

# International VIEWPOINT

Issue 140

May 2, 1988

£0.85; \$2; C\$2.50; 12FF

**SPECIAL FEATURE ON THE WORLD ECONOMY**

## AFTER THE CRASH



**New contradictions in the age of "late  
capitalism" *Ernest Mandel***

**Raw materials' crisis hits the third world  
*Claude Gabriel***

**PLUS: ★ Middle East ★ Sweden ★ USSR ★ Philippines**

# Contents:

## MIDDLE EAST 3

PLO leader Abu Jihad's murder has sparked off renewed resistance — *Nabil Haitham*

## ISRAELI STATE 3

MORDECHAI Vanunu has been sentenced to 18 years for exposing the Zionist state's nuclear build-up — *Michel Warschawski*

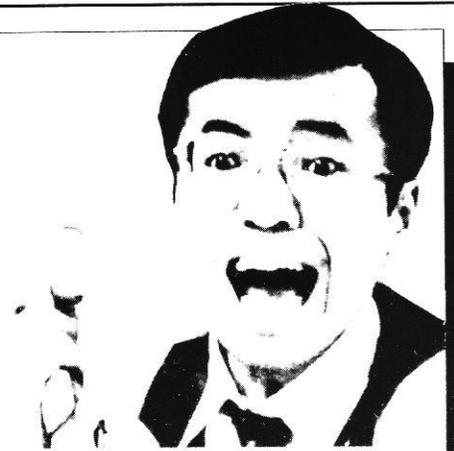
## PHILIPPINES 5

INTERNATIONAL solidarity must be mobilized quickly after the arrests of a number of Communist Party leaders and a deteriorating human rights situation — *Paul Petitjean*

## SWEDEN 6

EVA NIKELL reports on a conference of women trade unionists that represented a milestone for women in spite of its domination by reformist politics

# SPECIAL FEATURE ON THE WORLD ECONOMY



**11 ERNEST MANDEL:**  
New fundamental contradictions in the age of "late capitalism"

**21 CLAUDE GABRIEL:**  
Raw materials' crisis hits the third world

## USSR 7

A LEADER of the independent social clubs, *Boris Kagarlitski*, explains how they see their role and the problems they have encountered



## Around the world 10

● USA ● France ● FI anniversary celebration

## USSR 28

GERRY FOLEY looks at the current conflicts over *perestroika* appearing in the columns of the Soviet press

# International VIEWPOINT

A fortnightly review of news and analysis published under the auspices of the United Secretariat of the Fourth International, in conjunction with the French language *Inprecar*, which appears on alternate fortnights.

All editorial and subscription correspondence should be mailed to: International Viewpoint, 2 rue Richard Lenoir, 93108 Montreuil, France.

Published by Presse-Edition-Communication (PEC). Directeur de publication: Christian Lamotte. Commission paritaire: 64324. ISSN: 0294-2925. Imprimé par Rotographie.

*International Viewpoint* is catalogued by the US Alternative Press Index.

● News closing date:  
April 25, 1988

2

# Subscribe now!

Payment: French francs preferred. Cheques to PEC. Postal transfers to PEC, CCP No 2 322 42T Paris. Bank transfers to PEC, BNP Robespierre, Account 230179/90. Sterling cheques payable to International Viewpoint.

Subscriptions and correspondence to International Viewpoint, 2 rue Richard Lenoir, 93108 Montreuil, France.

### SUBSCRIPTION RATES:

Surface Mail: ● 1 year 200FF; £18; \$34 ● 6 months 120FF; £9.50; \$18

Airmail: *Europe, Middle East, North Africa*

● 1 year 245FF; £21; \$41 ● 6 months 135FF; £13; \$22

*The Americas, Africa* ● 1 year 300FF; £30; \$47 ● 6 months 165FF; £16.50; \$25

*Asia, Australasia* ● 1 year 340FF; £34; \$50 ● 6 months 185FF; £18.50; \$27  
(Dollar prices all US dollars)

(BLOCK LETTERS PLEASE)

Last name ..... First name .....

Address .....

City ..... Country ..... Code .....

Renewal of existing subscription/  New subscription (please tick)

# Israeli state terrorism backfires

THE ZIONIST leaders have portrayed the murder of the PLO's number two leader, Khalil Al-Wazir ("Abu Jihad"), as a reprisal for the Fateh commando operation at Dimona, the Israeli nuclear center, at the beginning of March.

The latter operation was unquestionably inopportune, coming in the midst of a continuing uprising by the people of the West Bank and the Gaza Strip, whose moral strength has lain in part in the fact that they are confronting Israeli forces armed to the teeth with nothing but stones. But the murder of Abu Jihad was as great, if not a greater error by the Zionist leaders.

NABIL HAITHAM

**B**Y KILLING Fateh's main military leader and the chief of the PLO's department of the occupied territories, the Israeli state terrorists thought that they were striking a major blow to the Palestinians involved in struggle. The result was the opposite. The murder of Abu Jihad only provoked a new upsurge of the Palestinians, helping to revive the momentum of the uprising and to further radicalize it.

The Zionist leaders' notion that this uprising is "manipulated from the outside" reflects a blindness that comes from their failure to suppress it by forceful means. You have to be blinded by a police conception of history not to realize that the power of the uprising lies mainly in the forms of mass self-organization that it has generated, the celebrated "people's committees."

## Uprising's effects on PLO leadership

The uprising is beginning to affect the political behavior of the traditional PLO leadership. Up until 1982, this was determined by an equilibrium between the pressure of the organization's money suppliers, the reactionary Arab oil monarchies and the pressure of the Palestinian masses. The Israeli invasion of Lebanon in 1982, by forcing the evacuation of the Palestinian fighters from their autonomous power bases in South Lebanon and Beirut, qualitatively shifted this balance to the advantage of the reactionary states.

By creating a powerful mass movement, which for the first time in the history of the Palestinian struggle generated autonomous rank-and-file organizations, the uprising

has naturally considerably reinforced the radical nationalist weight in the political balance the PLO leadership depends on.

## Murder increased radicalization

The murder of Abu Jihad both increased this pressure and provided an opportunity for making a shift. On the one hand, it increased the radicalization of the Palestinian people as a whole. On the other, the fact that Abu Jihad's body was going to be buried in Damascus was an opportunity for renewing relations with the Syrian regime, the sponsors of the radical nationalist opposition to the PLO leadership. This move was crowned by Arafat's personal visit on April 24.

It is too early to try to assess the perspectives of this new reconciliation and its consequences. They will certainly be reflected on the ground in Lebanon, where the uprising already put an end to the siege of the Palestinian camp by the Lebanese Shi'ite organization, Amal, which is allied to Syria. We cannot predict what attitude the PLO leadership will take over the long term. It is probable, however, that as long as the uprising lasts, the PLO leadership will return to a course similar to the one that it followed up until 1982.

This means that the intransigent Zionists who reject a "negotiated settlement" will find cause for satisfaction.

What conclusion should be drawn from that? Certainly not that it is necessary to return to a course of capitulation but, on the contrary, that the illusory perspective of achieving a settlement through the good offices of Washington must be definitively rejected. ★

# A savage sentence for warning against Zionist bomb

ONE OF ISRAEL's more recent international terrorist operations before the assassination of Abu Jihad was the entrapment and kidnapping of Mordechai Vanunu, who had exposed the Zionist state's building up of a nuclear arsenal. This case focused attention on the ruthlessness of Zionist rulers both in Israel and internationally. The following article, written by a leader of the anti-Zionist left, describes the impact of the case and what it revealed about Israeli policies and politics.

MICHEL WARSCHAWSKI

**A** SENTENCE of 18 years in prison for treason and espionage was handed down against Mordechai Vanunu by the Jerusalem district court. His lawyer, Avidgor Feldman, declared that he was surprised by the severity of the sentence. The surprising thing is rather the naivete of one of the best lawyers in the country. What did he expect?

Either you accept the point of view of the state, supported in this case by a major part of the left opposition, that Vanunu is really a traitor. Or you recognize that he has done a very great service to humanity by warning international public opinion about a danger, and in that case the former technician at the Dimona nuclear plant deserves the Nobel

3

Peace Prize. From the outset, it was a sure bet that the Israeli judges would not opt for the second option.

The Vanunu case upset a lot of preconceived notions and has gone beyond what the great majority of Israeli society can accept, or even understand.

The son of very poor Moroccan immigrants, Mordechai Vanunu succeeded where most in similar circumstances failed. He managed to escape from his "fate" as a Moroccan Jew condemned to remain in the shadows of Israeli society. After working eight years at the Dimona center, he was able to begin studying at the University of Beersheba. In the course of his studies, he was able to meet progressive students. He made contact in particular with Arab students, with whom he had intense discussions.

Little by little, Vanunu departed from the national consensus. For a few weeks, he belonged to the Israeli Communist Party. He left it because of political differences. After his arrest, the Communist Party did its utmost to eradicate any trace of his short stay in the party's ranks, including destroying his card.

However, for Mordechai the answers offered by the reformist left became increasingly unsatisfactory and, as he wrote later from his cell, he did not have the opportunity to meet the anti-Zionist left. For him, the state of Israel is not reformable, either as regards the oppression and exploitation of oriental Jews or in its relations with the Palestinian people.

### Vanunu decided to make a complete break

A revolutionary change seemed far off to him, if not impossible. So, he decided to leave the country, and even converted to Christianity. His decision shocked people, even on the far left, for whom his conversion seemed to indicate at least mental imbalance. However, in a letter to Professor Emmanuel Faraajun published in *News From Within*, Vanunu explained himself.

His decision to convert was not motivated by mystical aspirations but rather by the need to express a total break. "Leaving Judaism is not only leaving a religion," explained Yael Lotan, a representative of the Committee to Defend Vanunu's Rights, "it is leaving the tribe, abandoning your membership in the collectivity." This was Vanunu's real treason, which the Israeli state will never forgive.

When Vanunu decided to make public everything that he knew about Israeli nuclear power, he completed his break with "national solidarity," putting the interest of the peoples, including the Israeli people, above any national consideration. In Israel, no one could imagine such a thing happening.

The publication of the Dimona secrets by the *Sunday Times* created a certain disarray in Israeli society. [See *IV* 108, November

10, 1986.] For the great majority of Israelis, this was a vulgar case of spying rewarded by juicy sums from a prestigious British weekly — there was talk of hundreds of thousands of pounds! This supposition, carefully fostered by the Zionist press, was also accepted by the left. A Moroccan! Who could believe that he was motivated by a progressive ideal? If he broke with national solidarity, it could only be for the money!

### No spying or premeditation involved

Even a superficial analysis of the way that Vanunu divulged what he knew about Dimona makes it easy to see that there was no spying or premeditation. It was with a certain naivete that Vanunu revealed the secrets that were in his possession, backed up by pictures, in a study circle that he joined in Australia. Hence the second supposition taken up by some Israeli progressives, that Vanunu was an agent of Mossad, the Israeli secret services.

The fact is that the Israeli secret services were already following Vanunu. This was categorically proved by the *Sunday Times* even before the British weekly published the Dimona secrets, and apparently nothing was done to stop him. What is more, how could he get pictures of Israel's most secret installations, except with the aid of the secret services? The supposition that Vanunu worked for Mossad depended on the notion that the Israeli authorities wanted to warn the Arab world by making public the real state of the Zionist nuclear forces.

However, unless one were conditioned

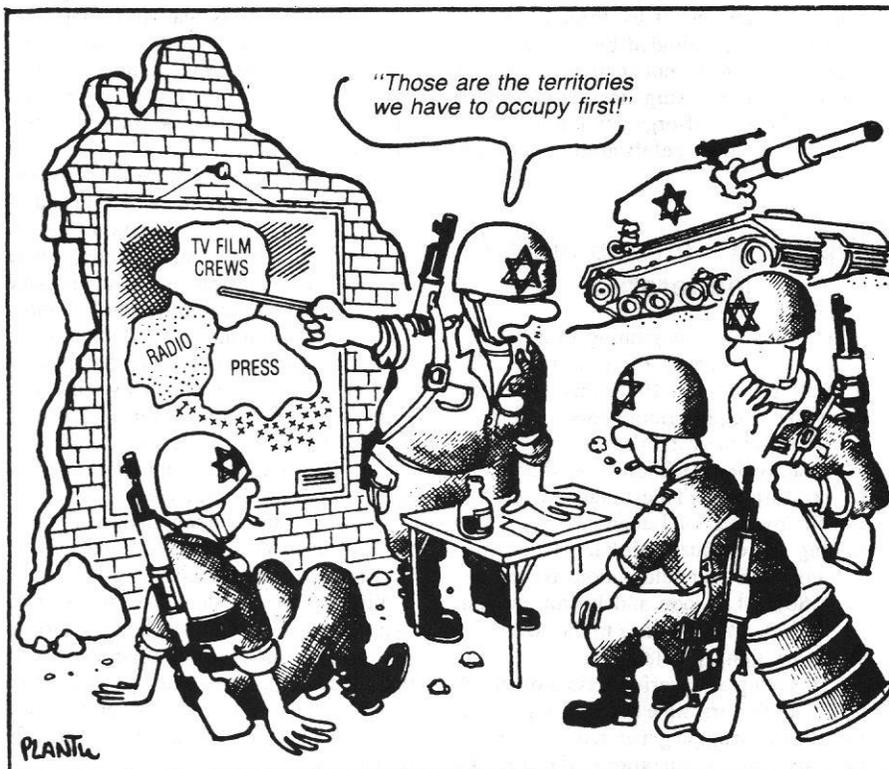
by the idea that no Israeli, and still more no oriental Jew, would betray their country except for money, everything seems to indicate that Vanunu is what he claims to be — a fighter for peace ready to do anything to warn people against the danger represented by Israeli nuclear weapons.

And this is a very great danger. It was warned against more than 25 years ago by almost all the members of the atomic energy commission that was set up by the government itself when it decided to develop Israeli nuclear power energy with French aid. The members of this commission, moreover, with one exception, resigned to protest against what they considered an adventurist project. Since then, this whole area has been kept under a curtain of secrecy that permits every sort of abuse.

No one knows, for example, who is responsible for the decisions on developing, or even using, Israeli nuclear power. The parliament has never discussed these problems, because the bomb is not supposed to exist, and former ministers asked about this matter say that they have never considered the question! So, there is no monitoring, no committee overseeing things even as concerns security for the population and the environment.

### Refusal to sign non-proliferation treaty

What is more, Israel has refused to sign the nuclear non-proliferation treaty, and has always rejected any international inspection of its nuclear power plants, even by such a powerful and generous friend as the United States.



A leaflet distributed by the Vananu defence committee said: "The Israeli government has shown many times that it shrinks from nothing. Nuclear weapons in such hands are a real danger for the entire world."

The only way to tie the hands of people capable of destroying the Iraqi nuclear power plant, of killing more than 150 people in less than four months because they threw stones and burned tires, of invading Lebanon to turn it over to the Phalange and let them massacre thousands of men, women and children in Sabra and Shatila is to reveal its secrets in order to alert local and international public opinion. That was Mordechai Vanunu's choice.

The Vanunu affair has not set off a wave of chauvinist and McCarthyite hysteria of the sort we saw for example at the time of the arrests of the so-called spy network led by Daud Turki and Udi Adiv in 1972. Surprise rapidly gave way to general indifference. This reflects the profound changes that Israeli society has undergone and a clear weakening of the propaganda about security and its effects on society.

Obviously, it is a different story as regards the politicians and the media, who have made a common front against "treason," with the Zionist left taking the forefront once again in the defence of the nuclear industry and the secrecy surrounding it.

However, if Mordechai Vanunu wanted to wake up Israeli society, or at least a part of it, about the dangers represented by Israeli nuclear weapons, he failed in his endeavor. If he has received the prestigious Alternative Nobel Peace Prize, he owes that to international solidarity and not to any non-existent anti-nuclear movement.

## Hundreds mobilized in Vanunu's defence

Of course, for the first time in Israel, hundreds of people, including some renowned intellectuals, mobilized in defence of Vanunu, whose kidnapping in Rome and draconian detention were real scandals. The campaign waged by the Committee to Defend Vanunu's Rights, for a public trial and for normal conditions of imprisonment — an end to the total isolation in which he was kept, an end to mistreatment, the right to see his fiancée — made a certain impact in the media. It made it possible to hear the point of view of the victim, after the authorities had held a monopoly on all information about the case, in disregard for the most elementary rights of a defendant.

However, the cause for which Mordechai Vanunu was ready to take enormous risks and which has cost him 18 years in prison today, the exposure of the Israeli nuclear danger for those who will be its first victims, is yet to be won.

The future of the Israeli nation is at stake, but this weighs little in the choices of the Zionist leaders. ★

# Philippines Communist Party leaders in danger

**INTELLIGENCE units of the Philippine army managed to arrest a number of cadres of the Communist Party of the Philippines (CPP) on March 29 in San Juan, a neighborhood in the Metro Manila urban complex. Among the seven activists captured were national leaders of the party.**

## PAUL PETITJEAN

ACCORDING to the army general staff, the following people were arrested:

- Rafael Baylosis, alias Manching or Kumander [Commander] Dong, 39 years old, general secretary of the CPP.
- Romeo "Rolly" Kintanar, the main leader of the New People's Army (NPA), in particular of its elite corps.
- Benjamin de Vera, alias Kumander Benjie, a member of the Political Bureau heading the commission responsible for following developments in the important southern island of Mindanao.
- Napoleon Manuel, logistics commander of the NPA, and his wife Inez.
- Marco Palo, a member of the CPP liaison committee.

The present president of the CPP, Benito Tiamson, was also supposed to have been in Manila and to have just escaped being arrested.

A year and a half ago, on September 29, 1986, the former president of the party, Rodolfo Salas, was arrested in the capital as he came out of hospital while the government, the National Democratic Front (NDF) and the CPP were negotiating a ceasefire. The lawyer José Diokno, former senator and head of the President's Committee on Human Rights, wrote to Cory Aquino shortly before his death to protest against the conditions of Salas' imprisonment.

Known also under the names "Rudy" and "Kumander Bilog," Salas was imprisoned for the first time in June 1973 but he rapidly escaped. Over the years, he has become one of the CPP cadres most sought by the repressive forces.

