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FOREWORD

The first three papers relate to the CSE Imperialism Conference in London on 4th-5th January, and those by Barratt Brown and Wells will be specifically under discussion. John Harrison's paper on housework follows on from his previous paper on unproductive labour and we hope it will provoke further contributions on what is an important question for the women's movement. Mario Cogoy challenges the position on crises put forward by Paul Sweezy in the last Bulletin and the comment on earlier papers on unproductive labour is by Ian Gough whose article in the New Left Review was perhaps the starting point for the current debate on this question in the UK. The final long piece is a review article by Calvert and Moscovitch on Canada. We also include a short piece by Michael Barratt Brown on Labour's nationalisation proposals; we still need more offers of contributions to this series on 'Current Topics' - for example brief pieces on the situation in their countries from overseas members - to be sent to:

Andrew Glyn,
58 Lonsdale Road,
Oxford.

We also ask contributors if possible to send at least three copies of their pieces typed, preferably double-spacing with corrections clearly made, and using our 'house-style' for references, etc. This will save a good deal of time and therefore money. All correspondence and enquiries, apart from that on reviews and 'Current Topics', should be sent to:

CSE,
c/o Robin Murray,
IDS, University of Sussex,
Falmer,
BRIGHTON BN1 9RE

We would like to thank Barbara Coysh and Rosslyn Carlisle of 15 St. Anne's Road, Headington, Oxford, for typing and printing this and the previous two issues of the Bulletin and especially for putting up with somewhat erratic production schedules.

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I M P E R I A L I S M

RECENT DEVELOPMENTS IN BRAZILIAN CAPITALISM

John Wells

INTRODUCTION

Since 1968 the rate of growth of GNP in Brazil has been at around 9-10% a year, with industrial production growing in excess of 15% a year. The dollar value of exports has almost trebled during that time, while foreign exchange reserves have increased from US $200m in 1968 to US $6,300m in August 1973. From being an insignificant proportion of exports in 1964, it is said that manufactured goods now represent almost ⅓ of total exports (by value).

Both at home and abroad the Brazilian government has sought to nurture the Brazilian 'miracle' with a meassive propaganda campaign: Brazil is the 'new Japan', by the end of the century will be 'developed' and have attained super-power status. To those of us reared on the kind of literature which tended to assert that peripheral and dependent economies inevitably experienced economic stagnation and little structural transformation, all this might come as something of a shock. We are faced with a productive structure with a very considerable industrial base indeed, and although the present pattern of capitalist development in Brazil is potentially highly unstable, it will be argued in this paper that there is a strong possibility that GNP will continue to grow in excess of 8% per annum within the next few years.

The aim of this paper will be to present the recent period of rapid growth in some kind of historical perspective; it will deal mainly with the essentially cyclical path of capitalist development since 1956, trying to define the role of foreign capital and the state in the process; it will compare various explanations given for the economic and political crisis of 1963-64, and present the author's own view, based on an analysis of financial structures; attention will be paid to the importance of both the personal and functional distribution of income; as well as to the important changes in international conditions taking place during the fifties and sixties which have to some extent been responsible for fundamental changes in the domestic economy.

1. By the mid-fifties, Brazil exhibited an already quite substantial industrial base. Modern capitalist industrial development based on textiles had begun in the 1890s, but it was the break-up of the world trading and financial system in the 1930s which was really responsible for the rapid expansion of local industry: the sharp reduction in export earnings, derived mainly from coffee, and the disappearance of <u>foreign</u> financial capital with which to finance the stock-piling of coffee put an end to the old division of labour based on the accumulation of capital in primary production and trade. The sharp reduction in imports together with the action of the state designed to maintain income in the primary sector (through substantial deficit-financing) produced a new sphere for capital accumulation in the urban and secondary sectors. Industrial production grew at around 8% per annum in the 1930s and did not simply consist of the local production of manufactured wage goods; intermediate sectors, such as cement and iron and steel exhibited rapid growth as well. Although the late 1930s and war years saw the appearance of a machine tool and spare parts sector, the industrialization which took place, restricted as it was by the availability of foreign exchange, tended to be starved of capital equipment. Much of the industrial capital was in the hand of national capitalists, based on transfers of capital from the primary

economy; however, foreign industrial capital was well-established in public utilities, petroleum, iron production and consumers' goods, and consequently shared in the gains from the general expansion; this phase of national (industrial) capitalist expansion did not therefore bring about any generalised rupture with foreign capital. The role of the state changed and its power grew: the state was initially (early 1930's) limited to subsidizing and rationalizing production in the primary sector; there were major changes in tariff and in fiscal policy (budget deficits); later on the state became more active in drawing up plans for the industrial sector and, particularly, in promoting a major state-owned steel plant. The state resisted pressure from British financial capital to apply deflationary measures to the economy.

2. At the end of the war there was a partial return to the old international division of labour; accumulated foreign exchange permitted the import of durable consumers' goods (especially automobiles) and some re-equipment in the industrial sector occurred. The foreign exchange position was healthy until after the Korean War. However, the newly-emergent industrial groups were powerful enough to prevent the destruction of their industrial base by competitive imports of manufactured wage goods through the use of considerable tariff protection; because of this, industrial production grew at around 7% until the mid-fifties. Pressure from international capital for greater freedom of manoeuvre was, during certain periods, successfully resisted; in petroleum, in particular, a state corporation was established with exclusive rights in production and refining while the foreign oil monopolies were restricted to distribution. After 1953, the external situation deteriorated sharply with the fall in primary commodity prices; this made it clear that the volume of imported durable goods was quite sensitive to volatile conditions in the world economy. In any case, selected groups in the industrial sector had begun to question the wisdom of such heavy imports and had begun to prepare plans, under the guidance of the state, for a new wave of local industrialization; local producers of automobile parts, which had experienced very rapid growth during the forties, due to import-restrictions and had been hit by the flood of competitive imports in the fifties, drew up plans for the transfer of automobile production from the advanced capitalist countries to Brazil.

3. The broad lines of economic policy established in 1956 and the spheres of accumulation assigned to foreign, domestic and state capital at that time have to a very large extent persisted up to the present time. Policies adopted at that time, as embodied in the "Plano de Metas", represent a major discontinuity in the process of capitalist development in Brazil, although the terms on which foreign capital was allowed to expand in Brazil and the major role assigned to the state, were derived from the way in which industrial capitalism had developed in Brazil: in particular, new foreign capital tended not to threaten existing spheres of accumulation, but through its expansionary impact on the overall dynamism of the economy, actually multiplied the possibilities for profitable accumulation along existing well-established lines.

4. In retrospect, the major decision was to allow and encourage foreign manufacturers of transportation equipment to set up their production lines in Brazil. Some heavy items (trucks, buses) were already being assembled in Brazil on the basis of imported inputs, and, initially, these were thought of as more important (numerically) than local production of passenger cars; over time, production of private automobiles raced ahead. A whole series of incentives, together with directives to bring about 100% local production in a space of 3 or 4 years, generated a great wave of local investment activity in combination with imported machinery. In addition, the world's major

producers of domestic electrical goods and pharmaceuticals established themselves in Brazil. Finally, as a response to the much higher rate of investment (both public and private), foreign producers of capital goods (both mechanical and electrical engineering) entered the country.

5. The participation of the state in the economy expanded as a result of a much higher level of expenditure on providing the basic infrastructure for this new expansion. In the public sector's directly productive activities, such as steel and petroleum, and in electrical energy supply, communications and transportation, big new investments were undertaken. Due to the complete absence of a domestic market in long-term capital and the weak fiscal position of the state, this high level of public sector investment was financed out of budget deficits and from loans made by international financial institutions: the latter also served to cover the balance of payments deficit, which arose from the need to import foreign-produced capital goods. However, this high level of foreign financing quite rapidly led to a severe indebtedness situation in the absence of any policies to stimulate the growth of exports.

6. The role assigned to existing industrial capital is significant. National capitalists operating in a symbiotic fashion with foreign capital, as suppliers of inputs for the transportation and domestic durable sectors, obviously experienced an enormous expansion in the size of their markets. Those involved in construction and cement grew with the expansion of urban activities. For those in textiles, clothing and shoes, the very highest levels of protection were assured and insignificant amounts of foreign capital entered their branches of production. National producers of capital goods, although damaged by low levels of protection (itself a device to cheapen the cost of re-equipping to existing producers), the lack of availability of a long-term capital market from which to finance sales and the tendency of the public sector to purchase abroad, expanded very rapidly on the basis of the high overall rate of accumulation. (Meanwhile, agriculture was completely ignored, although the more modern sector benefitted from low levels of protection on imported inputs, such as fertilizers; it is not even clear that the primary sector was used as a source of primitive accumulation by the secondary sector, since the terms of trade between industry and agriculture appear to have remained unchanged). Foreign capital which was already established remained undisturbed by the new transformations taking place.

7. The manner in which new foreign capital was introduced left very much undisturbed the existing distribution of activities and spheres of accumulation and produced very little antagonism between the various elements of the ruling class. The important question which poses itself is: why, after a fairly long period of capitalist industrial development, did not local, national capital undertake to exploit these new spheres of accumulation? No very satisfactory answer has yet been given to this question, but a reply along the lines may help: (1) existing capital was not monopolistically organized and was unable to put together the financial resources required by these new areas of activity: state, rather than private, initiative had always been seen as the alternative to international capital, as for example in steel and petroleum; (2) previous experience with foreign industrial capital had to a great extent been symbiotic and non-antagonistic; (3) there was considerable pressure from international capital itself during the mid-50's to expand to the periphery of the world system after recovery from war devastation; (4) local capital probably believed it had sufficient leverage over the state to ensure that foreign capital remained in its demarcated areas.

8. A major feature of this new pattern of capitalist development was the complete absence of any major transformations in the financial system to parallel the changing requirements of the industrial sector. The private commercial banking system essentially provided short-term credit (up to one year); there was no developed capital market in medium and long-term financing and no institutions to provide for the financial requirements (essentially consumer's credit) required by the new durable-producing sectors. The commercial banks were able to provide working capital for both the industrial and commercial sectors, through discounting bills of exchange, but were completely unequipped to provide for the new, more sophisticated financial requirements of industrial capital; banks were typically small and locally-based, and were quite inappropriate to deal with the demands made on them by firms in the oligopolistically-organized modern industrial sector. To some extent, the state compensated for this deficiency through increasing the importance of state banks in the financial sector; financed by the Treasury, these banks were able to provide long and medium-term credits to the private industrial sector. The national development bank held shares in private companies in order to provide long-term financing requirements. Foreign financial capital also played a role in financing both private and public sector requirements.

9. For the most part, however, firms relied on retained earnings to finance long term capital requirements, and even to finance working capital and sales. As far as the sales of the new sectors were concerned banks were able to provide up to one year's credit for the purchase of domestic durables; the sale of automobiles on credit typically requires a longer re-payment period, which the banks were unable to provide - however, for a few years, at least, there was a large demand for cars with immediate payment due to the long years of import restraint. However, producers of trucks and buses were forced to provide up to two or three year's credit from retained earnings to avoid operating at low levels of capacity-utilization. Given the need to rely on retained earnings, then, firms freely resorted to price increases in order to accumulate the funds for expansion. In fact, the whole mechanism of inter-sectoral surplus appropriation and changes in the control over resources was accomplished by changes in relative prices and therefore (given the downward stickiness of prices) a high rate of inflation. In the absence of well-developed financial institutions, inflation performed the role of generating "forced savings", transfering surplus-value <u>within</u> the urban sector to its most modern part. While the state no doubt contributed to inflation with its large deficit, this was inevitable given the weakness of its fiscal base and the use of expenditure to promote the desired reallocation of financial and, therefore, real resources.

10. After a period of sustained industrial expansion (1956-62) with rates of growth of GNP of around 9-10% a year, and high levels of investment, the economic system experienced a severe crisis, which was particularly profound in 1963, when real per capita GNP actually fell. The economic crisis provoked, and is said to have been provoked by, a severe political crisis which brought a military government to power in 1964.

11. The major explanation of the crisis, based on incorrect data (subsequently revised) portraying a gradual deceleration of growth from 1961-2-3, viewed the crisis as a real phenomenon arising from what was called the "exhaustion" of the import-substitution process. In its crudest version, this hypothesis is not only analytically incorrect, but has most certainly been contradicted by the vitality of Brazilian industrial capitalism since 1968. The use of the words 'import-substitution' to characterize the process of industrialization

is thoroughly misleading, since it implies that the size of the market for a previously imported good, now produced locally, is limited to the volume of goods previously imported; once this process of substituting imports is exhausted, the market is, by definition, saturated and investment must cease in these lines of production; industrial accumulation can only continue on the basis of local production of more sophisticated goods - such as capital goods or 'complicated' intermediate imports (such as petrochemicals). Requiring the implementation of a technology embodying a higher organic composition of capital than existing production, this new structural transformation required to re-dynamize production could only be achieved with an even higher rate of inflation and/or greater state intervention in the production process. The fact is that industrialization did not simply consist of replacing previously imported goods; it had gone far beyond this in all lines of production, not only because of the derived demands resulting from the local production of final goods, but also because of the income-creating effects of transferring industrial activities to a peripheral economy.

12. A related view of the process contains a scarcely-veiled underconsumptionist analysis of the crisis. The market for the products of the modern sectors of production, though larger than the previous import bill, was restricted to the upper 5% of the population, by virtue of the extremely unequal distribution of personal income (generated during both primary export and industrial phases of Brazilian capitalism). Meanwhile, the system had a constant tendency, given the nature of imported technology and the conditions under which labour was supplied to the industrial sector, to reduce the share of labour in total income. Not only did the non-expenditure of such large profits have a depressive tendency on the system, but the highly inefficient conditions of production of workers' wage goods (both in agriculture and industry) meant that workers had little to spend on the products of either the modern or the traditional sectors. Whatever the virtues of the under-consumptionist argument at a theoretical level, the possibility of its existence can only be defined in relation to the conditions and potentialities of the financial system. As we have seen (para. 8), there was obviously considerable room for the extension of consumers' credit, which was virtually non-existent for private cars. Thus an underconsumption crisis, though it may be a temporary phenomenon, can obviously be resolved by the development of appropriate financial intermediation, which necessarily implies the transfer of purchasing power from the very rich to those at an intermediate position in the income spectrum (the urban middle class). In fact, at an empirical level, the lack of existence of an underconsumptionist crisis can easily be demonstrated; previously, the gradual deceleration in growth (1961-2-3) was thought to be consistent with the underconsumptionist view, but subsequent data show that total industrial production actually accelerated in 1961 and that, according to output and sales indices and industrialists themselves, 1962 was a 'golden year' for the production of household durables, as well as private cars. The very sharp reduction of output in these as well as other sectors in 1963, together with numerous reports from manufacturers that this was not due to a shortage of final consumers' demand, is not consistent with the underconsumptionist view.

13. An alternative view emphasises the crucial role of accumulation, as central to an understanding of capitalist crisis, in general, and of this crisis, in particular. It is argued that a reduction in private, especially, foreign investment precipitated the overall crisis in the system. This is because peripheral capitalist economies are subject to a special form of disproportionate development in one, or several, sectors of activity, so that a

fall-off or reduction in investment activity in this (these) sector(s) plunges the whole system into crisis. This is because investment decisions are taken outside of the national economy, and a reduction in investment by foreign capital will not necessarily be compensated by an equivalent rise elsewhere; this argument implicitly assumes that, for some reason, the state in a peripheral economy is unable to take appropriate stabilization measures. In the Brazilian case, largely for technological reasons, the expansion of foreign capital into the modern sectors was far in excess of existing demand; hence, following a rapid expansion of the rate of investment, there was a dramatic fall-off, once the modern production lines were established. The disproportion arose because of the discontinuous nature of certain kinds of investment processes and the inevitable failure of consumption to expand as rapidly as productive potential. However, although there was a sharp reduction in investment in those sectors dominated by foreign capital, comparing 1962 with 1959, this was more than compensated by a rise in investment in those sectors dominated by the state - steel and petroleum. It is only in 1963, coincident with and not prior to the general reduction in the rate of growth, that the overall rate of investment falls.

14. A further explanation based on a supposed fall in the rate of investment, points to a reduction in the rate of profit. It has been argued that in an inflationary situation, capitalists undertook excessive amounts of investment in the expectation that inflationary conditions would continue. This excess capital was responsible for a fall in the rate of profit, which led to a halt in the rate of investment. However, it is not at all clear why the rate of profit should fall, unless the inflationary expectations are disappointed. It is certain that the very high rates of inflation in excess of 50% p.a. which existed did promote inflationary expectations, and, in particular, speculative stock-building of many manufactured products, but it is not at all clear why these expectations should be disappointed - unless one points to something outside the model.

15. The hypothesis suggested here is that over time the inflationary mechanism gradually lost its ability to reallocate control over resources to the most dynamic sectors of the economy. This increased rigidity in the structure of relative prices resulted from the improved ability of groups who were losing out in the redistributive process (including the working-class) at maintaining their share. In the absence of well-developed financial institutions, then, it was only possible to maintain high rates of growth of both consumption and investment at very high rates of inflation.

16. The way in which many companies in the modern sector experienced this problem was that once they had paid wages, the real value of financial resources to cover the stocks and raw materials, with which to finance sales and to finance investment was slowly being reduced. One way of looking at this, of course, is to say that the rate of profit has fallen from the point of view of these firms; but it is important to see the way in which this occurs - as a result of changes in the real value of money capital (commercial bank credit and retained earnings in this case). Since it is money capital which gives control over resources, and hence the ability to expand capital, what took for many firms in the modern sector the form of a liquidity squeeze, actually was a reduction in total surplus-value and their share of it.

17. Idle capacity in some lines of production began to appear in 1961, especially in the capital goods section. In 1961, for example, there was a large fall in the output of trucks and buses, leaving substantial margins of

idle capacity. Producers claimed this was due to the lack of a suitable source of medium-term credit external to the firm with which to finance sales, without which they could not expand. Other capital goods producers made a similar complaint, arguing that foreign capital goods were often imported not because of their technical superiority, but because of the superior financing conditions which went with them. And although demand for domestic durables and passenger cars was extremely buoyant during 1961-62, producers pointed to the failure of the financial system to adapt to their requirement as a likely barrier to the widening of the market. The low rates of profit in regulated foreign enterprises, especially electricity generation and telecommunications, created idle capacity in those sectors established by foreign capital to provide their equipment; whether their enterprises remained in foreign hands or the state they required a much higher level of retained earnings in order to finance their expansion.

18. So, on the one hand there is the failure of the financial system to provide for the increasingly special financial requirements of the modern sector (something which was in any case made more difficult by the high rate of inflation). On the other hand, the inflationary mechanism which had served as a substitute for a financial structure attuned to the demands of the modern sector, was failing to perform this function and generating (with rates of inflation about 70% a year and constant food shortages) social unrest. In addition, the external debt situation combined with the reduction in the inflow of foreign capital of all forms presented the government with a major external problem.

19. In the first half of 1963, the government imposed an extremely rigid credit squeeze, which seems pretty obviously to have been the quid pro quo for US balance of payments support in May. At the same time, food prices, wages, and public utility prices rose very fast; the redistributive impact of this policy was the very reverse to the one required by dynamic sector of the economy. Firms in the industrial sector had the real value of their working capital reduced by as much as 30 or 40%, and were forced to reduce output sometimes simply because of an inability to hold enough stocks compatible with the previous level of activity. The restriction of bank credit to the commerce sector was even more severe and led to a substantial reduction in stocks of finished products; it was this destocking cycle together with the reduced availability of and more unfavorable terms for consumer credit on many items which led to such a sharp cut-back in demand for the output of the industrial sector. The effect of the stabilization measure was a combination of recession and accelerating inflation, as the corporate sector sought to re-form its financial capital by raising prices.

20. The military coup brought immediate relief to the external situation in 1964, as a result of new foreign credits. However, the result of alternating periods of credit expansion and contraction during the period 1964-67 was, on average, very slow growth, combined with only slowly decelerating inflation. This period is described by government apologists as being one in which the foundations were laid for the subsequent miracle. It is important to understand the sense in which this is true, if it is, not only since it enables us to understand some of the characteristic elements of the boom but facilitates an analysis of the stability of the so-called Brazilian model. Although the broad lines of political economy remained, especially the roles assigned to foreign and state capital, the modifications in economic policy after 1964 improved the stability of the system, both externally and internally; these modifications will be analysed with reference to the causes of the earlier crisis and can be seen as responses to it.

21. A major feature of post-1964 policy has been the greater regressivity in the personal distribution of income and a shift toward profits and rents in the functional distribution of income. It has now been very well-established, empirically, that the imposition of a wage-stabilization plan in 1965, resulted in a sharp increase in inequality in the distribution of earned income; this was because it effected unequally the wages of manual workers and also gave firms larger profits, some of which could be handed over to top executives. The greater regressivity in the personal distribution was reinforced by, for example, the 'liberation' of rents and, during the boom, by the large number of well-paid jobs created for the middle and upper-middle class as a way of distributing the system's surplus. In addition, access to a range of new financial assets accentuated the unequal distribution of present and future income flows. But what was the real impact of this? It has been argued that this so-called 'reconcentration' of income was a response to the limited market for the output of the modern sector; but it can be shown that the effect of this redistribution on demand must have been rather limited, especially since the gains in monetary income during the decade of the sixties were so narrowly distributed (the top 10% was the only income decile to increase its share). This increasing differentiation is more importantly politically, since it ensures the military political support in the urban areas. The effect of the sharp fall in the real value of manual workers' wages, together with the price readjustments in certain sectors (especially in public utilities) increased the rate of exploitation in the system as a whole. The effect of this functional shift towards profits meant that the real value of money capital available to firms increased, and so, once expansion began, this higher level of internally-generated funds made high growth of output more compatible with a more stable rate of inflation. This was especially true in the public sector, when following the initial price readjustments, public utilities were able to reconstitute their capital and self-finance their expansion. Once the boom was underway, there was a very sharp functional shift to profits, as firms made use of idle capacity; these funds contributed to increasing personal income differentiation and, to some extent, financed the rising rate of investment after 1970.

22. The major reforms in the financial structure after 1964 have been particular functional to the subsequent recovery and expansion of the industrial sector, especially in view of the previous analysis of the crisis. Firstly, there has been the elaboration of a system of consumer credit which has successfully (due to the very high real rates of interest offered) channelled a large volume of private voluntary savings to purchasers of goods produced by the modern sector - almost 80% of the funds have gone to purchase private cars; the system was established to make possible the recovery of the modern sector from low levels of capacity-utilization and facilitated the maintenance of super-high rates of growth in the automobile sector (about 25% a year). Increasing differentiation in money income has, paradoxically, been accompanied by a more equal distribution of the gains of growth - at least as far as the urban middle-class are concerned. Simultaneously with a higher overall rate of exploitation, a means has been created for a more efficient distribution of surplus value amongst the non-productive classes. The existence of this mechanism at the same time relieves firms from the burden of financing sales from their own financial resources. Secondly, private medium-term savings have been forthcoming (again, resulting from high interest-rates) as an alternative source of working capital to commercial bank credit for the industrial sector. Only recently has there been any attempt to establish institutions to provide long-term private capital from outside the industrial sector; but this was hardly a requirement of the industrial sector in the early stages of the boom,

since a high degree of idle capacity made fixed investment unnecessary; the fundamental need at this stage was for consumer credit and working capital.

23. The main macro-economic consequence of these changes was that a higher level of private voluntary savings (made by people in the top 5% of the income distribution) directed through financial institutions specifically created to serve the needs of the modern part of the industrial sector made possible a higher rate of growth of output at a much lower rate of inflation; this was because these institutions brought about the vital changes in control over financial and real resources, that had previously been accomplished by the price mechanism and inflation. The importance of these new debt instruments can be seen from the fact that they now account for more than 30% of total outstanding financial assets.

24. The state has vigorously promoted a high rate of merger and take-over within the commercial banking system, so that the number of commercial banks has fallen by $\frac{2}{3}$rds since 1964. Although faced with substantial political opposition from regional financial and economic groups, a national, highly centralized banking system is emerging which is much more appropriate to the requirements of the monopolies operating in the modern industrial sector. The process of industrial concentration, which was accelerated during the savage credit squeeze of 1964-67 when the financially weak (typically, small and medium-sized firms) went to the wall, is continuously facilitated by the parallel process of concentration in the banking sector. In addition, there has been the development of financial institutions which act as intermediaries between the international market in private capital and local industrial firms - typically multinationals or big national capital. This is, once again, a powerful device for accentuating the monopolization of the economy.

25. The enormous inflow of private <u>financial</u> capital has been a significant feature of recent developments, especially since 1970. The needs of big private and public sector firms for large, individual amounts of medium to long-term investments beginning in 1970 in excess of retained earnings, coincided with a situation of enormous excess liquidity in the Euro-currency market. The way in which this has evolved has suited uniquely the requirements of big capital, and since the government has absorbed the excessive liquidity through the sale of short-term bonds, it can be seen that in the absence of a domestic market in long-term capital, a high rate of growth of both consumption and investment is made compatible with a lower rate of inflation.

26. In addition, these large inflows, although creating a gigantic external debt, serve to cover the deficit on the current account of the balance of payments; this has resulted from a big rise in the import of capital goods and the large flows of interest payments, created by the debt itself. These quite dramatic changes in the international financial scene mean that the boom has not been choked off by balance of payments constraint, as happened in the 1960's at the hands of the US and IMF. A technical shortcoming of economic policy prior to 1964 had been the stagnation of exports. In the middle-sixties, those sectors producing manufactured wage-goods (shoes, textiles, clothing, food), the demand for whose products fell as a result of the sharp fall in workers' wages, used external markets as a way of compensating for the slump in home demand. Export incentives and a more "realistic" exchange-rate led to the inclusion of multinationals in the list of manufactured good exporters - using Brazil as a base to export to other countries of Latin America and now, increasingly, back to the advanced capitalist countries. To the list of other advantages which Brazil can offer multinationals - a stable

repressive political regime, cheap direct labour costs and complete financial freedom of manoeuvre - large fiscal and tariff benefits are offered to firms who are willing to transfer whole production units to Brazil, so long as production is for export. In addition, recent trends in world prices have been favourable to the rapid growth of non-traditional primary exports. While some have analysed the drive to capture external markets as a necessary response to a general tendency to under-consumption in domestic markets, it can be more accurately interpreted as a solution to the demand problems of specific sectors and as an overall requirement for the macro-economic stability of the system, given the rapid growth of capital good imports. Profitable export markets also have allowed those sectors dominated by national capital, which have not benefited from the consumers' durable-related pattern of growth, to share in the proceeds of the 'miracle'. However, in the manufactured wage goods sector, there has been a quite savage process of concentration and modernization, as many of these firms fall into the hands of foreign capital; foreign capital also is now, for the first time, moving into the primary and agro-exporting sectors.

27. So far there has been little discussion of the role of the state in all this. An essential feature has been the substantial increase after 1964 in the power of the executive to control the economy. A whole battery of controls and regülations gives the state great flexibility of response to actual and potential sources of instability, while at the same time leaving the real economic power to the modern monopolized and, essentially, international private sector. The fiscal power of the Federal Government has been used (as it never was prior to 1964) as a powerful generator of involuntary savings in the economy, which are subsequently channelled via the state banking system to the private and public sectors. If we include the public sector corporations, the state is responsible for about 70% of all investment and 60% of all savings in the economy. This obviously means that a high level of state expenditure is a <u>sine qua non</u> for the maintenance of the high rate of growth. But the state corporations, supplying basically intermediate inputs in the process of production, base their expansion plans very much on the requirements of the private sectors producing final goods. The power of the state has fundamentally been used since 1964 to create institutions and a mode of production favoured by international capital, while at least managing to maintain some sectors - particularly, finance and construction - as spheres of accumulation for purely national private capital. Some sectors of the national industrial bourgeoisie have been eliminated in the process and have been transformed into a purely rentier class and it is likely that this transformation will proceed as foreign capital seeks to modernize the traditional sectors. However, it should be emphasized that so long as growth continues, there is to some extent something for everybody within the ruling groups. The state propaganda machine also plays an important ideological function continually assaulting the mass of the people with details of a miracle, which bears so little relevance to their reality.

28. The overall rate of growth from 1967-70 was dominated by the utilization of idle-capacity in those sectors producing modern durables; after 1970 this was accompanied by an acceleration in the rate of investment. What are the sources of instability in this pattern of growth?

(a) Brazil is currently more susceptible to external instability than possibly at any time in its history. The current favourable external position is due to heavy inflows of foreign capital and a favourable export performance. The government is now engaged on a planned reduction in the capital flow due to the substantial debt burden and is promoting domestic institutions in long-term financial capital as a replacement; it will also attempt to create a new form of inflow - such as share flotations on foreign capital markets - which do not create a concomitant debt burden. The export position depends on favourable trends in world prices continuing, on the continued penetration of the markets of advanced capitalist countries by producers of traditional manufactured goods and on the export activities of the multinationals. It is only necessary to state these conditions to see that this is a very real source of potential instability.

(b) Domestically, the need is to maintain the high rate of private consumption and investment without accelerating the rate of inflation and generating inter-sectional disproportions. The rapid growth of consumption even under conditions of increasing inequality seems assured by the working of the credit system; meanwhile the investment process can be sustained by investment in activities related to the expansion of heavy industry (capital goods) and the agro-export sector (the world's last frontier).

In general, one is forced to the conclusion that, so long as recent tendencies in international capitalism continue, there is no reason why this form of repressive political and economic development, which is becoming increasingly the rule in peripheral capitalist economies, should not persist.

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INTERNATIONAL CORPORATIONS AND THE THEORY OF IMPERIALISM

D. Chudnovsky

The theory of imperialism is an attempt to explain the characteristics and laws of motion of the capitalist system in its monopolistic stage of development. If a broad view is adopted, not only the nature of the relations between imperialist and dependent countries but also the peculiarities of the imperialist countries' development in their monopolistic stage must be explained. Given the fact that the capitalist system has followed a line of development that goes across national frontiers to comprise the world economy as a whole, one may say then that the theory of imperialism is the theory of the international capitalist system.

It is possible, however, to narrow down its scope and study what seems more specific to the imperialist stage, i.e. the relation between advanced and backward capitalist countries within the international capitalist system. The marxist theory of imperialism has originated in the particular experience of the European countries' expansion into the world economy in the second half of the nineteenth century and has particularly emphasized the importance of the periphery in the development of the imperialist countries, thus adopting a rather narrow view. Within that perspective, the purpose of this paper is to discuss some hypotheses as to the reasons for the international corporations' expansion into the world market, especially into the backward capitalist countries, and on the role of these countries in the process of corporate expansion.

Before dealing with this specific problem it is worth stressing that the relation between imperialist and dependent countries is much wider than that effected through international corporations. First of all there exists a political domination which is overriding, comprising the complex set of common interests between the imperialist powers and the ruling capitalist classes in the backward countries. Second, in the economic sphere, one may distinguish, at least, three areas: (a) trade, i.e. the appropriation of surplus value through trade between imperialist and backward countries; (b) public and portfolio finance, made privately or through imperialist institutions like the World Bank and the IMF; (c) direct private investment in manufacturing and extractive industries made by corporations based in the imperialist countries. These three areas account for the existence of imperialist relations between advanced and backward capitalist countries. Each one has its specific mechanism of operation but all of them have the same purpose: the appropriation of surplus value created in the backward countries as a contribution to the accumulation process carried out in the advanced capitalist countries.

THE EMERGENCE AND DEVELOPMENT OF THE INTERNATIONAL CORPORATIONS

International corporations are agents of and result from two basic processes of capitalist development: (a) concentration of capital and (b) monopolization of technology.

The national corporations of the early twentieth century promoted an extraordinary process of centralization and concentration of industrial capital. Many corporations were formed as the direct result of the consolidation of a number of small firms, General Motors for example, and the new firms rapidly achieved growing shares of the total output in the industries where they were located. It was precisely this process which was defined by Lenin as the emergence of the monopoly stage in the history of capitalism.

Sixty years later these corporations are much bigger, and the industries in which they operate much more concentrated, than in the pre-First World War period. Of the 500 largest US enterprises, the 187 multinational enterprises have sales three times larger than the sales of the remaining 313. These corporations are, at the same time, in industries where the degree of business concentration in the American economy is at its highest.[1]

These features are in general well known and the international corporations are rightly identified with the big monopolistic firms. But what is not generally perceived is that these corporations when investing abroad are fostering the concentration of capital at a world level.

