

## THE DOWNFALL OF THE DOLLAR\*

H. L. Robinson

### I. INTRODUCTION

Marx begins Chapter 2 of his "Critique of Political Economy" as follows: "Gladstone, speaking in a parliamentary debate on Sir Robert Peel's Bank Act of 1844 and 1845, observed that even love has not turned more men into fools than has meditation upon the nature of money." Meditation upon the vicissitudes of the international monetary system has perhaps done as much in our day.

The upheaval of August 1971 marked the end of the post-war international monetary system based on gold, fixed international exchange rates and the supremacy of the US dollar. The Smithsonian agreement which followed in December devalued the dollar in terms of gold, acknowledged the official ending of the dollar's convertibility, set new rates of exchange between the dollar and various other currencies and made some technical changes in the system. President Nixon called the agreement "the most significant monetary agreement in the history of the world". The First National City Bank of New York was more realistic; it said the agreement was "but a stopgap solution to an unresolved problem."<sup>1</sup> The agreement did not in fact come to grips with any of the real difficulties; it merely established what was hoped would be an interim truce of monetary order and stability during which solutions to the real difficulties might be negotiated.

But even this hope was too much. Fourteen months after the agreement, the US balance of payments was in worse trouble than before and a new wave of speculation forced a second devaluation of the dollar. In contrast to the socialist world, which is rent by ideological differences, the capitalist countries, while apparently in reasonable ideological agreement, are rent by increasing economic conflicts.

At the outset, I shall state five points that will provide a framework for the discussion to follow:

\* This essay was written in January to May, 1973 and revised in June. It was thus finished during the months of relative quiet in international monetary affairs which followed the upheaval of February-March. But no one believes that this was more than a temporary lull; the continuing decline of the dollar, the soaring price of gold and the latest revaluation of the mark are all signs of further storms to come.

1. The United States has had a net outflow of dollars in its international balance of payments for the last 25 years. It has been repeated ad nauseam that this outflow constitutes a balance of payments "deficit". But the US has not in fact had a deficit in the traditional and commonly understood sense that payments for imports of goods and services exceed receipts for exports. On the contrary, until 1972 it had a surplus. If nevertheless the outflow of dollars has persistently exceeded the inflow, this is because of the position of the United States as the world's leading imperialist power. In this as in so many other aspects, bourgeois economics is thoroughly misleading and obscurantist; it confuses and mystifies problems instead of clarifying them. All the more regrettable is it that Marxists have also fallen into the habit of speaking and writing about the US "deficit" without clearly distinguishing it from the classical meaning of the term. Nor is this merely a question of words. Important economic and political problems are involved, which are far from easy to understand and explain. Accordingly, the first object of this essay will be to examine the content and components of the US balance of payments and to show in what the so-called "deficit" has consisted.

2. The US empire has a dual character. On the one hand it exploits the colonial and semi-colonial countries of the Third World. It does so as the main imperialist power, partly in competition with and partly in association with the other imperialist powers of Western Europe, as well as Canada and Japan. On the other hand, the United States has since World War II increased its investment in the other imperialist countries several times over, it has acquired ownership and control of key sectors of the economies of many of them and it exercises a significant influence on their economic and therefore their political development. By this and other means, which we shall examine, the US is able to extract from these countries huge amounts of surplus value and to compel them to pay, whether they want to or not, a large part of the costs of defending and expanding its own empire. Foreign investment has been described as "a most efficient device for transferring surplus generated abroad to the investing country."<sup>2</sup> This applies to investment in the developed countries as well as to investment in the underdeveloped, dependent ones.

The underlying causes of the successive dollar crises derive from US relations with the Third World. The immediate causes of the crises of August 1971 and February–March 1973 derive from the accumulating changes in the relations between the US and its imperialist partners and rivals. The discussions about reforms to the international monetary system which have been going on in a desultory fashion for the last couple of years also focus on this latter aspect.

3. The US empire is expensive. It costs enormous sums to administer,

to defend and to expand. These costs are the apparent reason for the dollar outflow, the so-called "deficit" in the US balance of payments. But appearances are deceiving. The US empire contributes more to the plus, although not always in ways that are visible, than to the minus side of the balance of payments. If therefore the US were to reduce its expenses of empire, the profits and other economic benefits which it draws from the empire would also soon decline. The US government and ruling class know perfectly well that, except in a very short-sighted shortrun, the answer to the dollar outflow does not lie in cutting back on the foreign spending which seems to be its cause. On the contrary, they are fully determined to maintain this spending at the level they consider requisite. If other countries will not help the US to pay its imperial way either directly or by trade concessions, there are other methods by which they can be made to share in the necessary costs. It is the struggle over these methods, combined with the struggle for markets—the one being the stone in the cherry of the other—that has been tearing the international monetary system apart and will continue to do so.

4. The measures taken by the US government in August 1971 and since have been nick-named "Nixonomics". North American liberals in the New Deal tradition have made a habit of deriding them. This is a mistake, first of all because these liberals have never understood the problem of the US balance of payments or thought it was important, and secondly because they are unable to see that Nixon's measures are thoroughly orthodox and make sense from a capitalist point of view—although whether a capitalist point of view can itself make sense is another, more fundamental question. The measures were intended to reward American capitalists for making the changes deemed necessary to deal with the difficulties of the US dollar: they were also intended to put the costs of these changes partly on the American people and partly on the other countries—America's chief rivals—which are held responsible for these difficulties. The fact that the measures failed to overcome these difficulties or noticeably reduce them in no way diminishes the force of the two main points: without these measures the difficulties would have got worse and, since the capitalist system is based on profit, it must be made profitable if it is to be made to work. "Nixonomics" expresses this principle clearly.

5. Behind the technicalities of the changes in the international monetary system which governments and central banks are discussing, there is a conflict of interest between the countries involved over which ones should make concessions and sacrifices in order to enable a reformed system to work. But all of the changes assume that the dollar outflow can be brought down to what it was five to ten years ago, that is, to between \$2 or at most \$3 billion a year. It seems to be generally

agreed that if the outflow continues to exceed \$3 billion, any reformed system would soon break down.

However, speculation aside, the dollar outflow in 1972 was as great as in the disastrous year of 1971, and it was this which led to the second devaluation in February 1973 and the further wave of speculation which followed in March. In spite of two devaluations and the currency realignments, which have given the United States an average competitive advantage of close to 30% compared to the position at the beginning of 1971, it is altogether probable that the outflow will remain at anywhere from \$5 to \$8 billion for several years at least. On the one hand, therefore, the arguments and manoeuvres which lie behind the highly technical monetary discussions have an air of unreality about them; they are being played on a chessboard of wishful thinking. On the other hand, no one knows what will happen to the international monetary system, how often it will again be shaken or (possibly?) adapt to a continued dollar outflow on the scale of 1971 and '72. All that is certain is that the concessions and sacrifices of national economic interest will not be any less because they are imposed anarchically rather than by agreement. The capitalist countries are acutely aware that, in rocking the boat, they may all be dumped into the ocean, to sink or swim as best they can. In this respect, the United States is the principal offender. Its position, while no longer predominant, is still the strongest. But not nearly as strong as it seems to think.

## II. *THE BALANCE OF PAYMENTS IN THE* 1960s

In 1965–67, which were typical years of the 1960s, the US balance of payments in summary form was as Table 1:

The US had a large surplus on international account for goods, services and investment income which, in the orthodox lexicon, is considered payment for the "service" rendered by foreign capital to the country in which it is invested. There was a large trade surplus, amounting to \$4.2 billion, with exports and imports defined so as to exclude "exports under US military agency sales contracts and imports of US military agencies",<sup>2</sup> for which figures are given separately. US investments abroad yielded \$7.7 million, against which foreign investment in the US earned \$2.2 billion, for a net income of \$5.5 billion. The surplus balance of \$8.5 billion on goods, services and investment income constitutes what, in the normal and generally accepted meaning of the term, is a balance of payments surplus. Until 1972, the US always had such a surplus and, until only a few years ago, a very large one. The "deficit" was something quite different.

## THE DOWNFALL OF THE DOLLAR

**TABLE 1: U.S. Balance of Payments—1965-67**  
(in billions of \$'s)

Exports	..	..	..	..	..	..	..	28.8
Imports	..	..	..	..	..	..	..	- 24.6
<hr/>								
Trade balance	..	..	..	..	..	..	..	4.2
Travel, transportation and other services	..	..	..	..	..	..	..	- 1.2
Net Investment Income	..	..	..	..	..	..	..	5.5
<hr/>								
Balance on goods, services and investment income	..							8.5
 <i>Dollar transfers abroad</i>								
Private and government remittances	..	..	..	..	..	..	..	- 1.1
Government grants in aid	..	..	..	..	..	..	..	- 1.8
Net foreign military spending	..	..	..	..	..	..	..	- 2.7
Long term capital	┌	Government	..	..	..	..	..	- 1.8
		Private—Net	..	..	..	..	..	- 3.4
<hr/>								
								- 10.8
 <i>Net Dollar Outflows</i>								
Balance on current account and long term capital, or "basic balance"	..							- 2.3
Net liquidity balance	..	..	..	..	..	..	..	- 3.1
Official reserve transactions balance	..	..	..	..	..	..	..	- 1.5

Source: Survey of Current Business, U.S. Dept. of Commerce, June 1972.

The trade and investment surplus was more than offset by the transfers of dollars abroad shown in the lower part of the table, which totalled \$10.8 billion. And the significant thing about these transfers is that four out of the five items are directly related to the **US** empire; military expenditures abroad for its defence, non-military aid and government investment partly for its defence and partly for its economic expansion, and private capital investment abroad which is the heart and soul of imperialism. In 1965-67, **US** capitalists invested \$4.3 billion abroad, most of it by **US** owned multinational corporations; this was balanced by \$900 million of foreign capital invested in the **US**, for a net outflow of \$3.4 billion. The outflow of dollars from the **US** in excess of the surplus on goods, services, and investment income, shown in the table as the "basic balance", is thus due to the spending which the **US** finds necessary and/or profitable in order to maintain its position as the leader and chief policemen of the imperialist system and to expand its own empire within the system. Without the surplus on goods, services and investment income or with a smaller surplus, the dollar outflow would have been correspondingly larger. The surplus made it possible to sustain the imperialist outlays which are responsible for the "deficit"<sup>H</sup>—and vice versa, as we shall see.

Of course, the items in the upper and lower parts of the table are not

independent of each other. On the contrary, they are closely inter-related in a multitude of ways. To begin with, almost all aid is "tied"; it has to be spent in the US and it thus finances US exports of both goods and services. The goods also have to be carried in US ships. This aid tying has a double advantage; it not only pays for exports which would otherwise not occur, it also makes it possible to charge non-competitive prices. And it adds to employment and profits in the US.

A good deal of government and private capital investment abroad has the same results, and all may lead to long-term trade relations which add to US exports. President Kennedy made the point:

"Too little attention has been paid to the part which an early exposure to American goods, skills, and American ways of doing things can play in forming the tastes and desires of newly emerging countries—or to the fact that, even when our aid ends, the desire and need for our products continues, and trade relations last far beyond the termination of our assistance.<sup>4</sup>

Moreover, both military and non-military aid is given only on condition that the receiving country undertakes to follow a trade policy which is helpful to the US, and it may also have to promise to allow profits on foreign investment to be taken freely out of the country, not to mention promising never to expropriate the investment itself. Private capital exports are also enormously helpful to the US balance of payments; every year the inflow of income on the investment accumulated to date far exceeds the capital outflow for new investment. While the capital outflow helps to ensure that the investment income will increase, as indeed it has. It was \$12.0 billion in 1971, compared to \$2.0 billion in 1951 and \$4.2 billion in 1961.<sup>5</sup>

This is only one side of the matter—the increase of US receipts from the export of goods and services and from investment income. An equally important function of the US empire is to keep down its foreign payments, that is, to obtain the imports it needs as cheaply as possible, while keeping out, or at least limiting, imports that compete with domestic production. This latter aspect involves tariffs, quotas and many other protective measures, about which the US complains loudly when applied by other countries against its own exports. It concerns not only the trade relations between the US and its industrial rivals, in which the US has been doing poorly in recent years. It also and increasingly concerns the relations between the developed and the developing countries, which are demanding markets for the industries they are trying to build up.

