% urban professional middle class, 25% owners of property and 10% farmers. The war of independence did not preoccupy all sections of the population equally. The most active regions were those of relative rural prosperity: the midlands and the South East, areas of larger farms and rich pastures. The West, and the present day border countries, areas of rural poverty, remained relatively quite, during the actual independence struggle. The actions of the provisional government, and the IRA, reflected the interests of those elements who made up the first Dail: they were determined that the nation should not be deflected from the 'national question':

> While the IRA were establishing their authority as a national police, a great danger threatened the foundation of the republic. This was the recrudescence in an acute form of agrarian agitation for the breaking up of the great grazing ranches into tillage holdings for landless men and uneconomic smallholders: the latter, during the winter of 1919-20, began to take the matter into their own hands...the mind of the people was being diverted from the struggle for freedom by a class war (Constructive work of Dail Eireann, No.1.1921)

The authority of the IRA as a 'national police' consisted in the authority to put down any activities which were against the interests of the middle classes: the occupation of factories, mills, harbours and lands were not compatible with the interests of this class. It was also obvious that when workers placed a banner on the front of an occupied mill saying "We make bread, not profit" as they did in Limerick, that the national interests were not being served. Acceptance and rejection of the Treaty also split the country along clear lines: those areas with the lowest level of activity during the war of independence now became active in their opposition to the treaty. The South midlands tended to accept the treaty: with it they had achieved what they wanted. They achieved the right to tarrif autonomy, access to the British market but retained their link with the Imperial trading and financial institutions, a necessary condition for their future prosperity.[8]

The traditional class divisions in the country manifested themselves in acceptance or rejection of the treaty. On the surface the separatists had won the day: but in appearing to do so they exposed the poverty of their nationalist ideology. For the Irish Southern middle classes, who had always tended to espuse the cause of Home Rule, separatism was acceptable because they realized that it would leave their political and economic priviliges untouched, as long as it could be divorced from radical social and economic demands. The spectre they feared above all was that of the national question going beyond simple political demands to embrace a radical attitude towards social and economic questions. To be in a position to forestall any such move they were prepared to enter into an alliance with the separatists, whose policy it was to deny the relevance of social and economic questions.

Britain too, was prepared to accept partition and political independence for the South again as a means of short-circuiting more radical demands. Britain's acceptance of independence for Southern Ireland entailed selling out the traditional Unionist elements there, who, unlike their counterparts in the North, were unable to launch a significant opposition.

Opposition to the treaty flares up in the Western sector of the country, the same areas in which the intervention of the IRA was necessary during the war of independence to subdue moves which contained the germ of the national question becoming enmeshed with larger social issues. It is particularly significant that those areas which militantly opposed the treaty had been least involved in the independence struggle itself. In general geographical terms, the IRA units in the rich grasslands of the midlands and the South East accepted the treaty, with the exception of those areas such as South Tipperary and Kilkenny, where there were large numbers of agricultural labourers. Their problems, as also those of the small farmers in the West, remained essentially unchanged by the treaty as they were still tied to their tiny farms, forced into economic dependence upon the large farmers and the merchants of the market towns.

The viciousness with which the anti-treatyites were put down (more people died in the Civil War than in the preceding independence struggle), reflected the real fears of the Irish bourgeoisie - and of the British who supplied them with military equipment - the fear that the national struggle would expand into open class warfare. The Manchester Guardian aptly summarised these fears:

> Irregularism and land grabbing go together, so much so that many of the shootings and burnings are due more to economic than to political motives. When the Free State Government began to take active steps a month of two ago Ireland was nearer to a recrudescence of land war then it had been for a generation. (MG Comm. Ireland, Section 1, 15.3.23)

IV. THE ESTABLISHMENT OF THE FREE STATE

Home Rule, in the eyes of the native Irish middle class, was inseparable from tariff autonomy. Irish industry was small in scale and of low capital intensity, by and large unable to compete with its English counterpart. Thus an economic policy of protectionism seemed to be the only viable way of building up native industry and fulfilling the separatists' dream of a self-sufficient Ireland, producing sufficient for the countries domestic needs. The development of the Irish economy over the last 50 years has given the lie to this, one of the most persistent of nationalist myths. The myth claims that the sad state of industrial development in Ireland was caused by the presence of British domination, which stunted any attempts to establish a native manufacturing industry. This was one of the central tenets of Sinn Fein ideology and, at least until very recently of the official republicans. This is not to deny that imperialism restricts the political and economic development of a colony: but the conclusion of some republicans, that national independence would drastically alter the balance of imperial domination, is manifestly false.

After the establishment of the Free State in 1922 there was a gradual introduction of protectionist measures. The treatyites, who dominated the first government, were committed to free trade, as this reflected the class composition of their support. However, internal pressures forced them to introduce a policy of selective protectionism. The Fianna Fail party were committed to the introduction of full protection and when they came to power in 1932 they rapidly extended the scope of the legislation. The success of Fianna Fall in the 1932 election was based on the binding force of ideology in Irish politics. Nationalism, the idea of a 'self contained and self sufficient' republic was a sentiment which to some extent could transcend class barriers and have an appeal to petty capitalists, small farmers and elements of the working class. Their support came from the small farmers of the West and the border countries: they enjoyed also considerable support in working class areas of Dublin.[9]

Immediately after the election the government entered upon a policy of full protection for industry. The then minister for industry and commerce described the attitude of the new government:

> The disposition was in favour of protection...protection is given unless the facts coerce us to modify them in some way.[10]

Essentially, protectionism was designed to break, or at least weaken the ties of dependency with England. Under the shelter of a tariff wall industry was expected to expand and diversify, thus lessening the dependence upon exports and bringing employment and prosperity to both urban and rural areas. The moving force behind such an economic policy would have to be the national bourgeoisie who would be expected to use their capital to establish and expand a native industrial base. Events were to show the limitations, both imposed and self imposed, which structured the attempt of the Irish bourgeoisie. There was a rise in investment, partly as a result of protectionism, but it stopped short of a concerted effort to build a sound structure of national capitalism. The reluctance of the Irish bourgeoisie to invest their capital in native industry was an important factor in the build up of the state controlled sector which soon became an important part of the economic structure. During the thirties a three-tiered structure of investment emerged.

1. State sponsored investment: electricity production, transport and other highly capital intensive sectors were taken over by the state due to the reluctance of private capital to invest in these sectors.

2. Banking, insurance, and may larger industries remained under British control and no attempt was made to expropriate them.

3. Smaller, Irish controlled industries protected by the new tariff policies. These were the only industries to benefit from protectionism.

The fact that the first sector had by necessity to be established, and that the second sector was allowed to flourish, showed the structural limitations of national capitalism in Ireland. It benefitted only the backward sectors, who gained a new lease of life from it. This sector was numerically large, if economically weak. In 1926 6.1% of the working population were employers., and almost 300,000 persons or 22.6% are listed as 'Self employed'.[11] Although the Fianna Fail government had a large measure of electoral support among the small farmers, their policies were in fact working against the long term interests of this group. In direct economic terms, the national capitalist class, the petit-bourgeoisie and a section of the working class benefitted from protectionism. The aim of the new policy was the establishment of new industry, as expressed in the preface to the Control of Manufactures Acts, 1932-4:

> [the acts] were intended to secure that, as far as possible, Irish nationals would control and finance new manufacturing employments and would be protected against foreign industrialists, who, in the absence of controls, would have been free to set up competing units here to capture the home market.[12]

The problems of agriculture were seen as peripheral to industrial expansion: it was assumed that the expansion and dispersal of industrial units would be instrumental in solving the problems of agriculture. In fact, the new economic policies failed to halt the rural decline which had set in after the Famine. The rise in industrial employment, from 62,000 in 1926 to 144,000 in 1952 did not anywhere nearly offset the loss in agricultural employment which was 140,000 during the same period (see Table 1)

TABLE 1

Employment Patterns

YEAR	(1) Employment in transportable goods industries		(2) No. of Agricultural holdings (Acres)			(3) Service Employment (000's)	(4) Own Account workers	(5) No. of Employers
	Total	Per Establishment	Total	< 30	> 50			
1912			406	269	78			
1926	62,000	27				380	295,000	79,000
1931			336	194	79			
1936						416		
1938	103,000	31						
1949			319	176	80			
1951							270,000	58,000
1952	144,000	42						
1956	154,000	45				420		
1958	150,000	47						
1960			290	144	84			
1961						415	253,000	33,000
1963	178,000	56						
1966	185,000	N.A.				438		
1971						461		

Sources: Col (1) Survey of Grant Aided Industry, 1967.
(2) Agricultural Statistics
(3) Statistical Abstracts
(4&5) Census of Population, Statistical Abstracts.