An overseas investment, by a US corporation for example, is not always an addition of capital to the recipient country. Overseas investment has, in many cases, directly taken the form of a take-over from an existing firm. 46.5% of the American manufacturing subsidiaries created in the EEC up to 1968 have been acquisitions of existing firms while in the UK the figure was 50.3%.[2]

The take-overs of existing firms is, of course, the most direct method to promote concentration of capital but it is not the only way. A better measure of the process of the concentration of capital induced by international corporations should also take into account (a) firms driven out of business as a result of competition from foreign subsidiaries and (b) mergers undertaken between existing firms in order to remain in the market and face foreign competition. If both factors were considered, the international concentration of capital resulting from the direct foreign investment process would have been even greater than that suggested by the figure for take overs. An important part of the growing concentration ratios experienced by several industrialized countries in the last decade is surely due to the direct foreign investment process.

International corporations have been the result of the process of centralization of capital in their home economies and have then been fostering such concentration across national frontiers. Foreign investment appears therefore as a powerful instrument in monopolization of the world capitalist economy.

This process of monopolization however has not necessarily led to a reduction in the degree of competition, at the international level. Although foreign investment was mostly in hands of US corporations especially in the post World War II period, this remains no longer the case in the 60s and 70s. Partly in response to the American penetration in Europe, partly as consequence of the European national economies' process of growth, European based international corporations have emerged and challenged the American penetration in their own and overseas markets. The phenomenal economic growth of Japan also led to an expansion into the world markets via exports and then through direct investments.

The non-American expansion has introduced an important dimension in the international process of capital concentration: the national origin of the international corporations. Most of the international corporations are still based in only one imperialist country and interimperialist rivalries are the reason why the growing monopolization of capital has been accompanied by increasing competition at international level.[3] Capital is becoming increasingly concentrated, but as long as it is based on different imperialist countries the monopolization of capital does not necessarily mean less international competition. The non-American expansion in the 60s and 70s is leading to a period of interimperialist rivalries, with great similarities to that depicted by Lenin in relation to the pre-World War I period.

The second basic process that must be considered in order to have a correct characterization of the international corporation is the monopoly of technology.

A key feature in a free competition capitalist system was the perfect diffusion of technical knowledge. In such a system every producer had open and free access to the technical innovations. If a capitalist introduced a technical innovation, the same innovation was introduced, sooner or later, by his competitors. The super-profit that the innovator was able to obtain during the period in which he monopolized the innovation was essentially transitory. If the innovation was a result of an independent inventor's efforts, the inventor selling his patent to a capitalist had a right to receive a share in the super profits to be earned out of the application of the invention.

Marx, when he refers to super profits in Capital (Vol 3, ch. 10), is considering the possibility of a capitalist having an above averate rate of profit simply because he is able to apply innovations, unknown to the rest of his competitors. But this super profit was essentially temporary as long as the assumption in Marx's model was perfect diffusion of technical knowledge.

In monopoly capitalism this assumption must be removed. Technical knowledge is a source of monopoly profits for the corporations and has become a basic instrument in the corporations' expansion at national and world level.

Firstly, technical knowledge is now the product of an institutionalized activity inside the large industrial corporations - what is called Research and Development. Most of the inventions and innovations are thus not the result of the activity of those outside the firms. They are the product of an activity which is carried out by scientific workers, with a clear capitalist organization. The means of production are owned by the capitalist, as well as the ideas which these workers are able to generate. The patents, by which a legal monopoly is given to inventions and innovations, are now owned by the corporations.

The inventive activity has evolved from the sphere of petty commodity production to the capitalist sphere. What the institutionalization of the inventive activity means is no more and no less than its definitive incorporation in the capitalist process of production inside the large enterprises. Inventors have become proletarians. The capitalist will exploit a labor power to obtain commodities which have the peculiar trait of being sources of quasi-rents or monopoly profits.

Second, if the scientific workers are considered as productive workers, i.e. workers producing surplus value[4] the organic composition of capital in the so called technologically intensive industries is not so high as is generally believed. One of the interesting features of the inventive activity is the fact that it is rather labour-intensive despite a very skilled labour force. It generally requires a lower organic composition of capital than the subsequent activity, i.e. the production process of what has been generated by the R & D effort. The exploitation of scientific workers may tend to raise the surplus value created in the corporate sector and, therefore, to increase the rate of profit in such industries.

Third, although the systematic exploitation of scientific workers is a necessary condition for the generation of a continuous flow of innovation and creates therefore the possibility of permanent super profits, this is not sufficient. It is important not only to generate innovations but also to develop mechanisms in order to appropriate them, as much and as long as possible.

The corporations have not only used to their advantage the old patent laws but have also developed sophisticated procedures to keep the outcome of the R & D activity to themselves. These procedures are being revealed at international level, e.g. in the studies of technological contracts carried out by UNCTAD.[5]

Under the capitalist system information is not simply produced by exploiting the labor power of the scientific workers. Its exchange value is enormously increased through the private appropriation of its circulation and consumption. Capitalists are able to extract not only surplus value in the production process but also to appropriate it in the circulation and consumption processes, taking advantage of the peculiarities of technical know-how as a commodity, i.e. the fact that once it has been produced it does not require any extra cost when used, and the way in which is commercialized.

Fourth, the corporations have managed to finance an important part of the R & D expenditure with funds provided by the State. In the United States for example, 50% of the industrial R & D is financed with federal funds, the private outlay being especially concentrated in the safer stages of product development.[6] This method of finance helps to increase the corporations' profits on their own capital.

The large industrial corporations are then both result and agents of the processes of concentration of capital and monopolization of technology. And their overseas expansion is precisely linked to them. Direct foreign investment appears as an instrument, first, to take advantage of the monopoly of technology at the international level and, second to accumulate capital more quickly by investing in more profitable markets. Let us examine this problem more specifically.

PROFITABILITY IN THE CORPORATE EXPANSION

The role of the external market is a crucial one in the capitalist expansion. Even in the period of rapid growth of the American market the large corporations have exported. Exports appear as the first stage in the overseas expansion. The second stage is generally direct investment to supply the host country's internal market and the third stage, to supply from an overseas location other markets, i.e. foreign investment for exports. A number of factors like tariffs and trade restrictions, possibilities of a more adequate appropriation of quasi-rents, lower unit costs, etc, that we shall not develop here, seem to be influential in the shift from one stage to the other.

What is important to notice is that the setting up of a manufacturing subsidiary in an overseas country is a more advanced form of capital expansion than mere trade relations. A manufacturing subsidiary will directly exploit labor power in the production process, i.e. it will operate as industrial capital, while through trade the appropriation of surplus value takes place only in the circulation process. But as we shall see below, although based in the production process such manufacturing subsidiaries are also in many cases, monopolistic tools to appropriate surplus value in the process of circulation.

In explaining the causes of direct foreign investment, some marxist authors have emphasized that foreign investment is an outlet for excess capital accumulated in the imperialist countries. "The export of capital from a country presupposes an overproduction of capital in that country, an over accumulation of capital".[7] This kind of analysis is, to some extent, a consequence of applying the framework of portfolio investment to direct investment, and is also related to the problem of the falling rate of profit.

In the nineteenth century and up to 1914, portfolio investment, which accounted for 90% of the international capital movements, moved from lender to debtor countries in search of high interest rates. This is not the case with direct investment. Most of the financial funds needed for overseas operations are raised in the host countries. Only a small proportion of the funds come from the investing country, used to start the venture and for major expansions. This pattern of financing tend to suggest, ex post, that foreign investment is not an outlet as such for idle financial resources.[8] Funds needed for overseas expansion are not probably greater than for domestic expansion. The difference between both types of investment does not lie in the amount of capital to be invested but in the amount of profits to be earned, as shown below.

The argument, regarding the falling rate of profit, originally developed by Hilfording and Lenin, is as follows. The rise in the organic composition of capital in the industrial activities of the imperialist countries induced foreign investment in backward countries where the organic composition of capital was much lower. In this connection not only does super abundance of capital matter, but also the fact that super profits can be made in backward countries mostly because of the cheap labor force.

Modern foreign investment tends to occur in industries with high organic composition of capital, even allowing for the role of the scientific labour force. But when investing abroad this situation is being reproduced. The bulk of manufacturing subsidiaries, the exception being the new wave of investments in South East Asia for exports, do not particularly rely on cheap labor, given its relatively small importance in total costs of production.

Neither the existence of surplus capital as such in the advanced countries nor the existence of cheap labor force in the backward economies is a necessary condition for capital exports. What is relevant in the explanation of overseas investment is the possibility of obtaining higher profits abroad than at home. As Marx said, "If capital is sent abroad, this is not done because it absolutely could not be applied at home, but because it can be employed at a higher rate of profit in a foreign country".[9] Strictly speaking what is relevant is the comparison of additional (or marginal) rates of profits at home and abroad. As it is clearly stated by Magdoff, "it is the gap in marginal profitability which produces the flow of foreign investment",[10] although it may well occur that the average rates are also higher abroad than at home.

To explain such a divergence in profitability the monopolistic conditions in which the foreign investment takes place are especially relevant. As we have already shown the large corporations have developed special assets (technological or managerial), capable of being exploited not only in the home but in overseas markets. The successful exploitation of such advantages may lead to higher rates of profits abroad once the markets at home are fully exploited. But without further conditions in the overseas location it is unlikely that the gap in marginal profitability could be very significant. Let us see the problem in relation to backward countries.

From the point of view of an international corporation one would a priori expect that the most profitable way of supplying small, underdeveloped markets, would be via direct exports. However in countries with serious balance of payments problems, as is the case of the great majority of the Third World countries, an activity purely based on direct exports would not have had a very promising future. Direct investment to supply the domestic markets of these countries has been the response of the multinational firms to the balance of payment restrictions, although this response has not usually led to any great relief in the balance of payments situation of the host countries.

The subsidiaries set up in the backward countries have been able to produce very high rates of profits, in many cases with the complicity of the national bourgeoisies and their governments.

The source of super profits lies, very briefly, first, in the utilization of proprietary technology (including patents, trade marks and secret technical know-how) which is generally inaccessible for domestic capitalists. In many cases the foreign firms have managed to use old technologies without loosing the technological monopoly and so increasing in an extraordinary way their profitability. Second, in the manipulation of demand, not only taking advantage of the demonstration effect but also fostering it through advertising and other selling expenses. Third, in the ability to borrow at very low cost in the domestic capital market, due to low interest rates, high rates of inflation and credit rationing for industrial purposes. Fourth, in the tariff protection granted in most of the cases by the governments, whether or not under pressure from the corporations, and in the fact that there exist in many cases, non-economic barriers to the entry of new competitors.[11] These four factors have different importance according to industry and countries but they generally account for a substantial part of the super profits international corporations are able to make in less developed countries.

This pattern implies a peculiar insertion of the foreign firm in the backward countries. International corporations' subsidiaries are able to appropriate surplus value out of the exploitation of their labor power as does any other domestic industrial capitalist. It is in their interest, then, to increase the rate of exploitation of their workers and keep their wages as low as possible. But it is not through the super exploitation of their own labor force that most of the surplus value is appropriated. In virtue of the exercise of monopoly power, they are able to obtain a higher share of the total surplus value generated in the country than that to which they are entitled according to the capital invested. To some extent, this extra share is at the expense of their domestic counterparts, i.e. the national bourgeoisie and, for the rest, it is at the expense of the working class. The exact effect will depend on the ability of the domestic capitalist class to compensate, through increased exploitation of the working class, for the burden imposed by the international corporations' exercise of monopoly power.

The mechanism by which foreign firms are able to obtain super profits has essentially taken place in the circulation process rather than in production process. Exploiting the labour power employed in that particular activity does not yield more than the average rate of profit. The advantage, from the foreign firm's point of view, in shifting from an export to a manufacturing activity does not lie in the fact that through this latter activity they are operating as industrial capital. It comes from being capital with more monopoly power on the technological front, more protected from external competition, with more capacity to influence the market and with the possibility of getting a large part of the investment financed with domestic funds.

The fact that the process of profit appropriation is taking place fundamentally in the process of circulation of capital does not make less serious the consequences of the foreign firms' penetration of the host country's economy, although it might tend to give a different class configuration to the sectors opposed to their activities.

Foreign firms have not only been able to get high profits. They have been able to remit a high proportion of them, first, because they can find cheap financial sources in the host country to finance their needs and, second and more fundamentally, because in the long run the growth prospects of most of these investments are rather limited.

The marginal rate of profit of the first investment is very high in less developed countries, but the marginal rates in successive major expansions are probably much lower, because of the relatively small sizes of the markets, on the one hand, and on the other, because of the relatively low rate of growth of the manufacturing sector as a whole. Some less developed countries have experienced high rates of growth and in these cases foreign firms have taken advantage of such a situation. But even in those cases as long as the rate of profit has been significantly higher than the rate of growth of the capital invested, a high level of profit remittances can be expected. Foreign capital then appears, as has been rightly pointed out, as a giant pump for sucking surplus out of the underdeveloped countries.

International corporations' activities are concentrated in a few key industrial sectors of the backward countries but these activities do not promote the development of the whole economy. The real problem of underdevelopment lies behind all this process and foreign firms have only made more uneven and serious the process of capitalist underdevelopment. After some years of very high rates of growth and profits, when local production replaces previously imported goods, foreign firms find it difficult to keep up such a rate of expansion and will probably invest their surpluses in other countries where marginal rates are higher. This behaviour can help to explain the geographical allocation of international corporations' activities.

One of the striking features of direct foreign investment in manufacturing industries is the fact that it takes place mostly in the developed part of the international capitalist system. In 1971 for example 83% of the book value of the American direct investment abroad was concentrated in the developed countries and only 17% in the Third World. Brazil, Argentine and Mexico account alone for 10% of the total, leaving only 8% for the remaining countries.[12] The situation is different for extractive industries, and in such industries the role of less developed countries is obviously very important. But we are considering manufacturing investment and there not only is the share of less developed countries is rather low but the investment has been also growing at much lower rates. For example, the compound annual growth rate of the American investment in the United Kingdom has been 18.7% and in the EEC 17.9% while in the developing countries the rate of growth has been only 10.6%, between 1957 and 1971.[12]

Given the type of product which is made in those industries in which international corporations are predominant, it is understandable that other industrialised countries will be the first objectives in the expansion process. Developed countries have large markets for consumer, intermediate and capital goods made by international firms. In economies where labor is relatively scarce and expensive the labor saving innovations made by those firms will find a secure market. In countries where standards of living are relatively high, the consumer goods (durables and certain non-durables), which are typically produced by these corporations, will find an appropriate demand. The size of the market (roughly measured by income per capita) is probably a basic variable influencing the direction of the international firms expansion. Once the relative incomes per capita of host countries are taken into account, the geographical distribution of direct foreign investment in manufacturing clearly makes sense.

But what is really interesting is the fact that foreign investment is growing much faster in the developed than in the backward capitalist countries and our hypothesis is that this growth is partly financed by investments in less developed countries.

As the rates of growth of different subsidiaries tend to be very uneven, as are their rates of profits and availability of external finance, some subsidiaries generate enough funds to self finance their expansion, other subsidiaries generate funds in excess of their needs and others demand funds in order to be able to grow. What is probably happening is that the subsidiaries operating in the EEC or UK, for example, which are growing very fast, finance their expansion with profits made by subsidiaries located in the Third World in which rates of profits are very high while rates of growth are much lower.

Let us compare, e.g. Europe which has roughly 40% of American foreign investment with the Third World which has approximately 20% (to simplify the calculation). If we assume that the European subsidiaries are growing at 20% per annum and their rate of profit is 10%, they will need extra funds amounting to 10% of their investments. These funds are probably supplied by the profits made in the Third World, where subsidiaries are growing at 10% p.a. while making profits of, say, 30%. Although this is a very rough example it gives an insight into the process which is probably taking place in the expansion of international corporations. We are not considering, other investments such as those made in Canada let alone those in the home country, that is the United States, but it is likely that this expansion is self-financed.

Sometimes the fast-growing subsidiaries can be located in a backward country, in Brazil for example, but the problem in those countries is that investments quite soon reach the stage of diminishing returns on further expansion. In less developed countries the marginal rate of profits is very high, but when additional investments are considered, it seems that the comparison of marginal rates of profits favours the developed countries. Average rates are probably also higher in less developed countries, but this will depend on the length of the period under examination.

While the evidence on rates of growth is easily available in any publication on foreign investment, this is not the case with rates of profits. Published rates of profits are very misleading and only through deep research can one get realistic rates of profits. Based on Colombian evidence, we have been able to show that in developing countries foreign firms' rates of profits are very high, on average 52%, (average rates, not marginal rates)[13] but further evidence is very scarce.

However, it is plausible to suppose that rates of profits are lower in the advanced capitalist countries than in the backward countries. The key difference is given by the conditions of competition. In the advanced capitalist countries tariff and non-tariff barriers are relatively low, the actual and potential competition is high and the domestic producers are also expanding themselves into overseas markets. But in the backward capitalist countries the opposite situation prevails. Tariff protection is very high, institutional barriers to new-comers are very important and the domestic producers are in general relatively weak firms with no technological ascendancy which only produce for the local market.

These conditions of competition probably account for an important part of the explanation of the gap in the rates of profits in the two types of countries.

This pattern of profitability and growth gives a possible explanation to the role of small but highly profitable investments made by international corporations in the manufacturing industries of the Third World.

CONCLUDING REMARKS

The international corporation appears then as a powerful pump for sucking surplus out of the less developed countries to finance their global expansion, especially that taking place in the imperialist countries.

What is extremely interesting is that this process of international transference of surplus value is increasingly carried out beyond the market. What the large, and vertically or horizontally integrated, corporations started doing in a national economies, i.e. the internalization of several market transactions previously made by independent producers, the international corporation is extending to the world market.

Intercountry and interfirm international trade is becoming intrafirm international trade. 23% of the value of all American manufacturing exports

1965 were intrafirm transactions[14] and the proportion is growing year by year. As long as commodities circulate, circumventing the market and frontiers, inside a single capitalist organization, they are not circulating as commodities. Each part of the organization does not produce commodities. What become a commodity is the joint product of the whole organization when it is sold to an independent buyer. The emergence of international corporations is leading to a disappearance of the market as a blind regulator of the capitalist process of production and circulation at national and at world level.

International corporations are integrating the process of production and circulation inside themselves. They are socializing the process of production not only at national but at international level. They are not only superseding the market but also frontiers. They are reaching the most advanced degree of socialisation of productive activities while concentrating to the highest degree the surplus value created in such activities in the hands of a small minority of capitalists of the imperialist countries. Production becomes more and more social and international but appropriation remains private and nationally based.

International corporations when developing the process of socialisation of production beyond the national frontiers are not only making more acute the contradiction between the social character of production and its private appropriation. They are also making more contradictory the existence of nation states with the international socialization of the production process. The international corporations are making it possible to replace the anarchy of the social and international division of labor. But this anarchy is being superseded by the hierarchical and despotic division of labor proper to the capitalist system.

The only radical answer to the growing development of international corporations is a socialist world economy in which the contradiction between the social and international character of production and its private and national appropriation will tend to disappear. However in the present stage, and given the imperialist domination of the world economy, the anti-imperialist struggle in the Third World must necessarily be directed against the international corporations as long as they represent the most direct form of political domination and economic expropriation of these countries by the imperialist world.

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IMPERIALISM TODAY - SOME PROBLEMS FOR STUDY

Michael Barratt Brown

I A DEFINITION OF IMPERIALISM

I am going to take as a working definition of imperialism a development of the concept taken by George Lee from Rosa Luxemburg (George Lee, 'Rosa Luxemburg and the Impact of Imperialism', Economic Journal, December 1971, p. 862; Rosa Luxemburg, Accumulation of Capital, Routledge 1963 edn. p. 365 ff). Imperialism is, in this view, a process of assimilation, transformation and retention of economies throughout the world, effected by agents situated at the main centres of capitalist accumulation. I take the word 'assimilate' to mean "to absorb into the system" (OED), and not necessarily, as George Lee would argue, "to make similar". This definition assumes that both the economies assimilated and the imperial agents have each a territorial base; but it deliberately comprehends other forms of action than direct political annexation of territory by nation states. It leaves open the nature of the agents and the causes of the pressures behind their actions except that the agents are said to be situated at the main centres of capitalist accumulation. It is, of course, central to a Marxist view that the imperialist process springs inevitably out of the pressures of capital accumulation in a capitalist social formation. Political power is seen as emerging from and reinforcing economic relations, while nevertheless developing in its agents a certain momentum of its own.

Most Marxist theories of imperialism have been concerned with identifying the pressures behind imperialism, at different periods of history, the agents who were involved in these pressures, the forms which their actions took and their reactions to each other. In recent years attention has come to be concentrated on the results of the imperialist process in the development of those economies that encompass the main centres of capitalist accumulation and the corresponding underdevelopment in what is regarded as an artificial world division of labour of those economies which have become by contrast in this sense peripheral, and on the meaning, therefore, that should be attached to the concept of historical under-development. There is wide disagreement not only about the appropriate theoretical analysis but even about the facts at issue. (These are stated in their sharpest form by Bill Warren, 'Imperialism and Capitalist Industrialisation', New Left Review, Sept.-Oct. 1973; and are discussed at length in a forthcoming Penguin, M. Barratt Brown, The economics of Imperialism)

II SOME PROBLEMS TO BE STUDIED

We may make a list, then, of some of the problems to be studied in relation to Imperialism Today, as follows:

1. Are the same or similar pressures at work generating imperialism inside capitalism today, now that nation state economic management is widespread and effective, effective at least in maintaining continuous growth in world trade for more than twenty-five years and in averting a major slump in the more developed capitalist states?

2. Is the form taken by imperialist assimilation and transformation of economies still chiefly the export of capital, now that most capital movements take place between the main developed capitalist states, or is it the extraction of surplus through the maintenance of a particular division of labour?

3. Are the main agents of imperialism still the groups of finance-capitalists in the developed capitalist states and satellite 'comprador' groups elsewhere, now that giant transnational corporations have emerged as the major accumulators of capital?

4. Is the imperialist rivalry between nation states once more re-asserting itself in the challenge of Western Europe and Japan to the post-war United States hegemony - a hegemony which has maintained a united capitalist riposte to the attempts of peripheral economies to escape from the world capitalist structure?

5. Does underdevelopment today involve a measure of real economic development in the periphery, albeit of a distorted and dependent capitalist sort, which could be expected to alter the world division of labour, now that resistance to imperialism is becoming widespread.

6. Are the interests of workers in developed and in underdeveloped countries antagonistic, or is it possible for them to find a common framework of unity in their exploitation by the same giant transnational corporations?

The lines along which discussion of such problems might proceed involve both the refining of theoretical analysis in the light of historical tests of the theories available, and the empirical observation of the changes implied in the questions. There are many interrelated factors in the problems posed, and no one of them can be discussed entirely in isolation from the others; but we may nonetheless take each of them in turn and see where they lead us.

1. Underlying Pressures behind Imperialism Today

Marx's authority has been claimed for at least five different aspects of the evidence for pressures generated inside capitalism which have led to imperialist expansion:

(a) exploitation of cheap labour wherever this could be found overseas - slaves, coolies, forced, indentures and immigrant labour of all sorts - to keep down rising costs of production at home, (Eric Williams Capitalism and Slavery, 1964).

(b) extraction of tribute and superprofits overseas to overcome falling rates of profit at home; (Lenin's Imperialism and H. Magdoff, The Age of Imperialism, 1970.)

(c) extension of markets overseas for goods, especially for capital goods, when these fail to rise at home in line with productive capacity; (Rosa Luxemburg, The Accumulation of Capital).

(d) opening up of new opportunities for capital investment overseas, when profitable opportunities at home decline; (Lenin's Imperialism and Hobson's Imperialism)

(e) extending the whole field of capitalism into the pre-capitalist world overseas, and later the field for monopoly capitalism into the non-monopoly capitalist world overseas, through the creation in both cases of an artificial world division of labour (Rosa Luxemburg). A variant would suggest a kind of technological hierarchy (Robin Murray, Towards a World Economy).

All five symptoms of internal pressures may well have evidently been involved in the history of imperialism. The emphasis which is placed on one rather than another will depend on rival interpretations of Marx's thought. Most Marxists would agree that the underlying laws of motion of capitalism and the causes of the conflicts it excites are to be found in the competitive accumulation of capital. Marx did not develop a theory of imperialism, and there has been much refining of Marxist theory on this point in recent years, since there was always some contradiction between the notion of disposing of a surplus and of extracting a surplus, whether of goods or capital.

Given that the "one independent variable", as Marx called it, is the rate of accumulation of capital (Marx, Capital, Vol. I, Ch. xxv, Allen and Unwin edn. 1946, p. 633) one may perhaps be permitted to be selective about the way in which capitalists seek to keep up with this. The conflict, as Ron Meek has put it, is "between aim and tendency". (R. L. Meek, Economics and Ideology, 1967, p. 190). The aim of capitalists is to step up accumulation through higher productivity to increase their total profit, but the tendency is not only for accumulation to restrict consumption, their own and their workers' but also for technological changes involved to reduce the labour employed per unit of capital, and thus generally to lower the rate of profit. "The development of the productivity of social labour becomes," says Marx (Capital, Vol. I, ch. xxv, sect. 2) "the most powerful lever of accumulation". Individual capitalists are forced to extract more and more surplus which the system as a whole cannot dispose of. Capitalists must accumulate or die in the process of capitalist competition. "The battle of competition is fought by cheapening of commodities. The cheapness of commodities depends, ceteris paribus, on the productiveness of labour, and this again on the scale of production. Therefore", what Marx calls, "the larger capitals beat the smaller." (Capital Vol. I. ch. xxv. sect. 2) There are two results: first, "the additional capital formed in the course of accumulation attracts fewer and fewer labourers in proportion to its magnitude" (ibid.); secondly, "the consuming power (of the great mass of the population) is furthermore restricted by the tendency to accumulate... This is a law of capitalist production imposed by the incessant revolution in the methods of production themselves, the resulting depreciation of existing capital, the general competitive struggle and the necessity of improving the product and expanding the scale of production for the sake of self-preservation and on penalty of failure. The market must therefore be continually extended ..." and Marx goes on, "This internal contradiction seeks to balance itself by an expansion of the outlying fields of production." (Capital, Vol. III, Ch. xv. sect. 1).

In the chapter on 'Machinery and Industry' in Volume I of Capital, Marx had written:

> The enormous power, inherent in the factory system, of expanding by jumps, and the dependence of that system on the markets of the world, necessarily begets feverish production, followed by over-filling of the markets, whereupon contraction of the markets brings on crippling of production. The life of modern industry becomes a series of periods of moderate activity, prosperity, over-production, crisis and stagnation." (Capital, Vol. I, ch. xv. sect. 7.)

And it was just at this point that he wrote of India, "By ruining handicraft production in other countries, machinery forcibly converts them into fields for the supply of its raw material... A new and international division of labour, a division suited to the requirements of the chief centres of modern industry springs up, and converts one part of the globe into a chiefly agricultural field of production, for supplying the other part which remains a chiefly industrial field." (Ibid.)

Now, if this second of the effects of Marx's picture of competitive capitalist accumulation had been the whole of the matter, then Keynesian measures of demand management should have resolved it. Expanded markets at home would have met the realisation problem. "Fine tuning" by governments of aggregate demand with the capacity to supply would have done the trick. But the fact is that the maintenance by governments of full employment, correcting the first of Marx's effects, the tendency to unemployment, has required continuously increased government expenditure. As a proportion of the national product, this has risen in Britain from 13% before the first World War to 30% in the inter-war years, 40% in the 1940s and 50s and 50% in the late 1960s and 70s.

Marx, however, saw foreign trade not only as an extension of the market but as one of the counteracting tendencies to the tendency for the rate of profit to fall as the ratio of capital invested to wages in the net product rose. (I have taken Joseph Steindl interpreation of Marx's meaning here - see J. Steindl, Maturity and Stagnation in American Capitalism, 1962, pp. 234-5) Foreign trade, says Marx, partly cheapens the raw materials entering into the capitalist process and partly cheapens the necessities of life entering into wages. Capital invested in foreign trade "comes in competition with commodities produced in other countries with lesser facilities of production", so that the capitalist "secures a surplus-profit". "On the other hand, capitals invested in colonies etc. may yield a higher rate of profit for the simple reason that the rate of profit is higher there on account of the backward development, and for the added reason, that slaves, coolies, etc., permit a better exploitation of labour." (Capital, Vol. III Ch. xiii, sect. 5) and Marx goes on: "The favoured country recovers more labour in exchange for less labour, although this difference, this surplus, is pocketed by a certain class, as it is in any exchange between labour and capital." (Ibid.) This last statement is of special relevance for the concept of unequal exchange which we shall look at in a moment.

Marx in the next chapter emphasises that, while he assumes that there will be over-production of capital, "If capital is sent to foreign countries, it is not done, because there is absolutely no employment to be had at home for it. It is done, because it can be employed at a higher rate of profit in a foreign country." He is not concerned with an absolute absence of profitable opportunities for investment appearing to capitalists to be available, but with the need of capitalists to keep up with the going rate of capital accumulation. In other words, although Marx rejects Say's Law, he believed that most capitalists have no choice but to invest the same amount regardless of whether Say's Law is true or not. (See Marx, Theories of Surplus Value - Selections, edn. A. Bonner and E. Burns, 1951, ch. II.4.3, pp. 413-4).

If this provides the core of the Marxist view of capitalism, then concern with the inducement to invest is of little importance for Marxists. Capitalists must, in the Marxist view, either expand or die. The inducement to invest is a Keynesian problem. Marxists will go along with Keynes in his emphasis on the continuing role of the state throughout the Nineteenth Century, as well as in more overtly mercantilist periods. But while Keynesians insist that state support was needed to overcome the chronic tendency in money economies for desired saving to exceed actual investment (Keynes General Theory, Papermac edn. p. 378), Marxists will see an all-round underpinning of capitalist activity (see Robin Murray, "The Internationalisation of Capital", The Spokesman, Nos. 10 and 11, March-April, 1971). Thus, it is a Keynesian view to see the management of aggregate demand in advanced nation states as still further relieving the weakness of the inducement to invest. Marxists will not regard this as changing the outward pressures of competitive capitalism. Capitalists will pick up profit wherever they can and find profitable opportunities of investment wherever they can, but their main effort will be directed to extending and retaining the whole field of their activities. Hence, the emphasis of Marx (Capital Vol. I, ch xvii) and of Rosa Luxemburg (op. cit.) on assimilating pre-capitalist economies does not require very much re-interpretation to be applied to the present day world. There is first the attempt to infiltrate post-capitalist economies and secondly the attempt to extend the field of activity of monopolistic capital into areas occupied by non-monopolistic capital.

It must be said here that much of the confusion in Marxist writing arises from the fact that Lenin built upon the work of Hobson, to whom Keynes pays tribute as a 'pre-Keynesian' (General Theory, Papermac edn. p. 364 ff.) and that Lenin's most famous statement of the causes of the export of capital ... "It goes without saying that if capitalism could ... raise the standard of living of the masses ..." (Lenin, Imperialism, the Highest

Stage of Capitalism, ch. iv. Little Lenin Library edn. p. 57) sounds extremely under-consumptionist note. John Strachey for one in his End of Empire (Ch. vi) never got beyond a 'Hobson-Lenin Explanation' in his understanding of the Marxist view of imperialism and therefore concluded that the coming of the welfare state meant the end of imperialism. Marx's view of capitalism went beyond the problems of sectoral balance and crises of realisation to envisage an enormous expansion of increasingly centralised capital, despite booms and slumps obtaining extraordinary profits from the conquest of the handicrafts industries; and it was just when he was writing about this enormous power that he enunciated his statement of the "new and international division of labour" ... suited to the requirements of the chief centres of modern industry. "It is this association in Marx's mind of the expansionary power of capitalism with the establishment of a new world division of labour that is of most interest for us today. For, if capitalist accumulation is seen as essentially competitive, it would be supposed that competition would continuously break down any artificial barriers to the world division of labour. New centres of modern industry have emerged since Marx was writing about the expansion of British capitalism, and even since Lenin was writing about the division of the world between the Great Powers. We need then to look more closely at the forms which imperialism takes, and particularly at the export of capital and the world division of labour.