The former-aspect—that of keeping the prices of necessary imports down—has to do with imports of raw materials, largely from the colonial and dependent countries. Imports of food in 1965–67 amounted

to \$4.3 billion, imports of industrial materials and supplies to \$11.7 billion; the two together made up 64% of total merchandize imports. Perhaps about half of them come from the colonial and dependent countries; and another large slice comes from Canada and South Africa. The widening gap between the prices of raw materials and manufactured goods in international trade is notorious. It follows that, but for this gap, the US and all the developed countries would have to pay far more for their necessary imports than they do now, and this alone might have been enough to wipe out the favourable balance which the US had during the 1960s on goods and services.

The prices of necessary imports are kept down in three classical imperialist ways: US investment opens up new sources of supply and ensures that it has first claim on the output which results; government loans and aid pay for new ports and railways—the "infrastructure" which is so much a part of "development" economics—to ensure cheap and effective transport, and, backing up the private ownership and control of the resources themselves, US policy and military power ensure that the colonial and dependent countries adopt an appropriately co-operative attitude in matters of prices, export taxes, royalties, etc., as well as the more basic matters of labour supply, wages, working conditions and the sacrifice of their own economic development to the interests of the imperialist master.

Thus we come to the military spending. The figure shown in the table above is only the tip of the iceberg. On the one side are military expenditures overseas, consisting here only of those which result in the actual transfer of dollars abroad and listed appropriately enough in the official balance of payments statements under imports of goods and "services". They amounted in 1965–67 to \$3.7 billion and have of course been rising. Many of these dollars find their way back to the US to pay for exports of non-military goods and thus add to the export surplus. They are offset by sales under US military agency contracts, which amounted in 1965–67 to \$1.0 billion and have also been rising. Other countries are thus made to pay for about one quarter of US military spending abroad by agreeing to buy arms at prices dictated by the Pentagon's salesmen. Both US military spending and the sale of arms defend the US empire and the ruling classes of the client states to which the arms are sold and on which the empire relies.

Not shown in the table, because they do not involve any outflow of dollars, are transfers under military grant programs, which amounted in 1965–67 to \$2.1 billion. These transfers consist of military goods and services bought and paid for by the US government and turned over to client governments as gifts. These transfers have also been rising and reached \$3.2 billion in 1971.<sup>6</sup>

All this is part of the over-all US military budget which totals some

\$80 billion a year. The inter-relations between this spending and the balance of payments are extremely complex and their exploration is beyond the scope of this essay. To summarize, however: aside from the fact already noted that the military dollars spent overseas help to pay for US exports, the military might of the US is essential to the defence of its empire and of all the benefits reflected in the balance of payments which accrue from it. This does not mean that all of the military budget is necessary or has a high "cost effectiveness". But it does mean that without the military power to defend it, neither the US empire nor imperialism as a whole would last very long, and the balance of payments would change drastically. The war against Vietnam shows how far the US will go in defending what it considers its vital interests.'

On the other hand, US arms production and military operations obviously lead to substantial imports which would not otherwise occur. There is also little doubt that military spending is a handicap to exports, although it would be difficult to say how great the handicap is. Finally, since in addition to its decisive effect on profits, military spending ensures to the US economy at least a tolerable level of activity and keeps it from sinking into a depression, and since such a depression would be a disaster for all capitalist countries as well as the US, it follows that the entire fabric of economic relations between the countries of the capitalist world depends in the last analysis on US military spending. What the US balance of payments would look like in the event of a depression is anyone's guess; it would certainly be very different from what it is now.

The conclusions from the foregoing are clear: the surplus on goods and services which causes dollars to flow *into* the US depends both directly and indirectly on the outflow items shown in the lower part of Table 1. These outflow items are essential to sustain exports, to ensure "access to vital industrial raw materials on a commercially viable basis,"<sup>10</sup> and to defend and expand the US empire. This is reason enough to expect that they will not be reduced voluntarily or for any so-called technical reasons related to the balance of payments. If, however, in the imaginary world of those who prefer to believe that imperialism does not exist, the expenditures responsible for the outflow items were to be reduced in order to lessen what is invariably but misleadingly referred to as the US balance of payments "deficit", a genuine deficit would soon result—in 1972, when there was for the first time a genuine deficit, it would have been much larger. Thus a genuine deficit in the US balance of payments has for many years lurked not far below the surface of the so-called "deficit". This does not mean that the two should be confused and the same word applied to both. A balance of payments "deficit" which is necessary to protect

the US from a genuine deficit, and a genuine deficit itself, are two quite different things.

The problem can be approached also from the opposite side. Starting from the fact that the US has a dollar outflow which almost everyone chooses to call a deficit, we can ask: to what extent do the outflow items which appear to be responsible for the deficit in fact cause or add to it? And the answer is, they don't. Without these items the deficit would be *larger* than it is, and it would be a genuine one.

Foreign aid and long-term government investment pay directly for exports amounting to between 60 and 70% of the outlays for these two items. This means that, of the trade surplus of \$4.2 billion in 1965-67, \$3.2 billion was financed by these items, and by 1968 there would have been a trade *deficit* without them.<sup>9</sup> Foreign military spending also contributes to exports, both directly and indirectly and, even more important, it keeps down the costs of necessary imports. Private investment does the same and, with a time lag of not many years, more than pays for itself. The conclusion therefore is: without the four dollar outflow items shown in Table 1, exports would be smaller, essential imports would be more expensive, with the result that the terms of trade would be less favourable, and investment income would rise more slowly or not at all. It follows that the "deficit" in the US balance of payments cannot be cured or even decreased by reducing the dollar outflow items which are ostensibly responsible for it; the result of reducing them would instead sooner or later—and no doubt sooner—be exactly the opposite. Unless this crucial point is understood, the actions of the US government as it tried to grapple with an insoluble problem must seem merely wilful or absurd.

But this is only the formal way of stating the problem. The US economy as it is now constituted *needs* its empire; its balance of payments reflects this need and all the inflow and outflow items form the links of a single chain, the chain of US imperialism. Mr. Henry Fowler, when US Secretary of Commerce, made this crystal clear. He said:

"Indeed, while it is most difficult to quantify, it is also impossible to over-estimate the extent to which the efforts and opportunities for American firms abroad depend upon the vast presence and influence and prestige that America holds in the world. It is impossible to over-estimate the extent to which private American ventures overseas benefit from our commitments, tangible and intangible, to furnish economic assistance to those in need and to defend the frontiers of freedom. . . in fact if we were to contemplate abandoning those frontiers and withholding our assistance . . . I wonder not whether the opportunities for private American enterprise would wither—I wonder only how long it would **take**."<sup>10</sup>

Accordingly, the consequence of reducing US imperialist spending abroad would be that the empire itself would begin to crumble—it

is none too solid as it is—and the income flowing from it would begin to dwindle and disappear. The change from a "deficit" associated with financing an empire to a deficit resulting from losing it would require very difficult and, to those adversely affected, very painful readjustments, with both international and domestic consequences. Welcome and salutary though these readjustments and their consequences would be, the American ruling class will not soon allow a government to be elected to preside over the liquidation of the US empire.

The second crucial fact to be understood is that the cost of holding on to and expanding this empire has for many years been more than the US has been able or willing to pay itself, and the cost in future is much more likely to go up than to go down. Other countries are therefore compelled to pay the balance, which is represented by the dollar outflow. There is simply no way out of this situation. The choices are either to let the outflow continue or to try to reduce it through higher exports and lower imports. The only difference between these choices is the *form* which the cost that other countries are made to pay will take and its distribution among them. The recurring dollar crises have fundamentally been due to the fact that the dollar outflow has been rising and to a conflict, inherent in the way the present international monetary system works, over what countries and what classes within these countries will be made to pay the costs of the US empire which the dollar outflow imposes on them.

Nor are these merely monetary costs, in terms of dollars exchanged for marks, yen, francs or other currencies. They are real costs, in terms of production, consumption, investment, labour and surplus value. How these costs are levied will be explained later.

### *The Three Balances*

There has been much technical discussion among experts over which of the three balances shown at the bottom of Table 1 best represents the dollar outflow. The main result of this discussion of value to interested laymen has been a much clearer and more comprehensive official presentation of the balance of payments. Until 1971, Table 1 would have been impossible. Some of the figures were unavailable and could only be guessed at, whereas others, which seemed reasonably straightforward, have been considerably revised. The three balances are all new.

The first of these balances represents the net outflow of dollars for current international transactions and for long-term capital investment abroad. It is often called the "basic balance" or "basic deficit" in the US balance of payments. The net liquidity balance adds to this the net outflow of private short-term capital, plus speculative outflows which cannot be specifically identified and are classed as errors and

omissions. The net liquidity balance measures the outflow of dollars which add to the total of US liquid liabilities to foreigners; the outflow must be absorbed either by private holders abroad or by an increase in the gold and/or dollar reserves of the monetary authorities of other countries (governments and central banks); in practice this means the countries of Western Europe as well as Canada and Japan. The official reserve transactions balance on the other hand measures only the increase in other countries' official gold or dollar holdings. Looking at it from the US point of view, this balance — when negative, as it always is — means a decrease in the US gold reserve and/or an increase in the US government's liabilities to the monetary authorities of other countries.

The three balances thus show different dollar flows, each of which, both in its absolute size and in its relation to the other two, tells us something about the US balance of payments.

It may be useful at this point to state the essence of the 1971 crisis. There were three elements: first, the chronic dollar outflow which had persisted for 20 years. Secondly, the fact that the US lost its traditional trade surplus; for the first time in this century imports in 1971 exceeded exports, with the result that one of the main supports which had kept the dollar outflow within reasonable limits disappeared and the "basic deficit" increased to a level which obviously could not last. Thirdly, as a result of the first two, there was a flood of speculation against the dollar, reaching an annual rate of \$14 billion in April to June, and of \$35 billion in July to September of 1971.<sup>11</sup>

But these outflows were dwarfed in intensity by the speculation of February and March 1973. On one day, 1 March, Germany had to absorb \$2.7 billion and other European countries took in a further estimated \$1 billion. The causes this time were basically the same as before: the small trade deficit of 1971 became very large in 1972; the dollar's international position had been greatly weakened by the outflow of 1971, and there was another, even heavier speculation against the dollar.

### III. *FINANCING THE DOLLAR OUTFLOW*

In the ten years from 1961 to 1970, the net liquidity balance showed a total dollar outflow of \$31.4 billion. \$16.7 billion left the United States on current and long-term capital account and there was an additional outflow of \$14.7 billion of short-term private capital plus the errors and omissions of the recorded figures. Two questions arise: how was this outflow financed? And what were its consequences for the international monetary system?

The financing was as follows. The US gold stock fell by \$6.7 billion,

against which its holdings of other reserve currencies and its position with the International Monetary Fund increased by \$1.8 billion, for a net loss in monetary reserves of \$4.9 billion. There was a net increase of liquid liabilities to private foreigners of \$14.0 billion, the counterpart of the private foreign holdings mentioned earlier. The "private foreigners" include a wide array of business firms in the dollar receiving countries, foreign branches of US banks and US multi-national corporations and, reportedly, the rulers of several oil-rich Middle Eastern states. Finally, the US government's liabilities to the monetary authorities of other countries increased by \$12.5 billion.<sup>12</sup>

It should not be thought that, because of the weakening of the dollar which these figures reflect, the position of US capital abroad has been weakened. On the contrary, if it has not been qualitatively strengthened, quantitatively it has been enormously extended. Total private investment abroad more than doubled in the ten years from 1961 to 1970, and direct investment in particular increased by \$46 billion. At the same time, the US government's foreign long-term investments increased by \$16 billion, while its short-term investments declined by \$5 billion. Total US assets thus increased during the ten years by \$81 billion, while its liabilities increased by \$57 billion. Even more important was the change in the composition of the assets and liabilities. Of the increased assets 94% were long-term, whereas 52% of the increased liabilities were short-term.

The US has thus been buying long while borrowing short. It has been investing abroad huge amounts of capital which it did not have. It has been buying into the key industries of its capitalist rivals, using inconvertible IOU's to do so. These countries have for several years been wondering what to do with these dollars. Not only have they been accumulating at a rapidly rising rate; their value has been shrinking owing to the general rise in prices and has been cut by two devaluations as well as repeated revaluations and currency floats.