In November 1987, the army announced that it had captured a former cadre of the CPP Central Committee, Juanito Rivera; and in February 1988 it announced that it had arrested the "Committee for the Western Visayas" (the statement did not make it clear whether the army was claiming to have arrested all or only part of the committee; the Visayas are a group of islands in the center of the archipelago).

This is the not first time that the CPP has suffered such blows. In the mid-1970s, the best known leaders of the CPP (including its president at the time, José María Sison, alias Amado Guerrero) and the NPA (Bernabe Buscayno, alias Kumander Dante) were arrested. At the beginning of the 1980s, the best known leaders respectively of the NDF (Horacio "Boy" Morales) and Christians for National Liberation (Edicio "Ed" de la Torre) also fell.

Those arrests did not prevent the Communist Party, the guerrillas and the National Democratic Movement from continuing to grow. The jailed leaders were released in 1986, after the fall of the Marcos dictatorship.

The army's successful swoop in March 1988 came at a time when the CPP is going through a difficult political period for the left, and at a time when there is every reason to be apprehensive about the fate in store for those arrested.

Amnesty International has just published a report (extensive excerpts will be published in the next issue of *International Viewpoint*) in which it expresses alarm about a deteriorating situation as regards human rights. It is to be feared, in particular, that those imprisoned will be subjected to torture, which is tending again to become a general practice.

State terrorism, both in an official form (murders perpetrated by the army) and a parallel-police form (the activity of the Philippine "death squads" and vigilante groups), is assuming graver and graver proportions. The factional struggle in the army is far from ended, as shown by the escape on April 2 of Gregorio "Gringo" Honasan, the mastermind of the August 1987 putsch, and other mutinous officers.

In these conditions, it is important to mobilize international solidarity as quickly as possible on behalf of the CPP cadres who have fallen into the hands of the repressive forces. ★

# Women's conference a historic step for the union movement

**"DID YOU KNOW that every waitress had 60 customers to look after at the evening meal yesterday? What did you think about the kind of lighting we have on the job?"** The serving staff at the Folkets Hus in Borlänge were the only women who doing their usual jobs at the women's conference of the National Labour Confederation (LO) on March 6-8. They introduced the concluding session.

When they got up on the podium in Borlänge on March 8, they highlighted the situation of women in the union movement. At the same time, this offered a sort of condensation of the whole LO women's conference.

EVA NIKELL

**E**VEN IN THE labor movement's own premises not very much thought is given to the conditions of staff workers. At the conclusion of the women's conference, this was raised and the assembled delegates learned something new. Practical solidarity is not just something for other people. We ourselves have to be able to look at the daily conditions each of us face.

LO's women's conference was a historic event. It was the first time in recent history that the largest contingent of the trade-union movement has met just to discuss "women's questions."

There has not often been such free criticism in the trade-union movement. Discussion has seldom been so down to earth and personal as it was when the women service personnel took up their problems.

A relatively large number of young women trade-union activists came to Borlänge. The conference offered good opportunities for contacts with other people in the same trade union. The metalworkers' union's idea of distributing identical scarves to its delegates facilitated making contacts.

The women's conference was an important starting point, a new step in the growth of the women's movement in our time. Of course, there were shortcomings. It is important to look at them in order to do better next time.

The debate was to a large extent one among "experts." There was little room for the conference delegates to play a real part.

**6** Many of the opening speakers stressed that the real "experts" are the women who have

spent years cleaning, washing, looking after people or on assembly lines.

It was significant that in the report from the retail clerks' seminar on the future of the service professions, the reporter stressed that since everyone on the panel had come from the workplace they had almost immediately started a discussion, and "the audience liked that."

## Too many male speakers at conference

There was a lot of muttering in the corridors, both among the older and the younger people about "old men," and too many panels. One experience of the women's movement since the start of the 1960s has been the importance of organizing discussion in small groups, giving all participants the maximum opportunity to get involved.

Experience has also taught that women need other women as models. It would have been possible to get more women to participate in the panels, even if these women did not necessarily come from LO. Important information has been forthcoming from independent women researchers who should have participated in the conference.

In *Dagens Nyheter* [Sweden's quality daily] in recent weeks there has been a debate on menopausal problems. Women doctors have argued that menopausal problems may be a well-founded protest by middle-aged women against poor social and economic conditions, prolonged fatigue and worry about old age that is draw-

ing nearer. It is accepted for menopausal women to be sour and cross.

If doctors take this seriously, that should be another argument against low wages and bad working conditions, instead of for medication for hot and cold flushes. It would have been important to have an LO seminar on women and health under the heading of "Health — a class question."

## "The union doesn't take our problems seriously"

In the seminar on "Women in the union," people talked about the need for analyzing the obstacles to women becoming involved in the unions. Along with well-known problems, such as the lack of time and energy, meetings held after working hours when children have to be picked up from day-care centers and so on, a very interesting study was done among women municipal workers in Göteborg. Two women researchers interviewed many women in various departments at the big municipal hospital.

These women are all union members — they consider that to be a self-evident act of solidarity. They do not take part in union meetings, but discuss their work situation often with fellow workers in the department. Many of them have views about working conditions, relations with fellow workers, the content of the work and so on, and they raise demands concerning their circumstances.

When they were asked why they did not go to union meetings and take up their questions there, they all said: "No, but the union doesn't pay any attention to these problems." This study, and a serious discussion about it could have been conducted in the seminar on women's role in the unions.

Reformism has worked, Ingela Thalén said, when she presented the government's equality proposal. She continued: "this is an effective model for the future."

Reformism has worked so far for some groups and in some situations. But by no means for all. The gap became apparent in the seminar about the future of the cleaning profession.

An experiment has been carried out in Malmö, with work groups of cleaners aimed at giving greater self-confidence and greater opportunities for the workers' to control their own work situation. The idea came from a woman who had worked as a cleaner for 18 years. It was clear that the project had proved successful, and that was encouraging.

At the same time, we were in a town where a group of cleaners time after time have been forced to strike to defend their basic conditions. The last time, they lost. Now all of them have been fired.

If Inez Arnesson [leader of the Borlänge cleaners] and her fellow workers had been invited to the conference, it could have been made into a powerful demonstration

of women's solidarity in a situation where an open struggle has to be waged to defend workers' rights.

The conference was clearly reformist in the sense that what was discussed were projects and endeavors that all require the agreement of the bosses: new wage systems, new work organization, a new job evaluation system. Discussion of "systems" is interesting, but it is not sufficient. That is probably going to become all the more apparent in the period of more difficult economic conditions facing us.

Finally, the women's conference became an open social-democratic election rally. Most women in country, and especially LO women, intransigently defend the public sector and social welfare. They oppose the bourgeois parties' schemes for privatization, cutbacks and for partial payment for day care.

The social democracy is the biggest party in the LO. But the social-democratic local organization in Söderhamn is considering not doing election work this year because the social-democratic leadership in the provincial parliament is closing the hospital.

Not everyone thinks that the social democrats' practices are the best way to combat the bourgeois parties. A lot of women active in the unions consider themselves politically independent, or belong to another section of the workers' movement. Focusing a union congress on the need for a social-democratic electoral victory amounted to contempt for their views.

### Campaign against pornography

There were many new, interesting and important elements in the conference, for example, the retail clerks' campaign against pornography. It is their members who are forced to sell trash every day; it is from them that effective boycott action has to come.

Personally, I met a lot of old friends that I had not come across for many years. A journalist on the *Göteborgstidning*, who was covering the conference, was involved in the Women's Tribunal in Göteborg in 1981. [This was the largest national women's meeting held in Sweden and marked the culmination of the movement of the 1970s.] We made some comparisons.

In 1981, we brought 700 people from the entire country, depending entirely on volunteer forces. We set up work groups for various areas half a year in advance. We let women talk about what they had never talked about in public before, we let experiences and knowledge come forward that previously had barely seen the light of day. The Women's Tribunal was an overwhelming experience. It brought together the best that a long effort in women's work had produced. The LO conference had no creche — a thing that would have been unthinkable at the tribunal. Many single mothers came to it. Three young men looked after

the children for three days.

That was 1981. It was the last big united activity of the women's movement organized at the time. We thought that it would be easy to organize a follow-up.

### A powerful force against the existing order

Now it is 1988. Consciousness of women's problems has deepened in society. The LO conference was an expression of that. There is still energy in the women's movement, even if it is no easy thing today to bring people together in a hall. And the real women's movement does not have much to do with the "Women Can" exhibitions or-

ganized by bank managers. [These are exhibitions by women who have made it in traditionally male jobs to show that women can succeed in these occupations. They have increasingly become affairs for female executives and the like.]

Together women active in the unions, independent women researchers, women in immigrant associations and women in the political parties of the workers' movement can become a powerful force challenging the existing order.

We must see to it that LO's women's conference in Borlänge is a beginning and not a conclusion. ★

[From *Internationalen*, March 17, 1988, newspaper of the Socialist Party, Swedish section of the Fourth International.]

## The struggle of the independent social clubs

**AN INSIGHT into the political struggle developing in the Soviet Union is provided by the following article. It was written by the best known leader of the independent social clubs, the first legal political organizations not controlled by the state to be permitted since the establishment of the bureaucratic dictatorship.**

**It was published in the February 6 issue of *Rinascita*, the Italian Communist Party weekly. Obviously, the conflict in the Soviet Union concerns all the Communist parties, and the Italian CP — which has good contacts in Moscow — has its own bones to pick.**

### BORIS KAGARLITSKI

**W**HEN THE conference of the independent left groups concluded on August 28, 1987, with the formation of the Federation of Socialist Clubs (FSOK: *Federatsiya Sotsialtichestkikh Klubov*), it seemed to many of the participants in the assembly that it would be nearly impossible to carry out its decisions. [See *IV* 129.]

A few weeks before the meeting was held, members of the organizing committee for the conference, which was formed in the Social Initiatives Club (KSI), greeted each other with the comment: "Who could have imagined that things would have developed so rapidly." *Perestroika* was gathering its forces, and events had unexpectedly accelerated. However, in the following months it emerged clearly that such a speed-up was not always to everyone's liking.

Even before the removal of Boris Yeltsin from the post of first secretary of the Moscow City Committee of the CPSU, there had been events indicating that the conservative forces were becoming active. At the time of the All-Union meeting of revolutionary solidarity clubs in Moscow (October 10-12), FSOK activists were accused by the spokesperson for the Komsomol [CP youth organization] Central Committee, A. Filatov, of carrying out "anti-Soviet propaganda." Besides this, in the meeting which discussed problems related to the social developments, some delegates who represented clubs belonging to FSOK were not allowed to enter the hall, although they showed their credentials.

About a month later, on November 9, a group of activists of the Federation were stopped at the 1905 Avenue subway stop, because they were collecting signatures on



a petition demanding full clarity on the Yeltsin affair. After Yeltsin was booted out of his post, the situation got a lot worse. The premises used by the socialist clubs were closed under a wide variety of pretexts.

### Radical anti-bureaucratic measures

Official personalities who sympathized with the movement began to predict that the new conference of the clubs scheduled for January 28, 1988 "would be postponed, if it can ever be held." Not a single club had lost its legal status, but while only a short time ago the clubs' activity had been considered "useful rank-and-file initiative," we now felt that we were regarded as "politically immature people" or even "harmful individuals."

In substance, the situation that was developing was characterized by the consolidation and growing strength of the conservative groups in the apparatus. The socialist clubs from the outset were regarded by these groups as something definitely hostile. In its statement, the FSOK called for the implementation of radical anti-bureaucratic measures, extension of the political rights of the workers and the consistent application of an economic reform that would guarantee the workers' social gains.

Particularly irritating for the bureaucrats was the point in our statement that talked about the right of the clubs to run their own candidates in elections to the Soviets. Nonetheless, it was more than evident that this hostility to the clubs did not depend so much on this or that paragraph in our statement, which in any case was only a scrap of paper. They were more worried about the fact that the clubs were carrying on concrete activity aimed at mobilizing, as far as was possible, the broadest strata of the population, and thereby giving life to a real anti-bureaucratic movement from below. So, it is not surprising that FSOK activists coming onto the streets to collect signatures and explain their positions aroused an unhealthy reaction from the bureaucrats.

The events that occurred in November-December 1987 at Moscow University demonstrated once again how effective and real bureaucratic opposition to *perestroika* can be when the apparatchiki feel they are facing real threats.

**8** It all started on November 16, when a party member, Anatolii Gallamov, who did

not belong to any of our clubs, made a proposal to the students for calling an assembly to support a revolutionary *perestroika*. The following day, in front of the main lecture room in the humanities faculty of the university, a few hundred students started to protest energetically against the sacking of Yeltsin. Finally, a petition was approved calling on the Central Committee of the CPSU to publish all the materials on the Yeltsin case. The students formed an initiative group to take charge of continuing to collect signatures on the petition.

Toward the end of the assembly, Aleksei Vassilevskii — a member of the Obshchina ["Community"] club, which belongs to the Federation — arrived and announced that the FSOK had already been collecting signatures on a similar petition for a week. This was enough to provide a pretext for the administration accusing everyone present of being "instigators from Obshchina" and "having nothing in common with the university."

### Yeltsin meeting called off by college administration

The students, however, had no intention of getting involved in a confrontation. The initiative group quickly began a dialogue with the university administration and declared itself ready to make a compromise. On the basis of the agreement reached, the students suspended the collection of signatures, and the administration promised to put the conference hall at the disposal of the students on November 20 to hold a new assembly. A Central Committee member had supposedly been invited to participate who could answer all the questions raised on the "Yeltsin case."

Thus, the affair proceeded quite peacefully up to the scheduled date of November 20, when hundreds of students anxious to take part in the assembly were disagreeably surprised to find the conference hall closed. And what was still more peculiar was that Gallamov had disappeared, no one knew where.

The formal pretext for cancelling the assembly was that sometime before it was to be held, some representatives of the Moscow City Committee of the party came to the university and met with "some local social representatives." But they did not meet with the bulk of the students, and movement activists had no opportunity to ask them any important questions. It was also

learnt that on the day in which the assembly was to take place, Gallamov was "invited" to a meeting with representatives of the party leadership at the university and, in his own words, he was "in fact kidnapped."

Every indication was that the university administration considered

the cancelling of the assembly to be a great victory. The second secretary of the Komсомol organization at Moscow University solemnly told me that "at Moscow University, assemblies of this sort will no longer be held." As often happens in cases of this sort, such a solemn promise soon proved to be empty. A new assembly was held before a month went by.

The reason for the new actions by the students were the actions of the university administration itself, which intended to use its November "victory" to make a clean sweep of the "trouble-makers." Gallamov and another party member, Vladimir Grabarnik, were accused of violating party discipline, while non-party activists were informed that the imminent winter examination session would be their last, unless they made a public statement repenting their "errors." But there were no mass repentances, and on December 15 a new assembly was held at the university.

But this time, although the student initiative had not been authorized, as it was before, the administration was forced to give those who turned up a hall in the auditorium. But, as a "preventative measure," it sent in about a hundred "loyalist" students, whose task was to challenge the "trouble-makers." At any rate, on this occasion, the administration did not feel so secure as it had the previous time.

After the second assembly, in fact, neither Grabarnik nor Gallamov were expelled from the party. What is more, Grabarnik had no problem in defending his thesis on Nikolai Bukharin in the Faculty of Economics, although he had been prevented from doing this for a long time.

### Stalinists dream of rapid "normalization"

The situation that developed at the university, as can be seen, was not just important for its own sake. It brought out into the open the tension and contradiction-ridden circumstances in which the left clubs found themselves. Almost every day, news arrives in Moscow about similar clashes in the provinces.

The attitude taken toward the left clubs has become one of the essential criteria for assessing how the local bureaucrats relate to the changes. While the clubs seek constantly to avoid confrontations and avoid destabilizing the situation, the other camp is constantly looking for clashes. Naturally,

all this is not surprising. In the present situation, a very tense pattern of relations can only benefit the Stalinist wing of the apparatus, which dreams of carrying out a rapid "normalization." The less stable and relaxed the situation is, the greater will be the conflicts and the louder the "murmuring" in bureaucratic circles about the need to "re-establish order" and put an end to "the laxity of democracy." Such words are also heard on occasions in demonstrations at Moscow University.

It has to be stressed that despite the strong-arm methods and pressures, the clubs have been demonstrating an astonishing discipline and coolness. This is particularly important if you keep in mind that these are very diverse groups, that the link between them is very loose and that they lack a single coordinating center. It should also be noted that the average age of the members of some of the clubs is barely 25, and that their experience is very limited.

It can be said that good sense or a very special sort of "political instinct" is solidly rooted in the ranks of the left radicals. It is true that sometimes you can hear statements about the need for "giving blow for blow" or "going underground." But such calls turn out to be very unpopular, like the attitude of people determined to demonstrate the inevitability of "political surrender." Different orientations have prevailed. The clubs have shown themselves ready to negotiate, and in cases where their rights have been restricted they have appealed to the authorities, but have never abandoned their positions.

Therefore, it is easy to understand why in these circumstances the Stalinist apparatus turned their fire first against the party members that have joined the clubs. It is, moreover, only the presence of such people in the ranks of the left movement that reduces the possibilities for clashes and demonstrates the constitutional nature of the clubs' activity.

The bureaucratic measures against left activists have seriously complicated the lives of a lot of activists, but they have not broken their spirit. In November and December 1987, for example, there was a marked upturn in the movement. New groups joined the Federation of Socialist Social Clubs, thereby improving the understanding and collaboration among clubs that were already in the Federation.

The organizers of the November assembly at Moscow University knew very little about the KSI [Social Initiative Club] and the FSOK before the "Yeltsin case" broke. Over December, many of them joined the KSI. There was a big increase in the press run of the FSOK's bulletin, *Svi-*

*detedel'* ["Witness"], which changed its name to *Levii Povorot* ["Left Turn"]. According to the data proved by the editorial board, in addition to Moscow and Leningrad, this bulletin is published in abridged form in a further dozen cities.

An exchange of information and material between *Levii Povorot* and *Merkur* in Leningrad has started. These are presently the most widely circulated samizdat publications in the country. In this way the crisis has opened the way for a further strengthening of the left's positions to a certain extent.