2. Forms of Capitalist Imperialism Today

There is abundant evidence of imperialist activity today as the main centres of industry assimilate and transform economies throughout the world to suit their needs. To follow our earlier list, we can identify:

(a) the exploitation of cheap labour - in South Africa, in Hong Kong, in Eire, in South Korea and in many other places where decentralisation of production is encouraged by what Robin Murray has defined as the "labour intensive - low transport cost - low agglomeration intensity" nature of the products. (R. Murray, 'Underdevelopment, international firms, and the international division of labour' in Towards a New World Economy, Rotterdam, 1972). But we should notice Robin Murray's caveat that such products may not be numerous or specially significant. The employment of cheap immigrant labour in Western Europe and Australia provides a new example, which may be of more significance. (see S. Castles and G. Losack, 'The Function of Labour Immigration in West European Capitalism', New Left Review, No. 73, May-June 1972).

(b) the extraction of tribute - to be seen in the annexation of scarce mineral reserves (documented by Harry Magdoff, Age of Imperialism, 1970) and to be seen in the heavy debt-servicing liabilities of most colonies, ex-colonies and other underdeveloped countries, which doubled in the 1960s to a figure almost equal to new borrowing and equivalent to one fourth to one third of their export earnings (Pearson Report, Partners in Development, 1969). But it is important to note that the United States and Australia and other countries that succeeded in developing in the Nineteenth Century suffered a similar burden. How far the highly optimistic comments of Bill Warren on this score ('Imperialism and Capitalist Industrialisation', New Left Review, no. 81, Sept.-Oct. 1973). can be justified will be taken up in section 5 below.

(c) the extension of protected markets - most obviously visible in the establishment of the European Common Market and its associated territories in Southern Europe and North Africa (see 'The EEC and Neo-Colonialism in Africa', <u>Essays on Imperialism</u>, 1972, by M. Barratt Brown) and no less certainly by the United States in Latin America and increasingly by Japan in South East Asia (see respectively K. Griffin, <u>Underdevelopment in Spanish America</u>, 1969 and J. Halliday and G. McCormack, <u>Japanese Imperialism Today</u>, 1973).

(d) the opening up of new opportunities for capital investment overseas - above all to be seen in the investment in oil and natural gas and in other mineral deposits with finite lives, but also increasingly in the world-wide investment activities of the new giant transnational companies. The role of the greatly expanded current export of capital will be discussed in a moment, because it needs to be related to the last of the forms of capitalist imperialism which we have distinguished, viz:

(e) extending the whole field of what is now monopoly capitalism at the expense of less technologically advanced and more competitive areas of capitalism - to be seen in the universal spread of the trans-national companies, their determined retention of existing fields of operation as in Chile, and their penetration even of the markets of the Communist Bloc economies, as in the Fiat and ICI agreements and others.

The question raised by this list of imperialist activities, and particularly by the last two, is whether they are more the result of competitive capitalist accumulation or of deliberate capitalist collusion, either of national capitalist groups or even of capitalists as a whole. Whether the United States hegemony over world capitalism in the years since the war can be replaced by new forms of international capitalist alliance in the future will be discussed below. Associated closely with this question is the doubt we have already expressed as to whether the form that is now taken by the imperialist process of assimilation and transformation of economies is still limited, as it once was, to meeting the needs of the main centres of capitalist accumulation in an artificially maintained world division of labour. The two questions go together. The more competitive the accumulation of capital, presumably the more likely the emergence of new centres of accumulation. The more collusive capitalists are, as national groups or internationally, in trying to retain monopolistic positions the more likely the retention of the established division of labour.

It is worth returning once again to the way Marxists have argued this question. Marx evidently assumed that in the words of the Preface to the first edition of Volume I of <u>Capital</u>, "The country that is more developed industrially only shows to the less developed the image of its own future". And in his writings on India, he spoke of "the means of irrigation" and "internal communication", "the immediate and current wants of railway locomotion" as "the forerunners of modern industry". He was cautious enough to add:

> The Indians will not reap the fruits of the new elements on society scattered among them by the British Bourgeoisie, till in Great Britain itself the now ruling class shall have been supplanted by the industrial proletariat or till the Hindus themselves shall have grown strong enough to throw off the English yoke altogether. (Marx, 'The Results of British Rule in India', <u>New York Daily Tribune</u> July 11, 1853, reproduced in <u>On Colonialism</u>, Moscow, 1950).

This suggests that Marx thought of "the executive power of the state which is simply a committee for managing the common affairs of the entire bourgeois class"

(Communist Manifesto) as being capable of managing Britain's foreign economic affairs, but that he thought this would be to the exclusion of the development of new centres of modern industry must be doubted.

Lenin clearly foresaw industrial growth in the colonies:

> The export of capital influences and greatly accelerates the development of capitalism in those countries to which it is exported, while, therefore, the export of capital may tend to a certain extent, to arrest development in the capital exporting countries, it can only do so by expanding and deepening the further development of capitalism throughout the world. (Lenin Imperialism, Little Lenin Library, p. 59)

Hilferding took the same view, capitalism gradually giving "to the oppressed peoples the means and method of achieving heir own liberation" (Hilferding, Das Finanz Kapital, 1923 ed. p. 406) Rosa Luxemburg was more ambiguous; while the accumulation of capital in the main centres of capitalism she maintained "needs non-capitalist social strata as a market for its surplus value, as a source of supply for its means of production and as a reservoir of labour power for its wage system" (Luxemburg, Accumulation of Capital, 1951 ed. p. 368) yet in describing the effects of the international loans that follow from the main centres of accumulation, she writes "The imperialist phase of capitalist accumulation which implies universal competition comprises the industrialisation and capitalist emancipation of the hinterland where capital formerly realised its surplus value." (Ibid. p. 419) Thus, "the foreign loan played an outstanding part as a means for young capitalist states to acquire independence ... creating new competition for the investing countries." George Lee, in bringing to light the essential element of Rosa Luxemburg's thought that capitalism imperialism was and is a process of assimilation and transformation of economies, tends to assume that assimilate means 'make similar' and that the railway, port and canal building necessarily led to industrialisation and independent capitalist states. In some cases it did, in Europe, in the United States, Canada and Australia, Japan; elsewhere it did not. The export of capital in the Nineteenth Century was for the most part confined to investment in primary production; and free trade maintained an artificial division of labour once established.

If the aim was the export of surplus, as Roza Luxemburg and Hobson and Lenin all insist, why the resistance to the development of industry except in lands of European settlement where 'kith and kin' could not be stopped? There is plenty of evidence of such resistance in India and in Latin America, which implies the collusion and not the competition of capitalists. Lenin, indeed, not only seriously misread the dates of the emergence of monopolies, certainly in Britain, the export of capital and the annexation of territories by the imperialist powers as I have argued elsewhere (After Imperialism, 1970 ed. p. 95 ff.), but evidently held conflicting views about the collusion and the competition of capitalists. In the 1920 Preface to Imperialism, he stated that "In the pamphlet it is proved that the war of 1914-1918 was on both sides imperialist (i.e. an annexationist, predatory, plunderous war) a war for the partition of the world, for the distribution and redistribution of colonies, of 'spheres of influence' of finance capital" (Imperialism Little Lenin Library ed. p. 9). The phrases describe once again a process that involves both the extraction of surplus and the export of surplus. But Lenin insisted that what was being maintained was an artificial division of labour.

"Capitalism has grown into a world system of colonial oppression and financial strangulation of the overwhelming majority of the people of the world by a handful of 'advanced' countries." (Ibid. pp. 10-11). The monopolies need to secure their sources of raw materials; but the national monopoly groups are themselves in bitter competition. "The more capitalism develops, the more the need for raw materials is felt; the more bitter competition becomes and the feverish the hunt for sources of raw materials throughout the world, the more desperate the struggle for the acquisition of colonies becomes." (ibid. pp. 75-6) Lenin's picture, then, is of rival capitalist groups carving out territory for themselves. In peace-time they do this through cartels, but when these break down war breaks out. There seems to be little room for the development of the colonial hinterland in this picture; and at the Communist Internation in 1928, the industrial development thesis or "decolonisation thesis", as it was called, was revised. In a cartel, of course, rivals continue to compete for the accumulation of capital, but they agree temporarily on a division of markets, generally also on prices and wages and always on keeping newcomers out.

Now it has been assumed by those who have followed the 1928 revision that, because there was no possibility under colonial or neo-colonial status for the establishment of independent centres of accumulation, that there was no possibility for economic development or for dependent industrialisation. This was clearly the view of Paul Baran (Baran, The Political Economy of Growth, 1962). But George Lee has demonstrated that such economic development may be possible in what he calls an "assimilating imperialism" (Lee, Journal of Contemporary Asia, Vol. II, no. 1) and James O'Connor and F. H. Cardoso have shown that it actually does happen, at least in Latin America. (O'Connor, "The Meaning of Economic Imperialism" in Imperialism and Underdevelopment ed. R. I. Rhodes, 1970) and F. H. Cardoso, 'Dependent Capitalist Development in Latin America', New Left Review, No. 74, July-Aug., 1972); while Bill Warren believes that the development is not so dependent after all (Warren, Ibid). We shall look at this proposition in Section 5 below. Apart from Warren the general view of writers on Neo-colonialism seems to be that it permits of a distorted and dependent form of development in the periphery, so that the main centres of capital accumulation remain unchanged. What we must first decide is how even this became possible.

It can be demonstrated that the main occasion for the emergence of new industrial areas and new independent centres of capitalist accumulation has been during the periods of war between the imperialist powers. Thus the main development of indigenous capitalist industrial development in India and in Brazil took place in the two World Wars; and much of it was successfully stifled in both countries in between (see A. G. Frank, Capitalism and Underdevelopment in Latin America, 1969 paperback ed. p. 170 and Vera Anstey, The Economic Development of India, 1952 ed. pp. 505-8). The reasons for such war-time development may have been, partly, the breakdown of free trade with transport interrupted, allowing infant industries to flourish; partly, the preoccupations of the combatants allowing a relaxation of metropolitan controls and even some encouragement of independence in the common struggle or at least as an insurance against unrest behind the lines; partly, the active interest of the combatants, each to encourage development 'on their side' in order to augment the means of victory; but, partly perhaps just because in war time the cartels break up and capitalists cease to act in collusion. All these reasons may have their part to play, but if we could determine which if any is the dominant reason, it would help us to understand what relaxation or change of metropolitan interest or power has occasioned the recent spread of industrial development.

There are four sets of variables that we have to hold in our minds in considering the forms that imperialist activity takes in our day

- the competition or collusion of the capitalists involved;
- the closeness of their dependence on their nation states' overseas power;
- the nature of their interest in foreign and overseas economies, as markets or sources of supply;
- the importance or unimportance to them of the less developed economies in respect of inputs and outputs.

Clearly the mix of variables operating to determine the form of imperialist activity today involves a prior question about the nature of the agents of imperialism, the main accumulators of capital, today, which brings us to our third section.

3. The Agents of Imperialism Today

It was Lenin's and Hilferding's view that the national groups of interlocking financial and industrial capitalists, and pre-eminently the 'financial oligarchy', of each capitalist state provided in their day the dynamic of "imperialism, or the rule of finance capital", as Lenin at one point described it. (Ibid, p. 55). And this means, he went on, "the crystallisation of a small number of financially 'powerful' states from among all the rest." (Ibid.) The separation of the rentier from the entrepreneur, to which Lenin ascribes this development, does not in itself suggest an aggressive imperialism. Rentiers are notoriously cautious; but the high financiers with their links in the state apparatus provide Lenin with the evidence he needed. The power of the City of London before 1914 and the "Empires of High Finance" in the USA in the 1920s and the German banks in the 1930s provide similar evidence of the role of finance capital before the Second World War. American, German and Japanese bankers and the merchant bankers of London still play a key role in the accumulation of capital; but today they are at least equalled, and often dwarfed, by the giant trans-national industrial corporations. It is the corporations who are the main accumulators of capital though generating and putting to reserve their own internal funds; and it is they who are the main exporters of capital through their transnational transfer of funds for investment.

In relation to the variables indicated at the end of the last section, we have to decide upon the nature of the 'monopolistic competition', within which they operate, their relationship to the nation states from which they originate, their interest in overseas activities and within this their interest in the less developed economies. Monopolistic competition implies the establishment by large companies of monopoly positions in certain areas and certain products within a general framework of competitive capital accumulation. In extreme form this will amount to oligopoly and even duopoly, but on a world scale very rarely a monopoly, in its proper sense. Cartel agreements may exist, trade associations certainly exist, but the norm is probably some form of gentlemen's agreement of the 'Do-as-you-would-be-done-by' type. Price and wage competition are rare; markets are zoned in some industries, subject to annual review; where a common front needs to be presented to a united group of suppliers like the Oil producing states or the copper producers something like organised cooperation replaces tacit collusion. Competition for sources of finance remains bitter, with an ever wary eye open to the possibility of take-over and merger. This is the picture that emerges from the literature. It may be wrong, and we need more studies; but it suggests a considerable measure of intercompany competition on a giant scale.

It is not of course being suggested that this is the old fashioned competition that leads to bankruptcy or heavy losses when the public's needs are misjudged or costs cannot be cut. Concentration, centralisation, rationalisation and conglomerates of all sorts continue apace, but Raymond Vernons' studies of Restrictive Business Practices for UNCTAD do suggest at the same time an increase in new competing companies at least in the oil business and in mineral exploration. Giant transnational United States firms are increasingly facing the challenge of equally large and equally transnationally operating japanese, German and British firms. (See R. Rowthorn and S. Hymer, 'Multinational Corporations and International Oligopoly: the non-American Challenge', in C. P. Kindleberger, The International Corporation 1970) But this may make for more rather than less competition, as cross-investment brings transnational companies into every market. The picture revealed in the battle of Rolls Royce with Whitney for the world aero-engine market does not suggest a pleasant tea party. What it does suggest, and this leads us on to the next point, is a desperate struggle for state support for the products of particular companies.

Robin Murray has for long argued that the attitude of transnational companies to their nation states of origin is increasingly opportunistic. They rely on them for contracts and for protection and they will lobby hard to get them. But they have no particular national loyalties, they will equally lobby other governments for contracts and protection. In some cases their capital is in fact international or their operations are based on genuine partnerships which cross national frontiers. Investments are made today not only across national frontiers, but across language frontiers and across the traditional spheres of interest of the past; and yet the main concentration of British overseas capital investment remains in the Sterling Area, of West European investment in Southern Europe and North Africa of U.S. investment in the Western Hemisphere and of Japanese investment in South East Asia. (see M. Barratt Brown 'Imperialism in Our Era' in Spheres of Influence in the Age of Imperialism, 1972) Cross investment among the developed industrial countries has changed the whole pattern of capital export, but the old spheres of influence have not been abandoned lightly. Small nation states lose power without doubt to the superstates. Even British capital was forced to join the Common Market; but within the structures of the super states, giant companies may well find that they will not want to lose one base before acquiring another, particularly when for so many big companies the contracts, including military contracts, of the big states are so important to them.

It is evident from Table 1 (overleaf) that the main accumulators of profit, at least in the U.K., are in the manufacturing sector and that this sector also accounts for nearly a half of the overseas investment, although upon less than a third of the overseas earnings. Taken together, manufacturing finance, property, distribution and transport make up some three quarters of all overseas investment by U.K. companies. From this it would be reasonable to conclude that the main interest today of U.K. capital is in markets rather than in sources of supply. The oil companies and agriculture and mining companies are responsible for nearly half of all the earnings from overseas but for only a quarter of the new investment. A major transfer is evidently taking place from investment in raw materials to investment in manufacturing and commerce. The changes even in the period from 1964 to 1970

TABLE 1

Gross Trading Profits, Overseas Earnings and Investments of U.K. Companies, 1964 and 1970 (all figures in £m. annual)

Company Sector and Area	Gross Trading Profits (Quoted Cos. only)		Overseas Net Earnings		Overseas Net Investments	
	1964	1970	1964	1970	1964	1970
All Companies	3621	6437	592	1096	396	652
Manufacturing	2465	3665	182	334	153	292
Oil	293	1003	222	415	133	144
Finance/Property	309	609	68	130	33	72
Distribution/Transport/ Shipping	444	730	78	118	59	108
Agric./Mining	76	310	59	94	14	19
Construction/Other	34	120	3	5	4	17
All Companies (excluding oil Companies)						
In Developed Lands	–	–	233	461	198	384
Manufacturing	–	–	136	245	116	239
Finance/property	–	–	50	103	31	82
Distribution, etc.	–	–	54	69	49	62
Agric./Mining	–	–	14	49	2	11
In Underdeveloped	–	–	137	220	65	124
Manufacturing	–	–	47	89	37	53
Finance/Property	–	–	21	32	6	7
Distribution, etc.	–	–	24	49	10	46
Agric./Mining	–	–	45	45	12	8

Sources: Financial Times Trends in Industrial Profits 12 January, 1965 and 22 January, 1971. Business Monitor M.4. Overseas Transactions, April 1972.

are obvious but the changes from the earlier pattern of investment are even greater (see M. Barratt Brown After Imperialism, p. 153). A similar switch has been taking place in the pattern of United States companies' overseas investment (see Table 2 below)

TABLE 2

US and UK Direct Company Investment, 1930s to 1970s.
– Investment Stock 1930s and 1970s, and Income and Flows 1969-71

Area and Industry	Investment Stock				Investment Income		Investment Flow	
	1930s		1970-1		1968	1969-71	1968	1969-71
	US	UK	US	UK	US	UK	US	UK
Developed (%)	45	40	65	68	45	67*	68	77*
Developing (%)	55	60	35	32	55	33*	32	23*
Manufacturing (%)	24	12	41	43	26	27	50	46
Transport And Distribution (%)	21	53	4	13	7	8	7	15
Agric., Oil & Min.(%)	31	23	37	33	59	45	35	25
Prop. Fin. etc. (%)	24	12	18	11	8	10	8	14
TOTALS	100	100	100	100	100	100	100	100
in millions	$8000	£2500	$65000	£9220	$5000	£1230	$3500	£650

Note* = excluding oil.

Sources: Trade and Industry, 15.11.73; Bank of England Quarterly Bulletin, June 1973; Business Monitor M.4. April 1972; Economic Trends, September 1973.

Side by side with the transfer of funds from earnings on previous investments in raw materials, including oil, to new investment in manufacturing industry has gone the much more widely recognised switch of investment by metropolitan companies from the underdeveloped lands to a sort of cross-investment inside the developed lands themselves. The underdeveloped countries are in the diastrous position of supplying much of the funds for investment that takes place elsewhere. The main increase of British overseas investment in the underdeveloped lands appears, moreover, not to be in manufacturing but in distribution and transport. (see Table 1 above) On the other hand, there is evidence of United States direct company investment moving into manufacturing, at least in Latin America, to which F. H. Cardoso drew attention recently (Cardoso, 'Dependent Capitalist Development in Latin America,' New Left Review, No. 74. July-August 1972) The percentage of US direct investment in manufacturing, he showed, had moved up from under 10% to the total before World War II to 34% by 1968 in Latin America as a whole and from around a fifth to two thirds of the total in Argentina, Brazil and Mexico.

The UK can also show a high proportion of manufacturing investment in Brazil, and in India and Nigeria likewise. The figures are still small however, around £9 millions a year in each. Cardoso, in this connection, makes the point that a quite small investment from the metropolitan country may be combined with quite large local funds and together with internally generated funds lead to a rapid penetration of local markets. Kelloggs was founded in Britain with a capital of £100,000. The proportion of US funds involved in all areas and sectors of investment is not more than 20%, except in oil investment and European mining, and the contribution of local funds has risen to 40% in manufacturing investment in Latin America and other underdeveloped regions. Bill Warren, using the UNCTAD studies of Raymond Vernon, has carried the argument much further to demonstrate the increasing proportion of subsidiaries of US based multi-national enterprises which are jointly owned, often with a majority local holding in underdeveloped countries, especially in Latin America, but in Asia and Africa also; and at the same time he has emphasised the considerable success of these manufacturing subsidiaries in reducing payments for foreign services, materials and capital (to less than 15% of total sales) and in expanding exports (Warren op. cit.)

The conclusion of Bill Warren's argument is that the combination of rapidly expanding manufactured output and exports from the jointly owned subsidiaries in underdeveloped lands of the transnational companies, together with the growing power of governments in these countries to control the movement and pricing of goods and capital, implies a breaking down of the artificial world division of labour, establishment of new and independent centres of industry and of capital accumulation, and thus, in his most startling phrase, "Imperialism declines as capitalism grows". The basic assumption must be that the giant transnational companies are unwilling or unable to combine or even to collude or to act in other ways, as in the past, to keep out newcomers, using either the structures of cartels or the arms of their nation states to these ends. If they are unwilling to combine this implies a highly competitive world, albeit of giant competitors, such as Marx would have expected to lead to just the establishment of new centres of capitalist industry that Bill Warren postulates. If they have not the power, this implies either a break in the links between companies and their states of origin or a relative weakening of the power of the main erstwhile imperialist states in relation to other nation states whose power has been developing. In either case, the implication is of a growing challenge to the post-war hegemony of United States capital and United States political and military power over the rest of the capitalist world.

4. The End of United States' hegemony over the Capitalist World

The growing challenge of Western Europe and of Japan to the United States domination of the capitalist world since 1945 has been widely noted. (see particularly Ernest Mandel, Europe versus America, 1968) The question of what is to follow has been raised by Bob Rowthorn (Rowthorn, 'Imperialism in the Seventies: Unity or Rivalry', New Left Review, No. 69, Sept./Oct. 1971) A new unity is expected by those, mainly American Marxists, whom Mandel dubbs 'Third Worldists', because they see the main contradictions of capitalism today in the struggle between United States imperialism (and its lackeys) and the people of the Third World. Rivalries between capitalist states and between capitalist companies are secondary, on this view, and will always be subordinated to the major aim of perpetuating the exploitation of the poor world by the rich. Hence the picture of the supposedly conflicting interests of the rich workers in the USA and the poor peasants of the Third World. We shall return to this picture in Section 6 below. So long as the USA was the dominant capitalist power such unity seemed plausible enough, just as it was in the nineteenth century when Britain's expire was dominant. Uneven development undermines its plausibility, as Mandel points out, not only because of the recovery of old imperialist rivals, but because of the emergence of new centres of capital accumulation. (see Mandel, 'The Laws of Uneven Development,' New Left Review, No. 59, Jan-Feb. 1970) The breakdown of the post-war international monetary system in 1971, the enforced devaluation of the dollar, the revaluation of the Yen and the Mark, and the subsequent failure to establish a new international money, to re-establish fixed exchange rates or prevent a Dutch auction in interest rates, reveal the deep divisions between the capitalist states. In gang warfare between super-states, British capital was forced to join the European gang. But these divisions and failures of nation state policy reveal also the independent power of the transnational companies, whose pricing policies and movements of short term and long term funds the nation state governments are powerless to control.

If the new power of nation states like India or Brazil or Nigeria has now to be recognised, as Bill Warren suggests, their weakness and that of many of the older nation states before the power of the multi-nationals has also to be recognised - and this weakness Bill Warren has most strenuously denied (Warren, 'How International is Capital?', New Left Review, No. 68, July-Aug. 1971). No-one will deny the very great power of the super-states - the USA, the EEC, Japan, and not forgetting the Soviet Union and China. One obvious scenario for the future is the continuing rivalry between these super-states, with the transnational companies based within each of them encouraging their "own" super-states to give them protection and to provide privileged opportunities for their inputs and outputs in their "own" spheres of interest - as we suggested earlier - the United States in the western hemisphere, the EEC in Southern Europe and North Africa, Japan in South East

Asia, the Soviet Union in the Middle East and India. It is quite possible to imagine continuing industrialisation of the kind Bill Warren has indicated under such a division of the world, but it would have to be the result of deliberate encouragement by the super-states of what might be called 'back-garden development'. What would be ruled out would seem to be the competition of the transnational companies right across the world's markets and the independence of action of the newer states in the underdeveloped world, on both of which the survival of Bill Warren's picture of capitalist industrialisation would seem to rely.

An alternative scenario to those of unity or rivalry in the imperialism of the Seventies is one that Rowthorn refers to in Kautsky's phrase of 'ultra-imperialism', which Lenin so fiercely attacked in his Imperialism. Rowthorn suggests that this would either be in effect a new unity under United States leadership or an impossible, Utopian agreement to make international aid a reality. To those of us who said in the 1930s that the idea of national capitalists agreeing to maintain full employment by Keynesian measures of aggregate demand management was utopian, such talk of the impossibility of international agreements has a hollow ring. Of course, short of world government, it will be more difficult to persuade capitalists of many nations that international welfare state measures are preferable to revolution and that each will benefit by paying higher taxes from the larger cake that will be baked. But, since the capitalists are now increasingly operating trans-nationally and have much experience in getting governments to do their bidding, Keynesian measures on a world scale do not seem to me to be at all 'utopian' or 'impossible'. (I have argued the point at length in From Labourism to Socialism, 1972, p. 139 ff.) And my reason is not at all my belief in the altruism of international capitalists, any more than I believe it was capitalist altruism that maintained full employment for twenty-five years after World War II in the developed capitalist countries; but rather my belief in their self-interest, in the face of rising working class and peasant power. As Bill Warren reminds us they have already made major concessions to national capitalists in underdeveloped countries.

My answer to Bill Warren's aphorism is that the growth of capitalism is not the decline of imperialism but the meaning of imperialism. Competition for capital accumulation remains. Centralisation of capital has not appeared historically to preclude a small increase in the number of centres. Nor does the spread of capitalist industrialisation necessarily preempt the emergence of socialism; it may, as Marx expected, be a necessary condition for human beings to recognise and find the way to end their alienation by commodity production. This is a point we must return to in the last section. In the meantime, it is necessary to estimate the strength and vitality of the economic development that is taking place in the underdeveloped world today.

5. Development in the Underdeveloped World

Once again, as in the case of the nature of the activities of the transnational companies operating in underdeveloped countries, so in studying the real nature of economic development in these countries, much more empirical work is needed. What follows will be limited to suggesting reasons for believing that, while A. G. Frank has exaggerated the 'underdevelopment of development', Bill Warren has reacted too far in the other direction. No-one now denies the facts of the quite considerable measure of industrialisation proceeding in the underdeveloped countries over the last two decades, at a rate of growth of industrial output at least as fast as that in the developed world. Incidentally, Bill Warren stops the figures in the Tables I and II that he presents to show post-war growth of industrial output in different continents at the end of the 1950s. Up till then the underdeveloped countries had been expanding output at a faster rate than the developed countries and this trend continued until 1965, but there was evidence of the underdeveloped countries falling behind again thereafter in face of booming conditions in the developed world and especially a very much faster growth rate in the United States. (Table 4.2 on p. 101 in my From Labourism to Socialism, based on United Nations statistics gives the figures up to 1970). The evidence Bill Warren cites for particular countries and for the structure of manufacturing and manufacturing employment in the economies of the underdeveloped countries does nevertheless quite definitely indicate a real and viable basis of industrialisation in many of the underdeveloped countries in the capitalist world.

Bill Warren recognises, of course, that because of rapid increases in population, per capita growth rates in underdeveloped countries fall far behind those in the developed countries; and he rightly argues that, although this creates great problems for the developing countries, it is the growth in output that is the best indicator of sustainable growth in the future. What he does not discuss is the very serious failure of agricultural output and especially of food production to keep up with industrial output in underdeveloped countries and especially in Africa, where it has fallen below the rate of growth of population. (United Nations Statistical Yearbook, 1969, Special Table, p. xxv.) What must be said here, however, is that those countries with the most rapid rate of increase of industrial production have also maintained an above average rate of increase of agricultural production. (see M. Barratt Brown, The Economics of Imperialism Penguin, forthcoming.) The main criticism of industrial development as it has been occurring in the underdeveloped countries is that it is a dependent and distorted form of development. This was the argument of Cardoso which we considered earlier and Bob Sutcliffe has sought to specify the nature of dependency by four criteria, which Bill Warren subjects to critical analysis. These are that development should be based on the home market, should encompass a wide range of industries, should not be reliant on foreign finance that cannot be controlled and should be based on independent technical progress. My own single criterion that development should lead to the establishment of new centre of capital accumulation will be assumed to be equivalent to the third criterion.

Taking these criteria one by one, the evidence that Bill Warren produces for the first, that development should be based on the home market did quite frankly throw me, especially after the massive statistics given earlier in his article to demonstrate the export achievements of the manufacturing subsidiaries of United States multinational companies. According to the United Nations Industrial Development Organisation "not more than one tenth of the expansion of manufacturing in underdeveloped countries was accounted for by foreign demand" (Warren ibid. p. 17). Unfortunately I do not have the figures on which the statement is based, but I think it might be possible that the small countries with the highest rates of industrial development like Hong Kong, Taiwan and South Korea had the highest proportion of manufactured output going to export or to the American forces, while large countries like India had lower rates of growth but higher proportions of industrial output going into the home market. In relation to the second criteria, the diversification of industry into the capital goods and intermediate product sectors, the evidence of the United Nations Industrial Development Organisation which Bill Warren deploys is impressive; but once again, without the weightings of the figures given, I wonder whether the weight of the larger and slower growing economies like India and Brazil and Argentina is not being thrown into the balance to make the faster growing economies like Taiwan and South Korea appear more impressive. I am not in the least impressed by the examples that Bill Warren gives of transport equipment and electrical machinery as examples of diversification into capital goods and intermediate industries.

The crucial question about reliance on foreign finance is argued at great length by Bill Warren in terms of the bargaining power of nation states with transnational companies over their national resources and over the joint ventures established with them in manufacturing. What is said runs entirely contrary to all the arguments put forward by the Group of 77 Non-aligned underdeveloped countries in their Lusaka Declaration and Action Programmes signed at Georgetown and Algiers. But allowing for the possibility that these statements are no more than useful propaganda to sustain their bargaining positions, there are a number of facts to be taken into account in the financial relations of the underdeveloped countries with the developed, which Bill Warren only considers in the wider context of his critique of "Imperialism as a world system". The first of these is the "excellent export performance", which Bill Warren attributes to the underdeveloped countries, revealed in statistics he gives of their balance of payments in the 1960s and their consequently burgeoning international reserves. Once again, the aggregation of figures allows a few large pluses from quite small countries to outweigh the minuses from the very large countries. In this case the aggregate picture is particularly misleading because throughout the 1960s just six underdeveloped countries with quite small populations - Saudi Arabia, Israel, Kuwait, Malaysia, Thailand and Venezuela - accounted for a half of the reserves of all the underdeveloped countries. For these six reserves covered nearly the whole of their annual import bill, whereas for all the rest of the underdeveloped countries the ratio of reserves to imports was 17.5% compared with 29% for the developed countries. (for details see Table 4.10 on page 133 of <u>From Labourism to Socialism</u>) Even in the 1970s when the position of some of the other underdeveloped countries has improved, these six countries account for over a third of the total reserves of the underdeveloped world.

Bill Warren makes much of the increased export volumes of the underdeveloped countries, their improved terms of trade and particularly the increase in their exports of manufactures. But he fails to make comparisons with the developed countries. Had he done so, he would have had to show that their share of the world trade declined between 1955 and 1972 from 25% to 17%, that their share of primary product exports declined over the same period from 60% to 55%, that their share of manufactured exports declined from 8% to 6%, that the share of their main stock in trade, primary products declined as a proportion of world trade from 52% to 33% and that the terms of trade for primary products in relation to manufactures declined from 111 in 1955 to 99 in 1972 (1913 = 100). There has certainly been a remarkable recovery in the prices of raw materials and foods over the last eighteen months, but this had not led to any improvement in the terms of trade of the underdeveloped economies in relation to the developed by the middle of 1973 according to United Nations statistics, which exclude petroleum. (United Nations Monthly Bulletin of Statistics, October 1973, Special Table b. and for details see <u>GATT Helps those who help themselves</u>, edited M. Barratt Brown, Spokesman Books 1973).