Table 1 shows both the decline of agricultural employment, and the concentration into larger units, a process which has been accelerated with entry into the EEC. If the economic policies of Fianna Fail did nothing else, they solved the land question by the simple process of accelerated rural depopulation and emigration.

Despite the attempts of Fianna Fail to establish the economic groundwork for a viable national capitalism the futility of the exercise in the face of the uninterrupted influence of British imperialism soon became apparent. Although Great Britain opposed protectionism - particularly when it was practised by other countries - there was little it could do in a world where protectionist policies were being increasingly introduced to counteract the effects of the deepening world economic crisis. The increasing tension between the two governments was brought to a head by the refusal of the De Valera government to collect and pay the land annuities - payment for lands bought under the various British land acts - and Britain was not long in showing its imperial teeth. To recoup the £5m lost through the refusal to pay the annuities England imposed tariffs upon Irish goods, particularly upon agricultural exports. Britain had little difficulty in finding alternative sources of supply whereas Ireland found it practically impossible to find alternative markets. The increase in the trade deficit between 1931-3 of £9m showed the dependence upon the British market. Despite concentrated efforts Ireland could only find alternative markets to the tune of £22,000, and the cost of living index relative to that of England rose by 40%.

The so called 'economic war' did have the effect of decreasing the import level of British manufactured goods, but this was counterbalanced by a rise in the level of imported raw materials, most of which came from the United Kingdom. Although the level of exports to the United Kingdom declined, their % of the total exports decreased only marginally from 96.3% in 1931 to 90.6% in 1938. During the same period the percentage of total exports to countries other than the United Kingdom rose by a mere 1.2% from 6% to 7.2%.

In economic terms, protectionism was a failure. It did have the effect of increasing net output of manufactured goods from 18% of total production in 1926 to 28% in 1938 but this was offset by a 20% decline in agricultural output during the same period. Employment in industry increased, but failed to offset the level of rural migration with the result that unemployment and emigration figures remained among the highest in Europe during this period.

For a dependent nation, attempting to assert itself against an imperial power, protectionism is designed to serve two purposes:

1. To decrease dependence upon the imperial power by lessening the trading dependence upon it. This is generally attempted by a process of building up native industry and encouraging the investment in such industry.

2. In internal political terms, protection of industry is designed to strengthen and if possible develop the national bourgeoisie who should form the ruling elite. Protectionism should also lead to a solution of the land question by encouraging the siting of industry in rural areas and gain the allegiance of the working class by increasing employment in industry.

Protectionism in Ireland failed to bring about any of these changes. Dependence upon the British market decreased only marginally: the 'economic war' showed conclusively Ireland's inability to throw off the ties of dependency. The increase in industrial production could not offset unemployment in other sectors: and even the rise in the production of manufactured goods did not lead to an increase in the size of the national bourgeoisie: indeed the number of employers actually declined between 1926 and 1961 as Table 1 indicates. This decline in numbers does not necessarily indicate a decline in their absolute economic importance or a diminution of their control over the economy. It expresses, for the period up to 1958, a concentration of control inside the ranks of the bourgeoisie but this must be seen in the early postwar period in the context of economic stagnation. The post 1958 figures, which indicate a further decline in the numbers of employers, are to be seen in the context of the penetration of foreign capital and the run down of native industry and show both an absolute and relative decline in the economic power of the bourgeoisie.

The failure of the Irish economy to expand beyond a certain point under protectionism hindered an enlargement of the numerical base of those dependent upon a strong native capitalism. Sectors of the population, who would have been integrated into a system of national capitalism such as rural migrants, the educated sons of the petit bourgeoisie etc., were forced to emigrate in the postwar period thus denying national capitalism its mass basis. As Table 1 also shows the expansion in the service sector was significant, a sector which is not particularly committed to the development of a strong native capitalsim. The increasing penetration of foreign capital has accelerated the growth of the service sector: between 1961-71 employment in the service sector increased by 10.9% while the total work force increased by a mere 1.8% and unemployment rose by 22.3%. Although it is not possible to give a detailed analysis of the role of the service sector at this stage, a tenable general conclusion would be that it was initially not opposed to the abandonment of protectionism, it could possibly see the advantages for its own growth in an increasing flow of capital, and that later, true to its basically parasitical nature, it gave its wholehearted support to the policy of attracting foreign capital.

V. THE EARLY POST WAR PERIOD

After the second world war there was a restructuring of the world capitalist system. Western Europe entered upon a period of economic reconstruction and political consolidation which was formalised in the Treaty of Rome and the establishment of the EEC. Inside Europe there was a shift in the balance of economic power. The decline of Britain, which first became noticeable at the turn of the century, continued, and West Germany emerged as the strongest economic power in Europe. The advanced nations of Western Europe embarked upon policies designed to integrate their economies, thus attempting to overcome the contradiction between nation states and the international nature of post war capitalism. This integration led to an unparalled concentration of high technology industry and service centres in the metropolitan areas which soon formed an interlocking axis of industrial and administration complexes spanning Europe from South East England to the Milan-Turin conurbation. This development brought with it a new pattern of geographical exploitation. The rapid development and reconstruction of the European core area was accompanied by a process of decay in the peripheral agricultural regions and in most of those industrial areas based on traditional and technologically obsolete industries. The core areas attracted investment capital, both public and private, causing a critical inbalance between them and the peripheral regions which were starved of capital, even for essential services. Not only were the peripheral regions allowed to decline economically, but their most valuable resource, human labour, was ruthlessly exploited in the industries of the affluent regions. Since the war, 8 million people have been forced to emigrate to the European core regions in search of work, generally of the most menial kind, leaving whole areas in the grip of almost irreversible decay.

The extraordinary reconstruction of post war Europe was to a large extent based upon this process, a process which appeared in miniature in countries such as Ireland and Italy where a measure of prosperity in a particular area was achieved at the expense of the devastation of the peripheral regions.

Ireland's neutrality left its productive resources intact after the war thus precluding an economic 'boom' on the European pattern based on the reconstruction of productive capacity destroyed in the war. The post war Irish economy, entombed in its shroud of protectionism, gradually sank into stagnation. This stagnation was already beginning in the five years prior to the outbreak of war. Between 1931 and 36 industrial output increased by 40% but after this initial spurt it declined to $4\frac{1}{2}\%$ in the two years immediately before the war. After the artificial boost given by the war, the economy continued upon its downward way: between 1949-55 net output grew by a mere 1.75% pa industrial production by 3% and output per worker by 2%.

By the middle fifties it was becoming obvious, even to the most committed protectionists, that a change of course was necessary. Political pressures were also mounting: the working class was becoming increasingly militant with strikes, marches, and general unrest. In June 1958 the then prime minister, Lamass, once an erstwhile prophet of protectionism, said in the Dublin parliament:

> We can no longer reply for industrial development, to the extent we require it, on the policy of protection[14]

and in the same year a government sponsored report on economic development drew the cautious but revolutionary conclusion:

> The policies, hitherto followed, though given a fair trial, have not resulted in a viable economy. We have power and transport facilities, public services, houses, hospitals and a general infrastructure which is reasonable by European standards, yet large scale unemployment still exists.[15]

The Irish bourgeoisie realized that abandoning protection in itself was not sufficient to revive flagging fortunes, and that some means of stimulating industrial growth other than a high tariff wall would have to be found. Measures were introduced to attract foreign capital, measures which amounted to an open invitation to foreign capitalists to come to Ireland and exploit almost at will. The package contained freedom from company taxation, other tax reliefs, cash grants, depreciation allowances and long term loans. It was also pointed out by the IDA - the government agency entrusted with the selling of Ireland - that there was a large reserve army of unemployed, willing to work for low wages. An added inducement was the minimal contributions expected from employers towards the social services, which were inadequate anyway.

With the introduction of these measures there was a sudden upsurge of foreign investments. In the years preceeding the new grant scheme, the number of foreign firms coming to Ireland was static at about 4-5 per year, two thirds of these being British. British firms established in Ireland during the early post war period and in the fifties were in general home Irishmarket orientated branches of firms already established in the United Kingdom. They tended to be small and not capital intensive. The fact that the new grants scheme was introduced along with a reduction of tariffs between Ireland and the United Kingdom made it an attractive proposition for firms concentrating on the English market to establish plants in Ireland. Table 2 shows that this did in fact occur. The expansion in industrial production in the late fifties and sixties was brought about by the investment of capital other than British, mainly of United States or West German origin.