As regards the longer-term prospects, the movement will not be able to develop unless it can collaborate with the reform groups operating within the official structure of the party. This point is openly discussed in the statement that the FSOK drew

wing has shown its capacity to influence the decisions adopted and to modify them. To a certain extent, conservatives and Stalinists managed to take the initiative into their hands. Thus, any error by the reformists, any slip in the *perestroika* process, will be seized on ruthlessly by these forces.

The Stalinists see the left clubs as their most determined foes, and they will use every means at their disposal against them. The *glasnost* policy does not offer them opportunities for resorting to repressive procedures, but they are doing everything possible to push the clubs onto a collision course, in order to make them into a sort of "second version of the dissidents." If the socialist groups are pushed to the sidelines of political life, it will be very difficult for them to extend their influence or to recruit new members. But at the same time the official reformers themselves will be more isolated politically.

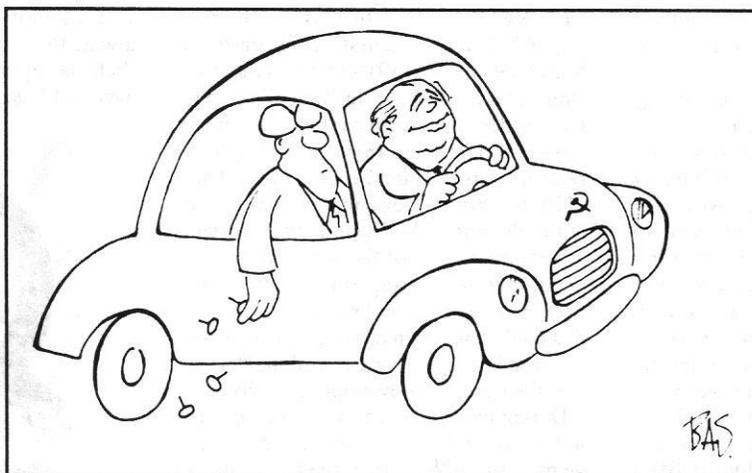
In this specific situation, the conservatives have chosen the most effective of possible strategies. It is difficult to say if this is a conscious choice or simply a "political instinct" of the mass of functionaries defending their own interests. But, in any case, the fact cannot be denied that the enemies of the reform are not limiting themselves to passive resistance and bureaucratic sabotage.

They are trying to counter-attack, and they have had some success.

For its part, the left is striving to assess the new situation and to find new and effective methods of work. The movement is still very young, and is barely beginning to transform itself into a real political force. This does not mean, however, that even in taking its first steps the movement does not recognize the seriousness of the strategic problems facing the left.

The socialist clubs continually point up their own role as the expression of the interests of a civil society in formation. In a certain sense, the capacity of the FSOK and other progressive associations to influence the course of events can be considered an index of the maturity of Soviet society and of its readiness for democracy. Without a rank-and-file movement, no success is possible for the reform, and that, in our opinion, is especially true now when people are united by the hope of seeing Stalinist normalization swept away. The future will tell to what extent the movement will be able to play a vital and effective role. However, here and now it should be clear that the left cannot be ignored or cancelled out by anybody.

The socialist clubs have become an inseparable part of the Soviet political landscape. And, as Lenin said, this is "serious and long lasting." ★



up during the August conference. Everything that we said at that time and subsequently about the significance of the January plenum of the CPSU for the democratization of society was not said for the sake of respecting a political ritual.

It is quite evident that the decisions made at the official level are decisive today for the fate of *perestroika*, and that the official reform movement now has sufficient political strength to guarantee the advance of the reforms. In the conditions in which local conflicts are constantly arising, cooperation between the official reform groups and the radical left has become extremely difficult and marked by reservations on both sides. In the last analysis, all this benefits the Stalinists.

Moreover, a radicalization of the unofficial left groups themselves arising from constant conflict with the bureaucracy could frighten the official reformist circles and push them into "more moderate" positions, that is, in practice, positions more to the liking of the conservatives.

The November crisis brought out clearly enough the positions of all the actors in the political struggle. Now it is clear that the reformist groups in the leadership of the country do not want to, and cannot, apply their own line without taking account of the conservative wing in the apparatus. This

**AROUND  
THE  
WORLD**



USA

**SWP announce 1988 ticket**

THE SOCIALIST Workers Party (SWP) announced its candidates for the 1988 US presidential elections at a new conference in New York on March 9. James Mac Warren, a longtime activist in the labor and Black rights movement, is the SWP candidate for president. Kathleen Mickells, a West Virginia coal miner, is the vice-presidential candidate.

"The stock market crash last October signaled that a devastating world crisis is looming," Warren told reporters. "US working people need to unite with fellow workers and farmers around the world, especially in those countries oppressed and exploited by the United States and other imperialist powers, to protect ourselves. The semi-colonial countries are already suffering hunger, soaring infant mortality and massive unemployment under the weight of their mammoth debt burden.

"In the US, the crisis has brought devastation to the most impoverished sections of the working class — especially the Black community, immigrant workers, Chicanos and Puerto Ricans...."

Warren said that the generalized social crisis that is coming will engulf working people as a whole, not only in the US but in Canada, Western Europe, Japan, Australian and New Zealand. It will hit the colonial world even harder, which is already suffering its worst crisis since the 1930s.

He outlined a number of key proposals that the socialist candidates are raising, including a shorter working week; affirmative action; a fight against farm foreclosures and for cheap government-financed credit for farmers; international solidarity to demand cancellation of the foreign debt, an end to protectionism and a halt to the dumping of low-priced goods on the world market.

Kathleen Mickells said that the campaign "opposes the increased use of US military force around the world, from the Persian Gulf to Central America to southern Africa."

Campaign director Doug Jenness announced that the SWP will seek ballot status in 20 states. Because it is a working-class party, it is denied automatic access to the ballot and is forced to collect massive numbers of signatures, pay high fees and meet other undemocratic requirements.

Jenness added that the SWP will also be fielding several dozen candidates for Con-

gress, US Senate and governor. ★

[Abridged from *The Militant*, March 18, 1988.]

FRANCE

**Funeral soured by sectarianism**

THE RESPONSE to the assassination of the ANC's representative in Paris on March 29 (see IV 139) was again the occasion for a deplorable division. Following the murder, the Anti-Apartheid Movement called for a picket in front of the South African embassy, while the Communist Party (CP), the Young Communists and the CP-led trade union, the CGT, held their demonstration in front of the ANC office. This division in the anti-apartheid struggle has become systematic in France. But the least that could have been done would have been to avoid it on this tragic occasion. Nothing was done and nobody would give way.

During the day, when ex-CP member and left presidential candidate Pierre Juquin went to the ANC office, the CP members present jeered and insulted him. That evening, the CP held a demonstration largely marked by attacks on Mitterrand, while the Socialist Party and the leadership of the anti-racist movement SOS-racisme would not budge an inch and held their "own" demonstration!

The CP has declared for a long time that solidarity with Black South Africans was its property. The Socialist Party is content to rest on the sidelines and wax indignant. Both of these parties have used South Africa for their own sectarian ends. Even the death of Dulcie September did not change

their practices.

The funeral on Saturday, April 9, only confirmed this sad state of affairs. The CP took it upon itself to be at the centre of the ceremony. The only French personality allowed to speak was CP general secretary Georges Marchais. When the leaders of SOS-racisme tried to present a wreath, they were pushed out of the way in a militaristic manner by CP militants.

Obviously, the ANC gains nothing from the CP's sectarianism. Some newspapers commented on the alleged discomfort in the ranks of the ANC delegation about the CP's omnipresence. If this was the case, this means that the leadership of the Communist Party has some means of pressurizing ANC leaders. In the middle of the election campaign, the CP wanted to establish an image as the only force opposing apartheid. At a time when united and massive solidarity has never been so urgent to thwart the repressive machinations of the Pretoria regime, it is a pity that the ANC gave its blessing to such a manoeuvre. ★



A LAST reminder for the celebration of 50 years of the Fourth International on May 14 organized by the Danish and Swedish sections.

Betty Heathfield from the Women Against Pit Closures movement will be speaking, along with Ernest Mandel, Hugo Blanco, Tariq Ali and speakers from Nicaragua and South Africa.

Details and greetings: SAP, Nørre Alle 11A, 2200 København N, Denmark ☎ 01-39 79 48



## The world economy

# New fundamental contradictions in the age of "late capitalism"

**T**HE INTERNATIONAL capitalist economy went through a mini-recession in the first half of 1986.<sup>1</sup> Of all the main imperialist countries, only Britain avoided this recession, although its manufacturing industry no more than levelled off. However, this mini-recession did not deepen. The year 1986 ended with an upturn in production that continued throughout 1987, albeit slowly and hesitantly and with many interruptions. This emerges from the figures in Table 1 on 1987 industrial production.

Table 1

### 1987 industrial production compared to 1986

Canada	+8.8%	(Nov-Nov)
France	+4.0%	(Nov-Nov)
FRG	+2.0%	(Dec-Dec)
Italy	+3.6%	(Oct-Oct)
Japan	+8.6%	(Dec-Dec)
Spanish state	+8.9%	(Nov-Nov)
UK	+4.9%	(Dec-Dec)
USA	+5.1%	(Dec-Dec)

Source: Economist, February 6 & 20, 1988

It should be stressed, however, that the concrete reality underlying these figures is highly diversified. Getting out of the mini-recession was not easy, and this was not accomplished in a uniform way. It persisted in Japan throughout 1986 and the beginning of 1987 (hence the high percentage of increase in production over the period December 1986-87).

Likewise, industrial production declined during three out of five quarters in 1986-87 in France and Canada (*International Economic Conditions*, October 1987, Federal Bank of St. Louis). In West Germany, the mini-recession showed up again in the third quarter of 1986. In January 1987, industrial production was down 3% from the January 1986 level. At the same time, the United States experienced a 1% fall in production.

It was the continuation of the Reagan administration's ultra-Keynesian policy, that is the enormous US budget deficit, that halted the 1986 mini-recession. This kept sucking into the US domestic market growing volumes of commodities from Japan, West Germany, South Korea, Taiwan, Brazil and, to a lesser degree, from other imperialist countries in Europe. Hence the high US trade deficit, far from being wiped out,

**THE ANNOUNCEMENT that the US trade deficit had risen to \$13.8 billion sparked off a new 101 point nose-dive on Wall Street on Thursday, April 14. Since last October's stock market crash, even minor hiccoughs in the financial markets are enough to spark off a new round of comparisons with 1929-30.**

**But while the dollar plummets, banks fail, debts reach astronomical proportions, overproduction and unemployment are rife and the speculators move in to make quick killings, bourgeois commentators insist that everything is fine in the "real" world of international commerce. So what is the real story? Are we simply witnessing a "crisis on paper" that bears no relation to actual industrial production and growth?**

**The following article describes the depth of capitalism's current crisis and argues that, far from being irrelevant, all the current economic indicators point to a generalized international recession in the near future.**

### ERNEST MANDEL

persisted or even worsened throughout 1987. Hence the accelerating fall of the dollar over the same year and the "flight from the dollar" by major holders of financial capital. Hence the frantic speculation

at the same time in the stock markets, in real estate and works of art.<sup>2</sup>

The stock market crash of October 19, 1987, marked the turning point in this trend. It foreshadowed a general recession, which will be worse the longer it is delayed. The immediate cause of the stock market crash lay in the very extent of the speculation throughout 1987, or — what amounts to the same thing — in the glut of money capital not invested in actual production.

This enormous money supply created a demand out of all proportion for "real non-monetary assets." The latter were limited by a relative glut of raw materials, for which prices stayed very low, largely eliminating them as objects of sustained speculation.<sup>3</sup> This led to a persistent imbalance between supply of, and demand for, the "hedge investments" favored by speculators. Hence their prices soared.

### Massive speculation causes stock boom

On the New York stock exchange, the Dow-Jones industrial index rose from 800 at the beginning of 1984 to 2,400 at the end of March 1987. In London, the *Financial Times* industrial index jumped from 400 at the end of 1982 to 600 at the end of 1984, to more than 800 at the beginning of 1986, more than 1,000 at the end of 1986 and over 1,500 at the end of March 1987. In Tokyo, the rise brought average stock prices to a level of 800 at the beginning of 1984, to 1,000 at the beginning of 1986, to 1,400 at the end of 1986 and 1,900 in March 1987 (*Sunday Times*, April 5, 1987). Despite a warning and a fall at the beginning of April 1987, the price rises resumed with a vengeance in the following months. The Dow-Jones index topped the level of 2,700 in August 1987!

International demand for US stocks and, to a lesser degree, for Japanese and English ones, played a not insignificant role in this buoyancy. Over the first two quarters of 1987, foreign purchases of US stocks exceeded \$18,000 million. Japan accounted for \$7,500 million of this, Britain for

1. See the figures in IV 106, October 13, 1986.

2. The West Germany weekly *Die Zeit* summed up the situation in this regard with the lapidary formula "art is capital."

3. Including gold and platinum, whose prices remained depressed during the second half of 1987 as a result of an excess of supply over demand.



\$4,000 million, France for \$1,800 million and Latin America for nearly \$1,000 million. (*Financial Times*, October 21, 1987.)

On the London stock exchange, Margaret Thatcher's deregulation measures (the celebrated "big bang") brought a tripling of the volume of transactions in domestic stocks and bonds. (*Le Monde*, October 20, 1987.) The issuing of new stocks and bonds could not keep up. Prices soared, leading to pathetically low yields — less than 1.5% and 2.5% on the Tokyo and New York stock exchanges respectively. In fact, the New York rate was lower than the Tokyo one in real terms, given the higher level of inflation in the US. Once again, in such conditions, a day of reckoning was inevitable.

### Frantic real estate speculation

The frantic real-estate speculation evident in Paris, London, New York and Los Angeles is glaring in Tokyo. On the eve of the stock market crash, *Le Monde* pointed out that in the space of two years in the prime neighborhoods of Shinjuku in Tokyo, the price per square meter rose from the equivalent of about \$31,000 to \$77,000 and fluctuated between \$110,000 and \$227,000 in Ginza. More than two hundred thousand dollars per square meter!

Apartments of 120 square meters rented for around \$6,000 dollars a month; 10% of bank loans were invested in the real estate market. (*Le Monde*, October 9, 1987; *Japan Economic Journal*, October 10, 1987.) On October 8, 1987, the Belgian paper *Le Soir* pointed out that in the Japanese countryside the price of rice fields per square meter was 20 times higher than in California.

**12** Two structural factors inherent in banking capital (including financial intermedi-

aries) have greatly contributed to this outbreak of fever.

First of all, the extraordinary increase in the volume of financial transactions<sup>4</sup> has led to a relative "de-professionalization" of many financial managers, a factor that I have often pointed out. At the same time, these managers have responsibility for so much capital, especially the traders on the exchange markets, that their paths are paved with gold.

Christopher Heath, an expert on Japanese stocks in London, has become the best paid person in Britain. He earned the equivalent of \$4,500,000 in 1986 as an executive of the Baring firm. Peter Stormonth Darling, of the Warburg bank, earned about \$2,000,000 in the same year. In the same year, Michel David Weill at Lazard Frères in New York collected a mere \$82,000,000 in pay. Michael Milken, from the Drexel Burnham firm, made himself about \$45,000,000.

It is evident that such imbalances in jobs and pay multiply the risks of errors of judgement, gross professional faults and grave incompetence.

Moreover, the ideological and moral (or rather "amoral" and "immoral") climate of "get rich quick at any cost and by any means" that the neo-liberal conservative offensive has engendered in the capitalist countries has promoted fraud on a grand scale. Insider dealing, of which the Boesky case was the most significant, is a perfect illustration of this.<sup>5</sup>

Fraud stimulates speculation, which in turn feeds still more use of fraudulent, if not downright criminal, methods.<sup>6</sup> While the frantic stock market and real-estate speculation of 1987 was primarily the outcome of excess liquidity in the capitalist world, this glut itself sprang from a deeper structural cause — the persistent over-accumulation of capital that characterizes

the "long wave of depression" that began in 1974, if not at the end of the 1960s and the beginning of the 1970s.

### Enormous excess productive capacity

This over-accumulation means that the new capital formed steadily by the profits realized every year no longer finds investment opportunities sufficient to secure average profit, which itself remains depressed in comparison to its level during the preceding "long wave of expansion." The fact that this capital is no longer being productively invested feeds the economic depression (especially the decline in employment), which in turn feeds the over-accumulation of capital, the growing "liquidity" of this capital (its being retained in the sphere of financial capital or semi-liquid capital) and, therefore, speculation.

The fundamental cause of speculation is the overproduction of commodities (which comes down to the same thing), the enormous excess productive capacity burdening most industries, which likewise blocks a real revival of productive investment. The

4. The daily volume of transactions on the exchange markets of the four main centers — New York, Tokyo, London and Zurich — reached the fantastic sum of \$300,000 million, or, taking account of days off and vacations, \$60,000,000 to \$65,000,000 million a year. The annual volume of world trade is only \$2,000,000 million. (*Neue Zürcher Zeitung*, 7-8, November 1987). More than 90% of these exchange operations, therefore, are based on movements of mainly "floating capital" — that is, they are essentially speculative.

5. After getting off with a very high fine, which still left him in possession of several hundreds of millions of dollars of "illegitimate" gains, Boesky was finally sentenced to serve time in prison. For the same crime, Dennis Levine of Drexel-Burnham-Lambert was sentenced to two years in prison.

6. In Tokyo, gangsters are employed to intimidate small land- and house-owners when they hesitate to sell their property to real-estate speculators.

figures for the US given in Table 2 are eloquent and spectacular in this respect.

In order to interpret these figures correctly, you have to remember that 1982 was a recession year and that 1979 was the peak of the preceding "industrial cycle." Therefore, the 1979 percentages should be compared with those for 1984-85. Looking at the statistics cited here, it emerges that from one cycle to the other excess productive capacity rose overall from 25% to 33% for US manufacturing industry. According to a separate study by the US Trade Department, this was from 30% to 35%.

## Japanese industry and Zaitech

This explains why the massive placing of capital-money in "paper" has by no means been limited to professional "speculators." The big industrial monopoly trusts have also widely resorted to this. The most typical case is that of Japan. This new practice has a new name — *zaitech*. Stock market transactions by Japanese industrial enterprises went from buying and selling operations of ¥3,300 million in 1983 to nearly ¥17,000 million in 1987 (I am averaging buying and selling operations here, and not adding the two).