H. B. Chenery and World Bank reports are quoted by Bill Warren to show that the underdeveloped countries with high capital inflows not only had the fastest rates of growth but also "succeeded in reducing their dependence on capital inflows after a decade or so." (Warren, op. cit., p. 38). The fact that they were also countries with small or relatively small populations and with resources or strategic positions of special interest to the metropolitan powers is not mentioned. Let me make it clear at this point what I am saying in criticising Bill Warren's argument, and first of all what I am not saying. I do not disagree with Bill Warren that there has been a major increase in industrial and general economic development in the underdeveloped countries in the last two decades; indeed, I have been pointing this out for some time myself; and I agree that this is of course capitalist development. What I am saying is that this development is tied in to the main centres of capital accumulation. It is not impossible that a new centre or new centres of capitalist accumulation may be established; but it will be very difficult. It is worth recalling the very great difficulty that Australia had in establishing self-sustaining growth. Apart from a spurt in the first World War, Australia suffered from virtual stagnation between the 1880s and 1940s. It has already been suggested in this paper that, since the main centres of capital accumulation today are not to be seen in national territorial terms but in terms of transnational companies, the possibility of new geographical centres of accumulation being established is now much greater than it was. For many reasons that are quite clearly understood by those concerned with regional problems in developed capitalist countries, the encouragement of development in underdeveloped and declining regions alike is very difficult. The pull of the main centres of population with the highest spending power upon the movement of capital is extremely hard to offset.

What this amounts to is that capitalism does develop, but it develops by establishing dual economies. This is the thesis which I put forward some years ago (see <u>Essays on Imperialism</u>, p. 144 ff) and have developed at length in <u>The Economics of Imperialism</u>. This is not a concept of dual economy, in which there are no movements of factors between the two sectors, nor one in which labour moves from the backward to the advanced sector but capital is immobile. It is rather a concept of dual economy where capital is mobile but labour moves only with difficulty and without the power including the training required to participate fully in the advanced sector of the economy. This is then characterised by two sectors - a high wage, high profit sector in large plants of transnational companies and a low wage, low profit sector mainly in small local plants outside. These two sectors may have an international territorial articulation or an internal articulation, as in the North and South of Italy. Developing economies like those of Italy or Japan are particularly obvious cases of dual economy in this sense (see S. Broadbridge, <u>Industrial Dualism in Japan</u>, 1966 and V. Lutz, <u>Italy: A Study in Economic Development</u>, 1962) Only massive state intervention to transfer wealth from the rich to the poor sector can overcome the cumulative processes at work in perpetuating such divisions. It is quite illegitimate for Bill Warren to quote "Britain's cotton led industrialisation ... characterised by low real wages at home and massive exports abroad ... (as) evidence ... that this is a perfectly possible path of development for some countries". Britain's cotton industry led the world technologically and had no competitors, but only a world of primitive handicrafts in which to sell its products.

The gap between the two sectors of a dual economy is basically the result of differences in productivity and technology. This is the last of the four criteria by which Bill Warren set out to judge the relative independence of the industrial growth in underdeveloped countries - that of establishing "independent technological progress." Bill Warren's first argument is that capital goods industries are being established in the underdeveloped countries and that the learning process in using them will soon generate independent technological research and development. We have already questioned the extent of the spread of capital goods industries; but the examples which Bill Warren gives from A. J. Meyer's studies of Middle Eastern Capitalism (Harvard, 1959) are undoubtedly impressive. When Bill Warren says, however, that "the process of building up a capital goods industry automatically involves importation of the latest capital goods from the imperialist countries" I should like to know whether this is true. Representatives of underdeveloped countries frequently complain that this is not true (see a whole number of papers submitted to a Symposium in Delhi in March 1972 on Imperialism, Independence and Social Transformation in the Contemporary World, to be published.) I have myself heard a director of Tootal International, which has subsidiaries weaving textiles in thirty countries, describe the 'sequencing' of their textile machinery as it is 'passed down the family' over the years from country to country, at different levels of technological progress. It is this which gives the varying levels of labour productivity in weaving in different countries ranging from a base of 100 in the USA, through 61 in the UK, 46 in West Germany, 36 in France, 33 in Holland to 23 in Hong Kong. It is not then the original wage level that determines the terms of trade as Emmanuel supposes (See Unequal Exchange). We need to collect much more evidence of this sort; but on a first judgement it seems to be the case that different levels of technology require a whole infrastructure of education, repair facilities etc; and although countries can and will move up the ladder, here is the evidence for Robin Murray's concept of a hierarchy of technologies. This is not easy to alter; and is certainly not altered, as Bill Warren suggests, just because of unequal rates of growth. The example of Japan, which he quotes, does not prove his point. Japan is not a newcomer to industrialisation, but began to industrialise after 1870. It has taken a long time and there are still very few advanced industrial capitalist countries in the world - about a dozen with less than a fifth of the world's population and more than half of the income. Capitalism has spread, monopoly capitalism has spread over most of the world, and industrial development has taken place outside the main centres of capital accumulation, but reluctantly and slowly because of the artificial division of labour that capital accumulation and centralisation creates. With the establishment of competing and footloose giant companies as the chief accumulators, and with growing consciousness among the peoples of the underdeveloped world of the situation they are in and their potential for development the pace has quickened. The division of labour, the dual world economy, very largely remains, except for those countries - China and the Soviet bloc - which have more or less escaped from it.

6. Antagonism or Solidarity between peoples of rich and poor countries

This last section must be brief and highly speculative. I have argued elsewhere and at length that there never were great advantages to be derived from imperialism for the great majority of the people in the imperial countries who had to fight the wars, pay the taxes and suffer the slumps, without the benefits of imperial posts or dividends from imperial companies. (see Essays on Imperialism, p. 79 ff). I do not intend to rehearse the arguments here. This section is concerned with the future. I believe that there are four crucial propositions that have emerged from the preceding discussion:

(a) the main divisions today between rich and poor consist not in international divisions, between nations, but inside each nation between rich and poor sectors of the national economy;

(b) these divisions between advanced and backward sectors widen with changing technology, despite a continuing hierarchy of technologies in the international division of labour;

(c) divisions between competing centres of capital accumulation now occur not so much on a national basis, as on a company basis, in the competition between trans-national companies;

(d) since transnational companies are fairly opportunistic in their attitude to nation states, they will insist on either super state or inter-state agreements which protect and advance their transnational interests.

From these propositions I draw four conclusions for the future prospects of cooperation or conflict between the peoples of the world:

(i) Since the identity of national interest and capitalist interest is no longer self-evident, it is not available for overlaying class interest;

(ii) Strong common interests will continue to grow across national frontiers inside the transnational corporations at managerial, technical, and even at lower levels;

(iii) The gap between the interests of rich and poor inside each nation state will widen, but the rich will include a large working class élite in the sector of advanced technology inside the transnational companies;

(iv) the spread of capitalism and of monopolistic competition throughout the world will continue to leave great areas of the world with huge populations at very low levels of development;

(v) State capitalism managed by five super states, including even some element of international management, in the interests of the elite groups everywhere holds out a bleak prospect for the rest of the community unless new forms of unity and solidarity in human cooperation can be created which overturn and replace the workings of a commodity economy.

CSE CONFERENCE ON MONEY AND INFLATION

Hugo Radice

About seventy CSE members took part in a weekend conference on money and inflation in Bath on November 24th and 25th.

The conference began with two papers from Jan Kregel and Adrian Winnett which sought to define a 'radical Keynesian' approach to money. Jan Kregel emphasized that such an approach would see money as inextricable from a 'real world economy' of production and exchange, in which time and uncertainty are all-pervasive features but by no means the sole basis for the existence of money. Adrian Winnett then outlined and criticized the recent work of Davidson and Leijonhufud, emphasizing the systemic [sic] nature of uncertainty and misinformation in a capitalist economy. The discussion of the papers covered a wide range of points, including the alternative view that Kalecki and Joan Robinson are the real 'radical Keynesians': unfortunately few of us were sufficiently familiar with bourgeois monetary theory to contribute very much.

The second session was on more familiar ground, with Bob Rowthorn discussing Marx' theory of money, essentially by summarizing the arguments in 'Capital' and 'Contribution to a Critique of Political Economy', including money and exchange, the functions of money, the quantity of money, money-capital and credit-capital, and interest and profit. The discussion hinged on the extension of this analysis to an inconvertible paper-money system, which Marx himself did not carry through; in particular the link between such a system and pervasive inflation at national and international levels, the role of gold as international commodity-money, and the nature of state control over money.

On Sunday we heard and discussed two papers on inflation. George Zis presented what can very loosely be termed an 'international monetarist' explanation for world-wide inflation in recent years: U.S. payments deficits led to excessive world liquidity which was transmitted by international trade and production flows into universal domestic inflation. Pat Devine presented (putting it equally loosely) a 'class-struggle' explanation for inflation in a national economy, focussing on contradictions between capital and labour in a context of increasing state-intervention, trade-union strength, stagnation, and transmission of inflation internationally. The discussion was far-reaching and interesting, covering both questions of method and approach and concrete issues of the international monetary system, wage and price movements, taxation, etc. After the conference closed, Hugo Radice gave an informal and brief seminar on the concept of finance capital in Marxist work, raising in general the question of the structure and movement of capital as necessary areas of analysis in approaching inflation and other aspects of contemporary capitalism.

We hope that some of the papers presented will be submitted to the Bulletin: otherwise, we shall arrange for copies to be available from CSE - see next Newsletter for details. We are very grateful to Christine Downton and Adrian Winnett for organizing the conference.

THE POLITICAL ECONOMY OF HOUSEWORK*

John Harrison

> Housework produces no surplus value: that is a different condition from that of the worker who is robbed of the surplus value he produces. I want to know exactly what is the relationship between the two. The whole strategy of the women's struggle should depend on that.
>
> (Simone de Beauvoir, interview in 'Seven Days' 8 March 1972)

This essay is an attempt to answer Simone de Beauvoir's question. It aims, first and foremost, to provide an analysis of the appropriation of surplus labour performed in housework; that is to locate the groups or classes who are the beneficiaries of such surplus labour and to isolate the mechanism by which the labour is appropriated.

The debate about the appropriation of surplus labour in housework has encountered many of the same problems, and been plagued by many of the same confusions, as the debate about the nature and causes of underdevelopment within imperialism. Thus there are similar polemics about whether production in the periphery and in the home is of a feudal or capitalist nature, and about whether capitalism could survive without feeding off housework or the Southern Hemisphere. Similarly a section of both 'third-worldists' and feminists argue that the male metropolitan working-class is no longer a revolutionary force because it is living off the backs of blacks or women.

This, at first sight strange, parallel development has occurred largely for two closely interrelated reasons. The first of these is that the two areas of study have an essentially similar central object of analysis; that is the appropriation of surplus labour which is not performed under capitalist production relations. The second reason is that the participants in the debates have frequently failed to recognise, and hence specify, this object clearly. Specifically, they have often confused the question of whether or not the labour is performed within the world capitalist system with the question of whether it is performed under capitalist production relations. In other words they have failed to distinguish the capitalist <u>mode of production</u> from capitalism as a world socio-economic system in which the capitalist mode is the dominant, but not the <u>exclusive</u>, mode of production.

The first part of this essay is, therefore, devoted to a discussion of the concept of a mode of production and the relations of modes of production within an economic system. It argues that housework is a distinct, though subordinate, mode of production. The second and third parts then discuss the conditions under which surplus labour is performed in housework, the possible beneficiaries of such surplus labour, and the mechanisms of appropriation. The final part then outlines some political implications of the analysis.

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*This analysis is very much influenced by two papers by Bob Rowthorn and by Balibar (see references). I should like to thank Ric Brandon, Jean Gardiner, Andrew Glyn, Anne Phillips, Tim Putnam, Bob Sutcliffe and Nick Totten for helpful comments.

1. HOUSEWORK AS A MODE OF PRODUCTION

(a) The concept of a mode of production

The concept of a mode of production is central to historical materialism and its formulation, constitutes one of Marx's major theoretical achievements. Defined most generally it is the way in which men and women produce useful things, or, more accurately, the social relations under which the production of use-values takes place.

A mode of production is composed of two distinct spheres or levels. One is the level of the labour process itself. That is the manner in which the actual physical production of use-values takes place, or the mode of the transformation of nature. The other level is that of the distribution of use-values produced, or the mode of the appropriation of the product. These two levels are relatively autonomous; that is neither one can be reduced to, or deduced from, the other.

These two levels are frequently confused with the forces and relations of production. The forces of production, interpreted in a narrow sense as comprising machinery and 'scientific know-how' only, and hence as excluding social relations, are often equated with the level of the transformation of nature. Social relations are then seen as being involved at the level of the appropriation of the product only. This is a serious misunderstanding of Marx's analysis.

Both levels of a mode of production involve social relations and the specification of the essential characteristics of a mode of production involves, indeed amounts to, the specification of these relations. The social relations at the level of the appropriation of the product are property relations. The direct producers may either own or be separated from ownership of the means of production. Both ownership and non-ownership may take different forms (e.g. ownership may take either an individual or a collective form).

It should be noted that this relation is one within the mode of production - that is within the economic sphere of the total social formation. The terms 'ownership' and 'property' should therefore be interpreted as designating economic control (the ability to put to productive use) rather than formal legal ownership. Legal relations are determined in the last instance by economic relations but they have relative autonomy. There is thus no necessary one to one correspondence between legal and economic property relations and the former cannot be reduced to the latter in any simple mechanistic fashion. Both the fact that there is a fairly close correspondence between economic and legal ownership in contemporary societies in which the capitalist mode of production is dominant, and that the distinction is not reflected in everyday language, make it difficult to think the difference between economic and legal property rights clearly.

The social relations at the level of the transformation of nature are also relations between the producers and the means of production, but they are not property relations. They are the manner in which the producers combine with the means of labour (tools, machines, etc.) to operate on the object of labour (raw materials) and transform it into a product. The direct producers may be separated from the application of the means of labour, in the sense that they do not control the nature and pace of their application, or they may be united with the means of labour and have control over how they are applied to the object. Separation and non-separation from control of the application of the means of labour may again take different forms (e.g. individual or collective control).

The laws of motion of a mode of production are the laws governing the development and interaction of the two levels.

An example: The capitalist mode of production

The social relations at the level of the appropriation of the product are relations of separation under the capitalist mode of production. The capitalists, not the direct producers, own the means of production.

The form that this relation of separation takes is that of free commodity exchange. Individuals confront each other in the market as owners of commodities with equal rights to sell their wares and with no extra-economic compulsion to sell to any particular buyer, or at any particular price. This free exchange is regulated, via the competitive mechanism, by the law of value - so that commodities tend to exchange at rates which are a function of the socially necessary labour time involved in their production, and labour tends to be distributed amongst the various branches of production in accordance with demand requirements.

The freedom and equality of commodity exchange is of a limited character, of course. The labourer is free to exchange his particular commodity, labour-power, with whichever capitalist he wishes but, since he has no other means of livelihood, he is forced to sell to some capitalist. Similarly, the capitalist has to convert his commodities into money if he is to reproduce his capital and remain in business.

Nevertheless, freedom of exchange is real. It is not an illusion which masks the real relation of separation but the actual <u>phenomenal form</u> which this relation takes under the capitalist mode of production. This is important for two reasons. Firstly it means it is not possible to understand and condemn the phenomenon of exchange by examining single acts of exchange. The sale of labour-power by an individual worker is, or maybe, an act of free and equal exchange. It is only by examining the reproduction of the mode of production, that is not only the physical replacement of use-values, but also the reproduction of the social relations, that it is possible to understand that free commodity exchange is the form in which the real relation of separation is expressed and maintained. The cycle of capitalist production reproduces not only means and objects of labour but also the class of free labourers who have no option but to again exchange their labour-power with capital because they have no other means of livelihood.

Secondly, the reality of free commodity exchange does represent, in certain respects, a real advance over previous modes of production. It means that, at the level of the appropriation of the product, the direct producers are free from the kinds of extra-economic coercion, often violent, which were characteristic of many previous modes of production.

No such freedom from extra-economic coercion exists in the process of transformation of nature under capitalism. Once the worker has sold his labour-power for a specified period it belongs to the capitalist, who gives orders about how production is to be carried out. The labourer's capacity for work, his labour-power, becomes quite literally a part of capital owned by and under the control of the capitalist. Decisions about such things as the pace and intensity of work, the extent of the division of labour within an enterprise and, the order in which the various tasks are carried out, are taken by the capitalist. Thus the direct producers are separated from the means of labour, in the sense that they do not control the way in which they are applied.

Thus the forms which the social relations of the transformation of nature take under the capitalist mode of production are far more directly coercive than those taken by the relations of the appropriation of the product. The labour process is characterised not by the freedom and equality of commodity exchange, but by a lack of freedom and equality and the undisguised excercise of authority and control by the capitalist.

(b) The Housework mode of production

In contrast to the capitalist mode of production relative freedom exists in housework at the level of the transformation of nature. The housewife can, in general, apply her means of labour as she wishes. No-one exercises authority and control over her movements during the work process and she can determine her own pace and rythm. There are, of course, constraints on how slowly she can work if she is to get everything done but these constraints are either truly natural (i.e. imposed by nature and not by the form of social organisation) or, if they are social, they are external to the mode of production (e.g. imposed by the demands of the capitalist sector in which her husband works). They are thus qualitatively different to the social constraints on the worker's ability to choose his pace and manner of work imposed within the capitalist mode of production by the authority of the capitalist.

In this respect housework resembles the petty commodity mode of production, in which artisans own their own means of labour and individually produce commodities for exchange. Further in both housework and petty commodity production there is a very low degree of socialization in the production process itself, and virtually no internal division of labour. In contrast to petty commodity production, however, there is almost no specialisation in housework. By and large the same tasks are performed in all homes.

Housework also differs crucially from the capitalist mode of production at the level of the appropriation of the product. Unlike proletarians, housewives are not separated from ownership of the means of production. They usually have full economic ownership, in the sense defined above. This is frequently not reflected in the legal sphere, however. In societies in which housework coexists with the capitalist mode of production the legal sphere reflects, in general, the economic relations of the dominant, capitalist mode. Legislation, based on the principles of property rights and contract, reflects the needs of commodity production, rather than housework. Hence the husband is frequently the legal owner of the housework means of production because he is the owner of the commodity, labour-power, which the housewife's production contributes towards the maintenance of.

Unlike both the capitalist and petty commodity modes of production the use-values produced in housework are not produced for exchange. They are consumed within the family rather than being sold on the market. Thus they do not take the form of commodities and housework is not commodity production.

It is necessary to stress this point because a number of analyses of the relationship between housework and capitalism argue that housework produces the commodity labour-power.* This is a confusion. Housework produces use-values which enter into the subsistence of the worker, just as commodities produced within the capitalist sector provide elements of his subsistence. To say that the housewife produces labour-power because she contributes towards its maintenance and reproduction is like saying that a capitalist who produces food or clothing which workers consume is in fact producing labour-power. This is quite untenable.

Consider a weekly housework 'cycle'. At the beginning of the week the housewife receives some money from her husband's wage packet. She spends this on consumption goods for herself and on non-labour inputs for housework. The latter includes both raw materials which will be entirely used up during the cycle (e.g. most foodstuffs), and "machinery" (e.g. a washing machine) which lasts for a number of cycles.** During the week she transforms the raw materials into different use-values by means of her labour and other means of production. The products are consumed by the family over the same period. The husband then receives another wage packet, hands some of it over to his wife, and the cycle begins again.

Note that this cycle is not the same as a production period. The production period is, for most purposes, the most interesting time period to consider when analysing commodity production because it is the period over which the system reproduces itself. The capitalist, for example, advances money at the start of the production period for constant and variable capital, transforms this into commodities, sells them for more money than he advanced and then, in turn, advances this money as capital. This correspondence between the production period and reproduction cycle does not exist in housework. The products are not sold and do not themselves provide all the necessary inputs for the next production period. The husband's wage is required to buy fresh inputs. The reproduction cycle of housework is thus related to the capitalist production period, rather than to its own. This is because the housework mode of production does not reproduce itself independently - its reproduction is dependent on the reproduction of the capitalist mode.

It should be clear that production in housework is carried out under very different social relations to capitalist production. In other words that housework is a mode of production quite distinct from the capitalist mode. However, in that its reproduction is dependent on the reproduction of the capitalist mode, it is something of a truncated mode of production with an unusually complex, symbiotic relationship to capital.

(c) The Relations of Modes of Production within an Economic System

Real economic systems usually contain more than one mode of production. The co-existence of different modes of production is most obvious in times of

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*See, for example, Della Costa.

**It is interesting that typical family accounting makes the distinction between final goods and inputs to the housework production process (at least crudely) by distinguishing 'housekeeping' from 'spending money'.

transition from a social system, or formation, in which one mode of production is dominant to another social system in which a different mode is dominant (e.g. the transition from feudalism to capitalism, or from capitalism to socialism). However, even in times of relative stability when one mode of production is dominant and the society can be clearly classified by reference to that mode (e.g. the contemporary UK as a 'capitalist' society) it is seldom the only mode under which production takes place*.

In the UK today, for example, a part of the economy - the self-employed section - still operates under the petty commodity mode of production. At the time Marx wrote 'Capital' it was of considerable numerical importance. He nevertheless felt justified in leaving it out of account when searching for "the laws of motion of modern society" because he regarded it, clearly correctly, as a remnant of an earlier economic system which would be swept aside, by and large, by the capitalist mode of production. We can call a mode of production in such a relation to the dominant one a vestigil mode.

Not all numerically insignificant modes of production are vestiges of previous economic systems. Some of them are the forerunners of future ones. Under late feudalism mercantile capital was still a relatively small part of total production but a vitally important part for the future development of society. Following Marx's metaphor of force as a "midwife" to the birth of a new society we can call a mode of production in this relation to the dominant one a foetal mode.

Finally there are modes of production which, whilst not being dominant, are neither relics of the past nor visions of the future. They are either created or co-opted by the dominant mode to fulfil certain functions within the economic and social system. They are dependent for their survival on the continued existence of the dominant mode because their reproduction is bound up with the reproduction of that mode. Within capitalism, perhaps especially late capitalism, housework and large areas of state activity should be seen in this way. Let us call these client modes of production.

2. HOUSEWORK AND SURPLUS LABOUR

(a) The Value of Labour-Power

> The value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production and consequently also the reproduction of this special article ... therefore the labour time requisite for the production of labour-power reduces itself to that necessary for the production of those means of subsistence ... (Capital Vol. pp. 170-171.)

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*The dominant mode of production is the mode that has the greatest influence in determining the structure and development of the total social formation. It is not necessarily numerically predominant. In the contemporary UK, for example, it is very likely that more labour time is involved in housework than in any other mode of production. (Remember that not only full-time housewives but also working men and women, retired people and children do housework. Also not all wage labour is performed under the capitalist mode of production. Many people work for the state).

There are three important things to note about the value of labour-power as defined by Marx. First in order to know the value of labour power you must know both the existing techniques of production and the subsistence requirements of labour. Only be knowing both the bundle of goods to be produced and the techniques available to produce them can you calculate the labour time necessary "for the production of those means of subsistence". Since Marx has a social rather than a biological conception of subsistence (the "moral and historical element") the bundle of goods cannot be established by estimating physiological requirements. It is what is socially, rather than physically, necessary to ensure the continued existence of the class of free labourers.

When capitalism is first established the subsistence requirement of labour are given, more or less, by the standard of living provided in the other modes of production from which workers are displaced and which continue to coexist with the capitalist mode on a large scale. The value of labour-power is then the socially necessary labour time involved in producing these goods within the capitalist sector. Wages, and hence the actual consumption of the working class, may fluctuate around this value. When capitalism has been established for some time however, and real living standards have risen significantly the moral and historical element of the value of labour-power has been changed by the development of capitalism itself. Once this happens there is no longer any external reference, like another mode of production, for the value of labour-power. In this situation the subsistence requirements can only be interpreted as the <u>actual</u> consumption of the working class, or, if you wish to allow for short term fluctuations of real wages around the value of labour-power, the <u>trend</u> of actual consumption.

Secondly, the subsistence requirements are those of both the maintenance and <u>reproduction</u> of the labourer. Thus they cover not only the daily requirements of the labourer himself but also those of his children, to ensure the reproduction of the class. Clearly in practice the wage paid by the capitalist is not directly geared to the number of children the worker has. However, there is often a crude relation, with the wage varying with age, and more importantly, the state tax and subsidy system explicitly attempts to relate real disposable income to number of dependents.

Finally, the concept of the value of labour-power is one specific to the capitalist mode of production. Throughout most of his analysis in 'Capital' Marx abstracts from the simultaneous existence of different modes of production and considers a hypothetical set of pure capitalist production relations. An implication of this is, of course, that all goods are produced capitalistically. This is a perfectly legitimate abstraction and one that is extremely helpful in analysing the "laws of motion of modern society".

In any real capitalist system, however, not all of the labourer's subsistence will be produced under the capitalist mode of production. In other words part of it will be produced outside of the capitalist sector. In the contemporary UK economy, for example, both the state and petty commodity producers, or "self-employed persons", provide a proportion of workers consumption goods. Similarly housework is an important element in the subsistence of the worker and his dependents.

In this situation the value of labour-power is clearly not just the labour time involved in the production of the part of the worker's subsistence produced within the capitalist sector. We must also take account of labour performed outside the capitalist sector which contributes to the worker's standard of living.

(b) Labour and Surplus Labour in Housework

The housewife performs labour of three basic types. She produces use-values for herself (e.g. cooking her own meals, doing her own washing), use-values for her husband (his washing) and use-values for their children. She performs surplus labour if her labour time exceeds the labour time involved in the production of her means of subsistence. Her means of subsistence consist of the commodities purchased with her share of the family wage (which for the sake of simplicity we will assume are all produced within the capitalist sector) and the use-values she produces for herself.*

(c) The Appropriation of Surplus Labour in Housework

Consider a married couple with no children. The wife performs only housework for which she receives no training and which consists of the produc-

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*It is important to distinguish concepts which are specific to the capitalist mode of production and more general concepts which can be applied to different modes of production. Thus it makes sense to talk of the ratio of surplus to necessary labour in non-capitalist modes of production but not the rate of exploitation, which applies only where surplus labour takes the form of surplus value. This is more than mere terminological quibbling since the notion of exploitation includes the social relations of production in which the worker is under the direct control of the capitalist who dictates the nature of his work. Similarly the housewife produces use-values not commodities (since they are not produced for exchange), and her labour time is not value. Again this is more than quibbling since value is not simply labour time but socially necessary labour time, and, whilst it is clearly necessary to reduce actual labour time to it's socially necessary equivalent under the capitalist mode of production (as competition ensures that anarchic exchange is regulated by the labour time necessary for production <u>with the average level of technique in use</u>), it is not clear that the reduction is justified in analysing other modes of production where no equivalent market forces effect such a reduction in practice. Thus when calculating surplus labour in housework the housewife's production should be reckoned in actual labour time (including that part of her subsistance that she produces for herself) while the elements of her subsistence produced within the capitalist sector should be reckoned in terms of socially necessary labour time.

When working at the aggregate level (i.e. considering total labour performed in the capitalist and housework sectors) this makes no difference if the capitalist sector is producing the equilibrium bundle of goods. Socially necessary labour time in each industry is then the weighted average of actual labour time, which exceeds its socially necessary equivalent if the technique employed is less efficient than the average, and is less than its socially necessary equivalent if the technique is relatively advanced. The sum of actual and socially necessary labour time are then necessarily equal in every industry and hence in the capitalist sector as a whole. Thus the numerical examples given in the text should be taken as an illustration of total labour flows between sectors, rather than interpreted strictly on a single family basis.

tion of use-values for herself and her husband. She works ten hours a day, 5 on producing use-values for herself and 5 on use-values for her husband, and uses no means of production other than her own labour. Her husband works only in the capitalist sector where all labour is simple (i.e. unskilled) and socially necessary. He works 10 hours a day and receives a wage representing 5 hours. Half of this wage represents his wife's subsistence. It would take the same labour time to produce the use-values produced by housework under the capitalist mode of production.*

20 hours total labour are performed. Of this 20, fifteen represent labour involved in the production of the means of subsistence of the family ($2\frac{1}{2}$ for those produced within the capitalist sector and consumed by the husband, $2\frac{1}{2}$ for those produced capitalistically and consumed by the wife and 5 each for thos produced by the wife and consumed by her and her husband respectively). The other 5 hours represent surplus labour. If we look now at the individual members of the family we find they both consume $7\frac{1}{2}$ hours worth of production ($2\frac{1}{2}$ each from the capitalist sector and 5 each from the housework sector) and thus perform $2\frac{1}{2}$ hours of surplus labour each. All 5 hours appear as surplus value generated within the capitalist sector however, since the husband works 10 hours for the capitalist and receives a wage representing only 5 hours.

The mechanism by which this transfer of surplus labour from housework to the capitalist sector takes place is the payment by the capitalist of wages below the value of labour power. Consider simply the maintenance of the labourer. (We are, in effect, abstracting from the problem of reproduction at this stage by assuming the family has no children). His subsistence requirements take $7\frac{1}{2}$ hours to produce but the capitalist pays him only the equivalent of 5 hours. The capitalist is able to do this because $2\frac{1}{2}$ hours worth of subsistence are provided from unpaid household labour.

What is in effect happening is that $2\frac{1}{2}$ hours of labour are being transferred from the capitalist to the housework sector (in the form of the part of the wife's subsistence produced within the capitalist sector) and five hours are being transferred from the household to the capitalist sector (in the form of the part of the husband's subsistence produced within the home). There is thus a 'net flow' of $2\frac{1}{2}$ hours (the wife's surplus labour time) from the household to the capitalist sector.

Profits in the capitalist sector, being the difference between value added and the wage bill, are thus not equivalent to surplus value. They include both surplus labour performed within the capitalist sector (i.e. surplus value)

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*It must be stressed that this is not an attempt to compare the general productivity level in the two sectors, or to compare productivity in the production of different use-values, both of which would be completely meaningless. It is a comparison of productivity in the production of the same use-values, in the two sectors. Thus while it is meaningless to try and compare productivity in washing-up and car production, it is perfectly reasonable to compare washing-up in the home and in capitalist restaurants. Where capitalism could not produce the same use-values the problem of comparative productivity does not arise and there can be no question of adjusting the housewife's actual labour time to take account of productivity differences. Throughout the paper the term "relative productivity levels", which is used as a convenient shorthand, should be read with this point in mind.

and surplus labour performed within the housework sector. In general, where the capitalist sector co-exists with other sectors based on another mode of production, profits will only be equal to surplus value in a situation where the labour transfers between the capitalist and other sectors balance out, in other words where there is no net transfer.

Compare this situation with one where both the husband and the wife work directly for capital. 20 hours total labour are again performed. Their subsistence requirements are again equivalent to a total of 15 hours ($7\frac{1}{2}$ each). They thus each perform $2\frac{1}{2}$ hours surplus labour again yielding a total of 5 hours surplus labour for capital. In this situation, however, capital must pay them both the value of their labour power since there is no surplus labour available outside the capitalist sector to produce articles of subsistence.

The Importance of the Assumptions

All the assumptions are made for the sake of simplicity and arithmetric convenience and none of them are necessary to the analysis. Thus it is possible to modify the example to include children, the busband doing some housework, the use of non-labour input in housework, etc.* Two of the assumptions are of particular interest, however.

(i) The division of the wife's time between production for herself and for her husband. If instead of assuming that the wife spends five hours producing use-values for herself and five for her husband we assume she spends all 10 producing use-values for him then the total household subsistence remains 15 hours but the division within the family is altered such that the husband now consumes the equivalent of $12\frac{1}{2}$ hours and the wife $2\frac{1}{2}$. The value of the husband's labour power thus exceeds his labour time. This is not as absurd as it appears at first sight. The capitalist still finds it profitable to employ him because he does not have to pay him the value of his labour power.

The situation can be seen as analogous to Lenin's theory of the "aristocracy of labour". A certain sector of the proletariat, in this case male labourers, obtains an 'artificially' high level of subsistence working for capital which appropriates surplus labour from other areas. In the classic Leninist theory these are colonial regions which may or may not operate under capitalist production relations. In the case of housework, the surplus is extracted from labour performed within the metropolitan country, but outside of the capitalist mode of production.