Developments during the sixties showed little change in the pattern of British investment. Of 55 firms established between 1955 and 1966 without the help of Government grants, 36 were British, and eight were extensions of existing plants. Two thirds of these firms were in the Dublin area which would seem to indicate an emphasis on capturing the home market. The reluctance of British capital to invest in an expansion of Irish industry has been a characteristic trait of British imperialism in Ireland. In 1931 there was approximately £122m of foreign investment in Ireland, most of it British and almost all of it invested in commerce, banking and insurance.[16] By 1959 United

Kingdom investment in Irish industry was no more than £12m a figure which rose to £29m during the sixties.[17] During the same period non British foreign investment rose from almost nothing to £82m.[18] The last three years have seen a rapid acceleration of this trend. Foreign investment had risen to almost £170m, and the British share has fallen from 32% in 1969 to 20% in 1972.[19]

TABLE 2

Nationality of Firms Setting Up in Ireland
1955-62
(Grant aided)

YEAR	TOTAL	BRITISH	NON BRITISH
1955	5	4	1
1958	8	5	3
1959	11	4	7
1960	15	4	11
1961	23	8	15
1962	16	5	11

(Source: IDA Reports.)

Ireland's dependence upon the United Kingdom has always been that of an underdeveloped agricultural area upon an industrialized neighbour. The fact that internal protectionist policies could not be matched by a sucessful attempt to find alternative markets for Irish products was the most important reason why the country was forced to abandon these policies, and this dependence upon the British market characterized British influence in Ireland to this day. The inflow of non British capital after 1958 changed drastically the pattern of imperialist domination of Ireland. The actual amount of capital was in itself not crucial, but the type of investment involved - investment in industrial production - caused, and is continuing to cause - adrastic upheaval in the social and economic structure of the country. British capital made little or no attempt to change the productive infrastructure of Ireland. It was content to claim a near monopoly of the financial sector while using its status as Ireland's largest market to supply itself with cheap agricultural produce. Indeed, it was in Britain's interest to hinder the development of Irish industry since this would have diminished the reserve army of unemployed which until recently was an intergal part of the British economy.

Of non British firms coming to Ireland between 1960 and 69 the majority were American, with West Germany taking second place (see table 3). Although German and United States firms may have had different reasons for coming to Ireland, there is a structural similarity in the type of plant set up in the earlier half of the sixties.

The first wave of foreign investment after 1958 was made up of small scale units producing for export. By 1967 only two firms employing over 500 had been established - both American - and none of the larger international or multinational concerns had bothered to invest in Ireland on any considerable scale. This is hardly surprising since the total IDA grant allocation £12.6m in 1971 is a mere fraction of the turnover of any one multinational. Generally those firms coming during this period were characterized by small unit size, dependence upon imported raw materials, export orientation and a higher level of capital intensity than earlier established firms. An examination of the German firms established during this period shows a pattern which seems to be common to the majority.

TABLE 3

Country of Origin of Projects Which Commenced Production Between 1.4.60 and 1.4.72.

Nationality	No. of Projects	% of Total	Investment Capital Involved £m.	% of Total	% of total employment
GB	182	40	41	24	20
USA	113	24	69	43	23
W.Germany	85	18	14	8	14
Others	76	17	45	27	18

Source: IDA Reports, Survey of Grant aided Industry.

This pattern is of branches of firms low in size and production scale in their own countries, often family concerns and producing for market niches. It would be safe to assume that such firms took advantage of the IDA grants because of difficulties facing expansion in their home country, such as scarsity of capital or high labour costs. This is borne out by table 4.

TABLE 4

Factors Influencing Foreign Investment. (up to 1967.)

Factors	Grants and tax relief	Labour availability	Market access
Primary Factor:	36	26	21
Secondary Factor:	64	29	6

Source: OEDC Report (1973) Survey of Grant Aided Industry.

Indeed, the level of tax relief could make a considerable difference to the profit margins of a smaller firm. The IDA were quick to point this out, and a booklet, circulated privately to factory owners in 1969 contained the following comparisons:

TABLE 5

Tax Relief for Export Profits

Country	Irl	USA	UK	W.Ger	Holland
Profits earned	27.7	27.7	27.7	27.7	27.7
Company taxes	1.9	14.6	12.5	14.6	12.7
Net Profit	25.8	13.1	15.2	13.1	15.0

In a recent article in the Guardian (Feb. 1973), on the problems facing the Irish economy, and IDA economist was quoted as saying:

> British industry is what we miss most. It represented the kind of companies we really need in Ireland, that is those which are capital and male labour intensive

In an oblique fashion, this statement expresses the new face of imperialism in Ireland.

British investment in Irish industry tended to be in firms concentrating on the home market, engaging in small scale production with a high labour content. Few of the capital intensive high technology British industries set up plant in Ireland: the regional subsidies offered by the United Kingdom government to induce regional development at home, allied to lower transport costs to markets, made siting plants outside the United Kingdom unattractive. With the implementation of the grant scheme for foreign industry in 1958, the situation began to change drastically. As table 5 shows, the average investment per unit of production was much higher in the case of German or United States firms, and the figures for 1966 show a tendency for United States firms to be larger in terms of numbers employed. In table 3 the relationship between the number of projects and amount of capital involved is illustrated. American and other non British units tend to be more capital intensive than either Irish or United Kingdom factories: table 3 shows that although United States concerns supplied 43% of the total capital they supplied only 23% of the total jobs.

The tendency in the sixties was towards a fall off, in absolute terms, of the predominance in the economy of traditional Irish or United Kingdom controlled labour intensive units and to a rise in more capital intensive foreign plants. This tendency was however restricted by the small scale of the individual units few of which involved an investment of more than £1½m. Since 1969, with ever increasing rapidity, the tendency has been towards much larger high technology units with a corrosponding drop in the labour capital ratio. This is illustrated by the level of grants per job, which has increased by 450% since 1958 - while the GNP has risen by 120% during the same period.

British investment has fallen (1972) to a mere 4% of the total foreign investment, from a 20% average during the sixties. The IDA has expressed open concern at this tendency but blames the fall on the political situation in the North. This is however only part of the story. British industry has been involved in a drastic shake out under the Tory government : the movement towards concentration into larger units has accelerated with a consequent decrease in the number of smaller firms willing or able to set up plant in Ireland. The entry of Ireland and the United Kingdom into the EEC, the gradual demolition of trade barriers between the two countries, the regional incentives offered by the United Kingdom government, make domination of the Irish market no longer dependent on the siting of plant there.

On the other hand, United States firms now have an added incentive to invest in Ireland since it offers access to the EEC as well as a tax free paradise. Another type of American firm is also beginning to show an interest in siting plant in Ireland: industries with pollution problems, who are increasingly coming into conflict with anti-pollution legislation. A case in point are the oil storage depots, refineries and chemical plants which are in the process of polluting the South-West coast of the country. Shortly before Fianna Fail lost the general election the then Prime Minister, Lynch, made a promotional tour of the United States aimed at attracting United States firms to Ireland. Interestingly enough, those firms who comitted themselves to coming fit into the pattern of capital intensive high technology industries, it is also significant that all three of these plants intend producing intermediate products which will be exported to finishing plants elsewhere.

The decline of native industry has been inseparable from the increasing capital intensity of foreign plants and the dismantling of tariff barriers. The share of competing imported manufactured goods to the home market has risen from 14.9% in 1965 to 20% in 1971. This process naturally leaves an army of redundant workers in its wake. Indeed, the rise in productivity in recent years has been inseparable from a fall in employment and a drastic rise in the rate of redundancies. Employment in manufacturing industry has been falling since 1970, despite an unprecendented rise in foreign investment

(from 197,000 in 1970 to 194,000 in 1972.)

More than half the redundancies for the year 1972 are estimated to have been in such sectors as textiles, clothing and furniture - all industrial branches which had been built up through protection. More than 10% of the total work force is employed in branches such as these, which are characterised by obsolete technology and low capital investment. As table 7 shows, it is skilled and semi skilled workers who are being the worst hit: they also seem to have little chance of reemployment.