It is worthwhile in this connection looking briefly at the geographic distribution of US direct investment and at how and where the increase has occurred. At the end of 1960, direct investment abroad amounted to \$32 billion; by the end of 1971 it had grown to \$86 billion. The 300 largest American corporations account for 90% of this total.<sup>13</sup> Table 2 shows the geographic distribution.

By far the largest relative increase—even though the absolute amount is still small—was in Japan. US investment in Canada, Latin America and the balance of the Third World has grown relatively less, although still amounting to two-thirds of the total. Investment in Canada exceeds that in any other country, a fact which Canadian nationalists of varying political hues are grappling with, as they are with the other unpleasant fact that Canada is also by a wide margin

the US's leading trading "partner" and under the threat of barriers against its exports of manufactured goods in favour of exports of raw materials, notably oil, gas and electricity, of which the US is running short.<sup>14</sup>

Of the \$54 billion increase in direct investment abroad, \$33.4 billion was contributed by capital exported from the US and \$20.6 billion came from accumulated profits made and reinvested abroad. This does not include depreciation allowances, which are vital to the modernization, continuing efficiency and profitability of any enterprise. Nor do the figures include the capital which US multinational corporations have raised abroad. This capital obviously adds to their size and strength, to the total capital which they control and to their importance in the countries in which they operate. But in the statistics we have used, this capital is considered as part of the capital belonging to the countries in which it is raised rather than of US foreign investment.

TABLE 2: Direct U.S. Investment Abroad  
(in billions of \$'s)

					1960	1971	Increase
Canada	..	..	..	..	\$11.2	\$24.0	\$12.8
Western Europe	..	..	..	..	6.7	27.6	20.9
Japan	..	..	..	..	0.2	1.8	1.6
Latin America and Western Hemisphere	..			..	8.4	15.8	7.4
Other	..	..	..	..	5.4	16.8	11.4
Total	..	..	..	..	<u>\$31.9</u>	<u>\$86.0</u>	<u>\$54.1</u>
<i>Per cent</i>							
Canada	..	..	..	..	35.1%	28.0%	
Western Europe	..	..	..	..	21.0	32.1	
Japan	..	..	..	..	0.7	2.1	
Latin America and Western Hemisphere	..			..	26.3	18.3	
Other	..	..	..	..	16.9	19.5	
Total	..	..	..	..	<u>100.0%</u>	<u>100.0%</u>	

Source: Survey of Current Business, U.S. Dept. of Commerce, October 1972.

Finally, we should note that, while US corporations have exported \$33 billion to increase their direct investments abroad, they took back \$64 billion in income from this investment. These figures tell the same story that has been told many times before, which is that the primary object of foreign investment is not to add to the wealth and productive capacity of the countries in which it is made; it is rather to extract from these countries far more wealth than it puts in, and to add to their productive capacity only insofar as this is necessary in order to

extract and transfer as much as possible of the surplus value generated abroad back to the investing country. And in this object US corporations have been successful on a grand scale.

### *Consequences of the Dollar Outflow*

The Articles of Agreement of the International Monetary Fund specified that the par value of each member's currency was to be expressed in terms either of gold or of the US dollar at its 1944 gold content, namely, 1/35th of an ounce. Gold and the dollar thus became the two reserve assets of the post-war international monetary system, with sterling a third, although limited and declining one. Gold continued to be esteemed as the unquestioned medium of international payment. The dollar represented the newly gained pre-eminence of the United States, while the pound represented the declining British Empire; even in the sterling area it gradually lost the leading position it held at first. It was only because other countries accepted the dollar as a reserve asset, and had little choice but to do so, that the US has been able to sustain the continuing "deficits" by which it has maintained and expanded its empire. By contrast, because the pound was not so accepted, Great Britain has had to deal with its deficits quite differently.

In a formal sense, the most important consequence of the dollar outflow which continued for so many years has been finally to dethrone the dollar from the position accorded it at Bretton Woods. Gold has also fallen from its former grace. World-wide inflation, to which the dollar outflow has made its contribution, combined with the official price of gold fixed at \$35 an ounce until the end of 1971, has hobbled gold production and hindered its use for international payments. No alternative has yet been put in the place of gold and the dollar. The special drawing rights (SDR's), first issued by the IMF at the beginning of 1970 after prolonged negotiations, have so far played only a minor role.

The dollar outflow has had other consequences for the international monetary system. The first of these was—and still is—that the rate at which the world's monetary reserves have increased has been mainly determined by the dollar outflow. Since the rate of the outflow has been rising sharply, monetary reserves have also been rising much more rapidly than before.

Still another consequence of the dollar outflow has been its contribution to the enormous growth in the volume of short-term capital abroad. The other main reason for this growth was the fact that the currencies of most of the advanced capitalist countries had again been made convertible by the end of 1950s. This short-term capital moves from one country to another, often in huge amounts, in response to

differences in interest rates and in the speculative expectation of changes in exchange rates between currencies. The dollar outflow not only added to the volume of this short-term capital. Because it led more and more people to believe that the dollar was bound eventually to be devalued, it also added a major new element to the circumstances giving rise to speculative movements.

Speculative movements consist partly of funds actually exchanged from one currency into another and partly of what are known as "leads and lags". For example, a company doing business with a German client will, if it thinks the German mark is likely to be revalued, pay its bills promptly but will arrange to have its accounts receivable delayed. This can upset the normal balance of receipts and payments between countries to the tune of hundreds of millions of dollars, and has enabled multi-national corporations to reap enormous profits, as they did in February and March of this year.

The holders of short term capital have a keen eye for the relative strength of the economy of each country from a capitalist point of view, that is, from the point of view of its rate of surplus value and the strength and stability of the institutions which are designed to ensure that this rate will be continued. From this point of view, Germany obviously has a strong economy, Great Britain a weak one, while France and Italy have at times been considered strong and at others weak. The changes in the foreign exchange rates of their currencies during the last few years reflect this.

A further consequence of the dollar outflow has been the growth of the Euro-dollar market which has developed along with the growth in the volume of short-term capital and facilitates its movement. The Euro-dollar market was fairly small until 1968 but has grown rapidly since then. Of the estimated total of \$71 billion in all Euro-currency deposits in 1971, \$54 billion were in Euro-dollars.<sup>15</sup>

The second consequence has been a marked change in the composition of the reserves, away from gold and into dollars. While the US lost gold which other countries gained, their reserves of dollars increased far more. Exchange reserves were also increased by the special *ad hoc* credits created and made available to Great Britain to defend the pound in 1964–1968.

A third consequence has been a change in the position of gold. This was partly the result of the redistribution of the gold stock resulting from the dollar outflow. At the same time, because of the decline in production, there has been a growing shortage of new gold, and the monetary system has received less and less of it. To protect its dwindling gold stock against the mounting dollar claims held abroad, the US government resorted more and more to "political and moral suasion"<sup>M</sup>—in plainer language, to arm-twisting—to prevent foreign creditors

from changing their dollars into gold, as convertibility theoretically entitled them to do. Large payments to foreign governments or central banks came to be scrutinized and, if possible, delayed until there was an incoming receipt to cover it. The US was reduced in effect to kiting cheques like a petty shopkeeper on the verge of bankruptcy. The dollar became in practice less and less convertible.

### *Euro-Dollars*

Euro-dollars are short-term deposits at banks in Europe which are denominated in dollars rather than in the currency of the country of deposit. Euro-dollars are also short-to-intermediate term loans made by European banks and denominated in dollars. The banks accepting the deposits and making the loans are known as Euro-banks, and they include European branches of US banks. The Euro-dollar market is thus a money and banking market and is to be distinguished from the Euro-bond market, which is a capital market. Because of the Euro-dollar market, a large volume of national and international transactions takes place in a currency other than that of the European countries involved and without the mediation of foreign exchange rates. The Euro-dollar market has thus helped to integrate the short-term money markets of the countries involved and has done so at the cost of making the system as a whole more fragile and difficult to manage in times of stress.

Finally, the dollar outflow has meant the export of US inflation, a greater international interdependence and consequent loss of national sovereignty in monetary and fiscal policy by all countries, including the US, and the shifting onto other countries of the real costs, the effective burden, of US expenditures for imperial defence and expansion which are in excess of its surplus balance on goods, services and investment income. Since this surplus balance has now, in 1972, turned into a deficit, while the sum of the expenditures of which the surplus balance used to cover a large part has diminished only slightly, the burden to be shifted is much greater than before. How this shift is accomplished, in what way it is related to the export of inflation and what steps other countries can take to protect themselves against the dollar outflow will be explained after the crisis of 1971 has been discussed. This crisis marks one turning point in the international monetary game and in the economic conflicts which lie behind it. The convulsions of February–March 1973, the second devaluation of the dollar and the joint float of their currencies which six of the nine countries of the European Economic Community have embarked on mark a second, perhaps even more important turning point, arising out of the experience of 1972.

## IV. THE 1971 CRISIS

A good way to start a discussion of the 1971 crisis is to examine the US balance of payments in 1971, which Table 3 presents in the same form as Table 1.

TABLE 3: U.S. Balance of Payments—1971  
(in billions of \$'s)

Exports	..	..	..	..	..	..	42.8
Imports	..	..	..	..	..	..	-45.5
Trade balance	..	..	..	..	..	..	-2.7
Travel, transportation and other services					..	..	-1.6
Net Investment Income		..	..	..	..	..	8.0
Balance on goods, services and investment income					..	..	3.7
<i>Dollar transfers abroad</i>							
Private and government remittances	..	..	..	..	..	..	-1.6
Government grants in aid	..	..	..	..	..	..	-2.0
Set foreign military spending	..	..	..	..	..	..	-2.9
Long term capital	}	Government	..	..	..	..	-2.4
		Private—Net	..	..	..	..	..
							-13.3
<i>Net Dollar Outflows</i>							
Balance on current account and long term capital, or "basic balance"	..						-9.6
Net liquidity balance	..	..	..	..	..	..	-22.0
Official reserve transactions balance	..	..	..	..	..	..	-29.8

Source: Survey of Current Business, U.S. Dept. of Commerce, June 1973.

Comparing 1971 with 1965–67, several differences stand out which illustrate both the causes and dimensions of the crisis. The first and most important one is the change in the trade balance which went from a surplus of \$4.2 billion in 1965–67—and indeed of \$6.8 billion in 1964—to a deficit of \$2.7 billion in 1971. Exports in 1971 were 49% above those of 1965–67, but imports were up 85%. Coming on top of so many years of "deficits", the change from a large trade surplus to a trade deficit was the main cause of the crisis.

The next important difference follows from the first. Although net income on foreign investment increased between 1956–67 and 1971 by \$2.5 billion, this was overshadowed by the turnaround in trade of \$6.9 billion, with the result that the balance on goods, services and investment income shrank from \$8.5 billion to \$3.8 billion.

Whereas the inflow of dollars was greatly reduced, none of the dollar outflow items was any smaller in 1971 than in 1965–67. Two of them were significantly larger, and the total increased by \$2.5 billion.

Although the income of empire was less, the need to defend and the drive to, expand it were **greater** than ever, with the result that the so-called "basic deficit" was more than four times larger than in 1965-67. This enormous change was already evident early in the year. The dollar was clearly in unprecedented trouble, and the government's reiterated assurances that it would never be devalued sounded more and more hollow. To hold on to dollars which one could exchange for other currencies was clearly unwise. Both US residents and non-residents took part in the flight from the dollar; there was a net outflow during the year of \$20.2 billion of short term and liquid capital. The official reserve transactions balance was \$29.8 billion in the red—1.7 times the sum of the losses of the previous ten years. At the beginning of 1971, US holdings of gold and other monetary reserves were sufficient to cover 32% on the dollar of its liabilities; at the end of the year, this had dropped to 18%.<sup>16</sup>

The underlying process which brought the crisis to a head is summarized in the Bank of Canada's annual report for 1971:

"At the core of the international monetary problem was a vast deterioration in the international trade position of the United States and continued large exports of long-term capital. This disequilibrium had been growing rapidly for several years. It was accompanied by large flows of short-term capital generated by international differences in interest rates. As the size of the U.S. deficit grew and confidence in the existing structure of exchange rates eroded, these short-term capital movements were greatly augmented by flows of a speculative character."<sup>17</sup>

The crisis actually came in two phases, in May and August. The **year** started badly. The trade figures for the first three months were poor, while in order to stimulate the US economy the government expanded credit and caused domestic interest rates to decline. Billions of short-term dollars left the country, with a large part of the outflow going to Germany. When the pressure for the revaluation of the mark became unbearable, the exchange markets of several countries were closed. The first phase ended with the German government's decision to allow the mark to float. The Dutch government followed suit, and Switzerland and Austria re-valued their currencies.