The form in which the subsistence is obtained is different, however. In the classic "aristocracy of labour" model all workers' subsistence is provided by capital which is able to pay higher wages because it appropriates surplus labour from the periphery. In our housework example a proportion of the labourer's subsistence is provided by his wife in the form of direct use-values and capital is thus able to pay wages below the value of labour-power.

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* This has been done for families with children and for people living alone and performing both wage labour and housework in an unpublished paper by Jean Gardiner.

(ii) Relative productivity levels in the capitalist and household sections.* If instead of assuming that the productivity level is equal in the capitalist and household sectors we assume it is twice as high in the capitalist sector then the picture is altered. The husband's maintenance still involves the expenditure of $7\frac{1}{2}$ hours on the production of his subsistence ($2\frac{1}{2}$ in the capitalist sector and 5 in the household) as does his wife's, but the value of his labour power is now only 5 hours since that is the time that would be required to produce his entire subsistence inside the capitalist sector. His wage therefore represents the value of his labour-power. There is still a net flow of $2\frac{1}{2}$ hours labour from the household to the capitalist sector but capital does not gain from this in that, unlike before, the $2\frac{1}{2}$ hours outflow to provide the capitalistically produced component of the housewife's subsistence is now sufficient to produce the household produced component of the husband's subsistence within the capitalist sector.

This can be seen clearly if we again compare this situation with one where both husband and wife work directly for capital. 20 hours total labour are again performed and the value of labour power is 10 hours (5 each; $2\frac{1}{2}$ for goods previously produced within the capitalist sector and $2\frac{1}{2}$ for goods previously produced within the home taking 5 hours but now produced with half the labour within the capitalist sector). The wage is equal to the value of labour power and 10 hours total surplus labour are now performed (5 each).

Clearly if productivity in the capitalist sector is four times as high as in the household then the value of the husband's labour power is $3\frac{3}{4}$ hours and his wage now exceeds the value of his labour power by the equivalent of $1\frac{1}{4}$ hours. The $2\frac{1}{2}$ hours outflow from the capitalist sector to provide the capitalistically produced elements of his wife's subsistence involves twice the labour time that would be required to produce the elements of the husband's subsistence that she provides within the capitalist sector. $12\frac{1}{2}$ hours total surplus labour would be produced if they both worked directly for capital ($6\frac{1}{4}$ each).

3. HOUSEWORK AND THE HISTORY OF THE FAMILY UNDER CAPITALISM

> It is certain ... that whereas the laws of motion of the capitalist mode of production are indispensable to understand and explain the history of capitalism, they are insufficient to explain this history in and by themselves alone
>
> (Ernest Mandel: Tilburg Lecture p.2)

The problems of moving from an analysis of the laws of motion of a mode of production to an understanding of the real history of a society based on that mode of production are enormous. They are particularly complex in the case of the history of the family under capitalism because we are here dealing with a part of the social formation based on two modes of production, which are interrelated in a complex manner.

An abstract analysis of the laws of motion and interaction of the capitalist and housework modes of production must, nevertheless, be the starting point of a study of the history of the family. It provides certain

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*See footnote, p. 43

concepts necessary for a scientific understanding of the history, or, if you prefer, certain analytic tools essential for the production of the history.

The way in which these tools might be used can be illustrated with reference to one important question, in a sense the primary question, about the history of housework under capitalism. The question is this, why does the housework sector operate under a separate, client mode of production? Why are husband and wife not both employed directly by capital and that part of subsistence contributed by housework produced under capitalist production relations?

There is, of course, no single, simple answer to this question. The creation and continued existence of the housework sector, are the result of developments at all levels of the social formation. The economic sphere is likely to be particularly important, however. There would have to be unusually strong ideological pressures to create and maintain a situation in which a large proportion of social labour was engaged in a form of production from which no important class benefited. Let us examine the conditions under which capital or male labourers might gain materially from the existence of the housework sector.

(a) Gains from the existence of housework with the value of labour power fixed

If we retain the assumption that the value of labour power is fixed then there is only one case where male labourers clearly gain from the existence of housework as a client mode of production. That is the case, outlined in Part 2 section (b), where the value of male labour power exceeds the labour time performed. They clearly gain here because capital would not, indeed could not for any length of time, employ them at the value of their labour power. More generally capital might be unwilling to employ everyone if it had to pay wages equal to the value of labour power. In this case male labourers could be said to benefit from the existence of housework by way of increased employment opportunities.

If we assume full employment, however, then, with the value of labour power fixed, by definition neither male nor female labourers can gain or lose in terms of standard of living from the existence of the housework sector. Whether they both work directly for capital or the wife performs housework they both receive subsistence goods which would take a certain number of hours to produce in the capitalist sector. Specifying the value of labour power specifies, with a given productivity level, the real standard of living of the family. The only remaining question is then whether capital gains from the existence of housework.

The most important factor in determining whether or not capital gains is the relative productivity level between the housework and capitalist sections. It was demonstrated in Part 2 section (b) that if productivity in housework exceeds productivity in a capitalist sector producing the same use values capital will appropriate less surplus labour employing both husband and wife directly than it apparently appropriates from the husband alone when the wife performs housework. Similarly if productivity in the ex-housework capitalist sector exceeds that in the housework then capital will be able to appropriate more surplus labour employing both husband and wife directly. If productivity levels are equal then the absolute amount of surplus labour appropriated will also be equal.

In the last case capital is not necessarily indifferent as to whether or not housework exists as a client mode of production, however. In the earlier example, no non-labour means of production are involved in the production of housework goods. Assume however, that wages have to be advanced by capital. In the situation where both husband and wife work directly for capital the total 5 hours surplus value will now have to be distributed amongst more capital (since more has to be advanced as wages) and the rate of profit will therefore be lower. (How much lower depends on the ratio of the wage fund to the stock of fixed capital in the part of the capitalist sector which uses fixed capital, and on the relative size of the new ex-housework part).

Where housework involves non-labour inputs these should be subtracted from the husband's wage when comparing the situation where housework exists as a client mode of production with a totally capitalist economy. In the client situation the husband's wage represents three things; that part of his subsistence which is produced by capital, that part of his wife's subsistence that is produced in the capitalist sector, and the non-labour inputs into housework produced by capital. If both he and his wife are directly employed by capital and housework use-values are produced capitalistically then, if they are to maintain the same standard of living, capital must pay them both enough to buy all the elements of their subsistence direct from capital. It no longer needs to pay them anything for inputs to housework. The non-labour means of production of housework goods become a part of capital (the constant capital employed in the production of ex-housework use values), amongst which total surplus value is divided out as profit.

A reduction in the amount of labour required to produce non-labour inputs into the production of housework goods, brought about by changes of technique consequent on the capitalisation of housework,represents a gain for capital as a whole. (Since the amount subtracted from the husband's wage packet exceeds the addition to constant capital required). This is comparable to a difference in productivity levels in the housework and ex-housework sectors.

(b) Housework and the formation of the value of labour power

Clearly in reality both real living standards and the value of labour power are not constant overtime. Nor are they fixed autonomously, they are determined within the system. An important step in understanding the role of the family in the history of capitalism, and more specifically in trying to answer our question about why housework has not been capitalised, would be an analysis of the role of housework in the formation of the value of labour power. As an example of the kind of role that it could play consider ways in which the creation of housework as a client mode of production might raise the value of male labour power. A move from capital employing both men and women directly to the creation of a class of housewives might have this effect in two ways. Firstly it might mean that with the same wage the husband acquired a higher standard of living. The original example in Part 2 section (b) illustrates this. The husband is paid a wage representing 5 hours labour time. He gives the equivalent of $2\frac{1}{2}$ hours to his wife who, in return, provides him with 5 hours worth of subsistence. Providing productivity levels in housework are the same as those in the capitalist sector then the value of the husband's labour power has been raised from 5 to $7\frac{1}{2}$ hours, and his standard of living increased by 50%, without his wage having changed.

It should be clear that both relative productivity levels in the capitalist and housework sectors and the division of the wife's time between production for herself and for her husband are important in determining whether the husband would gain in this way from the creation of a housework sector.

Secondly, the creation of housework as a client mode of production might be important in raising wage levels. The possibility of releasing some labour from the capitalist sector for the client mode is premised on a sufficiently high productivity level to allow the payment of wages sufficient to not only provide a subsistence minimum for the labourer but also allow something for the maintenance of his dependents. Further the exclusion of women from the labour force might be important in improving the bargaining power of male labour.

The effects of the creation of housework as a client mode on the value of male labour power need not all be beneficial, of course. The existence of housework also provides capital with a more flexible labour force. People can, and do, flow in and out of the housework sector. This tends to weaken the bargaining power of male labour. By providing an alternative source of labour power, often at lower rates, the housework sector fulfills some of the functions of an industrial reserve army.

It must be stressed that this is not supposed to be an explanation of actual historical development. - It is purely an illustration of certain formal relationships and of the way an analysis of the relationship of modes of production within an economic system can help us to formulate certain basic abstract questions, like why housework exists as a client mode of production, clearly.

(c) The decline of manufacture and the rise of modern industry

The analysis is also useful in analysing more concrete historical developments, however. As an illustration of this consider the effect on housework, wages and the value of labour-power of the change in the mode of the transformation of nature that Marx calls the move from manufacture to modern industry.

> In so far as machinerydispenses with muscular power, it becomes a means of employing labourers of slight muscular strength ... The labour of women and children was, therefore, the first thing sought by capitalists who used machinery.
> (Capital Vol. I p. 394)

Consider our original example where the husband works 10 hours for capital and receives a wage representing five hours and the wife works 10 hours in the home. Assume that, with the advent of modern industry, the wife is now also employed by capital at the same wage as her husband, but continues to do as much housework as before. Total labour performed is now 30 hours (10 each in the capitalist sector and 10 housework). Of this 20 hours are involved in the production of means of subsistence (10 in the capitalist sector and 10 in the home). The value of both the husband's and the wife's labour-power is 10 hours each, since they both consume 5 hours worth of commodities produced in the capitalist sector and 5 hours worth of housework use-values. Capital receives the same apparent rate of surplus value per person employed (since it pays the equivalent of 5 hours wages for 10 hours work, as before) but double the absolute amount (10 hours instead of 5, since it now employs both husband and wife directly).

However, the real rate of surplus value is zero, since the value of labour-power is equal to the hours worked in the capitalist sector (10 each). All profit is now surplus labour performed by the wife in housework. Both husband and wife work 10 hours for capital and consume use-values to the value of those 10 hours. The wife also performs 10 hours housework, however, all of which is appropriated by capital. The mechanism of appropriation is again the payment of wages below the value of labour power. Both husband and wife are paid for only 5 hours labour when the value of their labour-power is 10 hours, and capital thereby appropriates all the labour performed in housework. The husband and wife consume $2\frac{1}{2}$ hours more use-values each than they did when only the husband was employed by capital but the wife works 10 hours more. Capital is thus able to appropriate 5 hours more surplus labour than before.

However, there is no guarantee that wages will remain at the same level as when only the husband was employed by capital. As Marx says:

> Machinery, by throwing every member of that family on to the labour market, spreads the value of the man's labour-power over his whole family. It thus depreciates his labour-power.
> (Capital Vol. I p. 395)

If, when the wife goes out to work for capital as well, wages fall to the equivalent of $2\frac{1}{2}$ hours labour then the value of both the husband's and the wife's labour-power is $7\frac{1}{2}$ hours each ($2\frac{1}{2}$ hours worth of commodities produced in the capitalist sector and 5 produced in the home). Their standard of living, interpreted narrowly as the bundle of goods they consume, has thus not been changed by the wife working for capital. What has changed is both the total labour performed and the amount of labour appropriated by capital. When only the husband was employed directly by capital 20 hours total labour were performed, 15 of which were necessary labour, and capital thus appropriated 5 hours surplus labour. Now 30 hours total labour are performed and capital appropriates 15 hours surplus labour. By paying the equivalent of $2\frac{1}{2}$ hours wages for 10 hours work it appears to appropriate $7\frac{1}{2}$ hours each for the husband and wife. In reality the value of both their labour-power is $7\frac{1}{2}$ hours and capital is appropriating $2\frac{1}{2}$ hours from the husband and $12\frac{1}{2}$ from the wife ($2\frac{1}{2}$ performed in the capitalist sector and 10 performed in housework).

Of course it is unlikely that the wife will be able to work in the capitalist sector and still perform as much labour in the home as she did when only her husband worked directly for capital. Marx notes this and points out the consequences,

> Domestic work, such as sewing and mending, must be replaced by the purchase of ready-made articles. Hence the diminished expenditure of labour in the house is accompanied by an increased expenditure of money. The cost of keeping the family increases and balances the greater income.
> (Capital Vol. I p. 395 footnote 2)

Here we have a situation where the value of labour-power remains constant but the composition of the means of subsistence is altered; more come from the capitalist sector and less from housework. Assume that housework is reduced from 10 hours to $7\frac{1}{2}$. If the value of labour-power is to remain $7\frac{1}{2}$ hours (the level obtaining before the wife went out to work for capital), then capital must pay wages equivalent to $3\frac{3}{4}$ hours each to the husband and wife (since only $3\frac{3}{4}$ hours each of housework goods are now available). Thus the total family wage income is higher than before ($7\frac{1}{2}$ hours as against 5 paid to the husband) but the standard of living (i.e. value of subsistence goods) is the same. $7\frac{1}{2}$ hours more labour are performed by the wife which are all appropriated by capital.

Capital thus gains from the employment of women if the value of labour-power remains constant, so long as the labour performed by the wife in the capitalist sector is not totally offset by a fall in the amount of housework performed.

4. POLITICAL IMPLICATIONS

(a) Women as a class

Marxists are usually the first to denounce the view, which reappears every so often, that women are a class. This is not difficult to understand. It has been very important polemically for socialists in the women's movement to insist both that women are not primarily oppressed by men but by capitalism, and that housework is something very much within the capitalist system from which capital benefits. They have argued correctly that housework performs the essential function, for capital, of the maintenance and reproduction of the labourer.

This correct insistence that housework is part of the capitalist system has been confused with the idea that it is part of the capitalist mode of production, however. Since housework is performed outside of capitalist production relations the people who perform it do not belong to either of the classes that are the bearers of those relations. Housewives are neither proletarians nor capitalists; they form a distinct class.

This means, of course, that a large number of people fall into two classes. Women who work for capital and also perform a substantial amount of housework are both proletarians and housewives. This is not the only case where people fall into two classes. Someone who receives a substantial proportion of his income from the ownership of shares but also performs wage labour falls into both the proletarian and capitalist classes. The difference is that the share-owner straddles both the classes of the capitalist mode of production, and hence is both exploiter and exploited, whereas the proletarian housewife works under two modes of production. She has surplus labour extracted from her by capital in both modes but the form of appropriation differs. This type of double class membership is also far more important quantitatively.

The fact that both proletarians and housewives have their surplus labour appropriated by capital might be thought to make class differences irrelevant. It may certainly give them both an objective interest in the overthrow of capitalism. However, the ways in which the awareness of this interest develops may be very different. Housework, for example, is not socialised in the way that capitalist production is and authority is not imposed directly in the work process. Marx thought both of these characteristics of the capitalist mode of production were important in the formation of proletarian class consciousness. The conciousness of housewives is, of course, something which the women's movement is giving a great deal of attention to.

(b) Socialist and Feminist revolutions

It is frequently argued that there is a need for both a socialist and a feminist revolution. It is said that the liberation of women inside capitalism is impossible and that the overthrow of capitalism and the construction of socialism does not in itself guarantee women's liberation.

The first proposition, that women cannot liberate themselves within capitalism, is usually argued for on the basis that capitalism needs the nuclear family and the housewife for the maintenance and reproduction of the labourer. It is true that capital has created housework as a client mode of production to fulfill, at least in part, precisely that function. It is not true that capital needs housework in the sense that there is no other way in which the functions could be fulfilled. All of the economic functions of housework could be fulfilled under capitalist production relations. There is no reason, at the level of the laws of motion of the capitalist mode of production, why the principle of launderettes could not be extended to capitalist creches, and if you like, brothels.* A system in which everyone works directly for capital and there is no sex role distinction is perfectly conceivable. In such a system there need be no oppression specific to women. (Of course women would still be exploited and oppressed in the ways that male proletarians are).

Whether such an outcome is a likely development of capitalism, even a capitalism pushed by a militant feminist movement, is, of course, another question. There are powerful pressures on all levels towards the maintenance of the bourgeois family. Further, if opposition to the specific forms of oppression of women became powerful enough, capitalism might be unable to adjust smoothly and a revolutionary situation might develop. Nevertheless it is not true that capitalism needs housework in the same sense that it needs, say, private ownership of the means of production.

The second proposition, that the establishment of socialist production relations does not guarantee the emancipation of women, is usually argued for by historical example and in terms of the relative autonomy of the non-economic levels. Both are powerful arguments. There is another aspect though; which production relations are being transformed? If only capitalist relations are replaced and those of client modes of production left unchanged then the client mode may be co-opted by the new dominant mode. Lenin argued very clearly for the need to destroy, and not just co-opt, the bourgeois state. The same is true of the bourgeois family.

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*Even if capitalism could not manage certain functions there are other alternatives - the state could step in.

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THE FALL OF THE RATE OF PROFIT AND THE THEORY OF ACCUMULATION
A REPLY TO PAUL SWEEZY

Mario Cogoy
(translated from German by David Yaffe)

Paul Sweezy's essay "Some Problems in the Theory of Capital Accumulation"[1] takes up some controversial aspects of the theory of capital accumulation. He discusses them in the context of a critique of some theses, largely held in common, in spite of small differences, in one essay by David Yaffe and another by me.[2] The interpretation of the law of the tendency of the rate of profit that Sweezy criticises, is not emphasised in the analysis contained in my essay. It is concerned much more with an investigation of the effects of unproductive expenditure on capital accumulation. However, Sweezy interprets me quite correctly when he counts me amongst those who regard the law of the tendency of the rate of profit to fall "as the pivot around which the whole Marxian theory of the accumulation and crises revolves."[3]

I therefore, regard it as fortunate that Sweezy has emphasized just this aspect, and would like to use the opportunity to make precise my views on this point. It is clear that the consequences of different interpretations of this important point are not limited to the theory of accumulation. I believe that differences in the evaluation of the laws of motion of modern capitalism and the role of the state follow from this. This has also political consequences, which Sweezy briefly takes up in the last footnote with his critique of the 'reformist illusions' of the Keynesians. Although these political aspects are of great significance, it is necessary first of all, to concentrate on the theory of capital accumulation.

I

It cannot, of course, be said that "the presence or absence of monopoly makes no difference to the accumulation process."[4] A view which Sweezy attributes to "many of today's younger Marxist economists". Since the market and competition represent the medium through which the lawfulness of capitalist production asserts itself and forces itself on the individual capital, the form of the market is of great importance as the form in which this lawfulness asserts itself. What is at issue can only be the level of abstraction at which we can deal with the problem of monopoly. Marx deals with the law of the tendency of the rate of profit to fall and the law of capital accumulation at the level of capital in general. On this level neither the distribution of surplus-value between different capitalists, nor the division of surplus-value into interest, profit, rent etc. are of importance because it is a question, above all, of the relation of total surplus-value to total capital. For this reason, the attempt of Baran and Sweezy to replace the concept of surplus-value by the concept of surplus, because of the monopoly market structure, was not very convincing.

> ...we prefer the concept "surplus" to the traditional Marxian "surplus value", wince the latter is probably identified in the minds of most people familiar with Marxian economic theory as equal to the sum of profits + interest + rent. It is true that Marx demonstrates - in scattered passages of "Capital" and "Theories of Surplus Value" - that surplus value also comprises other items such as the revenues of state and church, the expenses of transforming commodities into money, and the wages of unproductive workers. In general, however, he treated these as secondary factors and excluded them from his basic theoretical schema. It is our contention that under monopoly capitalism this procedure is no longer justified, and we hope that a change in terminology will help to effect the needed shift in theoretical position.[5]

In complete contrast to this, all those who are familiar with Marxian economic theory know that for Marx "... the best points in my book are ... the treatment of <u>surplus value independently of its particular forms</u> as profit, interest, ground rent etc... The treatment of the particular forms by classical political economy, which always mixes them up with the general form, is a regular hash".[6] 'Monopoly capital' was therefore, likewise, 'a regular hash' and it remains difficult to understand the reasons for the "needed shift" in theoretical position. Now, however, Sweezy assures us that it never occurred to him "to call in question, let alone reject the labour theory of value"[7] He adheres, therefore, to the concept of surplus value but advocates the thesis that crucial changes in the process of accumulation would result from the process of monopolisation. The reason for this is that monopoly leads to a redistribution of total value in favour of capital and therefore to a tendency of a rising rate of surplus value. Why had Marx not taken monopoly into account and left this great theoretical jump forward to Sweezy? The answer is characteristic of Sweezy's method; because in Marx's time monopoly was an exception, while today it is the rule. With the same indifference to theory, Baran and Sweezy could advocate the thesis that under competitive capitalism the law of the tendency of the rate of profit to fall applied, while under monopoly capitalism that of the rising surplus applies.[8]

Marx, however, formulated his theory of accumulation independent of monopoly not simply because monopolies were the exception at his time, but because there are theoretical grounds in the Marxist method for proceeding in this way. Marx considers the production of relative surplus value as the characteristic form of the production of surplus value for developed capital. The production of relative surplus value implies, however, the continuing revolutionization of the methods of production. This results in the same labour time being contained in a continually growing mass of use-values, or what amounts to the same thing, the value of an individual commodity continually falls. Since the value of the commodities which enter into the consumption of workers fall, the value of the commodity labour power also continually falls in the course of accumulation. In this way the part of the working day which is paid labour continuously falls relative to that part which is unpaid, although the amount of use-values which the worker can buy with this smaller value may remain unchanged or even increase and therefore his real wage remains unchanged or even increases. This long-term tendency of the value of labour power to fall can be partially checked through an increase and improvement in the use-values consumed by workers i.e. the real wage. This socio-historical moment, which leads to an increase of the real wage does not overcome, however, the fall in the value of labour power, because, as a rule, the increase in the real wage is smaller than the growth in labour productivity. Another factor which can check the fall in the value of labour power is the increase in the intensity of labour. However, this can only operate within certain limits. The fall in the value of labour power can therefore be checked but not overcome by all these factors. An increasing real wage will continually be accompanied by a falling value of labour power. Sweezy obviously confuses the real wage and the value of labour power and derives a tendency for the value of labour power to increase on the basis of growing production costs over time.[9] Sweezy forgets that just as the value of all commodities fall in the course of accumulation so does the value of labour power, although this fall can be present in a rising real wage. Monopoly will, therefore, if anything, accelerate the fall in the value of labour power and not, as Sweezy assumes, check its rise.

If, however, monopoly depresses the value of the commodity labour power, this corresponds to none other than the Marxian supposition which accompanies the whole theory of accumulation. That is, with progressive accumulation the value of labour power continually falls, since this is the capitalistic expression of growing labour productivity. So there are methodological and theoretical reasons why Marx leaves monopoly out of consideration, as well as all other features of competition and the market, in his handling of the law of accumulation. It is not because monopolies were an exception at his time. Thus, it is still correct today to deal with the general law of accumulation independent of monopoly, since this law is concerned with the general characteristics of capital, and it will be correct to do this as long as capitalism exists.

Of course this does not mean that monopoly has no significance at all, and that one may always abstract from it. If it is a question of the accumulation of many capitals and competition, the distribution of the surplus value produced, disturbances in the reproduction process and also the concrete crisis, in which the generally derived possibility of crisis concretely asserts itself, the form of competition plays a decisive role. The problem of monopoly ought to be dealt with at this level. However, when it is a question of the law which regulates the relation between surplus value and the advanced capital we must abstract from monopoly.

II

As regards the theory of accumulation, Sweezy sees in my essay a tendency towards the "fetishization of the falling tendency of the rate of profit".[10] The expression of this fetishization is the especially absurd acceptance of a "runaway organic composition of capital increasing without assignable limit and much more rapidly than the rate of surplus value."[11]

It is unnecessary to stress that in my essay there is no mention anywhere of a runaway organic composition, and that Sweezy is unable to cite a single reference which substantiates his imputation. I have stressed just the opposite, that is, that the capitalist system is always forced to mobilise counter tendencies, which strive to hold the organic composition at an acceptable level for the profitability of the system.[12] I have also mentioned the sphere of technology and its possible effects on the cheapening of constant capital,[13] although this was not done in detail as it was not the topic of my inquiry.

Although I have never advocated the thesis of a 'runaway organic composition', I am still of the opinion that the law of the tendency of the rate of profit to fall is the core of the Marxian theory of accumulation and, so far, I am unaware of a convincing criticism of this law.

Sweezy is convinced that "nothing follows from the concept of capital except that capital is self-expanding value".[14] From this concept of capital "no deductions or conclusions can be drawn... without the introduction of further assumptions", which, in the case of Marxism, are historically and empirically based. Thus the fall in the rate of profit is tied to historical and empirical conditions which are not "logically dictated by his theory of accumulation."[15] Why, therefore, had Marx formulated the law of the tendency of the rate of profit to fall? For such difficult questions Sweezy always has an answer up his sleeve. The answer is always the same: because it was so in Marx's time! "For my part, I have no doubt that the reason is that this is precisely what happened during the period of the industrial revolution beginning in the eighteenth century and still continuing at the time in the 1850s and 1860s when he was working on Capital".[16] In addition, Sweezy is of the opinion that Marx had not intended to develop a theory of crisis from the law of the tendency of the rate of profit to fall,[17] and that he only spoke of a tendency, which "like other tendencies, was opposed by various counteracting causes":[18] thus, with the ironic formulation of Rosdolsky in his critique of Natalie Moszkowska, "a law of the falling or non-falling rate of profit."[19] This is, indeed, a remarkable interpretation of "Capital"!

According to Marx, one can not only deduce from the concept of capital that it is self-expanding value, but practically everything which exists in the three volumes of Capital. These are concerned with nothing other than the concept of capital, that is, what is common to all capitals independent of their empirical and historical form. Therefore, according to Marx, the law of the tendency of the rate of profit to fall also belongs to the general concept of capital; something which Marx also explicitly stated in various places. He says, for example, in the discussion of a counter tendency (that is, the reduction of the wage under the value of labour power).

> This is mentioned here only empirically, since, like many other things which might be enumerated, it has nothing to do with the general analysis of capital, but belongs in an analysis of competition, which is not presented in this work.[20]

Marx had also explicitly associated the capitalist crisis with the law of the tendency of the rate of profit to fall:

> The limitations of the capitalist mode of production come to the surface:
>
> (i) In that the development of the productivity of labour creates in the falling rate of profit a law which at a certain point comes into antagonistic conflict with this development and must be overcome constantly through crises.[21]

And also:

> The periodical depreciation of existing capital - one of the means imminant in capitalist production to check the fall of the rate of profit and hasten accumulation of capital-value through formation of new capital - disturbs the given conditions, within which the process of circulation and reproduction of capital takes place, and is therefore accompanied by sudden stoppages and crises in the production process.[22]

However, this is still not conclusive, because it is possible that, contrary to Marx's intention, one cannot deduce from the general law of capitalist production an immanent and necessary tendency of the rate of profit to fall and a tendency towards crisis. Hence, we must consider the arguments used by Sweezy about the tendency of the falling rate of profit more closely. That is, whether the law of the tendency of the rate of profit to fall is only valid for a particular phase of capitalist development and is a tendency tied to historical-empirical conditions.

There are two very old, and always recurring, arguments against the law of the tendency of the rate of profit to fall. These are arguments which, among others, have also been put forward in Sweezy's Theory of Capitalist Development[23] and which can be found in Joan Robinson[24] and Gillman.[25] It concerns both the following arguments;

1. If the rate of profit is a function of the organic composition and the rate of surplus value, it may be the case that a rising rate of surplus value compensates or over-compensates for the negative effects of an increasing organic composition, so that the tendency of the rate of profit is indeterminate. This argument is supplemented by Sweezy as well as by Joan Robinson and Gillman with the criticism that Marx had proved the tendency of the rate of profit to fall only by assuming a constant rate of surplus value (Joan Robinson's famous 'tautology'[26]).

2. Technical innovation can be of a labour saving kind, that is, it can raise productivity by substituting capital for labour. However, since capital, like all other commodities, falls in value, it is possible, that the organic composition, as a value relationship and not simply a physical relationship between machines and labour, does not rise. Here again the tendency of change is indeterminate.

As far as the first argument is concerned, there is a simple misunderstanding about the concept of the organic composition. What are we to understand by the concept of the organic composition? Here Marx is very explicit and gives a clear definition of the concept. He distinguishes between the technichal composition, which represents the relation of means of production and mass of labour employed, and the value composition, which represents the relation of constant to variable capital. It must be clearly stressed that the organic composition and the value composition are not, in every case, identical. And, one of the reasons for the difficulties in which Sweezy, Joan Robinson and Gillman find themselves, is that they equate them. After he has introduced the concepts of the technical and value composition, Marx says:

> Between the two there is a strict correlation. To express this, I call the value-composition of capital, in so far as it is determined by its technical composition and mirrors the changes of the latter, the organic composition of capital.[27]

Therefore, the organic composition is not simply the value composition, but only the value composition in so far as it mirrors the technical composition. Grossmann had strongly warned against confusing the organic with the value composition.[28] What is implied by this "strict correlation"? What is implied, for example, is that a change in the value composition which is not attributed to a change in the technical composition, is not to be regarded as a change in the organic composition. Similarly, a change in the technical composition which does not lead to a change in the value composition is not to be regarded as a change in the organic composition. Let us take an example. A fall in the value of labour power, which is not accompanied by a change in the technical composition, changes the relation of constant to variable capital, because the variable capital is reduced. However, since there is no change in the relation between the means of production and the mass of labour, this rise in the value composition should not be confused with a rise in the organic composition. Otherwise, every change in the value of labour power, without a change in the technique of production, would involve a change in the organic composition, although the relation between living and objectified (dead) labour would itself have not changed. Against this, it must be remembered that a rise in the organic composition always implies an increase of constant capital for a given mass of employed labour.

This has direct consequences for any attempt to examine the fall in the rate of profit in mathematical terms. How, for instance, can the organic composition be expressed mathematically? If one begins with a constant rate of surplus value, one can express the organic composition by $\frac{c}{v}$, because v is always a given number of workers, i.e. it expresses a given mass of labour. An increase in $\frac{c}{v}$ must always mirror a change in the technical composition, i.e. an increase of constant capital in proportion to the mass of labour employed. On the other hand, if one begins with a rising rate of surplus value, one can no longer express the organic composition by $\frac{c}{v}$. This is because an increase in the latter relationship can express not only an increase of constant capital in proportion to the mass of labour, but also a simple reduction in the value of labour power, or both at the same time. If we assume a rising rate of surplus value then only the relation $\frac{c}{v+s}$ is of significance for the organic composition. This is because an increase of this relationship is not influenced by a decrease in the value of labour power, but only by an increase of constant capital in proportion to the mass of labour. Only $\frac{c}{v+s}$, and not $\frac{c}{v}$, expresses changes in the value composition in so far as it mirrors changes in the technical composition. Marx expresses this as a proportion of dead to living labour.[29] All the contradictions, which Sweezy and Joan Robinson[30] have found in Marx's treatment of the law of the tendency of the rate of profit to fall, are easily resolved and are attributable to a lack of understanding of Marx's method by these authors. In the first instance, Marx begins, in developing his argument, with a constant rate of surplus value and, therefore, treats the organic composition as a relation between constant and variable capital. For under this assumption $\frac{c}{v}$ really expresses changes in the organic composition. Subsequently, Marx modifies this assumption and proves the validity of the law with a rising rate of surplus value. Joan Robinson and Sweezy wish to examine the law directly under the assumption of a rising rate of surplus value. They forget in doing this that, with this assumption, changes in the organic composition can no longer be comprehended by $\frac{c}{v}$. If one wishes to examine directly the tendency of the rate of profit to fall with a rising rate of surplus value, one must use $\frac{c}{v+s}$ as the expression for the organic compsotion. So that Sweezy's formula:

$$\frac{s^1}{o+1}, \text{ where } o = \frac{c}{v}, \quad {}^{31}$$

is completely useless precisely for the examination of the law under assumption of a rising rate of surplus value. Hence Sweezy's and Joan Robinson's riddle is easily resolved. We shall construct, to begin with, a simple example of an accumulating capital with a rising rate of surplus value and a rising organic composition.

	c	v	s
Period 0	100	100	100
Period 1	120	90	110
Period 2	144	81	119
Period 3	172.8	72.9	127.1

We have made the following assumptions in constructing this example:

The number of workers is constant, i.e. v + s is always = 200. This assumption does not change anything as far as the conclusions about the profit rate are concerned. This is because a growing number of workers would mean multiplying the numerator and denominator of the formula for the profit rate by the growth rate of the number of workers, and the rate of profit itself would remain unchanged. Further, we have assumed that constant capital increases, in the given period, by 20%, and that the value of labour power in the given period, falls by 10%. The organic composition $\frac{c}{v+s}$ increases as a consequence by 20% while $\frac{c}{v}$ increases by 33%.