It is small- and medium-sized enterprises that have most accentuated the speculative character of *zaitech* practices and which are now running considerable risks. But even the main Japanese multinationals are now realizing a considerable part of their profits outside of production, in financial operations. In 1986, this share rose to 53.4% in the case of Fujisawa, 45% for Hitachi and 60.5% for Matsushita Electric Industrial.<sup>8</sup>

Some people concluded that there was a "de-industrialization" of the imperialist

countries.<sup>9</sup> They were rather hasty, and in particular they lost sight of the very nature of imperialism and finance capital. It would be more correct to point up the temporary character of this disengagement and the attempts undertaken by US and British capital to re-orient toward exporting commodities, and therefore toward modernizing their industry (how successfully depends on capitalist competition; I will come back to that).

In the light of this judgement, the stock market crash emerges objectively as the beginning of a realignment within the bourgeoisie at the expense of the banking and "purely financial" sectors and to the advantage of the classic sectors of industry-oriented finance capital.

The capitalist chain broke first at its weakest link — the stock market. This break is almost automatically leading to others. What is most threatened now are brokerage houses and other financial intermediaries; the weaker banks (and not the smallest of them); the solvency of states, and not only of the relatively more indebted third-world ones; the solvency of the social security system in a number of countries; and some badly shaken multinationals.

## Growing risk of a complete breakdown

In a chain-reaction effect, as a result of the cumulative consequences of all these crises that have been unfolding under our eyes since October 1987, there is a growing risk that the entire international credit system and the whole international monetary system (or rather non-system) may break down.

The dollar crisis has created a system of

connecting channels between the crisis of the private sector and that of the public mechanisms on the scale of the capitalist economy as a whole. As I wrote at the end of May 1987, the mountain of debts has begun to move. How can the avalanche be stopped?<sup>10</sup> There is nothing surprising about the fact that the most threatened in the aftermath of the stock market crash are the fauna of the financial intermediaries and the big operators in the field of corporate takeovers.

## Massive layoffs after October crash

In this way, there have already been retrenchment measures and massive layoffs at some of the main stock placement firms on Wall Street — Salomon Brothers, Shearson Lehman, Drexel Burnham Lambert, Goldman Sachs and others. According to the *Sunday Times* of November 29, 1987, Shearson Lehman lost \$70 million in October 1987; LF Rothschild, \$44 million; and EF Hutton, \$90 million (for all of 1987). In Great Britain, the stock market losses of one of the main brokerage houses, the Warburg firm, are estimated at more than \$40 million, those of Zoete Weld Barclay's at more than \$80 million.

This is only the tip of the iceberg. In fact, the financial intermediaries, as much as the big banks but with equities far inferior to those of the banks, involved themselves extensively (and imprudently) in financing takeover bids by the main raiders — Icahn, T. Boone Pickens, Sir James Goldsmith and the like. These credits were covered by junk bonds issued by low-profitability companies. After October 19, 1987, the prices of these bonds collapsed. Drexel lost \$1,000 million of the \$10,000 million value of the bonds it held. Salomon and Goldman Sachs found buyers for only \$600 million worth of "junk bonds"

Many banks have been hard hit by the crash and the successive vicissitudes of the long depression (the agricultural crisis; falling oil prices; third world "bad debts" and so on). In the United States, 200 banks failed in 1987. Savings banks overall are in the red, especially since the failure of 39 savings and loan banks in Texas. In 1987, this deficit was estimated at \$4,500 million. (*Neue Zürcher Zeitung*, December 9, 1987.)

On the eve of the stock market crash, the US government had to intervene to prevent the biggest bank failure that has threatened

Table 2  
Degree of capacity utilization of US industrial sectors  
(4th quarter of each year)

	1985	1984	1983	1982	1979
For all industry	67%	66%	66%	59%	75%
Durable goods	64%	65%	61%	53%	72%
Non-durable goods	72%	72%	73%	69%	78%
Food	71%	70%	69%	69%	73%
Clothes & textiles	73%	73%	75%	71%	80%
Furniture	68%	70%	70%	58%	75%
Chemicals	63%	63%	65%	60%	76%
Iron & steel	63%	60%	63%	42%	78%
Machines:					
non-electric	58%	62%	57%	50%	70%
Machines: electric and electronic	65%	68%	65%	60%	73%
Cars	76%	79%	71%	50%	71%
Aeronautics	63%	55%	48%	51%	71%
Scientific instruments	66%	68%	68%	67%	76%

Source: Current Industrial Reports, US Trade Dept. <sup>7</sup> (Business Week March 7, 1988, estimates excess capacity in the car industry at 36%).

7. This data was provided by comrade W.I. Mohareb from Boston, USA.

8. Frédéric Burgière, *Japon in extenso* 6, December 1987, reprinted in *Problèmes Economiques*, February 3, 1988.

9. The thesis that the big imperialist powers are undergoing "de-industrialization" has been defended by many authors. I would note, above all, Kees van der Pijl's *The making of an Atlantic ruling class*, London, 1984.

10. See my article, "The snowballing financial crisis," in *IV* 123, June 29, 1987.

the country since the bailing out of Continental Illinois in 1984. The bank in question was the First City Corporation in Houston, Texas. The salvage operation cost the Federal Deposit Insurance Commission \$1,000 million. (*Die Zeit*, September 18, 1987.) For 1987, for the first time in its history, this institution will undoubtedly show a deficit. (*Le Monde*, January 19, 1988.)

### Biggest bank failure in US since 1974

In 1986, the failure of the First National Bank and Trust Company of Oklahoma (holding an equity of \$1,600 million) was not averted. This was the biggest bank failure in the United States since that of the Franklin National Bank in 1974.

Graver still than the cases of these middle-sized banks was that of one of the main American banking institutions, the Bank of America, which for a long time was the world's largest in terms of the volume of its deposits. It was in serious difficulties, and was saved only by the massive participation of Japanese capital in an operation to increase its capital. In a more general way, the main US banks are now insufficiently profitable, and Wall Street no longer considers them as prime placements.

The position and the difficulties of the banking system in the US are better known than in the other imperialist countries, which keep up a curtain of discretion, if not secrecy, over such matters. Nonetheless, information on the state of affairs in some countries has filtered out.

Considering the third-world debts it holds as largely unrecoverable, the Bank of Nova Scotia reported losses of \$240 million for the accounting year running from October 1986 to October 1987. In Canada, five of the six main banks have closed, their balance sheets at the time being in the red.<sup>11</sup> In Sweden, three major banks have lost altogether more than \$100 million as a result of the stock market crash. In Norway, the main bank is said to have lost almost \$200 million in the crash and following exchange operations that came out badly.

In Australia, one of the main brokerage houses, Western Continental Corp, has shut up shop. In Britain, the country's richest bank, National Westminster, has revealed that a company that it controls lost \$130 million as a result of the stock market crash. Another one of the "big four" British banks, Midland, was rescued from serious difficulties by a massive placement of capital from Hong Kong. The Hong Kong and Shanghai Bank bought 14.9% of its capital. The Midland Bank's losses for 1987 are estimated by the bank itself at £505 million, or \$900 million and those of Lloyds Bank at £248 million, or \$432 million.

Australia is the country where the stock market crash seems to have had the most repercussions outside of financial compa-

nies properly speaking. Three of the country's main trusts — Broken Hill, the Bond Corporation and the Adelaide Steamship Company — have suffered cumulative losses of more than \$500 million. (*Sunday Times*, February 20, 1988.) It is true that these are said to be "paper" losses (although included in their balance sheets), because they are the result of the fall in the price of unsold stock held by these companies. This, however, is a partial view of things. In fact, once the holdings of these companies decline in accounting value (and this loss of value is very real), the credits that they can get shrink proportionately, as do their possibilities for investment and other sorts of activities.

This has been revealed in a spectacular way in the case of the "operator" Robert Holmes in Court, who was one of the richest men in Australia.<sup>12</sup> The value of his three main companies (Bell, Bell Resources and J.N. Taylor) plunged in a few days from \$5,700 million to \$1,200 million. He was forced to divest himself of his stock in Broken Hill, Australia's main heavy industry trust, which he had sought to control. This sale brought him a loss of \$270 million. (*Neue Zürcher Zeitung*, January 23-24, 1988.)

### Threat of third world debt non-repayment

Over this whole melancholy scene hangs the threat of the non-repayable debts of third world countries. The paper on these debts is already being sold on the market at a 50% discount. Officially, the Morgan Bank has exchanged its Mexican debt certificates with the government of that country at a discount of 35% to 50%. If this percentage were to rise to 50%, Citicorp, for example, would lose half of its equity. Manufacturers' Hanover and the Chemical Bank would lose all of their equity.

According to the weekly business magazine *The Economist* (February 27, 1988), the American banks are also threatened by their imprudent involvement in takeover bids based on junk bonds, and what is called "leveraged buyouts" (that is, buying out companies by using the lever of transforming the stock of the bought out companies into debts). On the eve of recession, many certificates of bought out companies may lose their value. The "lever" does not work any more.

Moreover, these high-risk credits exceed the entire equity of the Wells Fargo Bank and amount to 72% of the equity of the First Chicago, 71% of that of the Bank of America, 64% of that of Manufacturers' Hanover Bank, 57% of the Bankers' Trust, 45% of the Chemical Bank, 21% of Citicorp and 20% of Chase Manhattan. In absolute volume, they are especially high for Wells Fargo, Citicorp and the Bank of America.

From a purely technical point of view, the stock market crash was precipitated by



the rise in interest rates in the United States that resulted from the famous "Louvre Agreement" concluded between seven big imperialist powers with the aim of braking the fall of the dollar. This ill-conceived maneuver, which was quite comparable to the Central Banks' decision before the 1929 crash to maintain at any cost the exchange rate of pound sterling (linked to gold), almost automatically brought on a fall in stock prices. In fact, the "objective" basis



of these prices — leaving aside the oscillations produced by the law of supply and demand — is the capitalization of dividends discounted at the average rate of interest. When the latter rises, stock prices fall.

However, the extent of the fall in stock prices was out of all proportion to the increase in interest rates in the United States. On Wall Street by November 3, the decline reached -28% in comparison with the record 1987 level; in London, it was -33%;

in Frankfurt, -35%; in Zurich, -28%; in Paris, -32.5% (later it reached -40%); in Milan, -41.6%; in Australia, -41%; in Singapore, -41%; and in Hong Kong, -45%. (*The Economist*, November 7, 1987.)

We now know that the stock market and government officials panicked. At the time, that was carefully hidden from public view. The monetary authorities intervened massively in Wall Street and in Tokyo, injecting credits (that is, increasing the money supply). They aimed above all at keeping the brokers and other financial houses from being forced to sell stock at any price because of a lack of liquidity in the United States, and also at bringing down the interest rate again. On this, I need only quote the *Wall Street Journal* of November 23, 1987:

"On Tuesday...October 20, the US stock market, and by extension all the financial markets in the world, experienced one of their gravest crises. The full details about what happened during this fateful week are only beginning to come to light...."

"Trading in stocks, options and futures was almost totally halted for a crucial moment on Tuesday. Many of the most important stocks, such as IBM and Merck could not be exchanged. Investors, large and small, could not sell their stocks; there were no buyers. Those who run the market on the New York stock exchange, the specialists, were submerged by unexecuted sale orders, and their holdings were swept away.

### The true story of Wall Street

"Many banks, frightened by the collapse of stock prices serving as guarantee for loans to brokers refused to extend more credit to some of them, who were already in disarray. They also demanded repayment of some major loans, endangering some brokerage houses. Some big financial investors, threatened with catastrophic losses if the panic continued on the stock market, demanded that the New York Stock Exchange close on the spot.

"Only the intervention of the Federal Reserve Bank, the joint announcement of programs for repurchasing stocks by companies and mysterious movements and possible manipulation of futures contracts on the basis of a little-used stock exchange index [nonsense! — E.M.] managed to save the markets from total breakdown.

"The history of this Tuesday reveals big weaknesses in the financial system of the United States and raises the spectre of the possibility that such a crisis might strike again. 'Tuesday was the most dangerous day in the last 50 years,' said Felix Rohatyn, who is linked to Lazard Frères. 'I think that we were an hour from the breakdown of the stock market,' he said.' [Retranslated from the French.]

However, in seeking to save a conjuncturally dangerous situation, the American

central bank — in fact, the government of the United States — aggravated the structural financial crisis confronting it.

The United States' large trade deficit cannot, in fact, be covered without a massive and regular influx of foreign capital, primarily Japanese, into the country. And, given the decline of the exchange rate of the dollar, foreign capitalists are not inclined to lend capital-money to the United States, if the interest rate is lower than in Tokyo, Frankfurt and Zurich, where it has been oscillating between 4% and 5% for certificates, and this is after adding on the rate of inflation, which exceeds 3% in the United States.

### US annual trade deficit of \$150 million

This means that a fall of nominal long-term interest in the United States below 8% to 9% could stop the inflow of foreign capital necessary to save the United States from a Mexican- or Brazilian-type situation — that is, suspension of payments on their foreign debt. (In case of the US, these are short-term commercial debts, that is bills for a part of the goods and services currently imported.) In fact, the United States no longer has exchange reserves covering a good part of the annual trade deficit of \$150 million.

So, we are watching a gigantic poker game (in fact, blackmail), which reveals a double dilemma on both sides.

By playing (or threatening to continue to play) to the hilt the card of a drop in the dollar, the United States is regaining trade advantages. That is, it is stimulating its exports and limiting its imports, which could precipitate a recession in Japan, West Germany, South Korea, Brazil, Taiwan and elsewhere. But these gains would be more than neutralized by the situation that would result from a total collapse of the dollar — a very grave financial and economic crisis in the capitalist economy, a resumption of inflation and consequently a new fall in US exports. In that way, a serious recession would also hit the US economy.

If the United States sought to stabilize the

11. The Canadian banks imprudently engaged in the operation of privatizing British Petroleum, which Margaret Thatcher launched on the eve of the stock market crash. They risked very big losses, since the BP stocks that they had subscribed at 330 pence were worth no more than 250-260 pence on the market. They then exerted enormous pressure on Thatcher to get the Bank of England to guarantee them against these losses, which was done. "It all depends on whether you are rich or poor." Small investors should reflect on this wise observation by the great Marxist La Fontaine [the seventeenth century French fable writer]. They would profit morally if not financially from this. Free-enterpriser "anti-state" fanaticism runs up against an insurmountable limit in the private interests of the all powerful.

12. In the United States, the notorious Hunt family of "cowboys" (new rich Texas oilmen), formerly one of the richest in the world and celebrated for its attempt to corner the world (!) market in metal-money, was reduced after the stock market crash to having to sell its race horses to clear a part of its debts, which have been estimated at more than \$1,000 million.

dollar by raising interest rates, it would precipitate an immediate domestic recession, or, more precisely, it would reinforce all the tendencies toward recession that are now manifesting themselves.

On the other hand, if West Germany, and above all Japan, pursue the line of "defending the exchange rate of the dollar — more precisely of defending the stability of their own currencies — they can do so only by increasingly massive dollar purchases<sup>13</sup>, which leads to accumulating holdings of dollars that are depreciating more and more — that is, to gigantic losses of capital. (If Japan holds dollar assets estimated at \$200,000 million, they are worth 50% less in yen than they were a year ago.)

However, if these countries let the dollar fall freely, this will almost automatically make their products less competitive relative to those of the United States, and will accelerate extensive declines in exports, production, revenues, and therefore recession. Moreover, the devaluation of their dollar assets would be still greater, although on a smaller volume of dollars.

Behind these dilemmas, we find the reality of a capitalist market that constantly generates a two-fold movement, a movement of commodities and of capital (of realized and capitalized surplus value after the sale of commodities). Any long-term phase of depression, such as the one that we are now going through, is characterized by a growing contradiction between these two movements, which can be explained by the sharpening of competition on a stagnant market. What the capitalists gain in the first area, they risk losing in the second, and vice-versa.

The chain reaction of crises that can be seen since October 19, 1987 — a stock market crisis, a crisis of financial intermediaries, wobbly banks, a crisis of the dollar, dysfunctioning of the international monetary system, the threat of a second stock market crash — is multiplying the tendencies toward a generalized recession of the capitalist economy in 1988. In fact, a certain number of economists are saying that this recession has already begun in the United States, because for seven consecutive months the composite "cyclical indicator" has been pointing toward a decline in that country. Automobile sales already fell by 15% in 1987.

Housing starts are declining. If industrial production has not yet fallen, a large part is going into inventories, which are rising to a disturbing level in retail outlets, whose sales are slipping (*Business Week*, January 1, 1988.)

Many sources could be cited that confirm this diagnosis. I will mention only two. Former economic advisor for Citicorp's international operations, Harold Van Buren of Cleveland, points up the perverse effect of the policy of "cheap money" and low in-

terest rates in the United States. According to him, this will bring an uninterrupted series of crises on currency and financial markets, which will lead finally to raising interest rates to a level that will precipitate a recession. (*International Herald Tribune*, January 2-3, 1988). Three weeks later on January 25, the same paper published an



article under the eloquent headline "Wall Street waits for the recession. For many economists, the question is not if, but when." The piece began with the following paragraph:

"Waiting for the recession is the name of the game in Wall Street these days. Wall Street economists and analysts see this recession as inevitable. The whole question is knowing when it will arrive. Some observers think that it will be 1989 rather than 1988."

### Proposal for concerted action to avert crisis

On December 17, 1987, 33 of the most prestigious economists in the capitalist world, including several neo-Keynesians, issued a statement proposing concerted action by the rulers of the main capitalist countries to avert a grave economic crisis. The appeal was addressed first of all to the United States. For that country, the economists prescribed a pronounced austerity policy reducing domestic spending relative to the volume of current production in order to eliminate the deficit in the trade balance as well as to wipe out the budget deficit between now and 1992.

They did not seem, however, to envisage

that such a policy — which would considerably increase unemployment in the United States — would automatically bring on a recession in the short run in the United States. The assumption that such a recession would not extend to the rest of the capitalist world is risky, to say the least. (For the statement of these economists, see in particular *Neue Zürcher Zeitung* of December 17, 1987.)