But the lull was only temporary. The trade figures for April to June showed for the first time an actual deficit. Even though US interest rates were raised, money again poured out of the country — at an annual rate from July to September of **\$35 billion!** Gold was also being demanded and US reserves fell alarmingly in the first half of August. By the 15th, the government had to acknowledge that the game was up. The convertibility of the dollar was formally suspended—the gold wicket officially closed—and other measures of protection and retaliation were taken.

*Trade Surplus to Trade Deficit*

Before dealing with these measures, something must be said about the trade balance. The trade surplus did not disappear because exports rose more slowly than they had before; on the contrary, they continued to rise at about the same rate. The change came about because imports rose higher. Throughout the fifties and until 1964, imports rose at a slightly lower rate than the US gross national product; from 1965 on they have risen almost twice as fast.<sup>18</sup> The three countries from which they rose the fastest were Japan, West Germany and Canada in that order. In 1964, these three countries accounted for 38% of US imports; in 1971 they accounted for 51% and were responsible for 60% of the increase during the seven years, to which Western Europe other than Germany added another 19%. As to the type of imports: the change was not because the volume or price of imported food and raw materials rose faster than before; on the contrary, relatively to exports and GNP, these imports remained about the same. The disproportionate rise was concentrated in manufactured products, especially capital goods and durable consumer goods. These accounted for 17% of total imports in 1964 and for 37% in 1971, and made up one-half of the increase in imports during the seven years. The entire turn-around in the US trade balance can be ascribed to the rapid rise in imports of cars and other durable consumer goods.

It is customary to blame the Vietnam war and the speedup in inflation which it set off for the dwindling trade surplus. Even though this did cause the US to lose some of its competitive advantage, the explanation would be more convincing if exports had slowed down rather than imports accelerated. Prices generally in the US did not in fact rise faster than in other countries; however, the prices of US exports rose faster than the export prices of its trade rivals. In other words, while the countries of Europe and Japan enjoyed a widening gap between their domestic and export prices—in the case of Japan, the gap was enormous—the US did not, and it "proved singularly inept at keeping the rate of increase of export prices below that of domestic prices, and in line with export prices of other countries".<sup>19</sup> Behind the export drive and price competition was the growing economic power of Western Europe and Japan as they built up their industrial capacity and technological strength, while Canada derived an unexpected trade advantage under the semi-free-trade automobile agreement with the US. The consequence of these factors was "the gradual erosion of the dominance of established US products both in foreign markets and the United States itself".<sup>20</sup>

The increasing trade rivalry between the US and other advanced countries shows the beginnings of a general crisis of over-production. The struggle for markets is most intense in capital goods, where US

exports have been particularly successful, and in durable consumer goods, where Western Europe and Japan have forged ahead, aided perhaps by capital goods imported from the US. It is in these classes of goods, as well as in armaments, that the organic composition of capital is highest and technology most developed. These classes of goods therefore express the essence of capitalist development and of "the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit".<sup>21</sup>

Finally, it may be noted that whereas the US through its multinational corporations has been penetrating the industrial vitals of its capitalist rivals, they in turn, by means of their exports, are attacking the industrial vitals of the US.

### *Protection and Retaliation*

In his speech of August 1971, outlining the government's measures, President Nixon said they were "the most comprehensive new policy to be undertaken by this nation in four decades".<sup>22</sup> Their targets, he said, were unemployment, inflation and international speculation against the dollar.

Employment was to be increased by tax concessions to business and buyers of durable consumer goods. Corporation and personal income taxes were to be reduced, a special tax credit for investment in new machinery and equipment, provided it was of US origin, was to be given and the 7% excise tax on US made automobiles was removed.

Inflation was to be brought under control by a 90-day freeze on wages and prices. Pay increases for government employees were postponed for six months and government employment was to be cut back by 5% as part of large cuts in federal spending. Profits, interest rates and rents were excluded from the freeze, although corporations were called on to apply it to dividends. This US version of a wage and incomes policy is now in a more or less voluntary Phase 3, in which American trade union leaders have been willing to co-operate.

The dollar was to be protected by ending its convertibility into gold and other reserve currencies, by a 10% cut in foreign economic (but not military) aid, by imposing a 10% surcharge on all dutiable imports—a wide range of raw materials was thus left unaffected—and by bonusing exports through what became known as DISC. Domestic International Sales Corporations specifically set up to handle exports can defer indefinitely the tax otherwise payable on half of their profits, and they may allow their parent companies to use the money which is thus tax exempt.

The 10% import tax was a bargaining weapon to force other countries to revalue their currencies. Mr. Nixon said it was intended

"to make certain that American products would not be at a disadvantage because of unfair exchange rates. When the unfair treatment is ended, the import tax will end as well". It was removed as part of the Smithsonian agreement in December, as was the restriction of the investment tax credit to machinery and equipment made in the US. The other measures have remained.

The unifying purpose of these measures, in addition to stopping the run on the dollar, was to turn the trade deficit back into a surplus. Their purpose was not, except to a minor degree, to bring US international payments back into balance by reducing dollar outlays abroad for military and economic purposes. Since these outlays are essential expressions of US imperialism, there was—and is—every intention of continuing them. Instead, the measures were designed to raise US productivity, to keep costs down, to subsidize exports and force other countries to revalue. By regaining a trade surplus and restoring the formerly large favourable balance on current account, it was thought that the dollar outflow could be brought back to manageable size.

The measures had two other significant aspects. They showed that the days were over of the presumed harmony of interests between the US and the other advanced capitalist countries, and that the government and ruling class clearly understood that the US had a fight on its hands. The time had come, President Nixon said, "for the major nations to compete as *equals*. There is no longer any need for the US to compete with one hand tied behind her back".

The other aspect was the outburst of chauvinism, masking a hurt pride, directed especially and with racist overtones against the Japanese. A Washington correspondent of the New York Times wrote:

"What is entirely clear is that the United States in a single dramatic stroke **has** shown the world how powerful it still is, despite all the talk about a 'weak' dollar. In breaking the link between the dollar and gold and imposing a 10 per cent import tax, the United States has shown who is Gulliver and who the Lilliputians. The Lilliputians obviously do not like it. . . . By 'Lilliputians' are meant not the Nicaraguas or the Gabons but West Germany, Japan, Britain, and the other leading industrial **nations**."<sup>23</sup>

Paul Rinfret, a well-known financial consultant and government advisor, wrote

"The real target of our international trade and monetary moves was Japan—not the Europeans. US patience has worn thin with the onesided, lopsided, inequitable, unfair economic and monetary treatment we have received from the Japanese. The day of bowing and scraping to them is over. From now on the Japanese will have to give more than they get or suffer more **counterattacks**."<sup>24</sup>

What this implies is that foreign countries and above all Japan had

been cleverly and underhandedly draining the US of dollars, that the US had now "wised-up" to this game and had decided to put a stop to it. The US "deficit" in its balance of payments was not its fault; instead, other countries were at fault for having a surplus which enabled them to accumulate dollar obligations against the US. It was, therefore, not up to the US to put its house in order, but rather for other countries to recognize that "to support our political and military obligations abroad, the United States must have a substantial trade surplus",<sup>25</sup> and to make the necessary concessions so that a surplus would become possible. In short, things were turned upside down, the US blaming others for the consequences of biting off and trying to hang on to more than it can chew, and wanting to go on doing so. This upside-down-view of things was evident in the US government wanting to be "satisfied that other countries have taken the painful actions needed to restore the US financial position in the world."<sup>26</sup>

#### V. 1972-73—*FURTHER CONSEQUENCES OF THE DOLLAR OUTFLOW*

The history of the international monetary system since December 1971, has centred around the failure of the dollar devaluation and other currency realignments ratified by the Smithsonian Agreement to help the dollar out of its trouble. and around the efforts of the countries with strong currencies to accommodate themselves to and/or protect themselves against the consequences of the unceasing dollar outflow. The "basic deficit" in 1972 was even larger than in 1971, and its composition was from a long-term point of view more ominous. There was no trade turn-around. On the contrary, the trade deficit—the excess of US imports over exports—increased from \$2.7 billion to \$6.9 billion. The trade deficit thus increased more than two-and-a-half times, mainly because of the devaluation which was intended to reduce it! In addition, net investment income was less than in the year before, with the result that for the first time there was a negative balance on goods, services and investment income of \$1.0 billion. That is, the US for the first time had a genuine deficit in its balance of payments, in addition to the traditional items of imperialist spending abroad. The surplus on goods, services and investment income fell by \$4.8 billion from 1965-67 to 1971, a period of five years. This was followed, in one year alone, by a fall of another \$4.7 billion, turning a surplus into a deficit. The consequences were the upheaval of February-March 1973, and the decision taken after so long by most West European countries to float their currencies against the dollar.

During the currency skirmishes which followed the US government's decisions of August 15 1971, the Japanese government stated several

times: "We will never revalue the yen". To which the Americans in effect replied: "Fine, take our dollars". And they did. In the second half of August, Japan absorbed about \$4 billion. This was "on a scale so massive" that the Japanese government was compelled to give way and "on 28th August, the yen too was allowed to float".<sup>27</sup> In the next four months to the end of December, Japan added a further \$1.7 billion to its reserves and West Germany added \$2.8 billion to hers.<sup>28</sup> When unwanted dollars come pouring over a country's foreign exchange counters, the alternatives are either to take them in, to buy them at the current rate of exchange, or to see one's own currency float upwards on a tide of unabsorbed dollars. Demand must be equated with supply either by accepting all the dollars offered or by raising the price in terms of one's own currency, that is, by revaluing. It is a choice of evils.

It may be difficult for English readers, who have seen the pound devalued several times and have never known it to be under any pressure other than down, to comprehend the opposite pressure of revaluation. But the experience of Germany and several other European countries, as well as Canada and Japan, has been different. Just as devaluation improves a country's competitive position in international trade, revaluation imposes a handicap; it encourages imports, which become cheaper in one's home market, and handicaps exports, which become more expensive (or less profitable to the exporter) in foreign markets. It means to export employment and/or import unemployment. In addition to these long-term consequences, uncertainty as to when and how much the external value of one's currency will be changed is unsettling to normal international business and invites speculative capital movements which can force a change. Accordingly, foreign exchange rates which are fixed within rather narrow limits are an advantage—provided however, and this is essential, that the rates reflect the relative price levels of the countries involved and can be held. On the other hand, the advantage of revaluation or of a floating rate is that they slow down the inflow of dollars, by raising the dollar cost of the assets the dollars seek to buy. What then happens is that either the dollars are diverted to other countries, that is, converted into other currencies, or they continue to be held by their recipients in the form of short-term dollar assets.

The difficulty of defending a fixed rate against the upward pressure of speculative dollar inflows has been demonstrated many times in the past few years. The dollars have to be bought at the established rate of exchange and paid for in the national currency. Large sums of money and/or credit, at times exceedingly large sums, have to be raised or created for this purpose, while the assets being acquired consist of un-needed, unwanted and in practice inconvertible dollars

which are added to the country's foreign exchange reserves. The monetary authorities and government of the countries which absorb the dollars can, if they are determined to do so, borrow the required sums without adding to inflation. But this has two disadvantages: it means competing in the domestic capital markets for a part of the nation's savings; it is likely to mean not only increased government borrowing, but higher interest rates, reduced government spending for other purposes and possibly direct measures to limit and ration capital expenditures by other public bodies, such as municipal governments, housing authorities and so on, as well as by private business. In short, it means deflation, tight money, retrenchment and unemployment, all of which may be worse than the consequences of revaluation. A further disadvantage is that precisely such deflationary policies will encourage an even greater inflow of unwanted dollars, whereas the "disequilibrium" which caused the dollar inflow in the first place calls for inflationary rather than deflationary policies in the dollar receiving country. The only practical alternative to revaluation is therefore, in addition to an unwanted increase in a country's dollar reserves, more inflation or less deflation than the country might choose on its own. The dollar outflow thus contributes to inflation abroad, and the larger it is, the more it does so. At the same time, because of the inflationary bias it creates in the dollar receiving countries, it reduces these countries' freedom to follow monetary and fiscal policies appropriate to their domestic circumstances without external constraints; in other words, it reduces their sovereignty in monetary and fiscal matters. And again, the larger the dollar outflow, the more it does so.