We can generalise our example and examine the tendency of the profit rate for any value of the rise in the organic composition and rate of surplus value.

We shall call 'u' the rate of increase of the organic composition and 'l' the rate of decrease in the value of labour power. If c_0 is the value of constant capital in period 0, then

$$c_1 = c_0\ (1 + u)$$

We can then write:

$$c_n = c_0\ (1 + u)^n$$

Similarly we can obtain:

$$v_n = v_0\ (1-l)^n.$$

Let 'A' be newly produced value, v + s, which we have assumed constant because we have taken the number of workers as constant. Then in the period 0, the surplus-value is:

$$s_0 = A-v_0.$$

In period n it is:

$$s_n = A-v_n = A-v_0\ (1-l)^n.$$

So that we can write the profit rate as:

$$r_0 = \frac{s_0}{c_0 + v_0}$$

and $r_n = \frac{s_n}{c_n + v_n}$

$$\therefore \; r_n = \frac{A - v_o\,(1-1)^n}{c_o\,(1+u)^n + v_o\,(1-1)^n}$$

From this formula it is clear that:

$$r_n \rightarrow o \text{ as 'n'} \rightarrow \infty$$

On the other hand if $u = o$, i.e. if the organic composition remains constant the

$$r_n \rightarrow \frac{A}{c_o}, \text{ if } n \rightarrow \infty.$$

If 'u' is negative, then $r_n \rightarrow \infty$ when $n \rightarrow \infty$.

It must still be emphasized that this result holds, <u>although the rate of surplus value tends to infinity</u>.

For:

$$\frac{s_n}{v_n} = \frac{A - v_o\,(1-1)^n}{v_o(1-1)^n}$$

And if $n \rightarrow \infty$, then $\frac{s_n}{v_n} \rightarrow \infty$.

From what we have shown, we obtain the result that the rise of the rate of surplus value cannot, in the last analysis, keep up with the rise in the organic composition. That is, in the long run, the effect of the organic composition will assert itself.

The argument that is developed here is, in fact, already completely contained in Marx, although expressed in another form. Marx had indicated that the organic composition rises without limit while the mass of surplus value finds its limits in the length of the working day.[32] These aspects of the Marxian law have recently been emphasised again and again. The work of Rosdolsky, Meek and Mattick[33] have especially shown that Sweezy's, Joan Robinson's and Gillman's belief[34] that Marx had proved the law of the tendency of the rate of profit to fall only by assuming a constant rate of surplus, is simply not true. Thus, Sweezy's question: "why did Marx feel so sure that the organic composition of capital must rise faster than the rate of surplus value?"[35] is not answered with the standard Sweezy answer (because it was so in Marx's time). On the contrary, it is so because it necessarily follows from the laws specific to capitalist production.

We now come to the second argument which Sweezy raises against the validity of the law for capitalism today. That is, that it cannot be decided from the analysis of the laws of capitalist accumulation whether the organic composition must have a tendency to rise in the course of accumulation. "The only way this question can be decided is through the empirical study of capitalist practice".[36] Sweezy is right to pose this problem and I would agree with him that this question is a very important one for the theory of accumulation, and that, so far, it has not been sufficiently examined either theoretically or empirically. If Sweezy means, however, that empirical studies have been demonstrated 'beyond a reasonable doubt'[37] that the organic composition has had a falling or constant tendency in the last fifty years, then one can say 'beyond a reasonable doubt' that he is wrong. I believe that a great deal speaks for the correctness of Marx's analysis also in this matter. However, before we analyse more closely the research of Gillman, which Sweezy quotes in this context, we must clear up a misunderstanding. We are not concerned with a pure empirical problem that can be dealt with separately from the general analysis of the law of capital accumulation, as Sweezy appears to assume. It is, of course, very easy to refer to empirical data. Unfortunately, however Sweezy forgets to say, which concepts he is using to work on this empirical data. He finds nothing better than to refer us to Gillman's study, which, on the contrary, just shows that it is impossible to make an empirical examination of capital accumulation if the concepts employed do not have adequate theoretical explanation. Sweezy himself does not appear to be so certain about the explanatory power of the empirical studies he has quoted. On page 29 we are told that 'numerous studies' have demonstrated 'beyond reasonable doubt' that the organic composition has fallen in the last fifty years. However, we are also told on page 29 that these 'numerous studies', in reality, do not use Marxist concepts. So that, since the organic composition is one of Marx's concepts it is not clear what 'numerous studies' which do not deal with the organic composition, have to say about the organic composition. However, in order to remove our doubts, Sweezy reassures us immediately on this. There is at least one study whose findings are 'unequivocal': Gillman's study about the fall in the rate of profit. On page 29, however, we are told that "Gillman's statistical procedures have been justifiably criticised'. This does not appear to alter Sweezy's belief that the tendency in the movement of the organic composition has been reversed. The problem with Gillman's research is not so much that his statistical method can be criticised, but that his theory can be criticised in such a way that it becomes very uncertain whether his findings can be of any significance for a theory of capital accumulation.

Gillman examines the question of whether the long term trend of the important relations for the capital structure (i.e. organic composition, rate of surplus value and rate of profit) correspond, in the long term, to Marx's assumption of a rising organic composition and a falling rate of profit. In so doing, he severs the crucial connection in Marx's theory between the law of the tendency of the rate of profit to fall and the crisis theory. For Marx had never asserted that there could be an unbroken long term trend of the organic composition, but rather the contrary. The crisis is necessary precisely because the fall of the rate of profit in the long term is <u>not</u> compatible with the survival of capitalism. The crisis makes it possible for the process of accumulation to be resumed, through, among other things, the devaluation and concentration of capital.

> How is this conflict settled and the conditions restored which correspond to the 'sound' operation of capitalist production? The mode of settlement is already indicated in the very emergence of the conflict whose settlement is under discussion. It implies the withdrawal and even the partial destruction of capital.....[38]

Or:

> The growing incompatibility between the productive development of society and its hitherto existing relations of production expresses itself in bitter contradictions, crises, spasms. The violent destruction of capital not by relations external to it, but rather as a condition of its self-preservation, is the most striking form in which advice is given it to be gone and give room to a higher state of social production..... These contradictions, of course, lead to explosions, crises, in which momentary suspension of all labour and annihilation of a great part of the capital violently lead back to the point where it is enabled (to go on) fully employing its productive powers without commiting suicide.[39]

The devaluation of capital in the crisis lowers the value composition without lowering the productivity of capital, because what is destroyed is not the use-value of machines, but their value. In this way the conditions of accumulation are improved, because the productivity remains unchanged, in spite of the fall in the value composition, or even increases through the concentration of capital.

> ... the destruction of capital through crises means the depreciation of values which prevents them from later renewing their reproduction process as capital on the same scale. This is the ruinous effect of the fall in the price of commodities. It does not cause the destruction of any use-values. What one loses, the other gains. Values used as capital are prevented from acting again as capital in the hands of the same person. The old capitalists go bankrupt.[40]

Marx sees his theory of the tendency of the rate of profit to fall in connection with the cyclical movement of capitalist production. For these reasons, it is already questionable when Gillman wants to interpret the law as a long term trend independent of cycles. Here the question is raised, which we cannot discuss in this context, whether the devaluation of constant capital effected by the crisis does not today assume new manifestations like state induced destruction of part of the constant capital, inflation, monopoly (it seems to me that it is possible to examine the role of monopoly more meaningfully in this context than in that proposed by Sweezy) etc. It can only be pointed out here that these new manifestations cannot overcome the cause of the crisis, which is rooted in the capitalist mode of production, and, at best, can only postpone and modify it. Thus it can be shown with all new forms of crisis management, that these forms find their limits in the capitalist mode of production itself. Hence, one cannot expect that the crisis tendencies inherent in the falling rate of profit can remain latent in the long run.

It follows from the connection Marx makes between the theory of accumulation and the theory of crisis that the counteracting tendencies and the cyclical devaluation must be rigorously differentiated. That is, one must distinguish the factors which lower the organic composition through the power of capital itself (as capital saving technology, cheapening of the value of constant capital) from the destruction of the value of capital resulting from crises. If this cannot be done statistically, every 'empirical' investigation of the law is condemned to failure. Characteristically Gillman confuses precisely those aspects which he should keep distinctly apart, and includes monopolization and concentration of capital among the counter tendencies.[41]

Gillman's data shows that just in the period where Gillman sees a change in the trend of the organic composition the crises reached an intensity unprecedented in the history of capitalism.[42] If we take the index, which Gillman himself has calculated for the intensity of the crisis, then all crises before 1919 are below 200 (with the exception of the crisis in 1875-1878: 347), while the value of the index for the crisis in 1920/22 rises to 387, for the crisis in 1930-31 to 2,512 and for the crisis in 1937-40 to 838. Under these conditions it appears to be very questionable for Gillman to try to compute a trend for this period without examining the effects of the crisis on devaluation of constant capital and without taking into account the fact finally that, in this period, the great crisis of 1920, the great crisis of 1929 and the second world war took place. So the thesis of the 'new technology', which is supposedly responsible for the change in the trend, carries little conviction. This is because Gillman is at no point in a position to give a statistical measure of the effects of the 'new technology' isolated from the restructuring of the value composition of capital brought about through the crisis. It is significant that when Gillman comes to speak concretely about the 'new technology' he only cites examples, which appear to involve everything other than the saving of constant capital.[43]

Besides this general critique, we can criticise specific concepts which Gillman uses. Gillman attempts to statistically determine the organic composition as c/v. We have already indicated above why this expression, at the level of value (wertebene), assuming a rising rate of surplus value, is not suitable for comprehending changes in the organic composition. If one argues at the level of price (preisebene), further difficulties are added, namely, that c/v is not only modified by changes in the value of labour power, but now additionally through cyclical fluctuations in the price of labour power. Since decisive changes in the intensity of labour (assembly line production, etc) will have also taken place one can assume that a rise in the degree of exploitation of labour appears statistically as a decrease of the organic composition. It seems to be fairly obvious that one cannot conclude from this that the organic composition, in the sense used by Marx, has fallen. For all these reasons, Gillman's research is completely useless as an empirical examination of Marx's theory of accumulation. This is not because of the statistical method, but because of Gillman's theory, which nowhere considers the status of the law of the tendency of the rate of profit to fall in the framework of Marx's theory of accumulation and crisis and the relationship of Marxian categories to experience.

Since Gillman's data is 'unequivocal' as all the others, we should ask if data does exist which gives support for a rising composition of capital. There is some data which is likewise not 'unequivocal'. The capital investment per employed person at constant prices rose in Germany in both the period 1950-1970, as well as in America in the period 1879-1953. Constant prices, however, are not constant values so that these figures are only of limited significance. Bairoch gave the following figures for the value of capital per employed worker in the United States in 1929 prices (dollars).

	Capital per employed worker
1879	1,764
1889	2,702
1899	3,655
1909	5,040
1929	7,530
1948	6,543
1953	7,859 (44)

In Germany the capital intensity (gross fixed capital investment per employed person at constant prices) rose in the period 1950-55, 1955-60, 1960-65, and 1965-70, for the whole industry by 1.8%, 21.9%, 36.8% and 27.1% respectively.[45] As for the adjusted capital coefficient (adjusted for cyclical fluctuations),[46] for all German industry, it rose between 1960-1970 from 1.14 to 1.27.[47]

Kuznets notes that "constancy of the total capital product ratios implies that total capital per head increased at the same rate as per capita product".[48] If this observation is applied to the German data this means that the small increase of the capital co-efficient with a considerable growth of capital per person employed implies a similarly considerable increase in labour productivity. (Volume of net production per person employed at constant prices). Thus the labour productivity in the whole of West German industry (BRD) rose in the period 1960-65 by 24.8% and in the period 1965-70 by 29.7%[49]. It is hazardous to draw conclusions from this data, however, it appears that a tendency to increase the capital investment per person employed is operative but that, at this time, the negative effects on the rate of profit are checked by the increase in labour intensity.

Similar tendencies have been established by Mandel in a comparison of the growth rate of the production of means of production and of the means of subsistence (Lebensmittel). From the Statistical Abstract for the United States we see that:

> Between 1919 and 1952 the production of durable goods (mostly belonging to Sector I) increased 5-fold (growing from index 72 to index 340) whereas that of non-durables only trebled (growing from index 62 to index 190)[50]

In another place Mandel relies on the work of Anne P. Carter[51] which shows that "labour saving is the aim of technical progress".[52]

It must immediately be said that all these data are as "unequivocal" as all the others. At best, they are suitable for rousing 'reasonable doubt' in those who, like Sweezy believe that "on the basis of the data available to us today... the law of the tendency of the rate of profit to fall is no longer operative."[53] If the data do suggest anything, then it is only that the forces behind Marx's law of the tendency of the rate of profit to fall apparently are still latently operating. And that, further, during the successful phase of capital expansion after the second World War they have so far remained latent. There is scarcely any reason to doubt that the capital expansion of the last 30 years can be attributed to the effects of the war and to the deep lying consequences of the restructuring of international capital during this period. Therefore, Sweezy's assumption, that the latent nature of these forces has taken on a permanent character due to the changed structure of modern technnology, remains completely unjustified. In his last essay, Sweezy cannot support his assertion either theoretically, or through concrete analysis of capitalist reality. As long as Sweezy cannot find anything better to support his assertions than a reference to Gillman's study, it appears to me that everything indicates that the forces analysed by Marx are operative. And, that the following formulation of the problem is suggested: which factors have so far kept these forces latent and under what circumstances is it conceivable that they can continue to be kept latent. Unlike Sweezy, I am not of the opinion that capital can succeed in evading the contradictions which follow from the law of the tendency of the rate of profit to fall.

III

Sweezy has understood me very well when he characterises my position in the following way:

> Problems of realisation and underconsumption (and/or over production) are derived from the theory of the falling tendency of the rate of profit and have no independent existence.[54]

Only one thing must be added: that it has no independent existence as a long term, necessary cause of crisis. Because for capitalism, which is based on the divorce of production and consumption, the divergence of production and consumption is obviously always a possibility. So that the possibility of disproportion and of underconsumption is something constantly present for capitalist production. One can only show, however on the basis of a theory of the tendency of the rate of profit to fall, that a tendency towards over-production in capitalism is not only possible, but is necessary. Now, not only have I asserted this, but I have attempted to substantiate this by way of a quite extensive critique of Joan Robinson's theory of underconsumption.[55] Sweezy does not mention my argument so that I must conclude that he has still not refuted it. So that this new version of his theory of underconsumption, or his theory of the contradiction between production and consumption, is no more convincing than Joan Robinson's version, or all other versions of the same theory. Marx shows by way of his reproduction schemata how the contradiction between production and consumption, which always accompanies the capitalist form of production, finds a pattern of movement. The reproduction schemata show how it is possible for all commodities to find an outlet, in spite of the contradiction between production for consumption and production for accumulation.[56] Since total demand under capitalism represents accumulation (the demand for subsistence goods represents accumulation, that is accumulation of variable capital), the organic composition determines which part of total demand consists of demand for subsistence (Lebensmittel) and which for means of production. Thus a falling-off of demand must stem from capital, and capital discontinues its demand only when the rate of profit falls. Thus logically, we can only deduce the over-production of commodities from the fall in the rate of profit and not vice versa.

What does Sweezy's construction of "capitalism's utopia" demonstrate? Only that, without consumption, no production is possible, which no one ever disputed because it is simply a tautology. If nothing is consumed or produced then there are neither use-values nor values nor anything. A justification for Sweezy's version of underconsumption can however hardly be found in this banal statement. It is therefore scarcely credible that Sweezy can believe that a theory of accumulation which would be more fruitful than that centred on the tendency of the rate of profit to fall,[57] can be derived from this. The quote from Marx does not make Sweezy's theory more credible because the quote is taken from just the chapter on the tendency of the rate of profit to fall. It only confirms the thesis that Marx saw the phenomenon of over-production in connection with the tendency of the rate of profit to fall.

The Keynesian origin of Sweezy's argument comes out most clearly in the fact that he does not succeed in differentiating himself from Joan Robinson. We learn from footnote 20 that, the radical difference between him and Joan Robinson consists in, "What the Keynesians consider to be a maldistribution of income, clearly implying that matters can be put right by a suitable redistribution of income and thus opening the way for all sorts of reformist illusions". In order to substantiate these "radical differences", Sweezy quotes a passage from Joan Robinson, which I have also quoted in my essay,[58] about the "maldistribution of income". If however Sweezy had taken the trouble to read a page further in Joan Robinson's book, then he would have found:

> Under-consumption theories have been associated with an appeal for reform rather than revolution - with the view that capitalism might be made to work satisfactorily - and for this reason they are uncongenial to the Marxist creed. (...) But this association is superficial, for the maldistribution of income is quite as deeply imbedded in the capitalist system as Marx believed the tendency to falling profits to be, and cannot be eliminated without drastic changes in the system.[59]

Joan Robinson knows as well as Sweezy that the unequal distribution of income will not be eliminated without the removal of capitalism. The "radical difference" between Sweezy and the left-Keynesians turns out to be an extensive agreement. Of course, everyone knows that Sweezy advocates different political positions from the left-Keynesians and it is not my intention to deny this. What I wanted to show is that such positions are based on an almost identical analysis of capitalism. Hence the accusation of eclecticism, which I formulated in my essay. Sweezy's reply appears to me only to confirm this. The Keynesians themselves know that the distribution of income under capitalism cannot be changed. Hence, they do not argue for a redistribution of income, but for the state to take over a part of the investment. (Here we leave out of consideration those who have used Keynesianism as a strategy for reformist trade unions). Sweezy will not entertain such conclusions. Why not? Because he rejects capitalism for political reasons. He keeps political theory and economic analysis of the laws of movement of capital, quite separate. Sweezy's assurance, that he and Baran have never given up the value theory, remains an empty assertion so long as Sweezy cannot show how he develops the categories for his analysis of capitalism out of the concept of value. I find no argument in his essay which cannot find its place in the Keynesian conceptual apparatus.

Thus Sweezy's political criticism basically remains moral and is a critique of the irrational and inhuman forms of consumption created by capitalism for the purpose of overcoming the contradiction between production and consumption. For Marx the critique of capitalism is practical, being one of the sharpening class-struggle arising from the difficulties capital faces in the process of its reproduction and self-expansion.

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ON PRODUCTIVE AND UNPRODUCTIVE LABOUR – A REPLY

Ian Gough

The interest shown in this topic in the last CSEB is to be welcomed. Harrison[1] begins where I left off[2] by considering the economic implications of Marx's own formulation. I find myself in agreement with the major points that he makes and the conclusions he draws. Bullock,[3] on the other hand, disputes my interpretation of Marx's writings on productive and unproductive labour. He argues that the material characteristic of the product _is_ relevant to the question whether the labour producing it is productive or unproductive. In this, he appears to be motivated by a concern not to lose sight of the 'materialist basis' of Marx's political economy, a concern elsewhere expressed by Yaffe[4] among others. I, too found myself coming back to this question whilst reading Marx – hence my discussion[5] of the problem of accumulation and of the 'neo-Smithian' concept first put forward by Blake[6] which Bullock's formulation approaches. But it remains a neo-Smithian formulation and cannot be construed as a re-interpretation, however 'adventurist', of Marx's views.

Interspersed with this attempted re-interpretation, there is in Bullock's writings however a series of errors, inaccuracies and confusions, some of which bear on this question. I shall seek to analyse his position, first, in terms of what Marx wrote, and second, as a modern reformulation of Marx's views, before offering some conclusions of my own. It should be pointed out that Bullock is not concerned with Marx's development of the concept of unproductive labour to deal with commercial and supervisory workers set out in _Capital_, volumes II and III. His article deals solely with the basic formulation in _Theories of Surplus Value_, volume I and _Capital_, volume I. When Sweezy, Harrison and I refer to Marx's lack of clarity on the subject, it is his treatment of commercial and allied labour that we have in mind. By comparison with Bullock's article, his writing up to this point is a model of clarity.

WHAT MARX WROTE

Bullock goes through incredible contortions to prove that Marx did not mean what he said and did not say what he meant. Every quotation he brings forward supports our interpretation of Marx, yet in the end he manages to draw directly opposite conclusions. Marx was adamant, and time again re-iterated, that (in the sphere of production as opposed to circulation) the nature of the labour and the material characteristics of the product are in no way relevant to the question of whether the labour is productive or not. This depends solely on whether it is exchanged with capital to produce surplus value. (see my article for quotations). This is agreed by Bullock for the first few pages of his article. By page 86 however some doubts have been sown, and by page 88, "it sometimes appears that Marx regarded certain services, that is to say certain 'activities' rather than 'things' rendered as commodities, as productive _only_ for individual capitals, and not for capital as a whole". By page 89, Bullock is speaking of Marx's "dissatisfaction with his failure to work things through thoroughly" in the last pages of _TSV_, volume I. We must now accept that "Marx's definition of productive labour _does_ include a reference to the nature of the commodity". By page 92, caution has been thrown to the wind, and this characteristic is put forward as _the_ distinguishing feature of productive labour, whilst the exchange of labour with capital is relegated as a "secondary, different and subsidiary definition" – directly contrary to Marx's words quoted by Bullock himself on page 91. He continues: "Yet it will be remembered that it is such a definition, which ignores the content of the labour, which is taken as the generally accepted definition by Gough, Cogoy, Harrison and all the others I have read". It is indeed.

To trace through in detail Bullock's argument would take a long time, and is in any case unnecessary. It depends on two sets of 'evidence'. The first is Marx's alleged distinction, when elaborating his theory of productive and unproductive labour, between labour productive for the individual capitalist and labour productive for Capital as a whole. But nowhere are we provided with a single quotation to demonstrate that this was Marx's intention, and nowhere have I been able to find such evidence.[7] Marx does indeed make this distinction with regard to commercial labourers (they provide surplus labour and profit to the individual commercial capitalist but do not augment the total surplus value produced), but this is not Bullock's concern.

Second, this distinction arises, according to Bullock, from the existence of 'immaterial commodities', the production of which is productive of money for individual capital, but does not augment total capital. The reason being that "immaterial products cannot be accumulated" (p. 89). As a result "the labourers 'make money' apparently directly ... commodities are not changed into capital as commodities, but apparently directly into money" (p. 89). This leaves the way open for Bullock to reinterpret this transaction as "merely the transfer of money" (p. 90), or even as "the redistribution of revenue" (p. 93)! Such errors and confusions are clearly based on a simplistic notion of the accumulation of capital and the production of surplus value. It is money as capital which is laid out before and recouped after the production process. Money capital is accumulated whether the workers labour to produce food, steel, bullets or concerts, provided they exchange their labour with capital and work long enough to more than cover their necessary labour. All such labour "works for the self-expansion of capital" (Marx). To argue that the production of immaterial products is in reality merely the circulation of money (M-M') because "the product has vanished instantaneously", is directly contrary to Marx's analysis. The production of these services, as much as of material goods, follows Marx's circuit of money capital: M-C...P...C'-M'. The fact that the production and consumption of the commodity coincide is of no relevance - the commodity (sic) is produced capitalistically and it is exchanged with money to realise the surplus value produced. It is naive materialism to equate the accumulation of money capital with the physical accumulation of products. It is true that Bullock then goes on to reinterpret immaterial products as 'luxuries' or 'non-basics', something we consider below. But at this stage we should emphasise that nowhere does Marx introduce such qualifications into his analysis, and on many occasions he specifically denies their relevance to the question of what constitutes productive labour (see my article for evidence).

Many other errors in Bullock's article are related to this fundamental misinterpretation. To say that "From Marx's position the transport of people is a service which is unproductive for capital" (p. 94) is simply wrong. The quotation from Marx which Bullock then reproduces ("But the relation between buyer and seller of this service has nothing to do with the relation of the productive labourer to capital, any more than has the relation between the buyer and seller of yarn") would, if needed, help him avoid many errors in the following page. Whether the persons transported are the idle rich or commuting workers is a matter of supreme indifference to Marx in the context of his theory of productive and unproductive labour. The labour of transport workers, if employed by capital, is productive in all cases.

However let us now turn from the question of what Marx wrote, to the value of Bullock's formulation of the concept in a modern context.

PRODUCTIVE AND UNPRODUCTIVE LABOUR TODAY

Bullock's alternative formulation is very confused. Productive labour is now to be interpreted as labour productive of "commodities for Capital" (significantly with a capital 'C') and not merely productive for the 'individual entrepreneur'. The material characteristic of the product is relevant in drawing this distinction, but, immediately, two different criteria are put forward:

(a) Accumulability. "Immaterial products cannot be accumulated ... (they) 'vanish' upon realisation" (p. 89). They "result in no accumulation of material products for capital as a whole" (p. 90).

(b) Basics/non-basics. Intertwined with this criterion, Bullock puts forward a second: whether or not the products enter the cycle of reproduction as elements of constant or variable capital. "Immaterial production is luxury good production. They are non-basics" (p. 91).[8] But much of the time this is expressed in terms of accumulation ("education ... has an accumulative effect"), and the two are often confused.

The difference between these two criteria is clearly revealed in the case of material luxury goods, such as arms, expensive jewelry, etc. These material goods can be accumulated, in the most obvious sense of 'piling up', but they in no way enter the production of other commodities as elements of constant or variable capital. On the other hand, the 'effects' of some necessary services (such as health or education) cannot be accumulated; or rather, it is difficult to see precisely what meaning this expression has, unless one is referring to their role in the production of other commodities including labour power. Either materiality or the basics/non-basics distinction is the key - it cannot be both. It is just not clear which of these two criteria Bullock has in mind.

In the section of my article on this problem (supposedly "ignored by Gough"), the following points are made: 1. The neo-Smithian concept (as I termed it) can provide a coherent reformulation of the productive/unproductive labour distinction, useful for analysing reproduction and accumulation. 2. Marx nowhere puts forward such a formulation. 3. However, one reason for this may be that, at the time he was writing, productive labour consisted "almost entirely of labour which produced necessary wage-goods and means of production, whereas luxuries were chiefly services supplied by unproductive workers supported directly out of revenue. In this case, his explicit analyses ... would be less relevant - they would indicate that he was aware of the logical problem when forced to confront it, but did not consider it of any practical importance".[9] 4. Yet, given that production of surplus value is the crucial determinant, it is difficult to see how one can redefine the concept in this way, and still remain faithful to Marx's original intention. Do workers employed by capital produce surplus value, or do they not? 5. If one does adopt rigorously a basics/non-basics distinction between productive and unproductive labour, then this ought logically to be extended to the State sector (non-productive workers in Harrison's terminology). Some of these (education and health workers, some research teams, etc.) do contribute to the production of constant or variable capital, and should therefore be regarded as productive.

It is not clear which, if any, of these statements Bullock would agree with. But the lack of clarity stems precisely from his attempt to impute such a concept to Marx. This is all the more surprising since Marx devoted most of his writings on this subject to separating out the 'correct' and 'incorrect' strands in Smith's concept. Least of all can a neo-Smithian interpretation of productive labour be attributed to Marx.

ALTERNATIVE FORMULATIONS

When commercial and supervisory labour is considered by Marx in Capital, volumes II and III, we have seen that a historical/critical element is introduced into the determination of productive labour. This is therefore common both to Marx's concept and Baran's reinterpretation of it.[10] Harrison draws a sharp line between critical and scientific concepts, and argues that the introduction of the 'critical' element weakens Marx's analysis. Though I have doubts that critical and scientific concepts can be separated thus, it does seem to be true that there is no logical basis for defining unproductive labour in terms of labour potentially unnecessary in some classless or commodity-less society, and that this should be avoided if it results in the problems which Harrison notes.

He therefore proposes that "all labour performed under the capitalist mode of production should be treated as 'productive'".[11] Commercial and allied workers are, like workers involved in production, employed by capital, they perform unpaid labour, and they are 'qualitatively exploited', that is they work under the direct control of the capitalist in the labour-process. But these last two conditions apply equally well to all State employees - they are exploited qualitatively in the labour process, and also quantitavely since they perform surplus labour. As Rowthorn says: "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". On these two criteria, then, all State employees should also be regarded as productive.

What does serve to separate State employees from all workers in the capitalist mode is precisely the fact that the latter are employed by capital and therefore realise their surplus labour in the form of surplus value. But Harrison then goes on to consider further the position of certain State workers who, he argues, provide 'net benefits to capital'. (Such a phrase must be used extremely cautiously. It may well be that the monarchy, for example, is indirectly 'beneficial to capital' if it depresses class conciousness and militant class action. I shall use the term in the much more precise sense used by Rowthorn and Harrison: where there is a flow of surplus, unpaid labour from other modes to the capitalist mode which the latter can then realise as surplus value. For a demonstration of how this can occur, see Rowthorn and Harrison, op. cit).

I would like to suggest that, if we abandon Marx's criterion of unproductive labour developed in Capital, volumes II and III, this is indeed the way it should be reformulated. It is the reinterpretation most consistent with the purpose of Marx's original concept - to explain the existence and quantity of surplus value in the capitalist mode of production. For circulation workers, Marx argued, are indirectly productive of surplus value. To quote him just once: "Insofar as it (merchant's capital) contributes to shortening the time of circulation, it may help indirectly to increase the surplus-value produced by the industrial capitalists".[12] Mandel, who follows strictly Marx's theory of productive labour, shows that "commercial capital shares in the division of the total surplus value, on an equal footing with industrial capital, because by reducing the circulation time of commodities it helps the industrialists to increase the total amount and the annual rate of surplus value".[13] We may regard all circulation workers as indirectly productive of surplus value in this sense or (in the long run) they would not be employed. It appears to me that there is then very little difference between these workers and those State workers whose labour is also realised in the quantity of surplus value produced by the capitalist sector in the manner analysed by Rowthorn and Harrison.

How does this reformulation of Marx's concept relate to the neo-Smithian approach (which, I suggest, is the only consistent way to interpret Bullock's formulation)? They have this in common - that the State workers regarded as productive in both cases produce goods and services which are consumed as components of constant or variable capital. This is so in the examples quoted by Harrison, and it appears to be a necessary condition. But they differ in that a consistent neo-Smithian approach would rule out as productive, labour employed by capital but operating in 'department III' producing luxuries. It has been argued above that this can be rejected as a reinterpretation of Marx's concept in the spirit of his original. Harrison's formulation, I have argued, is consistent with Marx's own. It enables one to distinguish that labour directly or indirectly productive of surplus value, from that labour supported by it. It would appear that on this basis, the concept can be redefined in a useful and scientific manner. But this still leaves the second part of Harrison's tast open: can (the concept) be successfully integrated into the general theoretical framework of Marxist political economy"?[14] With the introduction of substantial sections of State employees (not to speak of housewives) into the ranks of workers producing surplus value, this may prove a more difficult condition to meet.