In fact, the only hope cherished by the "optimistic" economists is that the US economy will succeed in one way or another in muddling through. The pessimists, even the conservatives, foresee a grave recession. The fundamental cause is obviously not the stock market crash or the monetary mess. It lies in the disequilibrium between the growth of productive capacity, marked by a gradual substitution of machinery for living labor, on the one hand; and the relative stagnation of the market (the buying power of the "final consumers"), on the other. This engenders a fall in the average rate of profit and an over-accumulation of capital. But the frenzied plunge into debt and speculation, of which the stock market crash was at once the expression and the result, is aggravating these contradictions and increasing the momentum toward a downturn.

From this standpoint, it is significant that, despite all the bad experiences on the stock market, corporate takeovers are rolling merrily on, especially in the United States and Great Britain. In fact, the stock market crash even seems to have encouraged them, because it costs a lot less today to buy up stocks on the market than it did before October 19, 1987. What has to be stressed is that banks are continuing to grant extensive credits for such operations, despite their bad experience with junk bonds.

The banks' hunger for profits is being sharpened by their own reduced profitability, but they are playing without regard for elementary caution. A second stock market crash already looms. Will it start in Tokyo? No few indications point to that. The Japanese stock market is very vulnerable, since prices of stocks with a minimum average yield remain irrationally high. A more modest fall, only of the order of 10%, did not correct prices to the same degree as in the United States and Europe. Moreover, the volume of Japanese exports is already shrinking, as a combined result of the very

13. There is an alternative solution for defending Japanese and West German exports against the falling dollar. It is to let the mark and the yen fall along with it. The Hong Kong bourgeoisie has been following this recipe with some success. This is why Japanese and European monetary policies can be summed up better by the formula "defence of their currencies" than by the formula "defence of the dollar." This brings us back to the relationship of forces between the "banking" and "industrial" sectors within these respective bourgeoisies. Any pronounced decline in exports would undoubtedly lead to a "painful reassessment" of these priorities. This will be something to watch...

high rate of the yen, the fall of the dollar and growing competition from industry in South Korea, Taiwan and Hong Kong.<sup>14</sup>

The Japanese bourgeoisie is trying to compensate for this decline both by stepping up capital exports (even medium-sized subcontracting firms are moving to South Korea and Taiwan!) and by expanding the domestic market, especially for housing. (Japanese workers are the worst housed in the imperialist countries and among the worst paid. It is estimated that the average monthly wage in the engineering industry is 30% lower than in West Germany and Great Britain and even lower than in Spain, while the productivity of labor in Japan is much higher.)

### Outsize swelling of the public debt

However, in order to avoid cutting too deeply into the profits of businesses, this expansion of the domestic market has been effected above all by increasing public spending, that is by a more and more outsize swelling of the public debt. Contrary to a widespread false impression, public debt in Japan is larger relatively than in the United States. Between 1973 and 1986, it rose from 30.9% to 90.9% of Gross National Product, while in the same period it rose in the United States from 39.9% to 52.4% of GNP.

The US budget deficit reached 3.4% of GNP in 1986. In Japan, it amounted to 4.2% of GNP. (Banque des règlements internationaux, Basle, June 1986.) This is a supplementary factor increasing the vulnerability of the Japanese economy in the present period.

This problem is compounded by a stagnation, or perhaps already a clear erosion, of the advantages that Japanese industry had acquired in a whole series of key sectors of the world market. In the automobile industry, the Japanese share of world exports has levelled off since 1980, if not slightly declined. Even if you correct these figures by including the manufacturing that Japanese, American and European trusts do abroad, the picture does not change substantially.

In color television sets, Japanese exports have reached a plateau since 1984. Their compact disks exports levelled off after 1984 and showed a pronounced decline since 1985. Between now and 1990, the shipbuilding and coal-mining industries, routed by foreign competition, are going to eliminate 90,000 jobs. (All this data comes from the "Spécial Japon" feature published by the weekly *Le vif-l'Express* of November 27, 1987.)

Japanese deliveries of complete factories built abroad on contract dropped from ¥2,500,000 million in 1982 to ¥600,000 million in 1986. Nearly a quarter of these contracts were in Eastern countries, hence Japan's growing resistance to the US embargo on a part of these projects. (*The Japan Economic Journal*, August 8, 1987.)

An inevitable corollary, but a very worrying one for Japanese capitalism, is that the center of gravity of current activity is shifting dramatically toward the "paper economy" in Japan also. In 1987, Japan became the world's number one capital exporter. But more than 50% of these exports were concentrated in the financial sector and in real estate. According to *The Japan Economic Journal* of January 16, 1988, the main sectors sustaining the economic upturn underway in Japan are chemicals, housing construction, advertising and the "leisure industry".

The decline of the dollar has accelerated the decline of US financial supremacy. Among the ten biggest banks in the world, only two are American. The main ones are now Japanese. The United States has become a debtor power internationally, whose foreign debt is growing with terrifying speed. Today, it has reached \$500,000 million, and it increases by \$100,000 to \$150,000 million every year. At this rate, in a few years it will exceed the debt of the entire third world. Japan has become the number one creditor power internationally.

Behind this decline of American monetary and financial dominance, obviously looms a pronounced decline of US industrial and technological dominance. The United States' share of world exports fell from 20% in 1981 to 13.8% in 1986. At the same time, the share of imports in the US domestic market has skyrocketed.

Table 3

#### % US domestic imports

	1979	1986
Steel	10.3	15.9
Aluminium	7.8	22.7
Zinc	37.6	56.7
Electronic components	14.1	18.1
Information technology	4.6	18.7
Machine tools	19.3	40.0
Textile machines	32.9	48.8
Cars	13.7	4.0
Shoes	35.2	62.5
TV & radio	41.6	63.8

Source: *Le Monde*, January 19, 1988.

There is obviously no question of US imperialism accepting "de-industrialization," specifically because it is an imperialist bourgeoisie. Dependence on imports of footwear is tolerable. Dependence on imports of key nuclear missile or electronic components — which amounts to the same thing — made in Japan or South Korea is intolerable for US imperialism.<sup>15</sup> This is why the American government vetoed the absorption of the Fairchild semiconductors trust by the Japanese firm Fujitsu. Finally, it is the US firm National Semi-Conductor that is going to refloat Fairchild.

What is more, after trying to form a cartel with the Japanese firms to divide up the world market — primarily the US market

— in March 1987, American microchip manufacturers formed a consortium, enjoying large governmental subsidies, with a view to advancing their own technology for making semi-conductors. But their starting position has been badly undermined, as can be seen from the worldwide sales of microchips shown in Table 4.

Table 4

#### The six main world producers of semi-conductors

NEC (Japan)	\$260,000m
Hitachi (Japan)	\$230,000m
Toshiba (Japan)	\$228,000m
Motorola (US/Japan)	\$202,000m
Texas Instruments (US)	\$180,000m
Philips (N'lands)	\$140,000m

What underlies US imperialism's attempt to "re-industrialize," especially the aid for the export offensive heralded by the fall of the dollar, is the crying inadequacy of productive investment. In 1982, industrial investment per job was three times higher in Japan than in the United States (*Futuribles*, July-August, 1987.) The productivity gap is widening, despite an unquestionable effort by American industry in recent years.

Table 5

#### Average increase in labour productivity 1980-1986

Japan	5.6%
UK	4.7% <sup>16</sup>
France	4.0%
USA	3.4%
FRG	3.3%
Italy	3.2%

14. Japanese textiles exports to the United States fell from 700 to 450 million square yard equivalents between 1985 and 1987 (January-August, for 1987), while those of the People's Republic of China, Taiwan and South Korea are clearly on the rise. (*Far Eastern Economic Review*, February 25, 1988.)

15. Cautious but real tendencies toward Japanese rearmament are firming up more and more. According to the *Japan Economic Journal* of February 27, Japan and the United States have just concluded an agreement for joint manufacture of the most sophisticated types of conventional weapons, of which the FSX fighter plane is the best example. But it took strong US pressures to keep Japanese imperialism from undertaking this on its own. Henry Kissinger has written that in his view it is inevitable that Japan will (again) become "a major military power." He has said that in fact Japan is already spending 2% of its GNP on arms, despite the 1% limit set by the country's constitution.

16. This leap forward in British productivity, in monetary terms, is the result of a reduction of British wages relative to those of the other imperialist powers. According to *Die Zeit* of January 1988, toward the middle of 1987 hourly labor costs (including indirect wages) in the UK represented 53 points on an index relative to 100 in West Germany and Switzerland (this was equal to those in Spain!), while they were 76 in the United States, 75 in Japan, 72 in Italy and 68 in France. At the same time, the value of the product of an hour's labor was 100 in West Germany, 55 in Spain, 54 in Great Britain, as against 90 in the United States, 83 in Japan, 75 in France and 70 in Italy.

The least that can be said is that it will not be easy for the United States to regain lost ground, whether or not the fall of the dollar continues.

Four "high tech" industries illustrate perfectly the changes in the inter-imperialist relationship of forces. The ten main firms in the telecommunications industry, which may be the one most likely to undergo continuous expansion in the coming years, include only two American ones.

**Table 6**  
**Annual sales (in £m) 1986**

AT&T (US)	7,590
Alcatel (Fr/US)	5,435
Siemens (FRG)	2,530
Northern Telecom	
(Canada)	2,460
Ericsson (Sweden)	2,380
NEC (Japan)	2,010
GTE (US)	1,710
Philips (N'lands)	893
GEC (UK)	746 <sup>17</sup>
Fujitsu (Japan)	744

In the race to exploit superconductivity, the scientific discovery of 1987, the US government has pushed US firms by subsidies (and by holding on to "secrets") to become the world leaders. But Japanese and European efforts seem to be equal. In high-definition television (screens with 1,125 lines instead of 625), the Japanese and Europeans are neck-and-neck. The United States seems to have been left behind, although its market is the main target.

In the aeronautics industry, all the Reagan administration's pressures and threats have not kept Airbus from staying well in the race with Boeing. In the capitalist world, there are practically only two large-scale producers, one US firm and one inter-European one.

Does this mean that with the "definitive" creation of a united common market in Western Europe in 1992 we will see a pronounced resumption of fusions among European firms in order to reconsolidate the place of the European imperialisms on the world market? The depression climate is hardly propitious for that. We should rather expect a multiplication of raiding operations, and the creation of several European multinational groups, whose potential dynamic is well illustrated by the recent takeover bid aimed at Belgium's Société Générale.

As in every one of the "long waves of depression" until now, the situation of the international capitalist economy is characterized by the fact that the decline of the previously dominant power has not been "compensated for" by the appearance of a new dominant imperialist power able to replace it. This is why the place of the dollar has not been occupied either by the yen, or by the Ecu [European currency unit], to say nothing of the mark, the Swiss franc, or the guilder.<sup>18</sup> This is why all the

appeals for worldwide concerted action by the governments and states, which are already replacing the fanatical declarations of faith in the capacity of the markets for "self-correction," have little chance of getting anywhere.

## Fiscal problems for the European community

Helmut Schmidt and Giscard d'Estaing's project of creating a European central bank has just been officially proposed by the West German government. Carrying it out depends on an agreement with France, which in turn depends on the establishment of a stable parity between the mark and the French franc, at least for an entire period. This problem points to the danger of a massive capital flight from France to its neighboring countries, if the unification of the Common Market in 1992 is not accompanied by a complete harmonization of fiscal systems, as well as of exchange rates, between West Germany and France. We are still a long way from that. The French bourgeoisie is envisaging, notably, a new "adjustment" in the parity between the franc and the mark, that is a new devaluation of the franc, before taking any risks in this regard.

In order to understand the effects of the American "readjustment" on the economies of the so-called third world countries, we have to separate out roughly three categories of countries, without giving this classification any absolute value or scientific significance. (India, for example, remains a case apart, given the continuing pronounced isolation of its domestic economy):

- The trade-surplus countries of OPEC, essentially Saudi Arabia, the Gulf emirates and Kuwait. These countries were suffering the combined effect of an erosion of oil prices, which the coming recession will accentuate, and the fall of the dollar, which is producing a notable depreciation of their assets and reserves. This is such a sore point that even Saudi Arabia is cautiously murmuring that it might be ready to cut loose from the dollar. If such disengagement were massive, it would create a catastrophe for Washington. For political reasons, such a financially reasonable course of action will not be adopted.<sup>19</sup> But there is (as yet) no question of a fall in mass consumption or in industrial production.

- The semi-industrialized countries, essentially South Korea, Brazil, Taiwan, Mexico, Singapore and Hong Kong. In 1987, they experienced an industrial upturn, thanks above all to a continual expansion of their exports to the United States. The combined effect of the fall of the dollar and an American recession would limit their exports to the US and provoke a recession in them also by a ricochet effect. The Japanese market is not big enough to offer an alternative outlet at once for South Korea, Taiwan, Brazil and Mexico.

- Other "third world" countries. They have suffered especially from the effects of the so-called adjustment policy imposed by the IMF in order to facilitate management of their debts. This policy has had catastrophic effects of de-industrialization and impoverishment. The effect on the capitalist economy has been particularly perverse — a massive transfer of resources from the poor countries to the rich ones; a less massive shrinking of the outlets for imperialist industries in the third world.

In 1965, the OECD countries exported three times more manufactured goods to the six semi-industrialized countries than they imported from them. In 1985, on the contrary, they had an overall trade-deficit of \$18,000 million with these countries, a deficit that rose to \$40,000 million for the United States in 1986 (Japan continues to have a trade surplus with these countries, although this is being wiped out.)

## De-industrialization and impoverishment

The effects of de-industrialization and impoverishment are particularly pronounced in Latin America. Pierre Salama has provided the figures for Table 7.<sup>20</sup>

According to CEPAL, the per capita product fell between 1980 and 1986 by 6.4% in Chile, by 12% in Mexico, 14.2% in Argentina, 19% in Venezuela and 27% in Bolivia. These figures do not make allowances for social differences and have to be revised upward as regards the drop in the (consumer) buying power of the workers, poor peasants and marginalized strata (the unemployed and semi-proletariat). The buying power of wages in Mexico was cut in half between 1980 and 1987; in Brazil this reduction fluctuated between 37% and 55%.

It is true that the fall of the dollar has had the effect of reducing the value of the debt and the service on it (as a result also of the fall in interest rates), to the extent that a part of the resources of third-world countries come from exports to Europe, Japan, the Far East or that their own currencies are

17. GEC has since fused with the British firm Plessey. Their turnover is £1,420 million, and this still only puts them in eighth position among worldwide leaders.

18. According to the 57th Annual Report of the Banque des Règlements Internationaux (Basle, June 15, 1987), gold valued at the "market price" represented 42% of the capitalist countries' overall exchange reserves in 1986; the Ecu, 3%; special issuing rights, 1.5%; the special reserves of the IMF, 2%; the mark, 0.5%; other European currencies, 0.5%; and the yen 1%. The rest, about 50%, was accounted for by dollars.

19. The accumulated assets of these countries are evaluated at \$200,000 million, of which they are supposed to have lost 25% to 30%, expressed in the average exchange rates of the "strong" currencies. Hence the threats to detach the [Saudi Arabian] rial and the currencies of the Emirates and Kuwait from the dollar. The current petro-dollar income of Saudi Arabia has dropped, falling from nearly \$100,000 in 1980 to \$28,000 million forecast for 1988, which is still not an insignificant amount.

20. Pierre Salama. *L'impatto des politiques d'ajustement, le cas des économies latino-américaines* (GREITD document, Paris, 1987).

"detached" from the dollar, which at the moment is true only of Taiwan. But these momentary advantages have been neutralized, or more than compensated for, by the growing "dollarization" of their economies.

The international capitalist economy is in fact currently experiencing a two-level compartmentalization. On the one hand, there is what can be called an imperialist level (although Taiwan is also involved), where the dollar is depreciating sharply with respect to other currencies. On the other hand, there is a third-world level, where the "national" currencies, hit harder and harder by inflation, are depreciating against the dollar.

Added to this is the effect of the continuous deterioration in the terms of trade to the detriment of the third world. This has cost it far more resources than it gained from the fall in interest rates or the depreciation of the dollar. (Between 1984 and 1986, the prices of raw materials fell by a quarter.) This is compounded also by the continuous flight of capital placed by the owning classes in dollars or strong currencies, which are a considerable counterpoint to the foreign debt in Latin America.

### Unceasing growth of third world debt

The overall result is that the extent of the third-world debt has grown ceaselessly, despite the terrible sacrifices imposed on the popular masses of the third world, despite the de-industrialization that it has suffered. The semi-industrialized countries are the exception, although this is only partial, because there has also been a slowing down of industrialization in Brazil and especially in Mexico (see Table 8).

The effect of the policy of servicing the debt and a partial repayment/reconversion of it imposed by the IMF is just as perverse for the economies of the semi-industrialized countries as it is for the imperialist ones. Since the export offensive is based above all on reducing wage costs, especially under the whip of inflation, the internal market shrinks as exports increase. As a result, in these countries also substantial excess productive capacity is appearing and persisting.

For example, in the Brazilian "capital goods" sector, the rate of utilization of installed productive capacity fell from 64.1% in 1982 to 54.9% in 1984; and climbed back only to 62.9% in 1987.

New orders at the end of the year fell from 127,000 million stable cruzeiros in 1982 to 103,000 million in 1987. It should be noted at the same time that there has been a spectacular fall in imports of producers' goods, from \$1,637 million in 1981 to \$912 million in 1982 and to \$548 million in 1987. In 1985 and 1987, for the first time in history, Brazil had an even balance of trade in producers' goods. (*Jornal do Brasil*, March 6, 1988.)

Table 7  
Effects of de-industrialization on Latin America  
(percentage of GNP)\*

	1980	1983	1984	1985	1986
Net transfer of resources	+2.2%	-5.1%	-4.1%	-4.7%	-3.0%
Investment rate	23.3%	17.4%	17.5%	16.9%	17.4%

\* From 1980-86, in absolute figures, \$145,000 million has been transferred from Latin America to the imperialist countries.

Table 8  
Total third world debt (\$ million)

	1984	1985	1986	1987	1988
Long term	714	784	871	930	980
Short term	163	166	150	155	155

Source: World Bank report, summarized in *Neue Zürcher Zeitung*, January 19, 1988

The new general recession on the horizon will first of all bring about a new spurt of unemployment. In the imperialist countries alone, about 40 million people are unemployed.<sup>21</sup> This figure may reach 45 million or even more in the trough of the coming crisis.