The dollar-receiving countries in the context of this discussion are those which ultimately absorb the dollars flowing out of the US. These dollars are added to either private foreign holdings in these countries or to the foreign exchange reserves of their monetary authorities. The countries in which the US initially spends the dollars constituting the outflow are for the most part not the same as the countries which will ultimately absorb them. These latter comprise all the countries of Western Europe except Scandinavia, plus Canada and Japan; that is, they comprise most of the advanced capitalist countries other than US and Great Britain, and they are referred to here as the dollar-receiving or dollar-absorbing countries.<sup>29</sup>

It has often been said that the US exports its inflation via the dollar outflow. So it does, in several ways. As we have seen, the buying of dollars by the countries to which they gravitate is in itself inflationary, even if there were no inflation in the US. Further, the dollar outflow makes it difficult for countries likely to attract dollars to follow more restrictive, less inflationary monetary policies than the US is following at any time. High interest rates are a necessary corollary to tight money,

both as cause and effect, and interest rates which are higher in one country than in others will draw in money from outside. But the constant dollar outflow from the US gives the international monetary system a one-way bias. The dollars flowing out of the US and accumulating abroad must be bought and held by someone, and no-one will want to hold them if selling them for some other currency will earn a higher rate of interest. Any strong currency country whose interest rates are higher than those of others will thus attract a disproportionate share of these dollars. If its interest rates are also higher than US rates, this will accelerate the outflow; the other side of this coin is that easy money and credit in the US designed to spur the economy will increase the dollar outflow as well. The dollar outflow has thus more and more put the US in the position of setting the minimum pace of inflation. Other countries can have more inflation than the US, but it has become more and more difficult for them to have less.

The dollar outflow is not the only way the US exports its inflation; there are others as well. And there has been no lack of inflation to export. A characteristic of monopoly capitalism seems to be that, in order to sustain profits and keep unemployment within politically tolerable limits, a certain amount and it now seems a rising rate of inflation are both necessary and inevitable.

This has certainly been the experience since World War II. The dollar has shrunk in value, as have other currencies. But the dollar has also been one of the main reserve assets of the international monetary system. This has led Ernest Mandel to point out:

"The dilemma confronting the state in the period of capitalist decline is that of choosing between crisis and inflation. . . . The contradiction between the dollar as an anti-cyclical device and instrument to ensure the expansion of the American capitalist economy and the dollar as money of account in the world market has become insurmountable. . . . To fulfil the second function, a stable money is needed. To fulfil the first function, a flexible money is necessary, i.e., an unstable one. There's the rub."<sup>100</sup>

The reduction in the scope which countries have of following independent monetary and fiscal policies should not be exaggerated. It has long been one of the main objections to fixed exchange rates, which Keynes did much to popularize, that they compelled countries to adapt their policies to external rather than internal circumstances. In the past, the choice which usually presented itself was: either deflation or devaluation. But the dollar outflow has since the late 1950s presented many countries with the opposite choice; either inflation or revaluation. Their freedom of choice, either to inflate or not to inflate, was not formerly as circumscribed as it is now. The dollar outflow, which has in the last few years exceeded any normal

growth of reserves which the international monetary system might require, gives the system an inflationary bias that it would not otherwise have, and is much greater than it used to be.

### *The Transfer Problem*

We come now to the third of the three inter-related consequences of the dollar outflow mentioned earlier, namely, the shifting on to other countries of the real costs of US spending for imperialist defence and expansion which are in excess of its surplus balance on goods, services and investment income. This is, I think, the most important as well as the least understood of the three. Since it is neglected in virtually all writing on the subject, it requires some explanation.

As we have seen, the US had in 1971 a surplus on trade, services and investment income of \$3.7 billion. This compares with an average surplus of \$8.5 billion in 1967-70 but with a *deficit* of \$1.0 billion in 1972. But however large or small it may be, the surplus measures the limit of real economic resources which the US can transfer to the rest of the world. It cannot do more, nor can it do less.

Since for years the US has tried to do more, the difference has had only the *appearance* of a transfer. That is, there has been a transfer of dollars but no accompanying inflow of economic resources to the countries which ultimately absorbed the dollars. The economic resources have instead been extracted from the economies of these ultimate recipients. In other words, *the so-called "deficit" in the US balance of payments, in terms of real economic resources, is paid for by the countries which absorb the net dollar outflow.*

This involves what is known as the transfer problem, that is, how can one country transfer real goods and services to another? It can only do so if it has a surplus of exports over imports or, more generally, a surplus on current international account. The surplus measures the amount transferred, while the transfer consists of the surplus. The two are necessarily equal.<sup>iii</sup>

This problem was a familiar one in the 1920s, when Germany was required to pay reparations to the Allies and they in turn had to repay their war debts to the US. The Allies did not allow Germany to pay in goods, and of course would not accept marks. Likewise, more exports from Great Britain and France in competition with its own production was the last thing the US wanted, and it was also unwilling to take francs or pounds. Indeed, the US had a trade surplus with Europe. The result was an impasse. For a time, the US lent the European countries more than enough to enable the payments to be made. But the depression brought both reparations and war debts to an end.

With respect to trade, the proposition stated in the transfer problem is self-evident. A country whose exports of goods exceed its imports

produces more than it uses domestically; it is a net seller of part of its domestic production to other countries. In the opposite case, a country which uses more than it produces must import the difference from outside; its imports exceed its exports. The same applies to services and so-called "invisibles": transportation, tourist expenditures and so on. As to investment income, this is considered to be payment for the "services" rendered by capital invested abroad. All these add up to a country's net surplus or deficit on goods, services and investment income and define its net export or import of real economic resources measured in money.

Marxists will of course dispute the idea that a country's current international accounts as reported in statistics compiled according to bourgeois economic categories correctly reflect the movement of real values and economic resources between countries. Apart from the unresolved question of the significance of services in value terms,<sup>33</sup> the notion that market prices correctly reflect the real value of the goods traded between imperialist and colonial and neo-colonial countries is unacceptable, not to mention the caricature noted above concerning investment income on capital invested abroad. But these are not the points at issue here. The point is that, however goods and services moving between countries are defined and measured, a country with a surplus of exports of goods and services over its imports can and indeed must make available to other countries in one form or another an amount of goods and services from its current output equal to the surplus—neither more nor less; whereas a country whose imports of goods and services exceed its exports is in the position of drawing from other countries an amount of goods and services equal to its deficit. In the one case there is an excess of domestic production over domestic uses; in the other, domestic uses exceed domestic output, and the difference **must** come from abroad.

In the case of the US, this means that, whatever the surplus of goods, services and investment income it is able to extract from other countries and regardless of whether the means it uses to do this are fair or **foul**,<sup>34</sup> the surplus that results sets the limit of the equivalent in goods and services which it can use to pay for aid, military spending and foreign investment. Everything above this surplus has only the appearance of a payment; the real value of which the dollars are merely the nominal expression is taken out of the economies of the dollar receiving countries.

The US expropriates enormous amounts of surplus value from the colonial and semi-colonial countries; its surplus on goods, services and investment income from the Third World amounted in 1971 to over \$4 billion. But this is not enough to cover the costs or satisfy the expansionary appetite of empire; dollar transfers from the US amounted in the same year to \$12.9 billion. The difference must therefore

be extracted by other means from the advanced countries which are both partners and rivals of US imperialism. In this respect, the US position differs from that of Great Britain before the first World War, but is the same as Great Britain's after the war. The surplus which the US used to have with the advanced capitalist countries has in recent years been turned into a deficit, with the result that the US is now a net importer of economic resources from the rest of the world. But it continues to spend abroad as much as ever. The "deficit" which the advanced countries that absorb the dollar outflow are compelled to supply from their own economies has been correspondingly increased.

It is worthwhile reviewing briefly how this compulsion operates because of the light it sheds on the otherwise incomprehensible technicalities of international monetary events and the way they are usually reported in the press. And the fact that the reality behind the monetary technicalities of the dollar outflow involves the appropriation by the US of real wealth from the countries which absorb the dollars seems to be seldom realized — certainly it is seldom discussed, even by left-wing writers. It is as if the transfer problem did not exist.

Simplifying as much as possible: two people, A and B, trade with each other. A sells \$1,000 worth of the goods he produces to B and is paid \$1,000. B sells \$900 worth of the goods he produces to A and is paid \$900. B will thus have the use of \$1,000 worth of A's goods in return for only \$900 worth of his own, whereas A will have the use of only \$900 worth of B's goods for \$1,000 worth of his. One hundred dollars worth of A's goods will have been devoted to the acquisition of \$100 of money. And if A and B are the only people on the proverbial desert island and B has nothing else to sell that A wants to buy, what is A to do with the \$100 which has cost him one-tenth of his labour? He keeps them, he adds them to his monetary (foreign exchange) reserves; they are inconvertible IOU's because there is nothing that A either wants or is able to convert them into. Exactly the same applies to the situation of the US on the one hand and the countries which ultimately absorb the dollar outflow on the other.

The reader will no doubt have wondered, where does B get the extra \$100 to pay for the extra \$100 worth of goods he bought from A, over and above the value of those he sold to him? The answer is, he creates them with a stroke of the pen; he signs a cheque or a promissory note. In just the same way the US creates dollars by printing them, by expanding its money and credit supply. The gold and dollar standard of the international monetary system thus gives the US the touch of Midas in its relations with the rest of the world, and specifically with the dollar receiving countries. It does not have nor is it able either to produce or acquire gold in order to meet the gap in its balance of payments. Instead, under the gold-dollar standard, it can create the

equivalent of gold by a promise to pay printed on a piece of paper—as long, that is, and only so long as the dollars so created are accepted, not necessarily because they are "as good as gold", but at least in place of gold. However, the limit of the acceptable dollar outflow turns out after each crisis to be a good deal beyond where it was previously thought to be. In particular, in spite of the formal ending of the gold-dollar standard in August 1971, the United States has still been able to have other countries accept inconvertible dollars and thus make them pay for the gap in its balance of payments. The second devaluation of the dollar in February 1973 and the decision of the European countries and Japan in March to let their currencies float were each in their own way designed to reduce the dollar gap and thus make the dollar more, not less, acceptable than it was before.

The substance of the unequal relationship between the US and the dollar receiving countries is difficult to grasp partly because it is difficult to see that the receiving countries are paying "good money" for irredeemable dollars; it is difficult to realize that they are giving up real goods and services, a part of their real output created by the productive effort of their economies, in return for dollar credits created in the United States without effort or cost by the stroke of a pen. It is difficult to grasp partly also because it is difficult to understand why the dollar-receiving countries should consent or be constrained to accept such a patently unequal bargain. We have stated earlier the reason why this is so, namely, that they consider the alternative of revaluation to be under most circumstances even worse than the buying up of unwanted dollars which is necessary in order to prevent it.

#### Appearance and Reality

In money matters, appearances are almost always deceiving, and it may therefore be useful to illustrate the difference between what is and what seems to be with respect to the problem under discussion. The US has for several years had what are called "off-set agreements" with West Germany specifying the ways in which West Germany will help the US cover its military spending in that country. This spending was estimated at \$2.4 billion for 1972-73.<sup>24</sup> In the agreement for these two years, the West German government undertook itself to spend \$184 million of this amount. It also undertook to buy \$1.2 billion worth of arms for its own forces and to buy \$650 million worth of US Treasury bonds, that is, to lend \$650 million back to the US. These undertakings add up to \$2,034 million, leaving \$366 million to be taken care of in the overall US dollar outflow.

Suppose, however, that instead of lending the US \$650 million, the West German government had agreed to spend this money itself in the same way as it did the \$184 million. Both US military spending

abroad and the dollar outflow shown in its balance of payments would then be reduced by that amount. On the other hand, West Germany's military budget would be correspondingly increased, while the budgetary item under which the government raises the marks with which to buy the dollars it lends back to the US would be eliminated. Total military spending in West Germany would be the same as before, and the total amount of money which the West German government has to raise for military purposes would likewise be the same. But the fact that West Germany had now assumed an expenditure which had to be furnished by its own economy, the fact that the equivalent of \$650 million worth of Germany production would now go directly for "defence" is effectively disguised. The fact that this equivalent expenditure could under the alternative arrangement be discontinued would also probably not be noticed or realized except by a few who are knowledgeable in these matters. In other words, the real situation in terms of the use of West German economic resources for military purposes would not have changed, but the screen, the masking of reality by the technicalities of the international monetary system would have been removed.