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8. In fact Sraffa's division between basic and non-basic commodities should be distinguished from Marx's division between commodities produced in departments I and II (means of production and necessary wage-goods) and

those produced in department III (luxury goods). Non-basics consist of all commodities which do not enter into the production (whether directly or indirectly) of every commodity. Luxuries consist of those commodities which do not enter into the production of any commodity. Clearly the first set embraces, but extends beyond, the second, so that some means of production (for example machines specifically to make luxury goods) are non-basics. For some purposes it is useful to draw a third distinction, by dividing the output of means of production and wage-goods into a portion which are required to produce luxury goods. The total 'luxury sector' of the economy then consists of department III plus that portion of departments I and II. See P. Sraffa, The Production of Commodities by Means of Commodities, pp. 8, 51. K. Marx, Capital, Vol. 2, 1967, p. 407. P. Garegnani, 'Heterogenous Capital, the Production Function and the Theory of Distribution', in E. K. Hunt and J. G. Schwartz (eds), A Critique of Economic Theory, p. 261

9. NLR, op. cit., p. 66.

10. P. Baran, The Political Economy of Growth, Ch. 2.

11. Harrison, op. cit., p. 81. This is based on the analysis of 'mode of production' put forward by Balibar, Rowthorn (in 'The Reduction of Skilled to Unskilled labour', unpublished) and Harrison in another paper ('The Political Economy of Housework', this issue). Essentially this involves distinguishing capitalism as a mode of production from capitalism as a world socio-economic system in which the capitalist mode dominates. The latter embraces other modes within it - in Britain today the State and the housework sectors are important. In what follows I am accepting this analysis.

12. Capital, vol. III, ch. 16, p. 280.

13. E. Mandel, Marxist Economic Theory, p. 189.

14. Harrison, op. cit., p. 81.

PUBLIC OWNERSHIP AND ECONOMIC THEORY

Michael Barratt Brown

It was an old gag of Keynes's that behind all new policy proposals in politics may be found some long defunct economic theory. It was not hard to see neo-classical economics lurking behind Mr. Enoch Powell's moment of glory in the first year of Mr. Heath's government. Nor was it any surprise that the experiment in freeing the market was called off at the million unemployed mark. Keynes had insisted in his Notes On Mercantilism at the end of the General Theory that neo-classical theory was a myth - a beautiful myth, no doubt! - but the fact was that the state had always intervened to sustain the inducement to invest in a money economy. What Keynes proposed was that the intervention should be adequate to secure "an approximation to full employment", and he warned that it might have to be stepped up in scale to avoid long-term stagnation so far as to embrace "a somewhat comprehensive socialisation of investment", involving the "gradual euthanasia of the rentier".[1]

Most of the Tory and Labour Parliamentary leadership would hesitate to go as far as that; but they share once more a common Keynesian view of the need to manage aggregate demand, including state regulation of profits and wages, and to socialise investment, including some extension of public ownership where the inducement to invest is weak. What this has meant in recent years has been that the state has stepped in to provide grants from taxation or loans with government guarantee for economic activities in those geographical regions and sections of industry from which the main private accumulators of capital - the giant transnational companies - had withdrawn, i.e. had withdrawn their interest as investors, not necessarily at all their interest as accumulators of capital. In the world-wide competition of these companies each must establish and maintain certain monopolistic positions. Capital must be switched into these positions at the expense of all else and, since much of the new investment is in highly capital intensive technology, and profits are intested rather than being consumed, new employment opportunities may not be generated as fast as old ones are destroyed. The state has to take up the slack and the typical pattern of public ownership has been of state assumption of unprofitable sectors and areas of industry. Profitable bits are hived off, state capital is pumped in, operations are rationalised, productivity is stepped up from the low levels which previous lack of investment had created, wages are held down and the private sector is assured both of a market and a cheap service to enhance its profitability.

So much is common ground among left critics of Parliamentary Labourism both inside and outside the Labour Party. The proposals in Labour's Programme 1973 for extending public ownership to the docks, aircraft, shipbuilding, road haulage, pharmaceuticals and urban building land do not go much beyond the accepted limits of a state-maintained infra-structure for a profitable private sector. What remained of the proposal for a National EnterpriseBoard, after the Labour Parliamentary leadership had persuaded the Union leaders and the Party Conference to drop the 25 large manufacturing companies, clearly recognises the same limits in laying down the criteria for the Board's acquisitions:

(a) effect on employment prospects in the regions;
(b) investment policy and growth;
(c) control of monopolies;
(d) control of finance and property speculators;
(e) strengthening public accountability in the national interest.[2]

Combined with "the principle of public investment in private firms and full national participation in the growth sectors of the economy", recommended in the next sentence, this list with the possible exception of (c) presents little or no threat to the main centres of capital accumulation.

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[1]Quotations from J. M. Keynes', General Theory, Papermac edn. pp. 376-8.
[2]Composite Resolution No. 36, Labour Party Conference 1973.

But this is not the end of the matter, as some left critics seem to suppose. Conference passed two other resolutions, Nos. 35 and 18, supporting the NEC's proposal for extending public ownership and control; and the NEC had in fact, if only just, put its name to Labour's Programme 1973. This included the proposal for nationalising the 25 leading manufacturing companies; the possible models of public ownership for the Banks, the Insurance Companies and Building Societies; the Planning Agreements system to control investment policies of the top 100 companies; and the new Industry Act to give a new Labour government almost unlimited powers, subject to Parliament, to intervene in the activities of companies, including the large multinational companies, with specific power to "purchase companies outright, if necessary in the national interest". All this could be regarded as mere rhetoric designed to rehabilitate the somewhat tarnished reputations of some of the "darlings of the Left" who entered Mr. Wilson's cabinet last time or may hope to enter it next time. They knew very well the violently negative response of Mr. Wilson and the Parliamentary leadership of the Labour Party to the 25 companies proposal and may be presumed to have connived with the Trade Union leaders not to press for retention of the 25 companies in the Platform Supporter conference resolution, so that the only alternative left in the field was a fundamentalist resolution demanding nationalisation of 250 manufacturing companies together with the land, the banks, the finance houses, insurance companies and building societies. This was, as usual, overwhelmingly defeated and the platform was saved again by the polarisation of the left. But was the 25 companies proposal just a piece of rhetoric?

The answer to this question can only be given in the light of the political and economic model within which these events are viewed. Politically, reformism can be seen either as an aim in itself, to contain working class aspirations within the limits of the capitalist system, or as a means to develop socialist consciousness of the necessity to transcend the system. It need only be said here that what determines one's view should not be the generic reformist label attached to piecemeal social changes but the action that surrounds the particular reform - the struggles involved, the discussions of its meaning, the perceptions of its implications and limitations. Economically, reformism can be seen likewise, either as illusory - since the structure will reassemble in a different form but one that essentially negates the reform - or as preparatory - since the structure is supposed to be modified enough to create the conditions for more radical change. Once again, the key issue is the development of consciousness, because socialism is not a blue print that socialist intellectuals have to sell, but a way of life that working people have to discover for themselves out of the contradictions of capitalism. State ownership is not socialism, and may even be an alternative to socialism, one that retains power at the top, in a situation where private ownership of the instruments of production is no longer viable. What matters, then, is not the number of companies nationalised - 25, 250 or 2500 - but the nature of the campaign that leads up to nationalisation and the forms of control established over their subsequent activities.

All this becomes important in the argument about Labour's programme for public ownership because it seems likely that contradictions in the development of productive forces and of the economic structure are forcing changes that go well beyond the underpinning by the state of the profits of the private sector. It may be quite reasonable then to expect a Labour administration to take over the shareholding of profitable as well as of unprofitable companies, although not without resistance. Kaynes after all talked about "socialising investment" and the "euthanasia of the rentier"; and it is of great significance that a shrewd Keynesian like J. K. Galbraith, who has indicated over the years stage by stage in book after book what had at each stage to be done to manage capitalism, should now be arguing for the demise of the corporate stock-holder and for state management of the accumulation process. I am not, of course, suggesting a capitalist conspiracy in which the Labour left or J. K. Galbraith are involved, but only that they are responding to the real world of inflation and transnational company pricing policies and investment flows, in which nation state governments have now to survive. I predict that Galbraith's next book will be about 'managing' interimperialist rivalries.

It is not perhaps necessary to stress among socialist economists that Marxist political economy begins, not with the contradictions of an unplanned economy, but with human alienation in the process of commodity production. Those who prefer to learn their Marxism in the academic journals with a wealth of mathematical equations can find a brilliant exegesis in the current Economic Journal by E. Wolfstetter of Dortmund. Many of the contradictions of capitalism could no doubt be overcome by central planning through state control and ownership of industry without removing the essential element of the extraction of surplus from behind the veil of commodity fetishism. It is thus of rather more importance than the debate over the 25 or 250 companies that the Labour Party conference passed a composite resolution (No. 18) on Industrial Democracy and that the influential Public Enterprise Group, that includes in its membership most of those who drew up the Labour Party Green Paper on the National Enterprise Board should have rebelled against the Party platform and decided to join forces with the Institute for Workers' Control to "coordinate a campaign on public ownership and workers' control in leading companies throughout the country that will take the key issues from the Conference floor to the shop floor in the run-up to a General Election."[1] It is more than probable that within the limitations of Parliamentary politics, the electorate will reject public ownership this time, as before, as being in no way preferable to private ownership; but if the discussion is about workers' control and not about state control, a new level of popular aspiration and of social activity may be generated which may prepare us to face the threat of dictatorship from the right or the left as the power of state management is extended; and that is about as much as one can hope for at the moment.

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[1] Public ownership and Workers' Control, by Stuart Holland and Michael Barratt Brown, Spokesman pamphlet.

Gary Teeple (ed) CAPITALISM AND THE NATIONAL QUESTION IN CANADA (UNIVERSITY OF TORONTO PRESS, 1973) Alan Moscovitch and John Calvert.

With the resurgence of nationalist movements in both English speaking Canada and Quebec, there has been renewed interest in the study of the development and structure of Canadian economy and society. Capitalism and the National Question in Canada is a collection of essays edited by Gary Teeple which is intended to be a Marxist contribution to this study, and in particular to the debate on the origins, growth and implications of American domination of Canadian resources and production.[1] In the review essay which follows, we have first tried to place the debate in context by providing a few details of the growth of the nationalist movements in Canada.

From this starting point, we have then critically examined each of the essays in Capitalism and the National Question from a perspective that we would regard as Marxist as well. In the course of the review we have often presented our arguments in detail, on the grounds that our readership may not be so familiar with Canadian development. Lastly, we have concluded with an examination of critical questions, unanswered by Teeple's book.

While it is difficult to trace the origins of a movement to particular people or events, there are clearly some recent events which have special significance for the nationalist movement in English-speaking Canada. During the Pearson years of Liberal party rule (1963-68), a Toronto accountant named Walter Gordon, resigned from his position as Finance Minister because his colleagues refused to countenance his attempts to give voice to his brand of economic nationalism. Gordon was worried about the pressure that Washington could put on Ottawa because of the American dominance over Canadian economic life.[2]

After his resignation Gordon continued to press for legislation to encourage Canadian ownership through the imposition of such rules as a requirement of 51% stock ownership by Canadian citizens. He would also have required wholly owned subsidiaries to list their shares on Canadian stock exchanges. Hardly much to get excited about. But it was indicative of a contrary voice to the postwar solidarity of commitment by Canadian finance and the Liberal party to providing the funds for the continued exploitation of Canadian resources by American big business. In order to induce him to return to the fold, Gordon was offered a sweetener - a Task Force[3] to investigate foreign ownership. The Tas Force report was completed in 1967, and was promptly buried by the Liberal Party because of its critical implications.

But it was not entirely forgotten. Accidently, Gordon had assembled a staff[4] who had done some valuable research, even if most of it was not actually in the report. The experience of the research and writing was for the Director, Mel Watkins, a liberal University of Toronto economist, a somewhat radicalizing experience. While Gordon went on to found the Committee for an Independent (Capitalist) Canada, Watkins turned to the New Democratic Party for support. At the 1969 Conference of the Party he presented a Manifesto arguing that Canadian economy and society was fast approaching a critical hour when the last vestiges of Canadian economic sovereignty and political independence would disappear. At this critical juncture Watkins argued it was necessary to socialize production and finance because (a) there was no capitalist class to preserve independence (b) independence was to be valued (c) a socialist society could then be created which would replace the exploitative economic and social relations which are the result of American capitalist dominance.[5]

The group which supported the manifesto and the linking of independence and socialism was nicknamed the Waffle group.[6] While it has had some success in promoting issues, it has lived a most uneasy life within the NDP. Despite gaining 39% of the Federal NDP leadership vote in 1971 the group was virtually dismissed from the party in June of 1972 in Ontario, the province where it had much of its Party support. Part of the group has since reconstituted as the Movement for an Independent Socialist Canada (MISC).[7]

The resurgent English Canadian nationalism has had both the CIC and the Waffle group as its primary visible proponents. In Quebec there is a similar story to tell, although there is a more sustained history of nationalist sentiment. After the early days of the so called Quiet Revolution at the beginning of the 1960s had passed, a disquiet remained among some members of the provincial Liberal leadership. While some sought the Federal road in Ottawa, and some were satisfied with the then current road, others reacted to the English Canadian and American dominance of economic life by trying to found a Quebec version of capitalism with a human face. Again we can discern some visibly signal acts leading up to this development - the founding of the Rassemblement pour l'Independence Nationale (RIN) in 1960, the Front de Liberation Quebecois (FLQ) in 1962 which initiated a series of bombings throughout the 1960s; the founding of Parti Pris, a radical monthly magazine in 1963, and the Mouvement de Liberation Populaire (MLP) which grew out of the group around it; and, the resignation of Rene Levesque from the Liberal Party (Quebec) in 1967 to found the Mouvement Sourerainete-Association (MSA). This diversity was largely overcome when Levesque formed the Parti Quebecois (PQ) in 1968, out of the MSA and diverse elements from the RIN, the MLP, and latterly the FLQ when, in late 1971, Pierre Vallieres announced his change from FLQ guerilla to PQ supporter.[8]

Accompanying these various groups has been an outpouring of historiography and political strategy, of for Canada, great dimensions. In providing a new contribution to this literature, <u>Capitalism and the National Question in Canada</u> comes at a time when there are indications that the naivité of the Waffle and the reformism of the PQ seem to be resolving into a more serious theory and practice.

Tom Naylor opens the collection with a survey of several hundred years of Canadian economic development. He begins by rejecting the staples theory (and its variants) and the extant Marxist studies, the former for giving insufficient consideration to the capitalist class, the latter for misinterpreting its character. On the former score it would be difficult to disagree. The majority of historical studies utilize a form of traditional trade theory - that Canadian resources have been developed because Canada had a comparative advantage in the production of resources which could be traded for French, British and American manufactures. Resource development according to another variant has moved from the development of one staple to another in response to changing external demand. Internally, the exploitation of each resource has created linkages which led to other economic activity. The full explanation of the staples thesis can be found in the work of the Toronto economic historian Harold Innis.[9] Readers familiar with the work of A. O. Hirschman, F. Perroux or D. North will understand the combination of export base, economic pole, and economic linkages theory which is contained in the staples thesis.[10] Canadian development follows a path from cod, to fur, to lumber to agriculture, to wheat and finally in the 20th century to natural gas, petroleum and chemicals.

Naylor rejects these explanations in his attempt to explain Canada's colonial status. Instead he proposes to examine the relationship between the successive French, British and American metropoles and the Canadian hinterland. However, despite changes within each metropole and from metropole to metropole Naylor perceives a continuity which is the key to understanding Canadian development. This continuity, resulting from the decisive control over economic development exercised by a Canadian mercantile class is also the basis for his rejection of other Marxist analyses.

The metropole/hinterland thesis is of course not new, and Naylor ought not to claim originality even in its application to Canada.[11] Others have also placed great emphasis on the critical importance of (1) the group of Montreal merchants who controlled the fur trade and the distribution of land, after the English conquest of France (1763) and the exodus of British loyalists from the United States in the 1780s; (2) the great British finance houses that supplied portfolio capital to Canadian financiers for the development of railways and to the governments they controlled for the development of public works such as canals, and roads; (3) the special tariff concessions which fostered trade until the repeal of the Corn Laws in 1846.[12]

What is perhaps more original is his claim that the dependency of Canadian mercantile interests and their control which they were able to exercise throughout the 19th century led to the establishment of the Canadian nation state. While in Britain and the United States industrial capitalists acceeded to power, in Canada financial interests with a mentality rooted in British mercantilism were able to remain in power. Confederation consequently was the means by which they could provide themselves with strong guarantees and ready cash for their subsequent railway projects. Here Naylor criticizes Ryerson for believing that the high tariffs of the National Policy (1878) established soon after Canadian Confederation reflected the ascendancy of industrial interests. The tariffs were intended <u>to attract</u> capitalists and block the exodus of workers and farmers from Canada by providing jobs.[13]

The thesis is certainly convincing at this point, with Naylor marshalling some interesting evidence in support. For example, he shows that the list of prominent financiers is virtually the same as the list of politicians. No doubt that in a more detailed study further details could be found to strengthen the case.

It is interesting to note that subsequent liberal economic studies of the tariff have been predicated on the idea of the tariff bringing about an inefficient allocation of resources by protecting Canadian production. But, argues Naylor, the creation of the American branch plant economy with its inefficiencies was precisely what the tariff was intended to do. Libereal economic studies tend also to forget another aspect of trade relations in the transition from Canadian dependence on the British to the American metropole. While British capital was primarily portfolio, long term guaranteed lending, American capital was equity based because of the desire of American industrial interests for control of sources of supply and markets for goods. Consequently, in the post 1945 period when American equity investment was rapidly expanding while tariffs were lowering, economists who stress the role of the tariff exclusively are left arguing that high tariffs <u>and</u> tariff reductions stimulate investment.[14]

Naylor argues that a combination of tariffs, external demand in the metropoles, a desire by metropolitan American industry for control and for profitable outlets for surplus, and Canadian mercantilist dispositions has led to the current situation in Canada in which (1) there is a high concentration of Canadian ownership in finance and services, especially transport and communications; (2) there is a high concentration of American ownership in resources and manufacturing; (3) the former mercantile class is becoming a corporate managerial class, junior to the American directors.

Where Naylor is weak is in not providing details of how the governments of the 1920-1960 period laid the foundations for the new dependence through grants, loans and concessions while providing the social welfare policies and policing necessary to ensure a quiescent urban working class. In this respect the role of C. D. Howe, Minister for Trade and Commerce from 1944 to 1956 and his proteges such as Mitchel Sharp and Robert Winters, directors of Brascan, one of Canada's most notorious multinationals, is of crucial importance.[15] But it is hard to fault him for failing to provide details of a period about which so very little is known.

Teeple's own paper examines land granting policy after the English conquest. Here he emphasizes the control of land grants by the Governor of the colonies and his council of leading merchants. This control becomes a means both of increasing their wealth and, by forcing most immigrants to the emerging cities, of creating the potential for an industrial working class. But simultaneously the hold of the clergy and the rich over land prevented the development of industry and consequently ensured the supremacy of the merchant groups.

The thesis reinforces the view previously put forward by Naylor. But, most of what Teeple relates can be found in Gustavus Myers, History of Canadian Wealth, where more detail on the Land Companies, the Hudson Bay Company, the Loyalists, and the various Churches can be found.[16] In addition, Teeple, as Naylor before him, too carelessly disregards the protests against the dominence of mercantile interests. While it was the case that merchants remained the ruling class, their position was not unassailed. As Ryerson points out, the Montreal businessmen who, in 1849, called for annexation to the United States, were not able to obtain much support for this enterprise. Later, the reciprocity treaty of 1854 allowed for American exploitation of natural resources assisted by the burgeoning railways. But the railways also encouraged some indigenous industrialization.[17]

Following the Naylor-Teeple articles on the development of capitalism in Canada, there are three essays which explore the resultant class structure.

Leo Johnson in his essay 'The Development of Class in Canada in the Twentieth Century' presents a rigorous, yet rather traditional, Marxist analysis of Canadian society. Initially, he castigates Canadian academic liberals and Canadian socialists for their failure to come to grips with the concept of class in Canada. Following a rather well trodden path, he points out that liberals have seen the notion of class primarily in terms of the subjective consciousness of individuals rather than in terms of their relationship to the means of production. Hence they have failed to understand the structural causes of long term social change. On the other hand, Canadian Marxists, he contends, have all too often commited the error of simply transplanting a Marxist analysis of European conditions into the Canadian situation without recognizing the existence of significant economic and historical differences. Johnson argues that this has led to a number of serious mistakes by the Canadian left over the timing of revolutionary activity and the assessment of those forces opposed to social change in Canada.

Johnson's own analysis focuses on changes in the class structure of Canada over the past 150 years. He argues that until the 1960s the petite bourgeoisie was numerically and politically far more important than the working class in Canadian politics. This meant, in Marxist terms, that the principle conflict in Canadian society was between a powerful but declining petite bourgeoisie - composed primarily of farmers, fishermen, and small businessmen - and an ever more powerful capitalist class. The fact that petite bourgeois elements were so strong meant that whenever conflicts between capital and labour broke out, capitalists could rely on the support of the petite bourgeoisie to suppress working class struggles. It also explained the failure of revolutionary actions by workers in 1919 and in the great depression.[18]

However, the current situation is quite different, Johnson argues, because the power of the petite bourgeoisie has been almost entirely eroded by changes in class structure brought about as a consequence of the further development of capitalism. The proletariat has grown in numbers and in potential strength while petite bourgeois elements - especially farmers - have declined precipitately over the past 50 years. Confrontations between capital and labour will not be deflected by the interference of petite bourgeois elements in the future. Thus, according to Johnson "... traditional appeals to the working class and classical strategies which were inappropriate in the Canadian class situation in 1920 and 1940 may now take on a new validity as the essential class conflict shifts to one between the working class and capitalists".

Johnson's argument here is very dubious. For one thing he ignores the militancy and radicalism that characterized farmers struggles, particularly in the west. Eastern business and railway interests often were seen by western farmers as their prime exploiters thus facilitating alliances with labor groups. Yet these same farmers are the people that Johnson includes in his category 'petite bourgeoisie' who by definition supported the capitalist class. Labelling groups such as farmers 'petite bourgeoisie' does nothing to explain why in some circumstances they were willing to support labour while in others they remained neutral in the struggle between labour and big business.[19]

The assertion that the failure of revolutionary struggles in Canada can be explained by the fact that the petite bourgeoisie outnumbered the proletariat is even more questionable. The fact that the proletariat was a small minority in both Russia and China - not to speak of various third world countries - did not prevent revolution. Why is Canada so unique? Johnson does not explain. Moreover the kind of mechanical application of Marxist formulas which underlies his main thesis in no way advances the development of a reasoned Marxist interpretation of Canadian history.

Bearing these theoretical shortcomings in mind, we can now turn to his empirical analysis of the three classes in Canada. In describing the capitalist class, Johnson emphasizes two points: the degree of concentration of ownership and the size of the major Canadian-owned banking and financial institutions. In this discussion he draws heavily from the work of F. C. and L. W. Park, and the work of John Porter.[20] Of particular note, perhaps, is the fact that Canadian banks are among the largest in the capitalist world. The Bank of Montreal, for example, has assets of over $10 billion and several other banks such as the Royal Bank of Canada are of a similar size. Canadian banks are heavily involved in foreign investment, particularly in Latin America and the Caribbean. Through interlocking directorships with insurance companies, transportation interests and other enterprises they are able to exert a very large degree of control over certain sectors of the Canadian economy. For example, one group of interlocking corporations (the Bank of Montreal - Sun Life Insurance Co. - Canadian Pacific Railway - Royal Trust - Steel Co. of Canada) has over $20 billion in assets and hence considerable economic leverage.

Johnson, like Naylor and others, emphasizes that in this one area of Canada's economy - banking and finance - American inroads have been vigorously and successfully resisted. For example, in 1965, when Rockefeller's Citibank attempted to take over the Mercantile Bank of Canada in order to gain a foothold in Canadian banking, the major Canadian banks used their influence on the government to obtain legislation against the takeover bid.[21] However, as Johnson points out, in areas where their vital interests are not at stake, such as the industrial sector, Canadian financial interests have not objected to the extension of American control.

Johnson argues that there are three distinct groups within the Canadian bourgeoisie. Because the Canadian bourgeoisie is not homogeneous, he believes that no simple relationship to American capital can be postulated. Each group has a different interest in relation to American control of the Canadian economy and this gives rise to the seemingly paradoxical situation where some capitalists support nationalism while others oppose it.

The most important group within the bourgeoisie consists of the owners and managers of the Canadian-owned banks, insurance companies, trust companies and transportation interests mentioned earlier. Because of their large foreign investment and their ability to co-exist with US and other multinational firms on a more or less equal basis, they have a strong interest in opposing Canadian nationalism lest it lead to retaliation by other nations on their investments outside Canada. A second group within the Canadian bourgeoisie is committed to US investment because of its dependence on American capital. This may be directly, as in the case of Canadians who manage American subsidiaries in Canada, or indirectly as in the case of those who own firms supplying American corporations or distributing American products. Finally, there is a diminishing group within the Canadian bourgeoisie - normally composed of small Canadian businessmen - whose existence is quite independent of American connections and who may well see Canadian nationalism as good business because it reduces American competition. This group is the weakest of the three and normally is incapable of overriding the continentalist viewpoint of the other two.

We think that Johnson's discussion of the relationship between the three groups within Canada's ruling class provides a good insight into the reasons for the contradictory stance of different groups of Canadian capitalists on the issue of nationalism. And it gives some indication of why Walter Gordon's Committee for an Independent (Capitalist) Canada has had only limited support from Canadian business.[22]

Two essays are devoted to the issues of class and nationalism in Quebec, as distinct from the rest of Canada. "Social classes and nationalist ideologies in Quebec 1760-1970", by Gilles Bourque and Nicole Laurin-Frenette is exerted from a longer article originally published in Socialisme Quebecois. In setting the stage for a discussion of the 1960-1970 period, the authors criticize ethnic class theories as applied to Quebec. Several Quebec writers have developed analyses based on (1) a "consciousness of self as member" theory of the nation and (2) a dichotomy between ethnic and class consciousness. These two premises have led to the explanation of Quebec history as the history of self-conscious ethnic class. While social classes exist, national consciousness has, according to this view predominated over class consciousness.

In contradistinction to this view, Bourque and Laurin-Frenette, see nationalism as an ideology linked to the dominant class in any social formation. In other words, nationalism can be a workers' ideology only when workers are the dominant class. In addition, the nation is defined by particular features of social formation - territory, state, language. While this view is fairly well trodden ground, they present a more original interpretation of Quebec's national structure. They see the working out of class relations in a state which is subject to a dual imperialism - internal and external domination of nation over nation. While the former began with the English conquest in 1760, the latter was the result of increasing incursion of American capital, interested primarily in Quebec's raw materials. It is in this context, that the authors see three types of nationalism: (a) Conservative nationalism. During the period 1760-1840 nationalism was based on an alliance of seigneurs (large land owners) and high clergy; and between 1840 and 1960, it was based on petite bourgeoisie opposed to capitalism, and on urban French petite bourgeoisie seeking a place in Canadian capitalism. (b) Dynamic, independentistic. During the 1800-1837 period leading up to the abortive revolution of 1837, nationalism was the ideology of French Canadian petite bourgeoisie, and again from 1950 leading up to the formation of the Parti Quebecois. (c) Socialist. Currently, they argue that nationalism reflects the aspirations of working class militants and intellectuals for national liberation.

This theoretical structure suffers from several problems. While rejecting subjective aspects of nationality, they fail to provide an explanation, except in the most general terms, of a nation. Why is it possible to define all aspects of nation in "objective" terms? The answer is not to be found. Similarly in interpreting Quebec as being doubly dominated they provide only the most cursory of evidence. Lastly, while some of the difficulties of following the arguments may be due to the quality of the translation, the work seems needlessly complicated and laden with jargon.

Passing now to the analysis of the 1960-70 period, the authors argue that rapid postwar industrialization culminated in the rise to power of the urban French Canadian middle class, as a result of the collapse of the traditional rural-based middle class which had ruled through the Union Nationale from 1936-1960. The first four years of the period were known as the Quiet Revolution, in which the urban middle class tried to ensure its ascendancy. Within this new middle class the authors perceive that there was a split between a technocratic faction (the administrators of the state sector, nationalist but also liberal) and a small industrialist faction (based on private enterprise, liberal but also nationalist). In other words, although there was a difference of emphasis the authors regard nationalism and liberalism as being "inseparably linked in a single class project".[24] The modernization of education, the nationalization of electricity, and the transfer of powers from Ottawa to Quebec City are all seen as having the objective of expanding white collar employment and employment potential.[25]

The Parti Quebecois, formed by a former Quebec Liberal cabinet minister, was the political manifestation of this internal split. Bourque and Laurin-Frenette, stress that the nationalist ideology of the Parti Quebec is linked to the character of the supporting group - the new French Canadian professional class. They denigrate the possibility that the Parti Quebecois could partly give expression to subjective oppression or the legitimacy of such expression. Nor do they see the possibility of the PQ as the expression of left-liberal humanism. It is on the basis of this analysis that the author argue that socialists should abandon the PQ. However, we feel that they should consider why, even granting the origins of the Parti Quebecois, it must necessarily be the party of the middle class when it receives substantial and militant support from Quebec unions.

But, reply the authors, were the Parti Quebecois in danger of leftwing control, then those committed to liberalism would be able to successfully smash the party apparatus, recreating from the ruins a social-democratic party. This overly mechanistic analysis reflects not only an elitist view of party but little understanding of the social and economic forces which might lead to a further radicalization of the party.

In order to bring the article up to date the authors have added a note on post 1970 events. But the examination is superficial at best, failing in our view to criticize sufficiently the adventurousness of the FLQ. To conclude, the essay is based on rather mechanistic notions of class, nation and consciousness, and lacks the empirical support for many of its positions. It gives little attention to English speaking workers, to the ever burgeoning numbers of immigrants, nor to women and the women's movement in Quebec.[26]

Stanley Ryerson, provides a summary of the debate on class and nation, in the second of two essays dealing with Quebec. Ryerson defines nation as either (1) a political entity or (2) a community of people. In the latter sense, he argues that there are two nations in Canada - the French speaking Quebecois and the English speaking Canadians, and it is acceptance or denial of the existence of this duality which is of political importance. Some indication of the diversity of view is illustrated by the acceptance of duality by the Royal Commission on Bilingualism and Biculturalism sponsored by the Liberal government of Lester Pearson, while the current Liberal Prime Minister Pierre Trudeau has opted for linguistic dualism within a united state.[27] Alternative responses include acceptance of cultural duality with denial of political duality and of provincial autonomy and self determination. This latter view Ryerson suggests, implies denial of national duality since it equates Quebec the entity with other provincial entities. It is the legacy of confederation that the Anglo-Canadian nation refuses to allow for Quebec's self determination, the counterpart of their economic dominance in the province.

In agreement with our criticism of the lack of empirical content of the Bourque-Laurin-Frenette essay, Ryerson suggests that such empirical studies are a priority for theoreticians of the left in Quebec. In order to provide some current indication of class structure he includes some statistics on income and mortality, as well as some indication of the existence and extent of the French speaking economic elite. He also adds his voice to criticism of the ethnic class theory, before ending with a scenario of the future of Quebec struggles. Significantly he also provides criticism of the position of those who outrightly reject the possibilities of the Parti Quebecois.

Turning from class structure to nationalism and the labour movement, three articles provide valuable material on the effects of international unionism on Canadian workers.

For British socialists, however, the twists and turns of the debate between those who supported international unionism and those who support independent Canadian unionism must appear extremely perplexing. For this reason we are presenting some basic facts which are essential to an understanding of what the debate is all about. Over 70% of Canadian trade union members belong to union locals which are affiliated with international unions. But these international unions are entirely American controlled. (Ties with British unions were severed in 1912 under pressure from American Federation of Labour (AFL) affiliates in the (Canádian) Trades and Labour Congress). It is because international unions play such a critical role within the Canadian labour movement that the debate over their existence in Canada is so important. The Canadian Labour Congress (CLC), Canada's largest (English speaking) federation of trade unions is composed primarily of unions with AFL-CIO affiliations and hence is effectively controlled by the international (American) unions.

Moreover, the primary allegiance of Canadian union locals is not to the CLC. but rather to their international head offices. Canadian locals within the same union do not normally have a Canadian organization to co-ordinate their affairs. Rather, they have links with other locals almost solely through the head office. This is largely a reflection of the high degree of centralization and bureaucratization which characterizes the structure of American unions. And it is also a reflection of their adherence to a 'business unionism' ideology which lays stress on the managerial competence of the leadership rather than the widespread participation of the membership.[28]

In addition, the appointment of many of Canadian local officials is made by the international union making these officers ultimately responsible not to their local Canadian membership but to the international headquarters in Washington, New York or Chicago. Because the Canadian membership normally constitutes about 10% of the total membership of the international unions, its influence is largely overshadowed by the American majority. This is exacerbated by the fact that, without a strong Canadian organization, individual Canadian locals have very little bargaining power in relation to parent unions.