### Threat to social security systems

With the erosion of buying power and the threats hanging over social security systems, the fear of unemployment is today the main motivation in the strategy of the unions in many imperialist countries. But while resistance to attacks on direct and indirect wages is clearly stiffening and leading to struggles, some of which are beginning to win victories (undoubtedly, also under the influence of the temporary upturn), there is a sharp counterposition between two strategies for combating the elimination of jobs or threats of job losses.

Some are concentrating on a fight for a drastic reduction in the working week.<sup>22</sup> Others are succumbing to the lure of protectionism. This latter course is only a variant, and hardly a new one, of class collaboration taking the place of international class solidarity. Instead of trying to unite the workers of all countries in the fight for a 35 or 32 hour working week, these people are uniting with their own bosses against the jobs of workers in other countries and therefore against these workers.

This is the policy of "exporting unemployment," whose disastrous effects the international working class has already been able to appreciate over the decade 1929-1939. Above all, the trade-union bureaucracies in the United States have yielded to a large extent to this temptation.

The objective basis for this reaction — and for the chord that it has struck for the time being among some layers of the working class — lies in the enormous differences between the wages of the workers in the imperialist countries and in the semi-industrialized ones. This is a relationship of 1 to 10 at present exchange rates (the difference in buying power is less pronounced, but still large). So people believe that the capitalists are "betraying national industry" by shifting centers of production to low-wage countries (a shift that is much more limited than people think), and that importers especially are sinning against the "national interest."

The capitalist response is a direct one: Let us unite our efforts to lower wages in our own countries and to limit imports of foreign products (that is, increase the prices of consumer products, which amounts to lowering real wages still more).

By accepting this reason, the unions are letting themselves be drawn into an infernal spiral: the gradual reduction of wages (in the United States the weekly wage fell in real terms from \$201 in 1973 to \$167 in 1987); a "two-tier society" (in France, one wage-earner out of five does not have a "real" job), along with a proliferation of intermediary statuses depriving workers of all or part of social protection; and a continual erosion of employment.

This downward spiral can only end in the lowest wages in the semi-industrialized

21. The real number of the unemployed is greatly underestimated both in Japan in the United States, especially by means of statistical subterfuges of all sorts. According to the American weekly magazine *The Nation*, the real unemployment rate is around 10% in the United States.

22. In my opinion, in view of the current extent of unemployment, the demand for going over immediately to a 32-hour working week (four eight-hour days) is more realistic than one for 35 hours, if the objective is really to boost employment decisively.

world. This means hardly more than a dollar an hour in Mexico and Brazil (in Brazil, they even refer to an average hourly wage of 75 cents). In South Korea, the average hourly wage is estimated at \$2.5; in the Indian textile industry, it is \$1. But in the non-unionized branches of Indian industry, we find even wages of 40 cents an hour.

In every country, it is always possible to point to a "competitor" country where wages are lower, in order to press for lowering wages and concomitantly to increase pressure for protection. This is particularly aberrant from the standpoint of the workers, inasmuch as this policy destroys jobs. In fact, while it maintains or boosts profits, at the same time it restricts outlets, since reducing wages means reducing sales. But there cannot be any sustained capitalist growth unless there is a parallel rise in profits and expansion of outlets, which is not the case with a protectionist policy. The proof of the pudding is that in every country where trade-unionists have accepted a policy of cutting wages in order to "defend jobs," employment has continued to decline in industry.

### Protectionism must be rejected

Therefore, the lure of protectionism must be resolutely rejected, along with illusion of "necessary sacrifices to defend jobs." It has to be countered with a call for joint action by workers in all countries to win a radical reduction of the working week with no cut in pay, as well as for joint action by the unions to raise the starvation wages in the semi-industrialized countries. The argument of the nationalist bourgeoisies in those countries that this will stop industrialization is just as unacceptable as the protectionist argument in the imperialist countries. Far from putting a brake on industrialization, higher wages in the semi-industrialized countries will stimulate it by leading to an expansion of the internal market and more advanced models of economic development.

What has been revealed by the flagrant imbalances that led to the stock market crash, and which will lead to the third general recession, since the start of the 1970s are new fundamental contradictions of the capitalist system as it is operating in the age of "late capitalism," especially in a "long wave of depression." These contradictions, moreover, had already manifested in the preceding phase of expansion, and to a certain extent they gave impetus to it.

The enormous indebtedness — the debt payable in dollars alone now undoubtedly amounts to \$800,000,000 to \$850,000,000 million — a sum that is hard to conceive of — is structurally linked to the survival of the system. Without the constant generation of an enormous debt, neither outlets for commodities nor expansion of businesses nor financing of public spending can be assured.<sup>23</sup>

Of course, excess liquidity now exists. The accumulated debt is out of all proportion to the needs of "normal" capital accumulation. There will therefore be a destruction of "fictitious" capital, of a part of the "paper economy," a writing off of a part of the debts (through bankruptcies and open or tacit agreements). But a considerable share of it will remain, even at the end of the coming recession.

### No new phase of capitalist expansion

It follows from this that the "normalization" of productive accumulation will be extremely difficult, if not impossible. The rearmament economy will more than ever play the role of a substitute outlet for a sick capitalist economy, and this remains true despite all the East-West disarmament accords. The new rise of the profit rate, weighed down by the burden of indebtedness, will remain slow and inadequate.

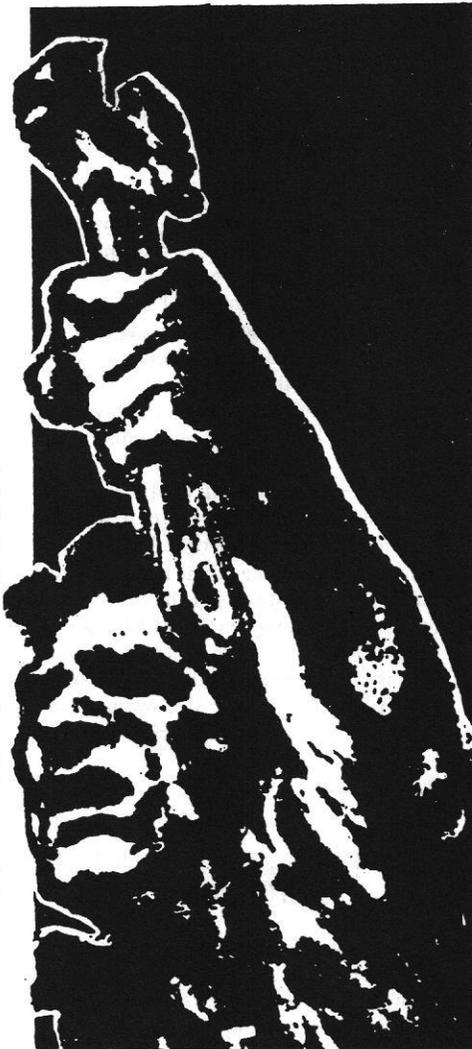
There will be no new phase of expansion of the international capitalist economy comparable to the one of 1948-1968/73, at least as long as there is not a spectacular rise in the rate of surplus value resulting from a catastrophic defeat of the working class and the anti-imperialist movement in a series of key countries. And that is not on the horizon in the foreseeable future.

The debt mountain is in large part a mountain of private debt. It reflects a generalized phenomenon of privatization of the money creation and of the "central" control over capital in the capitalist countries. A consequence of this process is that the relationship between capital in private hands and official exchange reserves has been suddenly turned upside down. Around 1958, the central banks of the ten main imperialist countries held five times more exchange reserves than private capitalists. In 1986, private capitalists held ten times more liquid or semi-liquid capital (\$2,400,000 million!) than the exchange reserves of these ten central banks, not counting gold.<sup>24</sup>

### A new deadly curse hanging over the planet

The weakening, or even paralysis of national states — even of the United States — reflects this situation, as well as the rise of multinational trusts that are beyond the control of any national state. The decline of the "interventionist" ideology was only a reflection of this new reality. But it leads to a flagrant illusion — that the market will re-establish the necessary balances (for capital and in the interest of capital) and that prosperity will therefore automatically return, although somewhat belatedly.

After October 19, 1987, there is no longer so much faith in the market. Once again "effective" government action is being called for. Internationally, a neo-Keynesian



wind is blowing. But unfortunately for the ideologues, no effective concerted action is possible among nation states that are inextricably locked in competition with each other, and besides which are weaker and weaker in relation to private capital. There can be neither a world state nor a "world lender of last resort" under the capitalist system. This is undoubtedly a new deadly curse hanging over the planet, alongside all those discovered by Karl Marx. ★

23. In the United States, consumer debt amounts to 20% of the disposable income of households. In Great Britain, already in 1985 one out of every three pounds spent by consumers was borrowed. This percentage increased considerably in 1986 and 1987. In West Germany one household out of two is in debt, to the tune, on the average, of 10,000 marks. Four million households are behind in their payments on, or unable to pay back, debts amounting to 20,000 million marks. (Sources: *Neue Zürcher Zeitung*, November 23-24, 1987; *Sunday Times*, January 12, 1986).

24. Between 1975 and 1986, the gross debt of enterprises rose from 37% of GNP to 45% in the United States; from 94% to 102% of GNP in Japan; from 63% of GNP to 71% in West Germany. During the same period, gross household debt rose from 50% of GNP to 65% in the United States, from 33% to 47% of GNP in Japan, and from 42% of GNP to 55% in West Germany. (Banque des Règlements Internationaux, Basle, June 1987.)

24. Banque des Règlements Internationaux, cited by *Le Monde*, January 6, 1986. Hence a growing pressure for "re-monetarization of gold," or even a return to the gold standard, that the American government has suddenly started to support.

# Raw materials' crisis hits the third world

**W**E ARE NOT witnessing one of those traditional drops in prices simply due to cyclical developments in supply and demand, or to the conjunctural hazards of speculation. Something is happening on a much larger scale that combines various structural developments in the world economy.

At first sight, as we will see, this price fall is related to the so-called "North-South" divide, since a good half of third world countries are dependent on two or three raw materials for at least two-thirds of their export income. But it is also linked to a major redistribution of cards between the big industrial sectors and trusts, and between capitalists in the various industrial nations. Substitutional goods, the new role of international trade, the new financial instruments that have become the futures markets for raw materials — all these have turned upside down a market that was still particularly under the influence of colonial traditions, captive trade and traditional relationships. The new situation on the commodities' market in its own way illustrates the evolution of the international division of labour and the exacerbation of uneven development in the last 25 years.

The place of raw materials in world trade has gradually changed. In value it only amounts to 50% of the trade of manufactured goods (energy products included), and it was the same in 1963.

As against some very simplistic ideas going around on the question, it should be remembered that the biggest exporters of raw materials are the industrialized countries themselves (69% in 1980). On the other hand, it is the structure of their foreign trade itself that marks out the third world countries — in other words, the extreme specialization of their exports. In 1977, primary products represented around 80% of their exports, as against 23% for the OECD countries.

## Double dependence on raw materials' prices

So it is useful to note that the third world countries are doubly dependent on world raw materials' prices: dependent on the prices fetched by the goods they export and dependent on the prices they pay for goods imported from the industrialized countries — especially food — in the framework of a division of labour dominated by the imperialist economies.

This structural dependence, as well as the

**ACCORDING to the World Bank, the prices of raw materials — excluding oil — have fallen to their lowest level for 50 years!<sup>1</sup> During 1986, their prices fell overall by 10% in relation to export prices for manufactured goods (see Table 1).**

**This trend in the raw materials market is an important element in the world economic crisis. An OECD<sup>2</sup> report, called "Financing and the foreign debt of the developing countries, 1986 study", stressed that if one looked at the problem in a wider framework, raw materials' prices could be regarded as having influenced the whole trend of the debt problem for nearly two decades.**

**CLAUDE GABRIEL**

evolution of world trade, have gone hand in hand with the economic decline in the third world over the past 15 years. In fact, not all the elements of this crisis date from the 1980s and from the more recent fall in prices. Often, one can read that "from 1970 to 1980, the dollar price of primary products climbed sharply"<sup>3</sup>, while the general curve has been downward since 1980. This periodization, established on the basis of broad tendencies, is not relevant. It is based strictly on the average trend of prices, while in reality the market for most products during this "good" period has been particularly chaotic.

"In an OECD country, when the exports of one category of goods fluctuates from 10% to 15%, it is a talking point in the media. But 93% of Uganda's exports are dependent on one variety of coffee, whose price has varied on average by 55% each year between 1973 and 1979."<sup>4</sup>

According to the International Monetary

Fund (IMF), during the 1970s there was an annual average growth in dollar prices of 12%. But this general trend does not take into account the chronic instability of prices during this whole period, which put a number of third world economies in a very precarious situation. This instability has been even greater than during the previous period of 1965 to 1970.

"There was a price fall in 1971, a revival in 1972, a spurt in 1973-74 followed by a drop in 1975, a steady but weak upturn from 1976 to 1978; and a new spurt in 1979."<sup>5</sup>

## Major industrialization projects

All this has no relation to the usual fluctuations caused either by climatic or political hazards that regularly influence the availability of this or that product. The fall in cacao prices in the spring of 1979 was caused by American demand stagnating. The same goes for copper and nickel, whose prices went up and down all through the 1970s. The world recession in 1974-75, followed by that of 1977-78, profoundly affected demand. There were substantial contractions of trade and the upturns, depending on the product, have not always compensated for previous falls.

On the basis of conjunctural price rises, some governments were able to embark on irresponsible investments. Some, as in Africa, promised their populations miracles, and used the first financial windfalls from higher export prices as springboards for plunging into major industrialization projects, which often left nothing behind after a few years but uncompleted building projects or oversize factories out of all proportion to real needs.

In this context, the downward spiral of prices began in 1980-81 (despite a slight upturn in 1983) that has led to the present situation.

For the players themselves in this market,

1. *Developing Country Debt*, World Bank, Washington, 1987.

2. OECD — Organization for Economic Cooperation and Development. Member countries include Australia, Austria, Belgium, Canada, Denmark, FRG, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spanish state, Sweden, Switzerland, Turkey, UK and USA.

3. *Marchés tropicaux et méditerranéens*, May 1, 1987, Paris.

4. Philippe Delmas and Christophe Guillemin, *Le Monde*, July 7, 1987.

5. "Le commerce mondial des produits de base", Marie-Claude Jacmart, *La Documentation française*, 1980.

belief in traditional mechanisms has been shattered. Classically, price rises should bring new investments in their wake, and subsequently a growth of cultivation or mining. These rises resulted in a growth in supplies, causing a fall in market prices and therefore reduced production, which finally could kick off a new cycle of rising prices and so on. This process is explained by the inevitable adjustment of supply and demand over a long period.

"The anomaly has become clearly visible over the last three or four years: a time when, after a more or less general fall, international prices for ferrous and non-ferrous metals were established over a long period at unprofitable levels for a growing number of traditional large producers. A well-known mechanism always means that a lasting depression of sales progressively leads to the closure of those mines most in deficit. A contraction of supply follows, which at some point re-establishes a statistical equilibrium leading to an upturn in prices. But this mechanism, thought to be eternal, no longer functions."<sup>6</sup>

### An irreversible structural shift

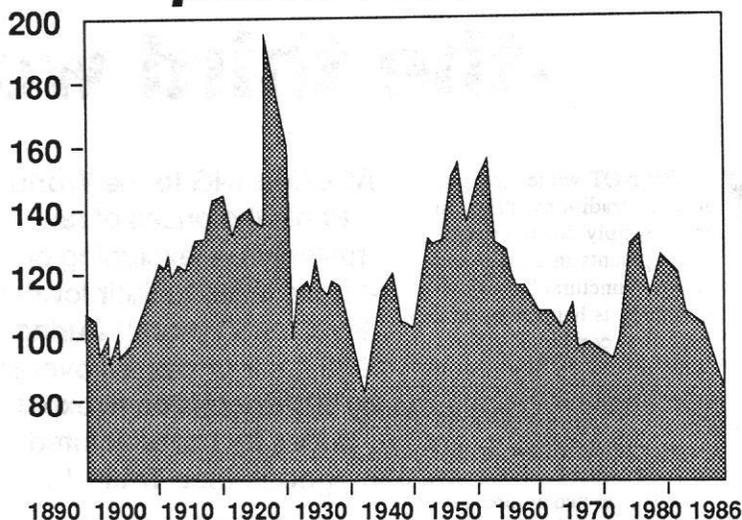
In reality we are witnessing a totally different sort of shift, undoubtedly an irreversible one within the structure of certain sectors of production: upstream of the market these changes are turning the dependant economies upside down; downstream, they are modifying some of the industrial structures of the imperialist countries:

- New technological discoveries in prospecting have made possible the discovery of new, very profitable, reserves for some products. This has a number of implications. A notable one is that the poorest pits, supposed to be closed temporarily for reasons of profitability, will never be reopened. This will benefit new forms of low-price large-scale production, profitable in spite of the price depression. Another development to come is the working of deep-sea metalliferous nodules, which could represent very large deposits of nickel, copper, cobalt and manganese in particular.

- Progress in the treatment of ores making it possible, aside from the main products, to obtain secondary — sometimes very profitable — ones, such as gold, silver or cobalt that are found in aggregate ores.<sup>7</sup> Hydro-metallurgy makes it possible to refine such low-grade ores and to obtain products whose prices do not necessarily evolve in a parallel manner to the principal metal extracted. The rise in gold prices can thus stimulate the production of copper, cobalt, Caledonian nickel, silver or lead. Consequently, all this can generate overproduction and some price falls.

- Recycled metals now occupy a substantial place. Because of increased energy prices up till the beginning of the 1980s and the ups and downs of the market, industry turned partially towards recycling.

## Table 1: Raw materials prices 1890-1986



The index used is the index for raw materials for further processing published by the US Trade Department. It includes oil prices. This index is deflated in relation to US retail prices. It shows the comparative trend of raw material producer's revenues in relation to the revenues of other economic indicators. The steep rises correspond to wars and economic conflicts (the 1973 and 1979 oil crises). Over time, the fluctuations have lost their intensity. The present crisis, on the other hand, is comparable to the depression of the 1930s.

Source: *Le Monde*, May 6, 1986

Ecological concerns have also boosted this activity. Around 45% of the production of lead and steel, 35% of copper and 30% of zinc are obtained via recycling. Ten years ago, these proportions were less than half that.