Other illustrations of the problem could be given. The point is that, when the dollar receiving countries raise money to take in the dollars which the US has spent for military purposes, aid or investment abroad, they are themselves supplying the economic resources for these expenditures. What is seen to be happening is that the government is buying dollars in order to prevent the country's currency from being forced up in relation to the dollar against the government's will. What is in reality also happening, but is hidden, is that the country's savings are being channelled by the government to defend and expand US imperialism—including its expansion in the dollar receiving countries themselves.

If we substitute for the word savings the words surplus value, this will put things in a different light. The dollar outflow means in the first place that the US appropriates from the dollar receiving countries an equivalent amount of their surplus-value for its own use; these countries have no say in where or for what purposes the US will use the surplus value thus appropriated. If there is any limit to the dollar outflow, it may be said in the last analysis to consist in the amount of surplus value which the dollar receiving countries are willing to allow the US to take from them or which the US can compel them to give up without completely destroying the international monetary system. Repeated devaluation of the dollar is not the answer to this problem.

Secondly, the dollars tend to flow to countries whose economies are "strong" and away from those whose economies are weak. What do strong and weak mean in this context, if not that the rate of surplus

value is high or low, and that the capitalist system by which surplus value is extracted seems to be firmly in the saddle and able to control its flow more or less smoothly, efficiently and with little or no likelihood of interruption, whereas this is not so in the weak countries? From this point of view, as noted earlier, Germany is obviously a strong country, Great Britain is obviously weak, whereas France and Italy have at times been considered strong and at others weak. The dollar outflow means that the strong countries pay for their strength by having the US take part of their surplus value from them. The inflationary effect of absorbing the dollars also means that these countries lose some of their relative advantage in the competition of international trade, and, since inflation is unsettling to the financial community, some of their attraction as safe havens for nervous capitalists. More important, the inflationary effect of absorbing the dollars, because of the forced saving which it causes, both raises the rate of surplus value and increases the total amount generated. This is necessary in order that there will be enough to "share" with the US. But this also means that the workers of these countries receive less for their labour than they otherwise would, that the rate of exploitation is higher than it would otherwise be. It therefore tends to sharpen the class struggle in these countries. There is obviously a limit to the disruption of established economic processes and class relations which can be allowed before counter measures are taken.

On the other hand, when countries revalue or float their currencies in order to protect themselves against the inflow of dollars, the revaluation tends to reduce exports, encourage imports and has a deflationary effect on their economies. This may not be a bad thing if some "cooling-off" is necessary. But in general, revaluation will tend to cause unemployment, to constrict the creation and, even more, to hamper the realization of surplus value, and will thereby likewise envenom class relations. Thus, one way or another, the strong currency countries are made to pay the penalty of their capitalist strength and success, while the weaker ones are rewarded by being able to shirk their "share" of the dollar outflow and its adverse consequences. Hence, the dollar outflow not only sharpens the antagonisms between the US and the advanced capitalist countries but between these countries themselves as well.

### *Prospects After February-March 1973*

How can the dollar-receiving countries defend themselves against the US encroachment on their surplus value which the dollar outflow imposes on them? The answer is that, as long as there is a dollar outflow, they can't. The outflow itself must be reduced.

The joint float of the six, and the floating of currencies generally, is

mainly to discourage speculation, to put a stop if possible to the currency wars that are bound to break out every so often as long as the US has a large gap in its balance of payments. The two devaluations of the dollar, on the other hand, are directed to this gap and in particular are intended to help redress the US trade balance. Insofar as the six jointly floating and other floating currencies go up in relation to the dollar, this should work in the same direction. But to redress the US trade balance means more exports and less imports, that is, more competition for markets; in other words, a trade war. The choice of a trade war which may avoid a currency war, or the certainty of a currency war as the price of avoiding an all-out trade war, bides ill for the stability of the international monetary system.

The dollar outflow can be stopped in only one of two ways: either US imperial spending abroad will be cut or the US will earn enough to pay for this spending by achieving a trade surplus and increasing its investment income. Since the first way would mean the rapid decline of its empire, the US will certainly not adopt it voluntarily, although other countries may take steps to force it to do so. As to trade, three possibilities can be distinguished:

1. The lower value of the dollar may enable the US to overcome its trade deficit. The second devaluation, added to the first one and the accompanying currency realignments, has given the US a trade advantage of 28% compared to two years ago.<sup>15</sup> If changes in relative prices work at all to correct imbalances in trade and payments between countries, this should certainly be enough to make a start.

2. The US may decide to slash imports by scrapping its trade agreements and imposing insurmountable barriers—in other words, the 10% surcharge of August 1971 multiplied several fold, together with tough quotas. This has been threatened several times, but more, apparently, as a bargaining ploy to secure concessions for US exports than as a seriously contemplated measure. Even so, the protectionist lobby, supported by the AFL-CIO, is strong and seems to be gaining support. If the Burke-Hartke Bill now before Congress were to be passed, it would certainly invite retaliation and would mean that the trade war would take more the form of each country protecting its home market rather than of invading the markets of other countries.

3. The US may secure some of the trade concessions it wants by negotiation. The US Secretary of the Treasury, Mr. George Shultz, is reported to have said: "Without changes in trade you can change exchange rates until hell freezes over, and you won't get a thing." He may be right, but, although some agreements have been negotiated with Japan, in circumstances of actual or potential overproduction, no nation will voluntarily give up markets it has won or make trade concessions unless it is certain that they will redound to its own ad-

vantage. Trade negotiations whose outcome is limited to reciprocal concessions from which each side hopes to gain more than the other inevitably make slow headway. The Kennedy round of tariff agreements was five years in the making, but the tariff reductions which the US was persuaded to make were wiped out at one stroke by the first devaluation of the dollar. With the second devaluation now added, other countries will hardly be inclined to make the large concessions which the US wants. They are more likely to demand concessions which will make up for some of the lost ground.

It seems to me that the prospects of these possibilities, either singly or in combination, are overshadowed by the voracious growth of US consumption of energy and the fact that a rising proportion of this consumption will have to be supplied by imported oil and natural gas. The Chairman of the Atomic Energy Commission has predicted that, unless other fuels can be found to take the place of oil, "by 1980 the burden on the US balance of payments could be on the order of \$30 billion a year"—more than ten times what it is now.<sup>16</sup> If this forecast and more recent ones concerning metals are at all accurate, then, in order to cover at least part of this looming gap, the US export drive will have to be fiercer and more aggressive than anything so far contemplated. Even so the trade deficit will grow, and the dollar outflow with it. What we are therefore likely to see is a trade war *and* a currency war.

Since the US will not voluntarily reduce its imperialist spending abroad, other countries can help or force it to do so. By way of help, they could undertake themselves to pay a larger share of US military expenditures. This would not lessen the real cost to them of the dollar outflow, but it would do two things: it would mean a planned rather than a haphazard allocation to the countries involved of the resulting cost, a cost known and agreed to in advance. Since it would also reduce the dollar outflow, it would at the same time lessen the danger of the tidal waves of speculation which shake the system every so often. It is doubtful if this obvious second advantage would be sufficient to outweigh the difficulties of reaching agreement on the first.

Controls can also be applied to capital movements and investment. The controls applied so far have been directed mainly at short-term capital. But Germany has taken steps to prevent long-term borrowing and the Canadian government is taking some hesitant, not to say reluctant steps towards controlling or at least scrutinizing direct investment, especially when it involves take-overs of Canadian-owned firms. The Belgian, French and Italian governments have devised a different method, known as a two-tiered exchange rate for—or rather against—the dollar: a fixed rate for normal current account transactions, which is set low enough to keep their exports competitive and

not so low that their imports would be too expensive, and a floating rate for all other transactions—a rate which dispenses poetic justice in that it will be low when few or no dollars want to enter the country, but will rise and so increase the price of entry more and more, the more dollars there are wanting to get in. The American displeasure at this two-tiered system is evident in the IEPA's comment: "This has the effect of subsidizing current account (e.g. trade) exchange rates, while allowing the capital account rate to float upward, thus discriminating against the new investment dollar."<sup>37</sup>

Finally, in response to the dollar outflow, the dollar-receiving countries could create a counter-flow by investing their dollars in the US. Although the idea of using dollars to buy back US investments abroad is attractive, it would not return the dollars to the US unless it were accompanied by a prohibition against recycling the dollars into new American investments abroad. Foreign investment in the US itself has indeed been increasing, but the IEPA warns that "the process has to have limits—if only because of the stimulus which extensive foreign ownership of sectors of the US economy could give to American xenophobia and nationalism, just as an overprominence of the American presence abroad stimulated foreign resentment."<sup>38</sup> Yes, indeed!

Neither of these possibilities constitutes a defence by the dollar-receiving countries against the dollar outflow and the encroachment it represents on their surplus value. On the contrary, they are an open and evident acceptance of it. Since, moreover, lending and investing are the essence of the transfer of savings, of surplus value, from one capitalist to another, it becomes unmistakeably clear who is helping whom. Here, appearance and reality are one.

The dollar-receiving countries can to a certain extent protect themselves against the inflow of dollars, by limiting or prohibiting US imperialist spending in their own countries. France did this with respect to NATO, and a number of countries are now doing the same with respect to foreign investment. But the dollar-receiving countries cannot control US spending for wars and other imperialist purposes in *other* countries. Two considerations constrain their desire to refuse to absorb the dollars which then flow to them: the revaluation of their currencies in relation to the dollar which results from such refusal, and the fact that, as imperialist powers themselves or as junior partners integrated into the imperialist system, they benefit from as well as help to pay for this spending. The consequence is that they vacillate and are at times reluctant to oppose US policies. They react to the compulsion of events rather than being able to shape them to their own design.<sup>39</sup>

Optimists take refuge from this dilemma in devising reforms to the international monetary system which would effect a miraculous cure

to the dollar outflow and would thereby restore a harmony believed, or at least said, to have existed in earlier times. Reality is not so kind.

## VI. PROPOSALS FOR INTERNATIONAL MONETARY REFORM

The stated object of all the proposals for international monetary reform that have been made is to create an international monetary system which will be as nearly self-regulating as possible and which will ensure at least as much freedom for international trade and long-term capital investment as there was until August 1971. All the proposals must accordingly come to grips with a complex set of interrelated questions, some of which are highly technical but all of which involve to some extent at least the clash of opposing views and interests. The questions may be grouped under four general headings as follows:

1. What should be the basic reserve unit of the international monetary system? What part should gold and the dollar play in the system? What methods can or should be devised for an orderly and rationally managed growth of reserves? And how should the new reserves, as they are created, be distributed? In particular, should a definite proportion of them go as aid to the developing countries?

2. How should the exchange rates or parties between national currencies be determined? Once determined, should the rates be fixed or floating? If fixed, how wide should be the margins of permissible fluctuation around the central rate? If neither fixed nor floating rates will do, should the central rate be what is called a "crawling peg"? And, most important, what reasons should either justify or require changes in a currency's exchange rate? In particular, should countries with a so-called surplus be required to revalue on the same basis that countries with deficits are required to devalue?

3. What should be done with the excess of dollars in the official foreign exchange reserves of other countries? Can these dollars be made convertible into some other acceptable reserve asset and, if so, when and how? What should be done with the accumulated "overhang" of dollars in private holdings? How should the movements of short-term capital which are related to this overhang be controlled?

4. Lastly, there are the institutional questions of the functions, composition and authority of the International Monetary Fund. What part should the Fund play in guiding and regulating the international system, and to whom should it be answerable in doing so?

All these questions are the subject of international negotiations which have been going on for a long time and seem to progress at about the

same snail's pace as those on disarmament. They have also given rise to a great deal of highly technical, not to say esoteric writing.<sup>40</sup> The stated object of all the proposals for reform has been noted. The *condition* for the success of the proposals is that the dollar outflow be reduced to between \$2 or at most \$3 billion a year; it is, in other words, that the international payments of the US be brought back to within some reasonable or at least tolerable distance of balance. This condition implies in the first place that a reduction in the dollar outflow is possible and secondly, that it can be achieved in ways that are compatible with the interests of the other capitalist countries which are the principal bargainers involved; that is, it implies that the conflicts of interest between the US and its capitalist rivals are capable of being reconciled. Considering that the negotiations on international monetary reform have so far repeatedly been overtaken by events which refute these assumptions, one would have to be an optimist indeed to believe that they are valid.