TABLE 6

Employment and Investment Per Unit of Production
(1966)

	GB	Irl	USA	W.Germany
Average investment per unit (£,'000)	269		750	1,133
Average employment per unit	90	66	105	75

In general, the creation of new jobs is to the advantage of those entering the labour market, school leavers and the like. This number exceeds 50,000 pa and when it is taken into consideration the attempts in the IDA to supply jobs pales into insignificance. In the five years up to 1966, when economic expansion was rapid, 56,000 new jobs became available outside agriculture. But this resulted in a mere drop of 2,3000 in the unemployment figure. Since then the situation has worsened : there has actually been a decline in the numbers employed in industry.

TABLE 7

Redundancies

1968	1969	1970	1971	1972	
1412	1545	1727	3895	5142	Manufacturing
189	308	290	756	1325	Construction
1801	1425	1435	2823	2960	Services
461	428	444	1082	732	Other
3863	3696	3896	8556	10159	TOTAL

Source: OEDC Report, p.16

The new face of imperialism in Ireland is that of large high technology capital intensive units supplying fewer and fewer jobs, while extracting vast profits. (One United States firm is reputed to make a profit of 18m on sales of $25m [Guardian, Feb. 1973] due to low wage rates and tax free status.) These profits are exported, which again leads indirectly to inflationary pressures on the Irish economy. The abolition of tariff barriers has led to an inevitable run down of native industry, unable to compete with cheaper imports. The level of redundancies continues to rise, as the ability of the economy to reabsorb them decreases. This vicious pincer movement, whose victims are the working class, is a direct result of the integration of the economy into the world imperialist system.

TABLE 8

Redundancies by Occupational Group

OCC. Group	% of Redundancies	% of Employment
High Profit	0.1	4.7
Low Profit	0.2	5.6
Managers+ Employers	3.2	4.0
Intermediate non manual	13.3	22.2
Non manual	11.2	14.9
skilled manual	24.4	19.0
semi skilled manual	27.7	11.3
unskilled manual	14.1	9.1

Source: OEDC Report p.16

VI. THE EEC

The development of competitive capitalism in 19th century Europe was confined to specific areas, where there was a combination of a supply of raw materials, markets and and a supply of labour, or areas where such factors could be conveniently assembled. Peripheral to these centres were traditional regions, now reduced to supplying cheap agricultural produce and labour for industry.

The developments in the capitalist system since the end of the war have made the structure of the nation state a hindrance and a shackle on the unfettered expansionist tendencies of capital, which recognizes no national boundaries, only the search for profit. The EEC was an attempt to overcome these contradictions: its most important treaty, the Treaty of Rome, sees as its objective the removal of hinderances to the movement of capital and labour, and the abolition of trade barriers. Naturally such changes benefit the advanced industrial regions, which by necessity must expand and consolidate their markets and their supply of labour and raw materials. The peripheral nations, as we have seen in the case of Ireland, stand to lose from this development, but have little choice in the matter as long as they remain a part of the capitalist system.

The economics of the dual centre periphery structure of the EEC are stark and brutal: income decreases with distance from the industrial core area, which can be seen as an axis running from Southern England to Milan, via the Brussels - Paris - Liege triangle, the Ruhr-Duesseldorf area, and the Stuttgart-Munich conurbation. There are two distinct dependent areas linked to the EEC. First, the dependent regions inside and linked to, the EEC in the European and Mediterranean areas. The function of these areas, which include most of those countries bordering the Mediterranean: Turkey, Spain, Greece, North Africa, as well as such EEC areas as Southern Italy and Ireland, has been to supply cheap labour for the industries of the core areas, and to some extent, cheap agricultural produce.

The black African states comprise an outer dependent area, who through association with the EEC form a source of cheap raw materials and a market for re-exported finished products. The inner area, by supplying a labour reservoir was crucial during the first period of industrial expansion and consolidation after the war, when European capitalism was still labour intensive. Under present conditions, characterised by an increasing concentration of capital and rising labour costs, they are proving to be an embarrassment. The recent strike at Renault showed the increasing dissatisfaction of immigrant workers with their extraordinary exploitation: the European bourgeoisie is becoming increasingly aware of the powder keg they may have brought into their midst. The concentration of capital and high technology industry in the European core area has led to the social and economic decay of the peripheral regions. There are two distinct types of regions affected by this process: declining agricultural areas, such as the South of Italy, Greece and the West of Ireland, and declining industrial areas, where an obsolete structure is unable to compete with competition from the advanced sectors. The North of England, Northern Ireland and parts of France and Belgium are examples of such regions. Both types of area are characterized by the same symptoms: high unemployment, low income, inadequate services and a high rate of emigration. The decline of these areas has become a vicious and inevitable circle: the exploitation of these regions leads to a set of factors which inevitably inhibit any attempts to resist the pattern of exploitation and decay.

Entry into the EEC has granted Ireland a place among this band of exploited nations, and the first effects are beginning to be felt as the repercussions of free trade with its attendant destruction of native industry and rising unemployment begin to take their toll. The Irish government has constantly maintained that Ireland will benefit from EEC entry, even if only from the organization's regional policy. It is beginning to become apparent that all but the privileged elite - Ireland's new client bourgeoisie - will suffer from the unbridled exploitation brought about by total integration into world capitalism, but some hope is still pinned on the possibility of crumbs from Brussels' table.

On paper, the EEC has a regional policy and is fond of making periodic, if vague commitments to the need to help the less 'developed' regions. A sucessful regional policy faces certain contradictions built into the capitalist nature of the EEC. The first problem is that of finding funds to develop the regions. The annual <u>private</u> investment required for the periphary regions is approximately 8.9 billion dollars, or 20% of the <u>total</u> private investment in all the EEC countries combined. The gap between this figure and the actual investment is startling, and is hardly likely to get smaller. Optimistic governments, such as the Irish, seem to assume that the Brussels administration will somehow help to narrow this inbalance. This year's EEC budget totals approximately 4 billion dollars, of which 80% is earmarked for the Agricultural Fund. This leaves precious little for distribution to the problem regions, not to mention the demands to be made upon the budget by other EEC Commissions.

The size and distribution of the Regional Fund has been the subject of prolonged wrangling between the member states since early this year. The arguments and counter arguments have clearly illuminated some essential elements of the EEC structure. Neither France, Germany, Denmark nor Holland stand to benefit much from a Regional Fund which concentrates upon traditional depressed areas : in fact they would be contributing far more than they would gain from the Fund.

England, Ireland and Italy all have an interest in a large Fund, to be distributed to peripheral areas. But here the common interest ends. Both Great Britain and Italy have a highly developed industrial base, large populations, and existing regional development projects involving large capital outlays. Ireland, on the other hand, has a small population, an underdeveloped industrial base, and no large scale regional development projects to speak of. Thus, the criteria for the distribution of the Fund is all important.

The present plan for distributing the Fund envisages two main citeria: distribution on the basis of population, and on the basis of ongoing regional development projects. The population criteria would give some 25% of the Fund to Great Britain, 32% to Italy, and a mere 4% to Ireland. It is also apparent, as was pointed out by the Irish foreign minister, Fitzgerald (Irish Times, 17.10.73) that distribution on the basis of population would involve a net transfer of £100m from a total of £416m (the sum envisaged for the third year of the plan) since most transfers would be paper transactions. On the basis of the 4% figure, the net gain to Ireland would be a mere £4m! The Irish Government regard a large Irish share in the regional fund carve-up as essential for economic growth. In the words of the Prime Minister, Cosgrave:

> Of the nations if the EEC, Ireland has the highest rate of unemployment, the lowest income per head and a growth rate the maintenance of which would never permit us to catch up with income per head in the EEC by 1980, when the community is aiming for full economic and monetary union we would need to achieve a growth rate of well over 10% a year. This has been done by other countries, but is far in excess of what we in this island have achieved. I mention it simply to illustrate the gap which confronts us when we talk of comparability in wealth and social benefits with our neighbours in the Community. This situation explains, in part, why the minister for foreign affairs is pressing for a regional policy which recognizes the real needs of the different regions and is sufficient to counteract the centipetal effect, under community conditions of the great manufacturing and service centres of the Golden Triangle of Europe. (IT. 26.10.73)

The weakness of the Irish position in the system of European capitalism is demonstrated by the form their attacks upon the regional policies take: either a weak appeal to the spirit of the Treaty of Rome ("The concept of regional policy is one of the basic principles of the Rome treaty upon which the community is founded: in the short list of objectives in the preamble to that treaty one finds the aim of ensuring the harmonious development of the economies of the member states by reducing the differences existing between the various regions..." Fitzgerald, IT, 17.10.73) - or a threat to veto the whole proceedings.