The more world industry develops, the more obsolescence makes a greater volume of metals available for recycling, making it possible to economize on the use of natural resources. This is, for example, how the car industry has become at the same time a customer for, and a supplier of, second-hand aluminium.

### Explosion of new technologies

At the other end of the chain, the recycling of the aluminium in some fizzy drink and beer cans in the USA has sent thousands of poor people patrolling the streets to collect these tins and re-sell them at derisory prices to the state or to industry. Although only just born, this new branch of capitalist industry has already found a way to breed its own barbarism.

- The explosion of new technologies in the fields of electronics, optics and information has rapidly raised the demand for materials until now considered as unimportant. These famous "new metals" are creeping into industry, posing new problems for supplies and production. Their production will have to multiply ten, 100 or 1,000 times — depending on each case — before the end of the century.<sup>8</sup>

- The development of synthetic substitutes is rapidly changing demand. For ex-

ample, cocoa butter — used widely in the pharmaceutical industry — is being challenged by a product extracted from mango seeds; and synthetic rubber is being produced as an alternative to natural rubber. Already some synthetic flavours are used more widely than the real thing, which is going to ruin some small countries' economies.<sup>9</sup>

In other areas plastic or carbon fibre materials have been developed to replace metal parts, especially in cars. Plastics are replacing lead for pipes in building; the use of jute and cotton has been reduced considerably by the development of synthetic fibres; copper cables used in telecommunications are increasingly being replaced by optic fibres — the list could go on.

The chemical industry is central to these changes. Rapid innovations in this branch, and its capacity for producing synthetic products, often puts it in a position of strength in relation to traditional industries, accelerating the obsolescence of certain techniques.

All these factors have begun to have a

6. *Usine nouvelle*, March 17, 1983, Paris.

7. In 1983, Rio Tinto Zinc, the second largest Australian mining company, announced that it thought it could make up \$50m of its 1982 deficit, thanks to rising gold and silver prices.

8. These metals are increasingly utilized for finished military products. Among the most used at the moment are titanium, lithium and gallium. But beryllium, germanium, nobelium, tantalum, platinum and zirconium are also used, as well as constituents and new materials like ceramics. *Usine nouvelles*, January 30, 1986, Paris; *Raw Material Report*, Vol.3, No.2, Stockholm, 1985.

9. For example, researchers at Edinburgh University in Scotland have produced cayenne pepper and saffron flavours from cell cultures in the laboratory.

considerable impact on the evolution of the markets, and consequently on prices.

One of the most threatened traditional sectors is sugar. Again, new sweeteners have appeared such as aspartin or isoglucose — sweeter products that don't rot your teeth! The development of dietary foods, pushed by the chemical trusts concerned, has led to less use of the traditional sweetener, sucrose. The appearance of composite sweeteners in fizzy drinks is already having a big impact on the natural sugar market. Advertising campaigns in the name of consumers "health" generally hide the restructuring taking place, according to criteria of production costs and profit, in the agri-food and chemical industries.

## World production of sugar cane threatened

Bio-technology is developing sweeteners at a pace that could threaten the whole world production of sugar cane. As early as 1980, Coca Cola had decided to replace more than half the sugar in its drinks by isoglucose. In 1985, for the first time in the USA, the quantity of new sweeteners consumed overtook sucrose (beet or cane), which will undoubtedly weigh heavily on subsequent world prices.

Economies based on the production of

sugar cane have now entered a traumatic period. There are some tens of millions of people who are threatened today by this upheaval in the world sugar products' market. Negros Island in the Philippines, Haïti, Brazil, Mauritius, the "French" Antilles, Réunion Island and so on are all going to pay a very high price for these changes. It is significant that the sugar multinationals, such as Tate and Lyle, while commercializing and refining the sugar of certain client countries (like Mauritius), have also carefully researched substitute products that are going to finish off their current suppliers.

Capitalist anarchy, cynicism and violence are expressed perfectly in the world sugar market. In addition to the competition of European beet growers, third world cane producers now face competition from American and Canadian producers of isoglucose, which uses maize and wheat as a basis. The changes taking place, pushed through but in no way prepared, will lead to the ruin of tens of thousands of small and medium-size planters.

Another aspect of the upheavals underway is the development of the futures markets. These markets do not deal with physical goods, but with contracts — that is, abstract products. Their primary goal is not to deliver commodities; they are purely financial operations. But futures markets,

to be profitable, far exceed the "volume" of the physical market. For example, in 1974 in Paris only 1% of the 11 million tonnes of sugar traded was actually destined to be delivered!

Not all products have a futures market.<sup>10</sup> A large part of some markets is negotiated bilaterally, others involve agreements between producers and consumers,<sup>11</sup> while a smaller part goes through the stock exchanges, that is, the "free market".

Changes are taking place here as well. Nickel, for example, has traditionally been negotiated bilaterally, but since 1979 a free market has operated in London. The oil market takes in all these forms: barter, mutual agreements and the futures market.

According to the professionals, these abstract markets are necessary for regulating prices and avoiding risks — as much for the buyers as for the producers. By considerably augmenting the volume of transactions, the speculators assume the latent financial risks of the market.

In reality, the thing is rather more complicated. The produce exchange markets have expanded and become increasingly complex. Everybody is not equal in the face of growing speculation. A number of producer states only have very partial access to the control of new techniques. Take the case of the African countries, where small producers are invited to play the markets in order to reduce their risks but often find themselves in a position of weakness when it comes to learning the real state of the market.

## Boom in speculative markets

"At the beginning of 1984, the world price of cacao (4,500,000 tonnes traded) on the futures market was determined day by day by variations in the anticipated eventual deficit which, estimated at between 20,000 and 200,000 tonnes, will be in any case a marginal factor in relation to all the fluctuations".<sup>12</sup> Or again in relation to sugar: "It is no longer some 500 shipments that have mostly found buyers and sellers that count, but rather too many or too few shipments which, while marginal, are critical in determining the effective physical prices at a given time.... The penalty, in differential terms, can therefore be very costly for latecomers".<sup>13</sup>

Because the control of information on the market is very unequal, it is clear that the "positive" and "regulatory" effects of the futures market cannot benefit all the producer states! If they want to optimize their sales they must gamble on the price, on how much to sell and on the timing. They

10. For example, rice and tea.

11. This is the case for manganese, most nickel, phosphates and uranium.

12. *Matières premières et échanges internationaux*, Vol. V, Claude Mouton & Philippe Chalmin, Economica, Paris, 1985.

13. *Ibid.*



must know how to anticipate the markets, while for their part the specialists do not hesitate to manipulate them.

However, the development of the exchanges does not explain in and of itself the instability of prices. On the contrary, this "boom" in futures markets has only been an empirical response of capitalism to the chronic instability of markets and prices over the previous period.

This evolution has combined with a growth of the strictly financial market, the famous "speculative bubble". It is a sign of the times that a significant part of profits are no longer realized by exchanging commodities but by exchanging bits of paper simulating a real exchange of goods. Raw materials have not been spared. In the centre of this, the London Metal Exchange (LME) and the London Commodity Exchange (LCE) play a big role. The LME covers the markets for copper, zinc, lead, silver, aluminium and nickel. The LCE deals mainly in cacao, coffee and cane sugar.<sup>14</sup>

Aside from the activity of broker's firms and speculators, the commercial exchanges too are involved in the expansion of financial services. There are around a thousand trading houses operating in London. The Reuter agency has tens of thousands of video terminals installed in nearly 80 countries, and something like 100,000 people work in this little world. In 1974-75, receipts for this sector reached £179 million. In the receipts of the British financial system, raw materials represented 12% in 1972, 16.5% in 1975, 7% in 1979 and 4.9% in 1982.

### Raw materials market increasingly volatile

The near-monopoly of the London markets in the trade of certain products is not properly exactly a "democratizing" factor in the market! In 1982, the City as a whole, which includes trading in primary products, brought in \$7,000 million for the British economy — 50% of the net contribution of the financial services to the balance of payments — and employed 400,000 people.<sup>15</sup> It is a good bet that the primary products market will tend to become increasingly deregulated, like the rest of the financial market. On the other hand, the growth of speculative markets in this area will depend on eventual innovations in financial instruments. The development of risks markets and the electronics explosion could thus make the raw materials market increasingly volatile, by increasingly detaching it from real production.<sup>16</sup>

The risks of the raw materials' market are more numerous than those elaborated above. There are also those that operate in the monetary field. The chaos that appeared from the end of the 1960s, at the same time as American capitalism began to fall back in relation to its competitors, was to play a decisive role in the ups and downs

of raw materials' prices in the years that followed. The abandonment of the gold standard in 1970, and then of the Bretton Woods' accord, was going to spark off an era of monetary instability. To this was added a very strong inflationary pressure.

It was in these circumstances that the curves of basic products' prices took on the appearance of a big dipper; that the oil crisis broke out, with OPEC's decision to increase the price of crude five-fold; and that a period of intense negotiations/pressures opened up on the price of some products.

The monetary chaos produced a certain inevitable unevenness on the markets, making long-term management of exploited resources even more precarious. Thus, the price in local currency of a raw material produced and sold outside of the dollar or sterling zones by a non-US or non-British firm depreciated when American or British currency fell. Exchange risks therefore led to losses or gains for producers, as well as for merchants, since in general prices were not linked to changes in exchange rates.

In the longer term, another disequilibrium was able to develop when the exchange rate of one currency in relation to others diverged too much over a long period from its real buying power. This disequilibrium gave an advantage in the late 1970s to mining operations in the dollar zone for example, when the American currency was under-valued in relation to its domestic buying power.<sup>17</sup>

The disequilibrium between national and international price levels can destabilize the whole of a domestic market. When inflation differentials grow between one country and its commercial partners, the domestic costs of primary products rise more quickly than the international prices. This was why the US preferred to import certain products rather than support domestic production. These effects are particularly spectacular in the dominated countries — such as Mexico for example, which has a common frontier with an industrialized country, the United States. The same phenomenon appears in Africa, and elsewhere, for countries with non-convertible currencies whose neighbours are in the franc zone. In these cases, smuggling on a massive scale becomes the market regulator to the detriment of domestic products, which are often subject to astronomical rates of inflation.

The devastating effects of the instability of markets and prices on third world economies have already been stressed. On this subject, two French economic experts have said: "Out of this chaos emerges an inexorable decline in the buying power of primary products compared to manufactured goods. From 1960 to 1986, this decline reached an average of 30% for basic agricultural products, 27% for foodstuffs and 14% for other products.... Should we be surprised that there were problems in managing the debt in these conditions?"<sup>18</sup>

According to the French National Institute of Statistics and Economic Studies

(INSEE), the deterioration in terms of trade for African and Indian Ocean states reached 15.4% between 1985 and 1986, the prices of their raw materials fell by 23% and the prices of imported goods only by 9%.<sup>19</sup> In these conditions, as long as interest rates remain very high, the indebtedness of these producer countries can only worsen.

The stock market crash of October 19 last year did not spare the primary products market. But it did not have such a spectacular effect on the shares market. It was the monetary disorder induced by the crash that first of all affected the primary products market. Afterwards, it was affected by the prospect of probable recession, and a no less probable lowering of world demand for these products.

### An ongoing serial of chronic instability

For the time being, some primary products' markets have shown a slight upward trend, for rather conjunctural reasons. This conjuncture is explained by mere technical operations, such as the reduction of producers' stocks, or the reconstitution of stocks in consumer countries or industries. For wheat, for example, what was involved was the prospect of a probable decline in world production in 1987-88; for nickel, it was sudden opportunities in the industrial market. By the same token, copper prices leapt dramatically at the end of last year because of the simple fact of a reduction of reserves on the London Metal Exchange, combined with a copper miners' strike in Peru. But all this comes within the scope of an ongoing serial of chronic instability, and is in no way an indication of any medium-term trend. On the other hand, these temporary readjustments bring both joy and grief to the most impoverished producer countries. Zambia, for example — where the red metal represents 90% of exports — has had a breathing space in regard to its debt burden, but it cannot count on prolonged high prices that could free it from the "dictatorship of copper" and enable its economy to diversify. On the contrary, higher prices have

14. Most of the refined sugar market is concentrated in Paris. Since 1974, on the other hand, the main gold futures market has been organized in the USA and in Zurich.

15. "Work in progress: a survey of the City of London", *The Economist*, July 14, 1984. London has notably played a central role in recycling petro-dollars from the Middle East. For a good point of view on the exchange boom in the 1980s (before the crash!) see: *La géofinance — pour comprendre la mutation financière*, Charles Goldfinger, Seuil, Paris, 1986.

16. Each day on the financial market 40 or 50 times more capital is exchanged on average than physical merchandise.

17. The international nickel price in December 1979 was \$2.60 a pound, or 10.55 francs at the official exchange rate, while it should have been 21.35 francs a pound according to exchange rate parities. This can have important consequences, notably for products like uranium, whose deliveries may span 20 years.

18. Philippe Delmas and Christophe Guillemin, *Le Monde*, July 7, 1987.

19. *Marchés tropicaux et méditerranéens*, November 13, 1987, Paris.

hardly been registered and now a fall is looming in the second half of 1988!

Gold itself has shown the rise expected in the wake of the stock market crash. Shares in gold mines have even suffered some important falls since then. If the dollar's decline continues, gold could increase its role as a hedge and grow again in value (its price has already reached \$450 per oz.) on condition that no other financial instrument comes along to offer a better "refuge".

In the current chaos US Treasury Secretary James Backer has proposed a shopping basket of raw materials — including gold — as a base of reference. This attempt to reintroduce gold as a monetary standard fizzled out and has not been taken seriously.<sup>20</sup>

No mechanism of this sort can artificially get the capitalist economy out of its present crisis. The US government has advocated primitive free-enterprise policies for the primary commodities market for seven years. According to it, "real prices" could only play a positive role in the medium term in reorganizing third world economies. So it is hardly in a good position today to advocate any regulatory mechanism. Even if it wanted to, it would have a hard time finding a solution. *Le Monde* of November 3, 1987, forcefully described the current atmosphere: "Futures markets only react on a daily basis, without looking to the near future.... the stainless steel industry's order books are full until the first half of 1988. This sole certainty is supporting nickel prices, even if tomorrow it has to be abandoned or revised for the following months. Such shortsightedness makes it impossible henceforward to consider raw materials' prices as relevant indicators of real economic activity".

Primary commodities that are being more and more replaced by substitute products increasingly pose problems for judging the reactions of the industrial market. Their overproduction remains major trend. Thus, in 1984 and 1985 their prices continued to fall even while the international economy was picking up. The *Le Monde* journalist concluded: "Deaf and blind, these products are for the moment mute".

In such conditions, unorthodox sales methods must be expected. Bartering or buy back arrangements are growing rapidly as a consequence of the markets' instability, but also due to the importance of political questions as regards certain exchanges. The most diverse figures are put forward: between 10% and 20% of world trade according to different sources. In this way frozen mutton is exchanged for petrol, military material for cacao and so on. This commercial practice, condemned by international institutions, introduces important political or diplomatic factors. The East

European countries were the first to develop this sort of exchange with the West. But it has now been extended owing to the insolvency of some third world countries. Oil is the commodity most often involved in such transactions. It is being exchanged for textiles and foodstuffs, Boeing 747s and military planes, but it has also been exchanged against part of a debt (France/Iraq in 1984) or for the construction of a hydroelectric power station (Brazil/China/Iraq in 1985)!

Moreover, barter makes it possible to hide the undercutting of crude prices fixed by OPEC. It also enables some third world oil-importing countries — like Brazil, Turkey, India, Malaysia or Pakistan — to export industrial products and protect



themselves, at least temporarily, against competition from industrialized countries.

States and international institutions have been looking for technical solutions to solve all these problems. The general philosophy of these various measures is either to intervene downstream of "natural" market mechanisms or directly upstream by attempting to plan the quantities to be produced. But none of this can sort out the destructive anarchy of the capitalist market because, in reality, the private sectors are allowed to make as much profit as possible and afterwards it is left to public bodies to financially clean up the worst damage.

The market functions without pity and can break the most fragile economies or destabilize states. In the long term, this rebounds against imperialist stability. The European Community, for example, essentially carries the responsibility for political stability in the Black African states. Consequently, it has to compensate, at least par-

tially, for the destructive effects of these countries' relations with the world market. Black Africa, whose place in the international division of labour is still deeply marked by its colonial past, needs a permanent crutch to prevent it sinking into political chaos. This is why the EEC's Lomé Convention set up a system of financial compensation benefitting its junior partners — in theory to compensate for shortfalls of export receipts after price drops or setbacks in production. For some agricultural products this is known as the Stabex system, and for some mining products, Sysmine.<sup>21</sup>

In March 1986 the International Monetary Fund set up a structural adjustment facility to help certain countries with low incomes, since all the previous compensatory mechanisms could no longer save them from bankruptcy.

But all these have only been insufficient stop-gap measures, for the good reason that they do not rationalize the market and are not preventative medicine. As the crisis deepens, the less resources there will be for compensation: "The losses of primary commodities' producers (outside of oil) rose to \$20,000 million in the two years 1981 and 1982. With respect to these losses, the sums paid over under the facility for compensatory financing amounted to \$2,400 million, and under Stabex to \$320 million — a compensation hardly more than 14%".<sup>22</sup>

A common fund to stabilize basic commodities was proposed in 1976. But the US champions of the free market have until now opposed this and kept it from being put into operation. A high-level State Department official was to declare openly: "We prefer to follow an approach to development based more on market laws, which have proved themselves in the developed and developing countries".<sup>23</sup>

At the end of the 1970s and beginning of the 1980s there were various attempts to revive the regulation of certain markets by means of agreements intervening directly into supply and demand. Five major international accords were signed or renegotiated between producers and consumers for

20. J. Backer has in fact taken an old argument of P. Mendes France in the 1950s, which proposed to guarantee part of world money to secure a stock of raw materials — around 25% — to stabilize these products' prices. This proposal never saw the light of day because of its inherent contradictions: how could a price be fixed for the products in the shopping basket? How could the contents and mix be decided? And how would this be judged in terms of the relations of forces between the producer countries and/or the consumers?

21. The Lomé Convention brought together most of the countries of Black Africa, the Caribbean and the South Pacific (ACP) associated with the EEC. See IV 51, April 23, 1984.