Although it would undoubtedly smack Americans as self-centredness to say that the dollar outflow is the problem of problems in reforming the international monetary system, the proposals may be classified according to whether they (i) ignore this problem, or (ii) reflect the belief that a new monetary system would put the US under the same kind of balance-of-payments "discipline" as other countries are under and thus compel it to mend its ways, or (iii) seek either to accommodate the dollar outflow or to facilitate rather than force its reduction. The proposal to restore the gold standard may be taken to illustrate partly the first and partly the second class of proposal, whereas the plan put forward by the American Secretary of the Treasury, Mr. George Shultz, in September 1972 may be taken to illustrate the third class.

#### *A Restored Gold Standard?*

The advocates of a restored gold standard believe that gold must constitute the basic reserve unit and medium of international payments in the capitalist monetary system. For this purpose, its official price must be doubled or tripled and the volume of money and credit in each country must be made to depend significantly if not solely on the amount of gold in its monetary reserve. In this way gold would again regulate the price level in each country and ensure a balance in its international payments in the way described in classical theory.

It is unnecessary to spend much time on this proposal, since there are several practical objections which quickly dispose of it. To begin with, although gold production would undoubtedly increase, most of it would still come from South Africa and the Soviet Union. The capitalist world is certainly not about to entrust its monetary future to

these two countries or even allow it in any significant way to depend on them.

Secondly, to restore the gold standard would be to dethrone the dollar. As the French who are its main official advocates frankly say, that is indeed one of the main objects of the proposal. It is also precisely why the US will have none of it. As Marx observed: "L'argent n'a pas de *maitre*", but the *maitres* cease to be *maitres* as soon as they are demonetized".<sup>41</sup> The idea that the US would meekly surrender its dollar mastery, however diminished that master may be, to the advocates of gold and the alleged virtues of the gold standard is sheer fantasy.

Thirdly, the whole theory of a smoothly-functioning and self-regulating international monetary system based on gold ignores all the developments of the monetary and credit system and its management, both national and international, of the last fifty years. It also ignores the realities of economic power, the declining strength of some countries and increasing strength of others. These are changes which, if it is to function, an international monetary system must reflect and be able to adapt to.

Ernest Mandel puts the case against the gold standard admirably:

"It would be suicide for capitalism to return to a rigid system of money and credit controlled automatically by the supply of gold. Such a system would lead only to a major depression.... The price would be the utter ruination of American and world capitalism today. That is why the world capitalist structure cannot afford to return to a 'stable' currency and the 'golden' days of its youth. Those days are gone forever."<sup>42</sup>

### The US Proposals

The key to an understanding of the US proposals for monetary reform is the fact, which the figures given earlier illustrate, that the United States has in recent years been doing poorly in the international competition for markets. Its exports have been lagging and it has not been able to protect even its home market from the inroads of its capitalist rivals. Instead of being based, as the Bretton Woods system was, on unquestioned US supremacy, the new international monetary system must help the US to hold its own and if possible regain some lost ground. For this purpose, a system is needed which will substitute a new international reserve currency for the dollar and will at the same time enable the US to retain some of the advantages it derived from the gold-dollar system of Bretton Woods while removing some of its constraints and disadvantages, in particular the obloquy of dollar devaluation because of the losses which the holders of dollars thereby suffer.

The US proposals were presented by the Secretary of the Treasury, Mr. George Schultz, to the International Monetary Fund's annual

meeting in September 1972.<sup>43</sup> They are reminiscent of the ideas which Keynes formulated during World War II, but which were abandoned in favour of the US proposals to the Bretton Woods Conference of 1944 which better reflected the US ascendancy of that time.<sup>44</sup>

Having made the appropriate bow to "our mutual interest in encouraging freer trade in goods and services and the flow of capital to the places where it can contribute most to economic growth", Mr. Schultz referred to what he called "an ancient and recurring fallacy. Surpluses in payments," he said, "are too often regarded as a symbol of success and good management, rather than as a measure of the goods and services provided from a nation's output without current return". We may be sure that no Secretary of the Treasury would have spoken thus in the years when the US had surpluses or could afford to ignore its "deficits". The value of a surplus is of course that it adds to employment and the profits of the country which earns it, and that it also provides the wherewithal for foreign investment. However, one man's surplus is another man's deficit, and the US is at present very uncomfortably on the deficit side of the scale. The implication of Mr. Schultz's remark, as of so much that US spokesmen have been saying, is that countries with persistent surpluses are probably earning them in unfair and suspect ways and are thereby "forcing" other countries to have deficits. They should not be allowed to keep on doing so. Accordingly, "adjustment is inherently a two-sided process. Resistance of surplus countries to loss of their surpluses defeats the objective of monetary order as surely as failure of deficit countries to attack the source of their deficits".

Mr. Schultz made four main proposals:

1. Special Drawing Rights, issued by the International Monetary Fund, would be made the main reserve asset—as Mr. Schultz said, "would become the formal numéraire of the system".

2. SDR's would take the place of gold, which would be relegated to a diminishing and ultimately zero role. "The rigidities of a gold-based system, subject to the uncertainties of gold production, speculation and demand for industrial uses, cannot meet the needs of today".

3. Alteration of the foreign exchange parities of currencies would depend principally on whether a country's reserves were increasing or decreasing. "Disproportionate gains or losses in reserves may be the most equitable and effective indicator we have to guide the adjustment process". Mr. Schultz also made clear his view that deflation, which was the classical remedy for a country losing reserves, no longer works; it is dangerous as well as ineffective, and should not be pursued. Mr. Barber, in his Budget Speech of March 1972, had already made the point: "It is neither necessary nor desirable to distort domestic economies to an unacceptable extent in order to maintain unrealistic

exchange rates". Mr. Schultz went further. Not only "must we frankly face up to limitation of the use of domestic monetary, fiscal or other internal policies in promoting international adjustment"; if a country persisted in deflationary measures which might infect and injure others, it should be penalized! The progress of ideas under the pressure of necessity is sometimes rather remarkable.

On the other hand, for countries with surpluses, an upward change in the exchange rate "need not be the only measure contemplated". Lower tariffs, larger import quotas, more aid and/or foreign investment are other possibilities. But in the long run, the fact that a country continued to have a surplus and to add to its foreign reserves must be taken as proof that its currency was undervalued. If nevertheless it refuses to take effective "corrective measures, other countries should ultimately be free to protect their interests by a surcharge on the imports from the chronic surplus country".

4. No country should think of protecting itself against an unwanted dollar inflow by controlling—i.e. keeping out—foreign capital. "Controls on capital flows should not be allowed to become a means of maintaining a chronically undervalued currency". The US wants all countries open to its capital, to the expansion of its multi-national corporations. Better to have to pay more for foreign investment, owing to a higher exchange rate, than to be forbidden to make any investment at all.

Mr. Schultz coupled these proposals with some strong language about trade and the alleged sins of other countries in discriminating against US imports. He made clear his view, which is of course correct, that his proposals could not work for long if the dollar outflow continued on the scale of recent years. He also made it clear, again correctly, that the convertibility of any part of the huge private and official holdings of dollars abroad into alternative reserve assets is inconceivable until US income from exports and foreign investment had very greatly increased. In short, if other countries want a workable international system and even a minimum convertibility of the dollar, they will have to help the US out of its difficulties.

The US proposals rest squarely on the belief that the adjustment process which they would build into the international monetary system will work and specifically will enable the US to regain a trade surplus and thus reduce the dollar outflow. Nor is this belief only theoretical; the test is that, in addition to the US trade advantage gained by devaluation, other countries must make sufficient trade concessions so that in practice it *will* work.

Thus, an international con game is under way. The US is demanding "protection money" in return for promises which it could only keep if the protection money is out of all proportion to what it is likely to get.

Other countries have to decide what concessions they are willing to make in order to lessen the risks of more monetary turmoil and upheavals. But the risks will still be very high, since the whole international monetary edifice rests on the assumption that the relations between the advanced capitalist countries as a group on the one hand and the colonial and semi-colonial countries on the other will remain as they are. It rests, in other words, on the assumption that imperialism as a system can be kept unchanged. Instead, the law of uneven development now finds this expression: because it is the leading imperialist power, the position of the US is the one that is being the most seriously undermined.

The idea of a more or less self-regulating monetary system, with disciplinary power over its members, is an illusion. Countries agree to play according to the rules of the game either because, if they are weak, they have no choice, or because, if they are strong, it is in their interest to do so. But no monetary system has presided over or even survived a fundamental realignment of power such as is now underway between the US and the other advanced capitalist powers, and between all of them and the developing countries of the Third World. World War I marked the end of the system based on the gold and the pound. During the inter-war years, no stable or enduring system could be agreed upon. The post-World War II system based on gold and the dollar is now also at an end, and the prospect is for another long and turbulent period of transition. The proposals for international monetary reform are significant, not because they will lead to agreement, but because they illustrate the underlying and conflicting interests of the countries making them.

## VII. WHEN IS A "DEFICIT" NOT A DEFICIT?

Of the Marxist writers with whom I am familiar, the editors of *Monthly Review* have contributed more than any others to explaining and clarifying the problems of the US balance of payments. Their articles on this and other problems of US and world capitalism from 1965 to 1971 have been collected in a book, "The Dynamics of US Capitalism",<sup>45</sup> and this as well as the articles which continue to appear in the *Review* are probably indispensable for English speaking readers wanting to understand current developments. Ernest Mandel's "Europe Versus America" and the collection of articles published in "The Decline of the Dollar"<sup>46</sup> are also very much worth reading. Mandel is particularly good on the illusions of a return to the gold standard and on the contradiction between the dollar's function as an instrument to assure the expansion of American capitalism both domestically and abroad, and its function as an international reserve currency.

Nevertheless, both Monthly Review and Mandel, and indeed all Marxist writings I have seen, share two related defects: the US dollar outflow is always referred to as a balance of payments "deficit", without clarifying the essential distinction between this so-called "deficit" and the quite different kind of deficit defined in classical and Keynesian economics. Of course, Marxists are under no obligation to follow bourgeois theory, classical or otherwise, and especially not when they have something better to put in its place. But in this case, having abandoned the classical definition, they have fallen into the bad habit of adopting the latest in bourgeois terminology, according to which the US has a "deficit" in its balance of payments—in 1972 it had, but that is a different story—as do Bangladesh, Ghana, Chile, and most of Third World countries. This is on a par with considering wages and profits equally as "rewards to the factors of production". But the "deficit" of the leader of imperialism and the deficits of other countries which result from imperialist exploitation are not the same thing.

The second defect is that the levy which the dollar outflow imposes on the surplus value of the dollar-receiving countries is completely overlooked; with but one exception that I know of, it is never acknowledged and only rarely and dimly recognized. Readers who are surprised at this statement may want to verify it by re-reading the writings with which they are familiar.

These two defects are related because, unless the components of the US balance of payments are analysed so as to show the difference between a genuine deficit and a "deficit" and thereby highlight the transfer problem, it is impossible to distinguish the movement of money between countries from the movement of real goods and services, however these may be defined. It is then impossible to see that the difference between the two represents a levy by one country having a "deficit" on the real wealth, the surplus value of other countries. And this is precisely what most Marxists writing on the subject have failed to see.<sup>47</sup>

Ernest Mandel, in his "Decline of the Dollar", not only uses the word "deficit" to describe the dollar outflow; he apparently cannot quite make up his mind what the outflow is due to. In one place he says, "The real reasons for the balance of payments deficit should be sought in the export of private capital, and, to an even more decisive extent, in overseas military expenditures and "aid" to foreign governments".<sup>48</sup> Elsewhere he says, "The source of the deficit lies exclusively in: (a) governmental aid to foreign countries; (b) the expenses of the American armed forces abroad, that is, the maintenance of military bases and the conduct of military operations abroad". These exclusive sources of the deficit are then contradicted by the statement that "one of the significant components of the deficit in the balance of payments

is the export of capital by the great American monopolies," and "the *final* cause of the deficit in the balance of payments is the increasing export of US capital to other countries where the rate of profit is higher than in the US". On the other hand, Mandel several times says that "private capital movements are in balance: net American capital exports equal the net repatriation of profits on capital already invested abroad,"<sup>49</sup> and that for this reason private capital exports do *not* contribute to the dollar outflow.