The reason usually given to justify Canadian affiliation with international unions is that only international unions can deal effectively with large multinational corporations. As the Canadian economy is largely controlled by American multi-nationals it follows, according to this argument, that Canadian affiliation with American trade unions offers the most satisfactory solution to the problem of how to prevent corporations from playing off one national group of workers against another. It is also argued that considering the size of the multi-nationals operating in Canada, Canadian workers on their own are in a very weak bargaining position, whereas if their efforts are combined with those of the much larger body of American workers the possibilities of effective action will be greatly increased.[29]

The consensus of the three essays presented here is that affiliation to American unions has resulted in the quashing of militancy in favour of a quiescent collaboration with American business and by implication American foreign policy as well. All the essays on unionism are concerned with aspects of the control of Canadian unions by American unions. The essay by Howard and Scott is concerned with the historical development of this control, while those by R. B. Morris and by Charles Lipton discuss the way in which control has been exercised to the detriment of the Canadian membership.

Essentially, Howard and Scott argue that the existence of American trade unions and particularly the American Federation of Labour in Canada has retarded the development of a class conscious Canadian trade union movement. They underline the fact that trade unionism in Canada had developed independently and without assistance from trade unions in the United States. They point to the period before the turn of the century, when Canadian unions were independent of American control and claim that at this time they were both more radical and more tolerant of socialist elements within their ranks. The subsequent decline in militancy is seen by Howard and Scott as a direct consequence of the Americanization of the Canadian union movement.

The authors argue that the conservative stance of international unions in Canada can be traced back to the United States and to the right wing policies of early AFL craft union leaders such as Samuel Gompers. In order to protect the privileges of their crafts, these union leaders adopted policies of class collaboration at home and support for the growing imperialist designs of America abroad. Howard and Scott claim that the AFL and later the AFL-CIO have actively supported American business in its dealings with foreign and especially Latin American workers by organizing 'responsible' American style unions to oppose indigenous socialist and communist union movements. And they provide considerable documentation of the collaboration with the CIA and with US government and business groups such as Rockefeller's Office of Inter American affairs.

As they describe it, the situation in Canada is different from Latin America only in that the more co-operative attitude shown by Canadians towards American investment has not forced the international unions to show their hand as clearly as they have in Latin America. The authors believe that there was a "... deliberate plan of conquest plotted by the American unionists..." to take over Canadian trade unions at the turn of the century and to establish control of the Canadian Trades and Labour Congress.

Unfortunately, Howard and Scott provide too little evidence to substantiate this conspiracy thesis. And the evidence they do produce is primarily of a circumstantial nature - casting suspicion on the motives of AFL leaders but never clearly proving that a group of AFL leaders in a back room in Washington deliberately planned the take-over of Canadian unions. Moreover their general discussion of American unionism is one-sided, presenting only evidence supporting conservative tendencies in US unions. Are we to believe that all trade unionists in the US deliberately supported the above strategies and that there were no inter or intra union struggles over these issues? Howard and Scott certainly suggest that we do for they at no point discuss differences or conflicts within the American trade union movement.[30] But what is even more disturbing is that they tend to whitewash conservative elements within Canadian trade unions by giving the impression that whatever is reactionary in Canadian unions is stamped 'Made in the USA'. This is both poor history and propaganda for the nationalist cause in Canada.

Although we find the conspiracy thesis inadequate, we do agree with Howard and Scott and, for that matter, with many other Canadian nationalist writing on trade unions that the impact of American unions in Canada has been a strongly conservative one.[31] And this is surely the main point, for in practice AFL and later AFL-CIO affiliates have spearheaded the campaign against socialist and communist elements in the Canadian trade union movement. As they point out, the AFL was instrumental in undermining the Winnipeg General Strike of 1919, destroying the radical One Big Union movement shortly thereafter and in purging communists and other left-wingers from unions in Canada during the Cold War.

Turning now to the exercise of control by Internationals over Canadian affiliates, Charles Lipton examines the nature of control over union structure and policy-making and the effect of this control.[32] On a number of key questions such as Constitutional powers, mechanisms for asserting Canadian control, freedom of action in politics and foreign policy, and violations of Canadian rights, Lipton finds that Canadian members of international unions are not getting a fair deal. Constitutionally, international head offices normally have the right to ratify contracts, revoke union charters, suspend disloyal unions; grant or reject requests for money, seize the funds of dissident union locals and, finally, to appoint their own international representatives to take charge of rebelious locals. They also control the administration of strike funds. This gives them effective control over the exercise of the right to strike by Canadian workers. Lipton's list of violations of Canadian rights is also impressive, being supported by over a dozen recent examples of serious infringements.

Lipton also points out the constraints imposed on the political freedom of Canadian affiliates, both domestically and in the area of foreign policy. He notes the problems that confronted these affiliates when the Canadian Labour Congress decided to join with the CCF to found the NDP in 1961.[33] Many were forced to ask their head offices in the US to lift the ban on political activities and some requests such as that of locals of the Brotherhood of Railway and Steamship Clerks were denied. Why? Because they contravened American State and Federal Laws. Despite Lipton's somewhat polemical style, he does make a solid and well documented, if one sided, case against Canadian membership in International Unions.

Because international unions have failed Canadian workers in the areas just discussed, Lipton argues, Canadian unions must sever their international connections. Like Howard and Scott he believes that Canadian unionism and progressive unionism, although separate, are closely linked; hence the struggle for independent unions is internally connected with the struggle for radicalization within the unions. Lipton asserts much more than that independence from American control is a precondition for the development of a class conscious working class movement. He claims that this independence will almost inevitably bring with it a new militancy within the ranks of Canadian workers. While we agree in general with these conclusions by Howard and Scott and by Lipton, we also believe that they are rather too optimistic about the strength of the connection between independence and radicalization. While it is likely that disaffiliation will be accompanied by an upsurge of left-wing strength within many unions, in many others political consciousness will not change.[34]

When we consider the drawbacks involved in being an affiliate of an international union the question that arises is "Why don't more Canadian locals disaffiliate?" The reasons are complex: many locals still believe in international solidarity or that they are benefitting from their American ties. Yet there are also more practical reasons as R.B. Morris points out.

Virtually all Canadian affiliates of international unions have what is known as a reverter clause in their constitution. This reverter clause gives legal ownership of all assets, funds, papers, book and other property to the US head office. What makes this clause so pernicious, according to Morris is that it gives the entire assets of a Canadian local - assets built up by the Canadian membership - to the head office if the membership of that local attempts to disaffiliate. In practice this deters Canadian locals from acting independently, for they know that if they do not follow instructions from the head office they may have the reverter clause invoked against them.

Moreover if they do break away, they not only lose their assets but they may well find themselves locked in a confrontation with the very local that they had previously built up. In some constitutions such as that of the International Union of Mine Mill and Smelter Workers, if even 10 members remain loyal to the international, the union local is forbidden to withdraw. Succession thus can give rise to a prolonged struggle between the new independent union and the unpopular international local propped up by all the resources of the head office. Morris also emphasizes that a union that successfully breaks away from its parent is still open to raiding by other AFL-CIO affiliates as retribution for its disloyal behaviour. To illustrate: recently when a Hamilton local of the Steel Workers tried to disaffiliate it found that through dues checkoffs which continued despite its suspension, it was financing the head office's campaign to keep it from leaving the parent union.

Despite these difficulties, some Canadian unions have broken their international ties. Successful break-aways such as the recent and carefully planned move by fifteen Saskatchewan affiliates of the International Retail, Wholesale and Department Store Unions act as a model for other Canadian affiliates to do the same. They also put pressure on international unions to establish Canadian divisions and increase the autonomy of their Canadian affiliates in order to forestall similar attempts within their own ranks. Morris concludes by arguing that in spite of the problems involved, Canadian affiliates must break from their parent unions if they are going to be radicalized in the near future. Thus he adds his support to the strategy outlined in the other two essays.

What is conspicuously absent from all three articles on trade unionism is a discussion of Quebec unions. It is unfortunate that Teeple did not include at least one solid article on the rise of unions such as the CNTU. There is also far too little consideration of regional and ideological differences in the rest of Canada. These articles give the impression that there had been little internal conflict in the Canadian union movement. Yet there were very important conflicts such as between conservative Ontario craft unionists and the Western militants who established the syndicalist-oriented OBU just after WWI. These regional and ideological conflicts within the trade union movement in Canada ought not to be swept under the carpet, for if Canadian socialists glibly assume that all the problems which beset Canadian unions at present are imported from the US then they will have no strategy for dealing with indigenous conservative forces in the trade union movement. Nor will they be sensitive to the possibility that local autonomy may be stifled by Canadian unions just as it currently is by the internationals. From the viewpoint of the Maritimes or the West, domination by Toronto may be little better than domination by Washington. Finally, in their concern with American control all three authors have failed to realize that American control is not specific to unionism but pervades most of Canadian social life. There has been no conspiracy: the control is encompassing.

The last two articles 'Liberals in a Hurry' by Gary Teeple and 'The Ideological Foundations of Social Democracy and Social Credit' by Tom Naylor are the most unsatisfactory in the collection. Teeple engages in a prolonged ideological harangue against the CCF-NDP for not being a Marxist party. (We thought this was obvious enough not to require further proof). His critique is purely at the ideological level and largely ignores the historical forces which gave rise to the CCF-NDP. Moreover, he treats the party as an ideologically homogeneous group uniformly committed to a kind of right wing Fabianism when in fact conflicts between moderates and radicals have occurred throughout its history. Finally, Teeple discusses its veer to the right during the 1950s purely in ideological terms as if the cold war had never occurred and without mentioning the precipitate decline of its chief rival on the left, the Communist Party.[35]

The basic point which Teeple ignores is that the CCF reflected to a very large extent the political outlook and aspirations of its farm and labour membership who were clearly not Marxists. The fact that the majority of the working class in Canada is so integrated into the capitalist system that it fails to support even the moderate social-democratic platform of the CCF-NDP is surely the central problem and not the ideological limitations of the leadership of the CCF-NDP. The reason that we do not have socialism in Canada is not because devious members of the NDP leadership have misled the masses but rather because the majority of working people - and this is a bitter truth - do not as yet want it. Making the CCF-NDP a scapegoat does nothing to solve this problem.

Naylor's article is even less satisfactory. He asserts that "Underneath both Social Credit and the CCF, and indeed the NDP lies the grand old principle of social democracy - that production and distribution can be separated, that distribution can be altered, reformed, connected while the mode of production is left untouched". To say that the ideology of the CCF is the same as that of the Social Credit party because each party received its support principly from discontented farmers (petite bourgeoisie) constitutes an oversimplification of the history of movements of farm protest in the West. Naylor's provocative thesis would require a good deal of supporting evidence derived from a careful study of the history of the settlement of the West. Unfortunately his article is so brief that this evidence is almost entirely absent.

In sum <u>Capitalism and the National Question in Canada</u> does not really deal with the question at hand sufficiently. While Naylor provides a very interesting introduction to Canadian development, the book lacks the necessary empirical analysis of capital flows and the structure of industry which would detail the metropole-hinterland relationship he describes. Only the detailing of the effect of this relationship on workers and unionism appears.

The effects of the American-Canadian relationship in terms of culture and scholarship is not even touched upon. More important is the lack of a sound theoretical understanding of the roots of nationalism and its role as a progressive force. In the case of the analysis of nationalism in Quebec this leads to a lack of depth as well as insufficient assessment of the current economic and social effects. The analysis of nationalism in English Canada simply doesn't appear. What are the reactions of Canadians to working for multinational corporations? Can these reactions be a force for social change or for national chauvinism? What are the divisions which would vitiate against a strong nationalist movement? What are the political and economic strategies for the future?

The book provides some interesting material on the metropole/hinterland relation. But as to the future of this relationship, and nationalism as a response and political force it has not carried us very far.

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2. Gordon, W., A Choice for Canada.

3. Report of the Task Force on the Structure of Canadian Industry.

4. Other staff members published some of their findings. See G. Rosenbluth, Canadian Journal of Economics, May 1971.

5. The Manifests and other documents pertaining to the period can be found in From Gordon to Watkins to You ed. Godfrey and Watkins, useful material can also be found in Kari Levitt's Silent Surrender, Close the 49th Parallel, ed. Lumsden, and Safarian, E., Foreign Ownership of Canadian Industry.

6. The name came from a criticism of the Manifesto. It appeared, said some party officials, that the group supporting the document were waffling. Someone replied, "We'd rather waffle to the left than to the right".

7. The remainder tried to press the Ontario Conference in December of 1972 to rescind the ban on public communication by factions on the party which effectively curtailed the Waffle. They lost.

8. See Canadian Forum, Jan. 1972 for an English version.

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12. For example see G. Myers, A History of Canadian Wealth, H. G. J. Aitkin, American Capital and Canadian Resources.

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24. See, Capitalism and the National Question in Canada, p. 196

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26. For material on developments in Quebec see 1. Milner and Milner, The Decolonization of Quebec. 2. For criticism of the FLQ, see the article by Vallieres in Canadian Forum, Jan. 1972.

27. See P. E. Trudeau, Federalism and the French Canadians.

28. See Crispo, John, International Unionism, for a general though not critical overview of International Unionism in Canada.

29. Ibid., Ch. 2.

30. See for instance, Renshaw, Patrick, The Wobblies, for a rather different view of American unions.

31. Kent Rowley, leader of the Canadian Council of Unions, perhaps the most outspoken advocates of Canadian Unions in English Canada. For a heroic, yet undoubtedly fairly accurate account of the pernicious effects of American control see his article in the March issue of Canadian Dimension, 1973.

32. See also Lipton's book, The Trade Union Movement of Canada, 1826-1959.

33. See Horowitz, Gad, Canadian Labour in Politics.

34. In Canadian Dimension May 1973 there is an article which describes the behaviour of two recent break-away unions in British Columbia whose actions do not support Lipton's thesis. On a motion advocating Canada's recognition of Hanoi and an end to military treatise with the US at the annual conference of the Canada Council of Unions, one voted against and the other abstained.

35. See Canadian Labour in Politics for a discussion of the relationship between unions and the CCF-NDP. Also, Walter Young's book, The Anatomy of a Party: The National CCF.

36. See the books by S. M. Lipset op. cit. and C. B. MacPherson, Democracy in Alberta: Social Credit and the Party System.

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Gur Ofer THE SERVICE SECTOR IN SOVIET ECONOMIC GROWTH. A COMPARATIVE STUDY (HARVARD UNIVERSITY PRESS. LONDON: OXFORD UNIVERSITY PRESS, 1973) SBN 674-80180-6. £5.00. Colin Lawson.

While Western writers have lavished attention on Soviet development strategy, most of their efforts have been concentrated on the industrial sector, with the result that the service sector has suffered from a neglect which its importance in development does not warrant. This makes a book which is specifically devoted to the role of the service sector in Soviet economic growth all the more important, and of necessity ambitious. This book fills part of the gap in our knowledge of the Soviet service sector, but at the outset it is essential to point out that the title may be slightly misleading. This book is not a study of communist thinking on the place of the service sector in a socialist development strategy. Neither, with the exception of a short section and an appendix, is it a survey of the place of that sector in the Soviet economy since 1917. Indeed the book is markedly ahistorical, and there is only the most perfunctory discussion of socialist development strategy.

Ofer sets out to examine why the service industries occupy such a small place in the Soviet economy, and save for a few short digressions this is the book's exclusive object. There are two ways of tackling this question. Either one attempts to explain why the Soviet service sector is the size it is, and neither larger nor smaller, or one can use a comparative approach, and try to explain differences between countries by relating them systematically to the particular characteristics of the different economies. While both approaches involve some consideration of the nature and growth strategies of socialist systems, the effort put into it would need to be greater in the non-comparative approach. However, Ofer chooses the comparative approach, with the result that less emphasis is placed on Soviet attitudes towards growth and the service sector. Subsidiary questions which arise naturally from the main study, and which he also attempts to answer include: 1. What is the relation between the size of the service sector and economic development? 2. How does the relative quality of the labour force change with development? 3. How does this affect industrial structure? 4. What factors affect changes in the size of the service sector as development occurs. 5. To what extent do Western development patterns apply in the USSR and Eastern Europe?

Ofer begins by devoting two chapters to estimating what he describes as 'service gaps' in the Soviet Union. Using cross section data from sixty two developed and less developed market economies he discusses and then estimates a series of relations between industrial structure, (defined as the proportion of the labour force involved in particular sectors), and various indicators of levels of economic development, such as GNP per capita, the rate of participation in the labour force, and the ratio of rural to urban population. The end product is a series of equations, relating the proportion of the labour force in the service sector to the various development variables, which are then described as the 'normal' relations. The deviations of Soviet data from these expected figures are referred to as 'gaps', which it is the task of the rest of the book to explain. The next two chapters attempt to correct the estimates of 'gaps', by considering the possibility that in the Soviet Union a significant number of service workers are registered in the census under agricultural or manufacturing headings, and second by adjusting the crude data for differences in the quality of the labour force between countries. When these adjustments have been carried out the most significant gap occurs in the commerce subsector (trade and finance), and two further chapters are devoted to an analysis of this phenomenon. The study concludes with an examination of whether the socialist economic system and the development policy pursued by the Soviet Union can account for the various service gaps, and perhaps not surprisingly decides that they can.

Accepting for the moment that this type of approach to comparative systems analysis is valid, some of his findings are interesting, and occasionally paradoxical. While the service sector as a whole is smaller than expected, most of the shortfall is concentrated in the commerce section, particularly in banking, insurance and retail trade, while in other sections shortfalls appear in private services (particularly personal and domestic), and, surprisingly in public administration. Even if allowance is made for the fact that some public administration workers are classified under public services, and Soviet volunteer contributions to administration are higher than in other countries, "After adjustment the public administration sector is smaller than normal and certainly not as large as it is alleged to be in a centrally planned economy", (p. 55). Neither is this result reversed when account is taken of the fact that the quality of the Soviet service sector labour force is higher than that of countries at a similar level of development.

How interesting one finds such an investigation and how seriously one treats its conclusions obviously depends crucially on one's view of the methodology. The pitfalls of cross section analysis are well known, and Ofer reiterates some of them, but as the book is a PhD. rewrite no doubt time, as well as the probably insuperable difficulties with data meant that time series analysis and comparisons were ruled out. Unfortunately, while the end result is a work of high technical skill, the results need very careful interpretation. For example, the basic finding that the Soviet service sector is smaller than expected can be believed if it is accepted that, 1. Inter-country cross section comparisons are legitimate, 2. They are a not inaccurate substitute for time series studies, 3. The concept of a 'normal' process of development is accepted. If these conditions are met then Ofer's statement that there is a gap in the Soviet service sector, means that the proportion of the labour force working in that sector is lower than that expected in a market economy at a similar level of economic development. Thus the approach used seems double edged, on the one hand it may deal reasonably successfully with problems of lack of data necessary for time series analysis, but on the other hand not only are fairly strong assumptions required, but the suspicion remains that the analysis cannot be particularly general. Ofer's Soviet data is from the 1959 census, and the cross sectional data is for 1960. As he admits, the last major material incorporated in the study comes from the end of the Krushchev era, and little secondary material that appeared after 1967 is used. Certainly the 1971 census will provide some of the material necessary for a cross check on the results, but at the very least such a replication study should provide the justification for a 'normal' development process, which is lacking in this book. As this concept plays a crucial role in the study it is worth examining in greater detail. I will concentrate on those sections where Ofer attributes the various gaps to a socialist system and its development strategy, for here the use of the concept is particularly important.

By adding data from eight socialist countries to the earlier sample of capitalist countries, and including a dummy variable to stand for 'being a socialist country', Ofer finds that the variable is highly significant, and when the revised regression equations for socialist countries are examined the service gaps almost disappear. This leads to the not surprising conclusion that the gaps were due to the existence of a socialist economy, and a brief historical comparison which seems to support the thesis prompts the observation that socialist development policy provides the dynamic factors perpetuating the gaps. However there are dangers in pushing this type of methodology too far. The relations estimated from capitalist data may be crudely characterised as market relations, while the revised socialist relations could be termed collective. Thus if the two differ this can be attributed to different processes of decision making. In discussing Soviet investment in education Ofer states that, "it appears that the supply of educational and health services, particularly the former, is above what the population would wish to buy at the Soviet level of income. The labour share of both these services was on the high side" (p. 151). This type of statement is a consequence of placing too much faith in 'normal' relations. Ofer is not criticising Soviet educational provisions, indeed his attitude towards this positive gap is, if anything, mildly approving. However the statement cannot be made in this form. All that can be said is that the provision of educational services is greater than that in an average capitalist economy at a similar level of development. The introduction of the words 'buy' and 'population' only confuses the issue, after all it is likely that the bulk of such services will be state provided in both economies. At times Ofer seems to drift dangerously close to the narrow boundary between treating normal capitalist development as a fact, and treating the industrial structure which it throws up as a desirable objective. Summarising some of his conclusions he says:

> If a socialist system is satisfied with something less than maximum growth, if it reduces the stress on heavy industry, increases the efficiency of its planning and supply mechanisms, and eliminates the ideological bias against services, then the S(ervice), and particularly the C(ommerce), shares can move closer to the norm. I do not think it likely at early stages of development, but they may occur once a certain level has been reached. (p. 161)

The discussion of the alleged ideological bias against services, which is said to be a minor source of the service gaps, is too brief and the evidence presented too sketchy to justify the strength of the conclusions. For example, we are told that

> ... this Marxian concept of non-productive work has blinded many prominent people in the Soviet Union to an understanding of the fundamental concept of the economic efficiency of labour, and especially the productivity involved in providing a good system of links among economic units. (p. 156)

Now there may be something in this, but whether or not there is, what needs to be discussed, and what remains undiscussed in the one and half pages devoted to the subject, is first what Ofer and Soviet theorists take to be unproductive labour. Second, how such a state of affairs arose, if indeed it did. Third whether a definition designed specifically to analyse the laws of motion under capitalism can be fruitfully applied to a system whose precise mode of production is a matter of intense dispute. Last, whether terms such as ideological conviction, or attitudes can be applied to a concept which (in Marx's but not in Baran's form) was intended to be analytical rather than critical, (see John Harrison's 'Productive and Unproductive Labour in Marx's Political Economy', BCSE. Autumn 1973 p. 74 for a more detailed analysis of this point). Unfortunately none of these points are either discussed or even suggested.

In contrast Ofer's discussion of the effects of Soviet development strategy on the size of service sector is generally convincing. A policy of massive investment in heavy industry, coupled with a low level of urbanisation, a high labour force participation rate, and a fairly small share of GNP devoted to private consumption suggests the small service sector which is actually observed.

The discussion on the trade subsector of the commerce sector is also very useful, and incorporates much detailed argument and an impressive array of interesting data on the Soviet trade system. The ommission of all but the most perfunctory discussion of the finance subsector is I think a mistake. While it is well known that most of the activities undertaken by the finance sector in an advanced capitalist economy are missing from the Soviet economy, there is an important principle involved for comparative systems analysis. The finance sectors of the two economies are not comparable, for they perform different tasks, and do so in different ways. This phenomenon, which is only seen at its most extreme in this area, is also present in other areas of comparison, particularly in public administration. If sectors carrying the same name perform different tasks then not only are comparisons difficult but the concept of service gaps is also somewhat dubious. Certainly some mention of this problem would have been appropriate. An even more striking omission is the distribution of income. There is good reason to suspect that the relative size of certain service subsectors, and perhaps the size of service sector relative to manufacturing and agriculture will vary with the distribution of income. There is obviously a case for examining it as an independent variable in a comparative analysis, but again no mention of it is made.

The crucial factor in trying to assess this book is one's attitude to its methodology. It seems to me that the method employed is open to such serious objections that the value of the book is limited to the new light it throws on the details of the Soviet service sector. The comparative analysis can at best be treated as only highly speculative. The most serious objection to the methodology is that the concept of 'normal' development, even among developed capitalist countries may well be spurious, for neither theoretical nor practical evidence is presented to justify it beyond the regression equations used to establish the normal relations. Even if it were possible to establish such a relation, which one could only imagine would be rather a weak link, there is no reason to suppose that this could easily be approximated by a cross section analysis at a given point in time. Almost equally serious is the question, already raised, of comparability. If, as seems quite plausible, the Soviet economy is an animal quite different from its Western counterparts, if it is on a different growth path, using different institutions, different methods, with dissimilar objectives, then it is not clear what if anything one would expect to learn from a comparative analysis which pre-supposed some normal development path. It is worth asking Ofer's original question again, but reversing the emphasis, and asking not why the Soviet service sector is so small, but why the service sectors of developed capitalist economies are so large. This helps us place this sort of comparative analysis in perspective, for instead of considering alleged ideological biases against services, we could be forgiven for investigating the inefficient nature of advertising, the retailing of identical products under different brand names, the provision of luxury services to the rich and the over provision of financial services.

Within its own frame of reference this book is reasonably successful, for the work is of a high technical standard, and the painstaking analysis of census and other material provides a good example of what can be done with only a limited amount of often sketchy data. However, as I have indicated, most of the more important points of criticism focus on that assumed framework. At the very least further studies are required, both of Soviet theories of the place of the service sector in a socialist development strategy, and of the place of services in the Soviet economy since the revolution, to provide a more complete picture of this important subject.

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M. Nikolinakos POLITISCHE ÖKONOMIE DER GASTARBEITERFRAGE: MIGRATION UND KAPITALISMUS (ROWOHLT, HAMBURG 1973. THE POLITICAL ECONOMY OF THE MIGRANT WORKER QUESTION - MIGRATION AND CAPITALISM). Suzanne Paine

There are now over eight million foreign workers employed in Western Europe of whome most are temporarily recruited migrant workers from southern European and North African countries. But will their numbers continue to expand? During the last year the governments of three of the main host countries, Germany, France and the Netherlands, have all threatened to cut future increases on the ground that there is a maximum acceptable limit to the proportion of foreign workers in the domestic labour force, a limit which, they allege, has now virtually been reached.

Nikolinakos challenges the realism of such threats. In his view, this use of migrant labour is an essential feature of the later phases of capitalism. Western European countries cannot cut their intake of foreign workers without adversely affecting their economic growth. Foreign workers constitute the modern reserve army of labour whose presence is essential for sustained accumulation; their availability has rescued the capitalist system from crisis. No policy of <u>plafondierung</u> - stabilizing the existing stock of migrant workers and importing no more - is feasible. Indeed the import of the last foreign worker would mark the gravestone of capitalism.

But although Nikolinakos asserts this interpretation of the situation with some force, the analysis underlying it is held back for a future publication. In the current study he only attempts to demonstrate the important role which migrant labour has played in postwar Western Europe and to challenge those who have argued that its use has been a burden to the host countries. In particular he argues that in Germany

1. use of migrant labour has led to a higher growth rate, higher exports and a higher balance of payments surplus (p. 21);
2. use of migrant labour has had a dampening effect on unskilled but not on skilled money wage levels, basically because migrants do not influence the skilled market (according to his statistics, only about 2 per cent of skilled German workers were immigrants); indeed use of migrant labour has permitted nationals to move to better jobs and has not kept down real wages (pp. 97-1--); on balance, however, it has not been inflationary (p. 119);
3. use of migrant labour has reduced regional differentials because it has permitted industrialization in rural areas (p. 88);
4. use of migrant labour has been closely interrelated with the increasing concentration of capital, (p. 63);

5. use of migrant labour has not held back industrial rationalization but has rather permitted better use of existing capacity and made possible sustained accumulation (p. 92).
6. use of migrant labour has not created infrastructural problems because migrant workers have low infrastructural requirements (partly because they are rotated and not encouraged to settle), and because hardly any attempt has been made to provide such infrastructural facilities in any case.

Certainly his attack on the argument that the use of migrant workers has been a burden to the host countries is convincing. However, the evidence adduced to support some of his other arguments is less so, possibly because of restrictions on space in this short study. One would, for instance, like to see a more detailed documentation on the relationship between the use of migrant labour and the increasing concentration of capital. Similarly more evidence is required to support his argument that contrary to the trade union view, real wages would not have been any higher in the absence of migration. Furthermore, this reviewer can only express astonishment at Nikolinakos' inexplicable refusal to count as legitimate perfectly reasonable questions such as whether or not the use of migrant labour has had any adverse effects on the host countries, or whether or not capital export would have been a feasible alternative to labour import. There are also certain inconsistencies in Nikolinakos' approach. For instance, if, as he asserts, government is entirely the tool of industry, then he has to explain why host country governments have been proposing plafondierung policies in direct opposition to industry's interests.

Although his discussion of the actual effects of migration on the emigration countries is rather thin, being confined chiefly to a few comments about Greece, he sketches an interesting model of the growth of the migration system. In his view, the European metropolitan countries originally recruited labour from what he calls the first grade peripheral countries such as Italy, Spain and Portugal. As these countries' labour and capital markets became integrated with the metropolis, the latter had to seek out new labour sources from second grade peripheral countries such as Greece and Jugoslavia, which in turn gave way to the third grade Arab countries of N. Africa and finally to the fourth grade countries of Black Africa. Indeed migration induced labour shortages in some of the higher grade countries such as Greece have led to labour import from the lower grade countries of Africa. Historically of course this description is not strictly accurate - for instance, the widespread use of Arab labour in France to some extent antedated the development of Jugoslavia as a labour export country. But it is an approach which merits further critical investigation.

This is in fact what is required for many of the arguments in this book which, despite its polemical and at times repetitive style merits serious consideration by all economists working in this field. It is to be hoped that Dr. Nikolinakos will remedy many of the defects himself in his follow-up study, and that in particular, he will provide both his promised analysis of the role of migrant labour in the later phases of capitalism, and the statistical and econometric material required to support some of the propositions of this current study. We can, at any rate, look forward to stimulating reading.

BOOKS RECEIVED

*FINANCIAL DEEPENING IN ECONOMIC DEVELOPMENT, Edward S. Shaw (Oxford University Press (London)) 629 8494 - Boards £3.45 net, Paper £1.60 net.

*AN INTRODUCTION TO MODERN ECONOMICS, Joan Robinson, John Eastwell (UK) (McGraw-Hill) 07 084024 5 h/c - £3.95; 07 08425 3 s/c - £2.95.

PLANNING PROBLEMS IN THE USSR. THE CONTRIBUTION OF MATHEMATICAL ECONOMICS TO THEIR SOLUTION, 1960-1971, Michael Ellman (Cambridge University Press, 27.9.73) ISBN 0 521 20249 3 - £4.80 net.

ECONOMIC REFORMS IN EAST EUROPEAN INDUSTRY POLAND, J. G. Zielinski (Oxford University Press 13.12.73) ISBN 0 19 215323 4 - £6.50 net.

*DER SPÄTKAPITALISMUS, Ernest Mandel (Suhrkamp Verlag 1973) ISBN 3 518 00521 9 12 D.M.

DECLINE OF THE DOLLAR A MARXIST VIEW OF THE MONETARY CRISIS, Ernest Mandel (Monad Press New York, dist. by Pathfinder Press, N.Y.) LCCC No. 72-85799 - £0.75.

ECONOMIC REFORMS IN EAST EUROPEAN INDUSTRY RUMANIA, Iancu Spigler (Oxford University Press 13.12.73) ISBN 0 19 215339 0 - £3.90.

ON ECONOMIC INEQUALITY THE RADCLIFFE LECTURES DELIVERED IN THE UNIVERSITY OF WARWICK 1972, Amartya Sen (Clarendon Press, Oxford 1973) ISBN 0 19 828182 X ISBN 0 19 828193 5 - £2.10.

MARX AND THE ORTHODOX ECONOMISTS, Pat Sloan (Oxford - Basil Blackwell) ISBN 0 631 14590 7 - £2.25.

CANADA LTD. THE POLITICAL ECONOMY OF DEPENDENCE, Edited by Robert M. Laxer (The Canadian Publishers. McClelland and Stewart Ltd.) ISBN 7710-4980-3 - $3.95.

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