22. Philippe Delmas and Christophe Guillemin, *Le Monde*, July 5, 1987.

23. *Marchés tropicaux et méditerranéens*, July 24, 1987, Paris.

sugar, rubber, cacao, tin and coffee.

In spite of these attempts the results were very meagre. The technique employed uses the system of reserve regulators or export quotas, with a maximum and minimum price fixed by conventions. The reserve regulators therefore become additional operators on the market, buying and selling in order to affect prices and maintain them within established upper and lower limits. But the effect of these instruments has been recognized to be insufficient since 1984. These accords were established or renegotiated at the end of the 1970s when prices, although very unstable, were generally buoyant. Some years later the trend has reversed, and the accords in question have been less and less successful in promoting stability.

A number of external factors were also at work: the fact that some producer states did not participate in the accord; political events; monetary evolution; technological progress or development of substitutes and so on.

Accords providing for production quotas, as with oil today, can lead to dog-fights between the better off who want to preserve their interests, and the small producers who want to increase theirs.

### Third world countries have their backs to the wall

Furthermore, reserve regulators need financial resources and require expensive technical expertise. The high interest rates have obviously not favoured this system. Besides, often the main reserves were held not by the producers or by institutions, but by the top industrial countries. Tin reserves established in 1982, for example, represented only a tenth of the strategic reserves of the USA. In 1982, the director of cacao reserves was stopped from buying because of lack of funds.

In reality, the generalized indebtedness of the third world limits the effects of all accords of this type. With their backs to the wall, these countries have been implacably pushed into expanding production and selling at dumping prices. This drive for short-term gain becomes a drag on world prices. "Those who sell more cheaply have to sell more. Deliveries of Brazilian tin put both Bolivian and Asian producers out of the game. Malaysian cacao is the new headache for Ivory Coast planters. Indonesian coffee is worrying Sao Paulo. The gigantic iron mine at Carajas (Brazil) has nipped all the African mining projects in the bud."<sup>24</sup>

In 1984, because of the refusal of Australia to agree to what they thought were too high EEC export quotas, the tin agreement was to finally fail and the sugar agreement was disrupted. A system of export quotas for coffee, re-established in October 1987, hardly slowed down the fall in prices. The cacao accord was renewed, but not without difficulties, in July 1986. In 1987, the cacao reserve regulator made many purchas-

es on the market without being able to stop the price falling for all that. This was a significant factor in the Ivory Coast's decision, as the principal world producer, to stop its debt repayment.

Beyond the deterioration in the functioning of the capitalist system, a crisis has also been induced by the modifications taking place in the international division of labour. Well after colonial empires disappeared, the mechanisms of domination and the organization of trade routes remained profoundly shaped by the colonial past. These imprints have only begun to blur unevenly among countries and industries. Today, the capitalist crisis, combined with technological changes in industrial production, has accelerated this process. Already, the industrialization of countries like Brazil, Mexico, India or Korea had demonstrated these changes in a spectacular fashion. But this did not yet affect the bulk of relations between imperialist countries and third world countries. The expanding exports of producer goods reflected some major changes within imperialist industry. This modified somewhat the forms of penetration in a large number of third world countries, which could no longer be considered simply as suppliers of raw materials. But chronic over-production of classical primary goods has produced a new situation.

The first episode in this change was that affecting the ownership of mines and of some sources of agricultural raw materials during the 1960s and 1970s. Between 1960 and 1976, third world countries expropriated 1,369 foreign enterprises including 80 mining companies, 220 oil firms and 272 agricultural outfits. The poorer countries were, the stronger were nationalization policies as a means of providing a base for the state apparatus and the dominant classes, especially in Africa. This tendency toward growing state participation in the production of basic goods did not involve in and of itself decreased dependence, but it was to mean a transformation of the forms of dependence.

The industrialization of certain countries and the general shift of some industries away from the imperialist countries towards the poor countries was to constitute the second episode. Some sectors — like textiles, steel, metallurgy, automobiles and small-scale electronics — preferred coun-

tries where the workers came cheaper. The world map of iron and steel production has changed rapidly (see Table 2), and a number of steelworks have been set up in the third world, thanks to capital and technology from Europe, America and Japan. In Brazil, for example, such factories have been financed by Finsider (Italy), Kawasaki Steel (Japan), Mannesmann (West Germany) or Finsider (Luxembourg). In 1966, Europe and the USA represented respectively 20.9% and 14.7% of the world production of steel; in 1982, they represented no more than 7.5% and 4.7%. During the same period, the third world passed from 21.2% to 26.7%, and the socialist countries from 33.8% to 41.9%.<sup>25</sup>

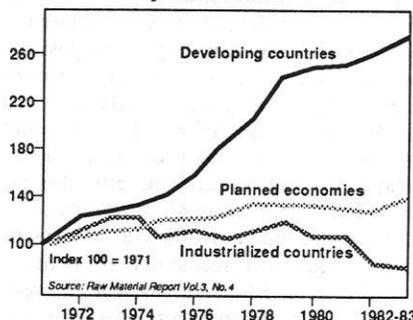
### Spectacular changes in agriculture

These changes are not only affecting the so-called "North-South" divide, but the whole world market. Thus, in the production of bauxite, Australia's share of world production grew from 19.1% in 1971 to 23.3% in 1983, while Jamaica's slumped from 18.8% to 6.1% and Surinam's from 10.2% to 3.7%.

The world crisis from the middle of the 1970s caused mining investments to fall and reduced outlets. Western firms therefore tended to orient their investments towards the developed countries, including investments in new technology. Because of their indebtedness and a fall in export income, third world countries tended to look to the West for new investments in the "national" mining sectors. So the links between states and foreign operators were to multiply. New dependencies were born out of these links in prospecting, processing, commercialization or transport, owing to the simple fact that the multinationals who had dealings with these states enjoyed a considerable vertical integration.

Such changes were no less spectacular in agriculture. But here two new elements need to be looked at. Firstly, there is a growing change in third world eating habits, which has begun to turn their national production and their foreign trade upside down. We are indeed witnessing something that some would label an "internationalization of taste!" The generalized penetration of Western food products in these countries is now fostering a real vicious circle. It is jeopardizing domestic production and accelerating the rural crisis. The resulting exodus to the towns is aggravating the agricultural deficit, causing the production of national food products to decline, and this is leading, in its turn, to an increased demand for imports. Little by little, these imported products are becoming the basic foods. In Latin America, the development of certain quality foodstuffs for export or to

Table 2: Changes in steel production



24. Eric Fottorino, *Le Monde*, January 24, 1987.

25. In 1950, the third world only produced 6.5% of the world output of iron. Source: *Raw Material Report*, Vol.3, No.1, 1984, Stockholm.

be consumed by the well-off has affected the whole food industry, as well as the diets of the poor classes. The allocation of land, energy, credit or research towards these new foods has been to the detriment of traditional products. These imbalances subsequently affect the health of the whole population.

In Africa, rice is slowly replacing local cereals. Now, the growing consumption of bread is imposing increasing flour imports.

Domestic trade patterns as a whole are being affected by these changes. They are being carefully orchestrated by the agri-food multinationals, relying on advertising based on cultural identification and also the changes in urban work and living patterns. Thus, industrial development in Latin America, Africa or Asia has been seized on by these trusts in order to promote new diet patterns.

The second new element in agriculture is the growth of research into genes and producing hybrids. These techniques are aimed at increasing agricultural productivity. But this noble objective carries with it a real danger of leading to increased exploitation of the third world and the ruination of small peasant production. For the time being, most of the hybrids are sterile, meaning that each year the producer must buy new seeds. This therefore puts a very large number of small peasants out of the game.

Worse still, private firms are now patenting the genes or the related techniques, thereby circumventing the research done by international public institutes.<sup>26</sup> The privatization of genetic material coming from third world countries is a serious threat, considering the state of national research in these countries. For 23,000 researchers in this area in the US in 1983, there were 3,400 in Asia, 1,000 in Latin America and 400 in Africa. The situation is sufficiently worrying that in 1987 some European MPs produced a report entitled "Developing countries, profit from bio-technology or perish!"

All of this certainly confirms the evolu-

## Growing marginalization of primary goods

tion of forms of domination. Demagogic speeches about the "transfers of technology" to the third world cannot hide this sad reality. In 1980, an OECD document also confirmed this: "The rate of technological innovation determined by the North has to exceed the acceleration of technological obsolescence coming from transfers to the South".<sup>27</sup>

The move to using new materials in certain mass production techniques also confirms this tendency. New technologies are replacing old ones. It is in this framework that the growing marginalization of primary goods in world trade must be discussed. These goods represented no more than 17.5% of exchanges in 1985, against 45% in 1960. Trade flows (at origin and

destination) have also been modified, both for certain agricultural goods and for mining products.

Many changes have taken place in the domain of oil, also. While OPEC represented 65% of capitalist oil production in 1976, it represented no more than 40% in 1984. Another structural, and not just conjunctural, change is in oil consumption in the big industrial countries. A country like France is consuming 27% less petroleum products today than it did in 1979!

All this confirms big changes that have taken place in the international division of labour. In other words, the "specializations" produced by colonization and the empires are being increasingly challenged. Bolivian tin miners, Mauritian sugar cane planters and Senegalese groundnut producers are all feeling the pinch. This evolution is combining with new forms of domination and new commercial exchanges.

Uneven development is only the most glaring expression of what is happening. It is evident both between the various regions in one country and between different countries. The loss of interest in this or that product provokes a succession of cumulative socio-economic modifications. Some states, such as Mexico or Libya, are now facing a fall in their oil income. A small country like Mauritius has seen the centre of gravity of its proletariat shift from the sugar industry to the free industrial zone in just six years, with all the negative consequences this has for unionization, class consciousness and so on.

Moreover, these transformations are coming 15 or 20 years after the equally

## The oil market

**OIL HAS** some peculiarities that set it apart from other raw materials. An energy product, its price is set before those of all industrial products, of which it is a component. The first oil crisis in 1973-74 was due to a combination of economic and political elements: the 15-year long fall in barrel prices; the devaluation of the dollar and the pound after the establishment of floating parities; the American defeat in Vietnam and the Yom Kippur war in the Middle East. The Organization of Petroleum Exporting Countries (OPEC), created in 1960, was the sole cartel of its type able to lead an ongoing offensive to improve the terms of exchange. Everyone who tried to set up something similar to OPEC for other commodities very quickly met with failure.

But from 1978 there was again a very clear fall in barrel prices in relation to imported goods, which was to provoke a second OPEC offensive in 1979 with a major price rise.

However, after these seven years of commercial warfare, imperialism was able to get a grip on the market again. This was aided by a political crisis inside OPEC, the exploitation of new fields (notably in the North Sea) and a big drop in world demand due to the cumulative effects of recessions or the use of more cost-effective energy.

Today, we are seeing the opposite effects. The fall in crude prices is aggravating the crisis in some capitalist sectors, notably those linked to the US oil industry or to the sales of arms or equipment to the Arab countries. Barrel prices went from \$31 in 1983, \$29 in 1984, \$27 in 1985, less than \$10 in July 1987 and have now increased slightly to \$16.

While the 1970s' oil crisis brought some third world oil-importing countries to their knees, it also accelerated industrial reconversions. It was to favour the industrial goods export sectors, help swell the liquidity bubble of international credit (petro-dollars), push up indebtedness, aggravate technological obsolescence and push forward the migration of certain sectors such as iron and steel to the third world. It served as a lever for establishing a new relationship of forces between industrial sectors and holders of capital, with both the ruling classes and the producer countries taking their commission in passing.

From 1974 to 1981, the OPEC countries deposited nearly \$150,000 million in Western banks. At the same time, the growing revenue of these countries accelerated their own internal social differentiation, giving Western exporters new consumer markets. This "oil crisis" was the occasion for a massive redistribution of the surplus both at the international and national levels. ★

spectacular changes that marked the end of the 1960s or the beginning of the 1970s. Countries like Nigeria or Mexico at that time abandoned their agriculture to devote themselves solely to the industrial fallout from the oil bonanza.<sup>28</sup> This already represented a real social shock, which is now going to be followed by another. This confirms once again how underdevelopment is not caused by a "lack of capitalism", but rather by the specific forms of capitalist development in these countries. These are brutal and hierarchical; they marginalize whole chunks of the rural and urban economy, and leave the rest to the mercy of rapid turnabouts impelled from the outside under the effects of imperialist domination.

The fine self-confidence displayed by the bourgeoisie right up until a few months ago about the development of financial and stock market instruments did not last long. But the capitalist crisis cannot be reduced to the hazards of the stock markets, any more than it can to unemployment in Europe and the USA. Growing misery and famine in the third world, the destabilization of dozens of national economies — all of this can also be laid on capitalism's doorstep. ★

26. See *Le Monde*, May 19, 1987.

27. *Changements techniques et politique économique*, OECD 1980, Paris.

28. For the first time in 1980, Mexico had a negative agricultural trade balance. Practically self-sufficient in local cereals, Nigeria imported more than 1 million tonnes in 1977. See Johny Egg, "Une effet de la rente pétrolière au Nigéria", *Le Monde diplomatique*, May 1981.

# "The decisive stage in the fight for the success of *perestroika*"

THE CONFLICT in the Soviet bureaucracy over Gorbachev's policy of *perestroika* and *glasnost* has clearly reached a new level and come out considerably more in the open. At the beginning of April, the Soviet public was treated to the startling sight of a direct clash between two major publications — *Pravda*, the organ of the Communist Party of the Soviet Union; and *Sovietskaya Rossiya*, the organ of the leadership of the Russian Soviet Socialist Republic. Furthermore, this new sensation came just as the mass protest strikes were ending in Nagorno-Karabakh.

GERRY FOLEY

A FULL-PAGE unsigned article in the April 5 *Pravda* replied to a "letter from a reader" in the March 13 issue of *Sovietskaya Rossiya* with a broad and withering blast at opponents of Gorbachev's policy within the apparatus. For example, in response to the offending letter's arguments about the need for defending the "principles" and "foundations" of the existing system, *Pravda* replied:

"It is the ABC of Marxism that ideas and interests are bound up together....Behind any ideas inevitably stand one or another interest. The conservative opposition to *perestroika* is the weight of practices, of habits of thinking and action carried over from the past. It is the aggressive, egoistic interests of those accustomed to living at the expense of others and not wanting to give up this habit. In fact, *perestroika* is objectively aimed against these interests."

There was also a sharp rebuke to an alleged attempt by the "letter from a reader" to defend Stalin's historical role: "Stalin and his immediate entourage bear a great and unforgivable guilt before the party and the people for impermissible mass repression and lawlessness."

A few days after its attack on the "letter from a reader" in *Sovietskaya Rossiya*, on April 10, *Pravda* featured a major speech by Gorbachev in defence of *perestroika* and *glasnost* delivered to the Central Committee of the Communist party of Uzbekistan. In the first part of his oration, the Soviet leader said: "We have every reason to say that the decisive stage of the fight for the success of *perestroika* has begun."

Later on Gorbachev, referring to the *Pravda* article of April 5, also leveled a

strong and sweeping attack against the opponents of his policies: "We are hearing people say, 'Look what your democracy has led to!' We have to look at what lies behind such statements. Behind them stands a lack of respect for the people."

## Gorbachev's conservative opponents on defensive

The day after publishing the general secretary's speech in Uzbekistan, *Pravda* began featuring letters columns hailing its April 5 attack on *Sovietskaya Rossiya*. Obviously, a big offensive was on. It led in short order to the editors of *Sovietskaya Rossiya* confessing that they had made mistake in publishing their "letter from a reader." Obviously, Gorbachev's conservative opponents were on the defensive again, after they had apparently been on the offensive themselves toward the end of 1987. (See the article by Boris Kagarlitski on page 7.)

The Gorbachev offensive opened up the way for even sharper things to be said about bureaucracy and Stalinism. For example, the April 12 issue of *Pravda* published an article by veteran party member, M. Goncharov, which said: "I fully approve of the publication of the article in *Pravda*, especially about the role of Stalin. My position is that his activity had nothing in common with socialism. He led our country away from socialism. He destroyed the flower of the nation and crippled the soul of the people."

Among the letters in *Pravda* of April 16 was one that raised the question of national oppression. It came from K. Dzhusu-

pov, a secretary of the Kirghiz writers' union and editor of the journal *Ala Too*. He wrote:

"In our republic, many innocent people suffered at the time of the cult of the personality. To acquaint readers with their lives, their literary legacy is now being prepared for publication. Previously unpublished works of writers are now appearing, along with translations of Russian and foreign studies of the Kirghiz people, toward which until quite recently prejudices prevailed...."

"The majority of readers have greeted this publication with approval, and are showing interest. This helps the development of *perestroika* in other areas of life, since the people are confirmed in their belief that the course of moral renewal of the society is irreversible."

## An unrelenting chorus of approval

Despite the opening for criticism of the bureaucracy provided by Gorbachev's offensive, the overall form of it resembled the old methods of the Soviet rulers more than the freedom of discussion invoked by the current general secretary. The letters in *Pravda* were an unrelenting chorus of approval. There was not one defending *Sovietskaya Rossiya* or conservative Stalinist views.

However, old-fashioned Stalinist views are certainly held by many people in the USSR, and by no means all of them are bureaucrats, or even the worst of the bureaucrats. Stalinist conceptions have penetrated deeply in the minds of a great number of people.

This imprint can even very often be found even in the thinking of opponents of the regime, or even refugees from it. There is no way to destroy it without a genuine open discussion in which this whole body of ideas and misinformation can be dispelled by argument and not just shouted down (in a very selective way, moreover) by a faction of the bureaucracy that happens to have the upper hand for the moment.

Furthermore, this orchestrated chorus in honor of "democracy," "justice," and "a return to the principles of Lenin" was launched only a day after the publication in *Pravda* of a quite traditional piece of Stalinist defamation and witch-hunting against the leaders of the Armenian protests and their leading defender in Soviet democratic circles, Sergei Grigoriants. It was the article, "Instigators: once again on the events in Nagorno-Karabakh and around it." (See IV 139, April 18).

The Armenian protests were the first time masses of people have expressed themselves under *perestroika*. The attitude of the Soviet media toward such actions and the questions they raised remain a concrete test of how much room is being opened up for real political debate. ★