Despite the intense interests of the Irish Government in EEC regional policy, and despite concentrated attempts to influence it, the present situation is one in which Ireland is clearly the loser. It is possible that some concessions may be gained in future negotiations: but at the moment the evidence supports the theory that even inside the EEC it is the rich countries who call the tune.

The second hindrance to a redevelopment of the exploited regions is a function of the nature of modern capitalist enterprises. The Irish experience shows that a client government must offer huge bribes and inducements to attract foreign capital and is in no position to place conditions and demands on the behaviour of foreign firms. The fact that foreign firms export the mass of their profits bleeds the country of its resources, but this is only part of the story. High technology industry, such as chemicals, creates little spin off, particularly when producing primary commodities as do the majority of such firms in Ireland. Thus there is no demand for ancillary plants, or for use of local resources. Those employed are generally the younger workers, which leaves the hard core of structural unemployment untouched. Because of the lack of a multiplier effect, the second generation employment problem, when the children of the original work force seek employment - will be serious.

The structure of the IDA grant system, which is based on total subservience to the demands of international capital, encourages the establishment of intermediate or final stage processing plants which allow these firms to take advantage of tax incentives without the need for high capital investment. The combination of tax free imports of raw materials, low investment levels, and freedom to export profits, means that these industries add practically little to the development of the economy, even in terms of a rise in output. This is borne out by figures for 1960-66 which show that while foreign firms added 60% to the rise in exports, they added a mere 28% to the growth of gross output. These figures must also be seen in combination with a rising rate of redundancies, export of profits, and the fact that this type of non-integrated industry tends to allow the structural basis of economic growth to decay. The last 15 years have been of crucial importance for the social and economic development of Ireland. During this period the traditional pattern of total British domination of Ireland has shifted with the arrival of a new internationally based imperialist presence. West German and United States capital, along with the help of other advanced countries, have been instrumental in changing the face of imperialism in Ireland: they have found willing allies in the Irish bourgeoisie who have done all in their power to smooth the way.

In political terms the traditional relationship of Ireland to imperialism has undergone a change. The delicate balance between economic exploitation, political domination and grudging concessions which characterized the British presence, has given way to the unfettered logic of capital, shackled by few political considerations. Since its entry into the EEC Ireland has become a permanent open season for capitalist exploitation: and international capital, unlike British capital, has little need to make concessions to Irish interests. It has been given a carte blanche to exploit, and a free passage out when it deems it fit to withdraw. It has nothing to lose, neither politically nor economically. This has been the great achievement of the Irish bourgeoisie: to create the reality of every capitalists' dream, unfettered exploitation. Ireland's entry to the EEC set the political seal upon this new economic reality. The balance of Irish dependence is rapidly shifting from London to Brussels and Ireland has joined the select band of periphary nations, hopeful of crumbs from the table of the rich man's club. This is the stark reality of the Irish nationalists dream: independence may have led to a decrease in dependence upon Britain, but it has resulted in a new pattern of domination: one whose consequences are only beginning to appear.

Apart from, but interwoven with, the changing pattern of economic exploitation there are signs of far reaching changes in the social and cultural reality of the island. Nationalism, with its traditional preocupation with England, has lost most of its impetus and has become a diffuse and emotional reaction to events in the North which hardly tangent to the new reality South of the border. This is the essential basis of the Sinn Fein split: it reflects attitudes towards the changing face of imperialism. The officials, although the most theoretically advanced of the two wings, are still fumbling to find an alternative to the traditional "get the Brits out" sterility of the provisionals: In their anti-EEC campaign they fell victim to the traditional ideology, with its emphasis on national sovereignity and an appeal to the petit-bourgeoisie and other elements seen to have a stake in preserving national capitalism. This class is now a political chimera: the separatists and protectionists of yesteryear are now busy pandering to the agents of international capital and the criteria of success is the amount of Ireland one can sell to foreign bidders. Thus the rise, for the first time in modern Irish history, of a broadly based essentially proimperialist class, a class whose number and commitment is increasing daily. With this comes the penetration of cultural imperialism and the rapid diffusion of commodity relations into all areas of life. The decay of rural Ireland, made irreversible with entry into the EEC, accelerates the process of cultural destruction still more: the new subservience is not to the landlord, a tangible and hated maifestation of Imperialism, but to the much more subtle reality of the commodity.

The decay of the traditional ideology, the confusion caused by its total inadequacy in the face of a changed situation has left the working class disorientated and apathetic. Sound pragmitism led them to reject the nationalist arguments against the Common Market: but this was the pragmatism of confusion brought about by the failure to develop and offer an adequate analysis of the changed situation. Nationalism, for so long the ideological dynamic of Ireland, has lost its appeal and coherence in the face of the reality of international capitalism. The exploiter of Ireland is no longer easily identified by his national origins, indeed many of the new faceless men sport impeccable Irish credentials.

The failure of the Republican movement, through the medium of traditional nationalism, to moblize opposition against the EEC or to gain coherent working class support for the IRA campaign in the North, poses some important questions as to the present state of the Southern working class.

Any analysis of the working class in the South is faced by the need to explain some important contradictions: the most glaring being the failure of the most trade unionised and strike prone (at least since 1960) working class in Europe to develop a militant left wing capable of going beyond reformist demands and of challenging the conservative trade union apparatus. Historically, the Irish working class has never progressed beyond radical social democratic demands, such as those which lay at the bottom of the massive strikes and lockouts before the first world war. After the defeat of the working class in the 1913 lockout the most progressive sector of the class, under the leadership of Connolly, submerged itself into the separatist movement, and even after independence failed to reassert itself as an independent force. The trade union bureaucracy moved increasingly towards the right, unopposed by any significant sector of the working class. The Republican movement has always viewed the struggle in Ireland as a national one and sees the role of the working class as being part of the national struggle and has tended to absorb the most militant and aware workers into its organizations.

While Republican ideology has been an important factor in hindering the development of an independent working class movement, the fact must be faced that the industrial working class, specifically that sector working in larger and more advanced industry, has materially benefitted from the phase of expansion since 1958. Although the total increase in employment has been marginal (2.8%) the increase in industrial employment has been a substantial 28%. Wages in industry have remained on average 5% ahead of inflation since 1968. (These and further figures are summarised in tables 9-11). The decade of the sixties was one of unprecedented industrial expansion coupled with, until 1968, a 40% rise in productivity and a tendency on the part of unit wage costs in industry to fall. Thus the ruling class was able to meet the wage demands of the working class, reinforced by the highest strike rate in Europe.

Between 1968-72 the annual increase in productivity fell to almost half that of the record years 1966-7 and unit wage costs rose to Europe's highest. Although the industrial working class managed to achieve wage demands to keep it ahead of inflation it became increasingly difficult to do so. To maintain an annual average real wage increase of 5% it became necessary to gain an increase in actual wage levels from 12.2% in 1968 to 18% in 1973. The slow down in industrial militancy since 1968, explained in part by the acceptance of national wage agreements, has been paralleled by a tendency for a marginal fall in the wage cost per unit of output and by a slight rise in productivity, which accelerated in 1973. However, the same period has been one of unpredecented inflation with consumer prices rising on average by 8% pa. The true nature of this rise is disguised by the fact that food prices, which affect the working class most, are rising by a staggering 20% pa (1973). The figures indicate that while productivity is rising - whether the starling increase of 11% in 1973 will be maintained is impossible to foresee - the actural real annual increase in wages is falling and increasing capital intensity of industry is bound to limit the expansion of the industrial work force. Warnings that wage demands are threatening profit levels are mounting[20] but increasing inflationary pressure, which ironically can be largely ascribed to the 'openess' of the Irish economy, is putting the system of national wage agreements under severe strain. Thus after an initial period of rapid expansion and comparative prosperity, the inherent contradictions in the new economics of international imperialist penetration are beginning to show themselves.

