EC DISCUSSION DOCUMENT
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ECONOMIC AND POLITICAL PERSPECTIVES

Economic Perspectives

The current crisis in international capitalism arises out of the contradictions of the Permanent Arms Economy. The Permanent Arms Economy laid the basis for the 20 year boom and expansion of capitalism following World War II following 25 years of capitalist crisis. Massive military spending through deficit financing laid the basis for this growth by stimulating the capital goods industries making possible a high rate of profit which laid the basis for continued investment. Moreover, the impact of arms spending stimulated those sections of the economy not involved in arms production through technological developments made in the arms sectors which were transfered to other industries.

But the arms economy introduced its own contradictions into the capitalist system--chronic stagnation and inflation. Stagnation develops because investment goes into nonproductive sectors--production for waste--of the economy. This together with increased inflation means less and less investment and the arms spending becomes a drain on the economy over time. These added contradictions became apparent as the American domination of the world market was weakened by competition from the rebuilt economies of Western Europe and Japan. American hegemony of the world market during this 20 year period had meant that one of the basic problems of international capitalism--the contradiction between an international economy and national competition--had practically ceased to exist. By the late 60's and early 70's this international competiton had led once again to international instability culminatingin the 1972-73 boom and the 1974-75 bust on a world wide scale.

The U.S. economy began pulling out of the depression in the summer of 1975. The recovery has not been easy for the capitalists. It has been a long upward climb. The economy is just now reaching the level of the 1973 boom.

For the working class it does not feel like a recovery. Unemployment still hovers close to 8%. Services in the cities have been stripped bare. Food stamps, unemployment benefits, and welfare have all been cut back.

For business, however, the recovery is real; overall production (GNP) was up 7½% for the first quarter of 1976, inflation was down to only 3.7% (however, this is artificially low as it includes once-only drops in food and fuel prices), and most important for business--first quarter profits were up 40-45% over last year. Growth predictions for the next year are 6-7%.

There are real reasons why workers have only partially experienced this recovery. The employers' profits have been squeezed out of us. Social services have been cut back and unemployment remains high. For those on the job greater employer profits have been achieved by speeding up the workforce.

The working class also helped finance the recovery through government deficit spending, which workers are paying for through increased tax burdens. At the beginning of the depression Ford argued for holding back inflation by balancing the budget. Ford quickly learned that a balanced budget would only plunge the economy into worse crisis. He then passed a budget which included a deficit of $125 billion over a two-year period--the largest in U.S. history. However, very little of this whopping deficit was spent on the working class or the poor.

Most of it went for arms or tax cuts to business. This growth in arms spending will tend to limit the long term effects of the boom since it drains funds that would have gone into capital investment. And increased arms spending will also push inflation up even more.

The recovery is now turning into a boom. There are several reasons for this. One of the most important is that American capitalism has proven to be healthier than European capitalism. The U.S. has pulled out of the depression faster than Europe. The U.S. economy began to recover about a year ago; Germany and Japan 6 months ago; Britain has only just turned the corner.

The health of American capitalism is based on the success, thus far, of the employers' offensive against American workers. Through wage controls (1971-1974), productivity drives, and the acceptance of all this by the trade union bureaucracy and labor's ranks, the American capitalist class has been able to hold the real wages of American workers to 1972 levels. The U.S is the only non-fascist capitalist country where this is true.

The relative low wages of American workers now makes American industry more profitable. At the same time since the U.S. began to recover first, American industry has been buying raw materials on a depressed market. There is little competition and prices are relatively low.

In addition, this boom, unlike the shortlived boom of 1973, will see some expansion of American capital. During the 1973 boom, little was spent on plant and equipment. And capitalists uncertain of the future depleted their inventories. As we enter the new boom, production will take a big jump as industry produces both to fill its current orders and to replace depleted inventories.

This will push production capacities to their limit. And, combined with years of neglect to plant and equipment, it will increase the pressure for capital investment. The huge profits sweated out of American workers also gives American industry the money to finance some expansion.

American industry is not only attractive to U.S. capitalists. Higher profit margins plus greater political stability are bringing investment from European capitalists. European capitalists see first Portugal, then Spain, then perhaps Italy and Britain going under--and they are thinking that capitalism is in trouble in Europe. So, they are investing here. Volvo and Volkswagen are building plants in the U.S.

Therefore, because it will be an investment boom and because the U.S. went into recovery first, this boom will be longer and more significant than we had first predicted. It will also last longer here than elsewhere given the relative health of American capitalism. But the boom is not all that rosy for the capitalists either. There are limits which will push it to bust rather quickly.

First, along with the problems of long term chronic stagnation and inflation, this last boom/bust cycle has produced long term chronic unemployment. In the height of the boom unemployment will remain high. In all of Euripe, unemployment never went as high as 6% in the midst of the bust.

Inflation has started to rise. It is already showing up in the rising prices of raw materials. The real rate now is around 6-7%. The most severe depression in 40 years could not bring inflation down below 6-7%. As the boom heats up inflation will rise rapidly. The beg inning recovery in Europe will push prices up. Within one year shortages will push up prices and bring back double digit inflation.

Within two years shortages in plant and equipment will become severe. Interest rates will rise, shooting inflation up further. Companies needing to borrow money for further capital expansion will be competing with government borrowing. The capital market will be overextended.
The boom cycle itself could also be weakened by a numberof factors. If the Democrats win the election and put through a traditional Keynesian deficit spending program for social projects, this will cause inflation to rise more rapidly and thus weaken the boom.

Similarly, problems in the international economy could derail the boom. All the capitalist economies are tightly interrelated. Balance of payments problems between the national economies will be increased by uneven rates of growth and inflation. These problems could lead to monetary crisis, resulting in the collapse or severe devaluation of one or another of the currencies. Such instability is likely to be reflected in trade imbalances, leading one or another countries to erect trade barriers, giving rise to the possibility of trade wars. Growing international trade is crucial to the health of capitalism. Trade barriers in the form of import quotas, high tariffs, will severely weaken the boom or even cause its collapse. While we are not predicting any of these problems, instability and international competition make them real possibilities in today's world.

However, if the boom/bust cycle follows the pattern outlined, there are certain advantages for us, even though the boom will be deeper than our original perspective outlined. First, it gives more time to develop a new leadershpp capable of taking on the bosses when the next bust comes. Second, it is in the period of upturn following a crisis that workers are most prepared to fight. It is then that workers, having suffered through a recession or depression, see a chance to catch up. They see the bosses getting it and they want their share. It is also the first time in a while that workers feel there is something to get.

This has already happened in the Teamster struggle. Teamsters lost a great deal in real wages and working conditions. As the contract expiratoon approached and the economy seemed to be picking up TDC said "Get it while you can." That slogan hit home.

THE END