TABLE 9

Wages and Strikes

Year	Increase Money	Increase Real	Days Lost Through Strikes
1967	5.8	2.8	-
1962	9.9	5.5	104,000
1963	3.7	1.2	234,000
1964	12.3	5.2	545,000
1965	2.9	-	556,000
1966	8.9	5.8	784,000
1967	7.3	4.0	183,000
1968	8.6	3.7	406,000
1969	12.2	4.5	935,900
1970	73.9	5.2	1,007,714
1971	15.1	5.6	273,000
1973	18.0	5.4	-

TABLE 10

Wages, Productivity, Unit Wage Costs
Average Annual % Changes

	1961-65	66-68	69-71	71-72	72-73
Real Wage Increase	2.9	4.5	5.1	5.65	5.8
Productivity	3.75	6.0	2.75	3.5	11.0
Unit Wage Costs	3.5	2.75	10.75	8.4	2.8 (first ¼)

TABLE 11

Unit Wage Costs, Manufacturing Industry % Average Annual Changes

	1961-65	1966-68	1969-71
Irl	3.25	-2.0	11.5
UK	2.25	2.0	8.25
EEC (six)	3.5	-½	7.0
USA	-1.0	2.5	2.5
Japan	2.25	0.25	6.0

Sources for Tables: Irish Statistical Bulliten,
OEDC Reports,
IDA Review 1972-73,
IDA Regional Plans (summary)

It is impossible to foresee the long term effects of the new economic situation upon the class structure. It is clear however, that there will be an increasing polarisation of classes and that the interests of these classes will become more clearly defined. The Irish bourgeoisie is finding it increasingly difficult to manipulate nationalism for its own ends and an alternative ideology is nowhere in sight. The working class on the other hand is coming under increasing pressure to limit its wage demands, something which it is unlikely to do both in the face of inflation and the obvious prosperity of the middle classes. While the ruling class is busy strengthening its repressive apparatus - the army and police force have been doubled in the last few years, and retrained as riot police backed up by the necessary legislation - progress in the development of progressive working class organizations has been slight. The Republican movement (official,) an objectively anti-imperialist force, is commited to a broad policy of mobilizing "different sections of the people to fight the more reformist issues in order to heighten consciousness as to the true nature of imperialist control" while the trade union movement is in the hands of a reactionary bureucracy.

This lack of a coherent and militant working class movement - or even the beginnings of one - make any attempt at prediction impossible, beyond the fact that an intensification of class conflict in a form more open than ever before, now seems inevitable.

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1. The different pattern of imperialism North and South has imposed a tortured interlocking network of economic, ideological, social and political factors between the two parts of the country. These cannot be analysed here. However, the different pattern of development allows a separate analysis of the two areas - which does not mean that the underlying common bond of imperialist domination should be lost sight of.
2. Strauss, British Democracy and Irish Nationalism, p.137.
3. Manseragh, The Irish Question, p.231.
4. For a discussion of the role of the RCC in Irish 19th century politics

see: E. R. Norman, The Catholic Church and Ireland in the Age of Rebellion (Lon. 1965).

5. Strauss, op.cit.

6. Even in the more highly industrialized North large sectors of industry were employers of cheap female labour. The linen industry employed about 30,000 in the Belfast area of which one quarter were under 18 and three quarters female. The same pattern existed in the shirt industry: it employed 18,000 full time, almost exclusively female labour, and another 80,000 women working at home. The largest concentration of male industrial workers - in the shipyards and ancillary industries - showed little solidarity with their fellows: there was, for instance, no move on their part to support the mill girl strikes of 1911 in Belfast.

7. In 1861 7.3% (78,000) of a total of 1,072,000 men engaged in agriculture were over 65. By 1881 there were 12% in this category 107,000 of a smaller total of 890,000. (Strauss, op.cit., p.137).

8. For a demographic breakdown of support and opposition to the treaty, as well as electoral support in pre-war elections see the indispensible book by E. Rumpf, Nationalismus und Sozialismus in Irland. (Meisenheim, 1959).

9. For a breakdown of electoral support in the elections of the pre second world war period see Erhard Rumpf, op.cit.

10. Quoted in Meehan, The Irish Economy p.141.

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17. IDA Reports, Survey of Grant aided Industry.

18. IDA Reports.

19. OEDC Review (Ireland) 1973.

20. "The continued rapid rise in labour costs indermines competitivness in existing industry as well as casting a shadow over new industrial investment" (IDA Review, 1972-3 p.4.)

THE POLITICAL ECONOMY OF LUCIO COLLETTI

Geoff Hodgson

Two books on Marxist theory have appeared in recent months that raise questions of vital concern for political economists. These are the books FROM ROUSSEAU TO LENIN and MARXISM AND HEGEL (BOTH PUBLISHED BY NLB) written by the Italian revolutionary Marxist Lucio Colletti. The former book has recently been awarded the Isaac Deutscher Memorial Prize.

For nearly a century a particular interpretation of the philosophical basis of Marxism has been shared, more or less, by Marxists of all political hues. This interpretation reached its zenith in the theoretical work of the Second International, as purveyed by Kautsky, Bernstein and Plekhanov. But the Marxism of Engels, in such works as Anti-Duhring, and the Marxism of the Third and Fourth Internationals has not been free of this mischaracterisation of the basis of Marxism. Indeed the vulgar Maxism of the Second International still haunts and fetters the movement today. Colletti's main concern in these two books is to free Marxism from these traditional vulgar and mechanistic interpretations.

By emphasising the similarities, rather than the differences, between such theorists as Kautsky, Bernstein and Plekhanov, Colletti finds that they share a vulgar and naive concept of the 'economy'[1]. Marx's concept of the 'social relations of production', precisely the core and foundation of Marxism, in contrast embraces both the production of things and the production of ideas; both material production and the production of social relations. Traditional mechanistic Marxism has seen the 'economy' as a 'factor' emptied of all social content, existing prior to any human mediation. This accounts for the preoccupation with the distinction between 'base' and 'superstructure' which has dominated Marxist thinking. An example of the vulgar use of this distinction by such an accomplished Marxist as Trotsky can be found in his article entitled The Curve of Capitalist Development[2], where base and superstructure are rigidly separated. In fact this distinction rarely occurs in Marx and it is little more than a metaphor for him. In later Marxism it has aquired an unwarranted importance.

This simplification of the concept of the 'economy' in the Marxism of the Second International helps to explain the foundation, during the same period, of a vulgar interpretation of the labour theory of value. Even today this vulgar interpretation is dominant. It consists of the assertion that the labour theory of value is primarily a theory of price of production and exchange value, in the quantitative sense. It concentrates attention on the ratios in which commodities exchange, or on the supposed identity of total value and total price, for example. Like the Classical school of political economy, it ignores the question of why the product of labour takes the form of a commodity. In other words, it empties the theory of value of social and historical content, and the social relations of production that lie behind exchange in commodity producing societies.

In contradistinction, Colletti argues that the labour theory of value is inseparable from the theory of commodity fetishism.[3] The key to the whole question is the derivation of the concept of abstract labour. Marx sees the two-fold character of labour power: its use-value and its exchange-value. The former concerns the particular qualities of labour: weaving, digging, cobbling, and so on. The latter concerns the general objective quality of labour power as a commodity: the fact that it is sold on a market with other labour powers. These acts of exchange reduce all labour powers to a common standard - the magnitude of exchange value. This does not mean that all wages are the same, but that the mass of labour power is reduced to equivalent homogeneous units. Exchange, by its nature, equates the elements of different labour powers by means of the common measuring rod of their exchange value. They are all measured in terms of money.

A number of remarkable conclusions follow from this. The first concerns the theory of alienation. In the world of commodities individual labour powers are equalized precisely because they are treated apart from the real individuals to which they belong. Abstract Labour, in short is alienated labour: labour separated and estranged from the subjective powers of the labourer, alienated from man himself. Secondly, Colletti argues that this conception of the labour theory of value, being united with the theories of alienation and commodity fetisism, constitutes the element of deepest continuity between the works of the young and the mature Marx. This in obvious contrast to several other interpretations, particularly that of Louis Althusser.

A final, and crucial, consequence concerns method. Abstract labour, according to this conception, is far from being a mere mental abstraction. It is not just a convenient idea which 'explains' reality. Abstract labour is produced daily in the reality of exchange itself; it is itself a real activity which has an existence outside the minds of Marxists.

This is in profound contrast to the empiricist concepts of bourgeois economics. For example, few believe that marginal utility has a real social existence apart from the sphere of ideas. It is just an idea which is supposed to 'explain' reality and make 'correct predictions' about consumer behaviour. However, Marxist concepts are not just ideas in the head without empirical verification, they are part of an analytical structure which aims to reproduce the concrete object of analysis in the mind[4].

Colletti's rehabilitation of Marx's methodology raises many serious problems. In particular, the rate of profit in Marx's political economy must represent the real phenomenal rate of profit in capitalist reality. And if his method is to be taken seriously then the equalisation of the rate of profit must be a real process which occurs as a tendential phenomenon under capitalism. Of course, Marx abstracts from the elements of rent and merchant capital when he discusses the equalisation of the rate of profit.[5] Nevertheless this equalisation is meant to be an abstract expression of a real process. On this basis, however, we have no reason to suppose that the rate of profit is equalised in terms of values. In the real world capitalists base their investment decisions on the rate of profit in price terms, and this is the rate of profit that tends to be equalised in reality. This raises the hoary old debate on the transformation problem[6], and the recent impact of Sraffa's Production of Commodities by Means of Commodities.

These two outstanding books by Colletti are a challenge to all Marxists who are attempting to come to terms with recent problems and the heritage of our movement. They shatter the entire traditional interpretation of the basis of Marxism. In the opinion of this reviewer they represent a basis upon which modern revolutionary and critical Marxism can develop. But that does not mean that we are not going to encounter serious problems in the process.

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S. CASTLES AND G. KOSACK: IMMIGRANT WORKERS AND THE CLASS STRUCTURE IN WESTERN EUROPE (OXFORD, FOR THE INSTITUTE OF RACE RELATIONS, 1973)

John Lea

The study, from a marxist viewpoint, of the role of migrant labour in stabilisation and expansion of Western European capitalist economies since the last war has received relatively little attention. Most work on the question of immigration has been done by liberals operating within the 'race relations' approach, i.e. seeing the causes of the position of immigrants in the labour market, and the conflict with indigenous labour as the product of subjective prejudice or culture clash.

The authors of "Immigrant Workers" explicitly reject this approach in favour of what is obviously intended to be a marxist perspective. Thus:

> The economic, social and political effects of immigration which we have outlined are not separate phenomena but rather aspects of the general impact of immigration on society. To sum up this impact: immigration has brought about a split in the working class of Western Europe. This split weakens the working class and hence increases the power of the ruling class. (p. 480)

The book contains a wealth of invaluable factual material on housing education, legal discrimination, social welfare and trade unions in relation to immigrant workers in Britain, France, Germany, and Switzerland besides an attempt to explain the position of immigrants and their relationship with the indigenous working class in terms of their (the immigrants) role in the expansion of the European capitalist economies since the war.

The key chapter is Ch. IX "The Political Economy of Migration". Here the authors identify what they consider to be the main economic impact of immigration. The most important discussion centres around the following points:

1. Immigration has tended to reduce the rate at which wages have risen thus redistributing income in favour of Capital. This has been caused not by immigrants directly expanding the 'reserve army' of labour but by moving into low paid jobs and releasing indigenous labour to ease competition for labour by employers in higher wage occupations, with the result that the latter are lower than they would have been in the absence of immigration. Two subsiduary consequences follow from this which tend to militate against the formation of a militant working class consciousness. Firstly wage differentials between different sections of the working class tend to be maintained because immigrants alleviate the shortage of labour in low paid 'dirty jobs' and secondly because the increased social mobility experienced by indigenous labour makes for an individualistic as opposed to a class perspective.

2. Immigration tends to reduce the rate of increase in the productivity of labour. This appears to be the general drift of the argument on this

question, though the authors find it difficult to come to any precise conclusions on the subject:

> The production apparatus is expanded using traditional methods rather than undergoing a thorough rationalisation. So even if the capital/labour ratio does not actually decline it is probably lower than it would have been without immigration. But..(by)..allowing rapid expansion, immigration is a cause of modernisation and enlargement of the productive apparatus, and this encourages technical progress, greater efficiency, and increasing returns to scale.
>
> Many of the effects we have mentioned above are controversial and not measurable. It therefore seems impossible to say for certain whether immigration improves or harms productivity (p. 408)

3. The authors note the cost to the migrant's country in terms of the transfer of human resources and conclude that migration is a form of development aid from poor countries to rich.

4. There is also a discussion of the question of whether immigration contributes to or dampens down inflation and exacerbates the balance of payments problems for the country of immigration.

The first point about the effect of immigration on the rate of increase in wages is relatively unproblematic. The most important part of this chapter is undoubtedly the discussion of the relation between immigration and the productivity of labour, and it is here that the complete absence of any attempt by the authors to ground their discussion in the problematics of marxist political economy has its most serious consequences. The problem of productivity of labour is discussed only in its use value aspect, not in relation to the problem of the organic composition of capital and the mass of surplus value. The authors continually slip into the formula 'increase in productivity of labour leads to increased economic growth', without distinguishing the separate and contradictory demands of use value and value production.

Of course an increase in labour productivity may facilitate an increase in output in use value terms but in terms of value production a rise in labour productivity involves an increase in the organic composition of capital, and the rise in relative surplus value, necessitating further, and increasingly difficult to achieve, increases in the productivity of labour to sustain profitable accumulation.

The most important role of immigrant labour in this context seems therefore to lie precisely in the facilitation of expansion without, or with less of, a rise in organic composition of capital. An important part of this process undoubtedly lies in the greater conduciveness of immigrant labour to an increase in the <u>intensity</u> of labour as a result of immigrants being prepared to work longer hours, nights, etc.[1]. Of course this would show up in the statistics as an increase in labour productivity. The authors do not make the distinction between the productivity and intensity of labour and thus take a rather uncritical attitude towards statistics showing the co-existence of high rates of productivity increase with high rates of labour immigration. The question of the preparedness of immigrant labour to greater intensity of work is mentioned, but only in another chapter (ch. IV) and in connection with the generation of hostility between immigrant and indigenous labour.

The precise mechanism whereby the transfers involved in immigration as a "form of development aid given by the poor countries to the rich countries", take place are left unclear. Again the question is investigated only in use value terms as the transfer of 'human resources' and there is no discussion of the transfer of surplus value characteristic of capitalism in its imperialist stage.

From the viewpoint of the transfer of surplus value the most important characteristic of immigrant labour is that it involves the importation of a commodity (labour power) for which no price is paid. The price which would be paid were the labour power actually purchased would of course correspond to the portion of its value concerned with its rearing and formation as a labour force. Interestingly enough the authors quote a figure to the effect that it takes in western Europe 8.7 years of labour to bring up a person until he reaches working age.

Marx divided the value of labour power into three component parts:

> The labouring power of a man exists only in his individuality. A certain mass of necessaries must be consumed by a man to grow up and maintain his life. But the man like the machine will wear out, and must be replaced by another man. Besides the mass of necessaries required for his own maintenance, he wants another amount of necessaries to bring up a certain quota of children that are to replace him on the labour market and to perpetuate the race of labourers. Moreover to develop his labouring power and acquire a given skill, another amount of values must be spent.
>
> (Value Price & Profit, Unwin 1943 p.57)

We may suppose that the actual wage received by the worker as money payment for his labour power corresponds to the first element of the value of labour power. The other two elements are paid via family allowances, (various forms of 'aid' have been in existence since the early nineteenth century) and with the increasing skill and literacy elements required of a labour force, by state expenditure on education.

By this means we can understand that although the immigrant worker receives the same wage as an indigenous worker in the same occupation a lower wage is in fact paid because the migrants country of origin pays the cost of child rearing and labour force formation. Conversely the country of origin is making payments for these but not (during the time he is an immigrant in another country) employing the worker. Thus he creates no value and surplus value in his country of origin and so his cost of rearing and training constitute a reduction of surplus value in that country. By this mechanism, i.e. by the establishment of an international labour market a transfer of surplus value takes place to the country of immigration. This is as much a mechanism of imperialism as the export of capital. The mobility of labour and the mobility of capital are different sides of the same coin. Both represent Capital in its imperialist stage breaking the bounds of the nation state in order to maintain the process of profitable accumulation.

Overall therefore, the authors contention that immigration has contributed to the maintenance of the conditions for the profitable expansion of capital is correct. Other factors have of course contributed to this. One that the authors focus on in the last two chapters of the book is the political stabilisation of the working class. They conclude that immigration has played a role in achieving such stabilisation by: firstly increasing the social mobility of indigenous labour and thus increasing individualism in place of class solidarity. Secondly, the antagonism towards immigrants based on the latter's threat to wage levels weakens class consciousness. Thirdly, immigration fosters in the minds of the indigenous working class the ideology of an 'aristocracy of Labour'. Thus the authors conclude that:

> The traditional class consciousness based on collective ideals and actions tends to be replaced by a sectional consciousness of the

> indigenous workers....In this way prejudice against immigrants damages the unity of the labour movement and weakens working class consciousness (pp. 459-60)

The theory that anti-immigrant prejudice weakens "working class consciousness" is somewhat ambiguous. This ambiguity lies in the fact that the authors make no attempt to distinguish between revolutionary consciousness and traditional reformist working class consciousness. The former is certainly weakened by racism. The latter could be. It is rather simplistic however to argue that this has been the case since the war. On the contrary the post war boom period of full employment together with the structural rearrangements of capitalist production that it involved (eg. the increased state participation) provided a new material basis for reformist ideology and practice. Thus it would seem more fruitful to investigate the <u>reciprocal</u> relationship between the strength of reformist consciousness and anti-immigrant prejudice. Earlier in the book the authors note the contradiction in trade union policy on the immigrant question:

> The trade unions find themselves in a dilemma. It may seem logical to oppose immigration, but once there are immigrant workers in the country it is essential to organise them (p.128)

This dilemma finds its manifestation in contradictory policies and attitudes which are well documented by the authors. It finds its roots, surely, in traditional working class reformist consciousness. Reformist ideology is rooted in the <u>appearances</u> of the capitalist mode of production. The working class, being divorced from the control of production, experiences the volume of employment as totally divorced from the question of the supply of labour available and willing to engage in production. The question of employment is experienced as a question of the supply and demand for jobs. An increase in the supply of labour obviously weakens bargaining power. Posed another way the question becomes one of why the capacity to work of <u>all</u> workers is not used rationally, for the increased production of use values in the interest of society as a whole. This formulation, which is not that of traditional reformist consciousness, is incompatible with racism, and thus weakened by its presence. It also leads to the questioning of the fundamental organisation of the capitalist mode of production.

Conversely the authors too readily assume that anti-immigrant prejudice benefits the ruling class without contradiction, arguing that the consequences of prejudice are "clearly in the interests of the ruling class" (p.460). However some thought needs to be given to the extent to which different sections of capital may have different interests with regard to immigration. This would seem to be a profitable area for further research. It is obvious that the content of anti-immigrant prejudice involves an affirmation of the very restrictiveness of the Nation State that has become a barrier to the expansion of capital. The demand for the repatriation of immigrants from right wing politicians and groups based predominantly in the lower middle class is a case in point.

As this review has been largely critical in tone, let it be said in conclusion that this has been the result of deliberately singling out aspects that it was felt required criticism or further elaboration. The work as a whole remains indispensible as a starting point for the discussion of the problem of immigration and racism in Western Europe since the war, especially by virtue of its comparative approach.

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E.L. Wheelwright and B. McFarlane THE CHINESE ROAD TO SOCIALISM (PENGUIN, 50p)

Suzanne Paine

This study was first published in 1970 by the Monthly Review Press. Few would dispute that it is probably the best introduction to the political economy of Chinese development. Part I describes and assesses economic policies up to 1965, Part 2 discusses the impact of the Cultural Revolution and Part 3 attempts to interpret the Maoist strategy of development.

The description of post-liberation economic development in Part 1 is clear and concise. The authors discuss the subject under the usual headings - reconstruction and rehabilitation (1949-52), the First Five Year Plan (1953-7), the Great Leap Forward and the crisis years (1958-61), and the New Economic Policy (1961-4), taking care to bring out some of the ideological background to policy changes. Chapter 3 in particular brings out with telling examples what the renewed emphasis on expert management, financial and other material incentives, and the profit motive during the early 1960s meant in practice. Part 1 concludes with a useful discussion of some of the ideological debates which took place between the Great Leap Forward and the Cultural Revolution.

In Part 2 of the book, the authors give a perceptive description of the aims and progress of the Cultural Revolution. They point out how the Cultural Revolution began initially with the aim of transforming the ideological superstructure by shaking up the party bureaucracy, but how it became a deep-rooted struggle against capitalistic tendencies throughout the economy. They go on not just to describe the actual struggles of the Cultural Revolution, but also to give a brief analysis of the ideological issues involved. However, Chapter 7, which describes economic planning and organization, is such that readers will emerge with many unanswered questions about how Chinese planning works and what changes were brought about during the Cultural Revolution. Coverage of the changes in industrial management and methods of worker participation in the control of their factories is almost equally cursory. Furthermore, by devoting only one and a half pages to the operation of the pricing system, the authors miss the opportunity of showing how the Chinese use it to avoid a queuing economy of the Soviet type in the distribution of goods and services, without introducing the sort of decentralised market socialism recently implemented in many Eastern European countries. Readers interested in economic planning and management in China today should turn to Professor Robinson's recent monograph for the answers to many of these questions.[1]

In Chapter 8 the authors devote considerable space to the question of moral incentives, and to the attempt in China to create a type of motivation different from the self interest and material gain which are the driving force behind the capitalist system. They touch on (p.152), but fail to develop the important inter-relationship between the reform of the management system to implement active worker participation and to abolish the one-man management so common during the early 1960s, and the renewed emphasis on moral incentives brought about by the Cultural Revolution (see further below). But they fail to give any concrete idea of how the system of moral incentives works in practice: how each factory workshop or commune production team has its own political study group, how all workers are encouraged to improve their performance and become a "merit" worker - not of the Stakhanovite type in competition with their comrades, but rather of a completely different character which emphasizes co-operation with fellow workers as much as productivity increases, - and how no sanctions like firing workers are used against those who lag behind (though presumably in exceptional circumstances a worker could be transferred to another factory). Rather lagging members are helped to improve their performance by members of the elected workshop worker-management committee. Piecework has been abolished in the state-owned sector of industry since the Cultural Revolution, (though piece rate systems still survive in some collectives); wages depend on a combination of age, skill and political consciousness, as assessed by fellow workers. Differentials have been reduced since the Cultural Revolution and normally do not exceed four or sometimes five to one in any factory.

The final chapters in Part 2 describe (1) technological policy and (2) the communes in the Cultural Revolution. The former includes not just an informative list of Chinese technological achievements at the end of the 1960s but also a brief description of the educational reforms of the Cultural Revolution. The latter chapter provides an extremely useful summary of commune organization at the time of the authors' visit.

Part 3 is the most ambitious part of the book, attempting as it does to give an interpretation of the Maoist development strategy. It naturally picks out such crucial elements as self-reliance, balance between agriculture and industry, decentralized economic management, and moral incentives. But it hardly brings out explicitly the important inter-relationships between these different features. Balance between agriculture and industry was not just a matter of making sure that agriculture got its fair share of resources and that industry produced cheap agricultural inputs; it also involved the production of cheap consumer goods for sale to the rural market and had implications for the balance between light and heavy industry. Furthermore, the main changes in industrial organization brought about by the Cultural Revolution were closely interrelated; that is, decentralized planning based not, as in the early 1960s, mainly on the profit motive and material incentives, but rather on moral incentives, both at the enterprise and at the personal level, and the institution of worker participation in management and management participation in physical labour. The point is that the latter management reforms were an essential requirement for the success of the planning reforms. China had rejected centralized Russian planning in the late 1950s. But in the early 1960s she seemed to be going towards what has become the Eastern European type of solution - decentralization based on the profit motive. The Cultural Revolution led to a new departure - decentralized planning based on moral incentives[2] and the subsequent increases in industrial output suggest that this has been successful.

Perhaps the most surprising feature about this Penguin edition of Wheelwright and McFarlane is the failure either to update it in any way[3] or, in particular, to bring in any of the information now available which helps to build up a detailed picture of the post Cultural Revolutionary Chinese economy. Even the minor defects in the original edition have been carried over into the Penguin. For instance, such statistics as were used were presented somewhat carelessly. One example is the table on page 62 which shows the division between central and local control of industry but which does not say whether the percentages refer to the number of factories or the value of production. No source is given for the wage data reported on pp. 139-140, which seem to conflict with other reports - for instance, a 70 yuan monthly average for industrial workers in the late 1960s seems rather high, as does the 40 yuan for apprentices.

But these are comparatively minor defects when compared with the overall quality of the work. On the whole the authors give an extremely perceptive account of the Maoist development strategy and the struggle which took place before it emerged fully. At times (e.g. p. 78) they give a slightly misleading account of this struggle by suggesting that it was between economics and ideology, rather than between two views of economics, or rather of political economy. They also seem at times to imply that the Maoist approach is now finally triumphant when, in the opinion of this reviewer, there are obviously continued struggles to come. Nonetheless, the book makes interesting reading and is probably as good an introduction to Chinese political economy by western observers as one can hope for.

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2. Enterprises now hand over all profits to the State, with the possible exception of 3 per cent (usually) of excess profits from plan overfulfilment.

3. Or even to remove obviously dated sentences such as the one on p. 162 suggesting that the succession problem is conclusively solved.

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