Not only are these statements inconsistent; the effort to isolate from each other the various elements of the dollar outflow seems to me misguided and misleading. This applies in particular to the separation of the so-called private sector from the government sector—the former having until 1970 shown a surplus, whereas the latter has always been in deficit. As Mandel himself has pointed out, "State intervention aims to guarantee the profits of the dominant sectors of the big bourgeoisie... . The very survival of capitalism increasingly depends on direct state intervention." " This is equally true of capitalism abroad—that is, of imperialism—as it is of capitalism at home. The "private sector" could no more keep itself going and prosper without the help of government than a horse could run on two legs or a car on two wheels.

#### *Undernourishment vs. Overeating*

According to the classical definition, a deficit in a country's balance of payments meant a deficit on current international account. With minor exceptions, this meant that imports of goods and services and the payment of interest and dividends abroad exceeded the corresponding exports and receipts. Capital flows were treated separately. In this way, a country's foreign transactions were considered within the framework of its output, income, savings and *investment*.<sup>50</sup> This is indeed still the way in which the international accounts of most countries are analysed. According to the now-fashionable definition, however, a country is said to have balance of payments deficit when its gold or other monetary reserves are being run down or its monetary liabilities to other countries are being run up, and this without regard to the component elements of the outflow and the reasons why it is happening. All substantive content is thus drained away; the balances on trade, on other current account items and on the various types of capital movements are all lumped together, although they are quite different in content, in their effects on the country concerned and in the nature of the economic relations between countries which they reflect.

The United States with its "deficit" has been in the position of a man who is spending and investing \$2 million a year to guard and increase his fortune. Byt he is not satisfied with this; he wants to spend and invest \$3 million a year. Although his outgo then naturally exceeds

his income, he manages to obtain the extra million ~~from~~ others in return for irredeemable IOU's.

A nice kind of "deficit", if one can manage it! Other countries would no doubt be happy to exchange the genuine deficits which they have had for a "deficit" of this kind.

A country with a deficit in its balance of payments in the genuine, classical sense may be said to suffer from economic undernourishment. What ails the US in its balance of payments is imperialist over-eating and indigestion. The difference between eating and being eaten is of course very real, and it is inconceivable that an objective science trying to clarify and understand its subject matter would use the same word for both. The genuine deficits of most Third World countries as well as of some advanced capitalist ones are to no small extent caused, and certainly they are perpetuated, by the so-called "deficit" of the US. Or, as Julius Nyerere said, "The poverty of the poor is a function of the wealth of the rich. Each time he buys a loaf of bread a starving man contributes to the wealth of a baker who already lives in luxury."<sup>23</sup> Both the genuine deficits and the "deficit" are aspects of US imperialism and of the rivalry between capitalist-imperialist countries—with this difference that the US as top dog has had a "deficit", whereas the lesser dogs—not all of them, but many—and the underdogs have deficits.

The second defect of Marxist writing on the US balance of payments is the failure to deal with the fact that the dollar outflow compels the dollar-receiving countries to share their surplus value with the US, and at times also compels them to increase both the amount and rate of surplus value in order to be able to do so. It may be thought that this is so obvious that it goes without saying. But this is manifestly not so. Within the range of my reading, I know of only one clear-cut statement of the point at issue; there are others which allude to it, but they fail to hit the mark, apparently not realizing what is involved. The one statement is from the IEPA's study, and is of course not in Marxist terms:

"Under the (post-war) world monetary system, the US benefitted by receiving or controlling the flow of more actual goods, services and assets than it transferred abroad. . . . Foreigners became restive at giving real goods and services in exchange for 'paper' which depreciated in value as American inflation grew."<sup>24</sup>

To which can be added, and as the dollar is devalued relative to the currencies of the dollar receiving countries.

At the height of their empires, Spain and Portugal discovered gold and were thus able to pay their imperial way. Britain in its day also found ways and means of making others pay for the costs of empire, in particular of making its empire pay. But it has been left to the US to go two better: to expand its empire not only into semi-colonial and

dependent countries but right into the home base of its main imperialist rivals, and further, to hit upon a method—more by good luck than by good management—of making them pay for this expansion, as well as part of the overall cost of maintaining the imperialist system and the US's position in it. The US and its scribes then have the gall to call this method a balance of payments "deficit"—the flow of irredeemable paper dollars constituting the "deficit" going in one direction whereas the flow of wealth goes in the other. Others have picked up and repeated this "through-the-looking-glass" deception. Is it not precisely the purpose and beauty of ideological mystification to make the victim believe that he has the same interests and shares, the same problems as his oppressor? And what better artifice for this purpose than to describe what ails each of them by the same word, while the dollar-receiving countries become the "bad guys" because they have a "surplus" which in fact is a burden they would much rather do without? As Maurice Dobb observed, "It is a familiar fact that ruling classes always strive to conceal the existence of precisely those forms of social conflict which are most dangerous to their own hegemony . . . Such concealment, by emphasis on social unity, is a principal function of a dominant ideology."<sup>14</sup>

Since Marxist analysis has done much to explain the truth about the picture in the looking-glass, it should not be difficult to see the value of devising a terminology and language which facilitates and furthers this effort, instead of hampering it.

#### VIII. SOME CONCLUSIONS

1. The downfall of the dollar is the result of a combination of three factors:

the struggle of the peoples of the Third World to free themselves from imperialism. As the Chinese say: "Countries want independence, nations want liberation, and the people want revolution."

the reconstruction and resurgence of capitalist Europe and Japan and their remarkable intrusion, not only into foreign markets in which US exports formerly predominated, but into the US home market itself.

the development of capitalist overproduction and the consequent increasingly intense competition for markets, a competition in which the weight and productive efficiency of the US are falling relatively behind.

2. US imperialism is over-extended and in retreat, while the costs of empire are rising. The dollar outflow is the visible manifestation of this. It is at once a measure of the gap between the costs of defending

and expanding the empire on the one hand and the resources the US can command and extract from others through the normal processes of trade, foreign investment and exploitation on the other, and the means by which the US makes other countries pay for what it is unable to pay itself and is at the same time unwilling to give up. As the flow of wealth from trade, foreign investment and imperialism declines, the amount which the US must seek to levy on other countries by means of the dollar outflow increases. But the dollar-receiving countries resist this levy; they refuse some of the dollars by which it is imposed on them, and particularly the private speculative dollars which from time to time swell the levy beyond their ability to pay. The dollar consequently declines. This however does not remedy the problem; so far it may have at best begun to reduce it. In the meantime, the main and more probable result of two devaluations and other currency realignments is that the dollar outflow will consist of more and more dollars, each of them worth less and less.

3. The motive force of the competition for markets between the developed capitalist countries is the realization of surplus value embodied in manufactured goods. But increasingly these countries will have to compete for raw materials. In particular, their requirements for oil are rising steeply. The US, Western Europe and Japan all draw a large and growing proportion of the oil they need from North Africa and the countries of the Persian Gulf. Not only will this aggravate the dollar problem; the focusing on the Middle East of potential conflict between the main imperialist powers and groups of powers over the supply of what is virtually the lifeblood of industrial production will more and more make this area one of *the* danger points of world politics. <sup>55</sup>

4. But this is not all. To the growing quantitative US requirements of imported fuels and other raw materials will be added higher prices by reason of rising demand in relation to supply and the enhanced bargaining position which this will give the supplying countries. As noted earlier, this will mean a much more aggressive US export drive to help meet the higher costs of imports; the exports will consist mainly of manufactured goods, including armaments. We thus get the following: to help cope with the consequences on the balance of payments of the incipient shortage of raw materials, the US will have to increase its production and push its exports of precisely those goods which use up these raw materials. Nor will this apply only to exports and the United States. All manufacturing enterprises in all capitalist countries face the same problem of the rising cost of the revolving elements of constant capital, and are striving to meet it in the same way. What could be more absurd than the capitalist effort to overcome with intensified competitive efficiency the consequence of the relative depletion—

which may still be a long way from exhaustion--of the supply of vital raw materials precisely by accelerating this depletion? What better proof, if proof were still needed, of capitalism's inherent and ineradicable irrationality?

We already know that wars and the unceasing manufacture of armaments, now capable of destroying all life, are necessary to keep capitalism from collapse. We can now see that the accelerating use of irreplaceable resources and possibly irreversible damage to some of the renewable natural as well as man-made elements of the environment which sustain life, and are thus as necessary to survival of capitalism as of any other system, are likewise capitalist imperatives. Capitalism treats the environment today in the same way as it treated the working people of Great Britain one hundred and twenty-five years ago, until the passage of the Factory Acts imposed at least a minimum of conservation.<sup>56</sup>

5. A debate has been going on in the Left in recent years over whether imperialism has become united under US domination (US super-imperialism), whether a coalition of imperialist states will be formed to guide the system and reconcile conflicting interests (ultra-imperialism), or whether on the contrary the system is being increasingly divided by antagonisms and conflicts between imperialist countries (imperial rivalry).<sup>57</sup> I think events have now settled this debate unequivocally in favour of the third alternative. The US economy was not strong enough to ensure its continued domination. Although there were always limits to American power, these have become much more pronounced and visible in recent years.<sup>58</sup> The crises in the international monetary system—milestones on the downward path of the dollar—both express and reflect this trend.

6. The change in the relations between the US on the one hand and the Soviet Union and China on the other must be seen as a response to this trend. President Nixon's statement that "the time has come for the major (capitalist) nations to compete as equals", which before they neither were nor were considered to be, has already been cited. He added: "As the threat of war recedes, the challenge of peaceful competition increases." Just as the conflict between the Soviet Union and China goes far to explain their changed attitude to the US, so the change in attitude to them on the part of the United States is largely due to its having to redirect its attention and energies to defending its empire and competing with its capitalist and imperialist rivals.

7. The bulk of US private capital investment abroad takes place through multinational corporations, which are also responsible for a large part of US foreign trade. For reasons both of the domestic economy and the balance of payments, the US trade offensive is

combined with an effort to slow down capital exports to finance these corporations' foreign growth. Government bribes—the polite word is “incentives”—are offered to expand and produce at home and export rather than doing so abroad.

The end of absolute US supremacy consists partly in this, that whereas formerly there was no contradiction between the interests of the multinational corporations and those of the US as a functioning economic entity, now these interests no longer harmonize but are instead partly in conflict. Formerly, the growth of US investment abroad could proceed unchecked and simultaneously with the defence of the US empire, without any weakening of the dollar. This is no longer possible.

For the countries in which the US multinational corporations have been expanding, the subsidized “repatriation” of investment back to the US seems to pose a dilemma: either continuing growth, with much of it under foreign ownership and control, or less growth and more imports, with all the adverse consequences which these would have. But this dilemma at the same time reveals the weakness into which a country falls when vital sectors of its economy come to be owned and controlled abroad. The interests of the multinational corporations clearly collide with those of the countries which they enter and in which they are allowed to expand.<sup>19</sup> When it is added that most of this expansion is paid for, directly and/or indirectly, by the countries in which it occurs and that it imposes a heavy and unending drain on their economic surplus in the form of profits, royalties and fees sent “home”, it is clear that the dilemma is falsely posed and the answer to it is equally clear: the growth of the multi-nationals must be stopped; the surplus value which feeds this growth must be directed to national enterprises instead. If this cannot be done under capitalism, as Canada's experience strongly suggests that it cannot, a further answer follows: national independence and capitalism are not compatible, whereas national independence and socialism are. But only on condition that the Brezhnev doctrine is in no way equated with socialism.

8. The choice which the US offers the dollar-receiving countries with respect to the dollar outflow, namely, either accept our dollars or accept our goods, is really no choice at all. It means: either let us take as much of your surplus value as we need to preserve and expand our empire or suffer whatever economic contraction, unemployment and loss of surplus value may result from giving up the export markets you have won and buying our goods instead of producing and selling your own. The dollar-receiving countries refuse to accept either of these alternatives and are driven to take measures to defend themselves and to retaliate, from which follows the intensifying conflict between these countries and the US. When the US was top dog, the levy it had to

impose on its capitalist junior partners was relatively small. As its strength declines and the dollar outflow correspondingly increases, the levy it seeks to impose on these countries, which are now its rivals, rises. The process of adaptation is neither planned, smooth nor harmonious and in the nature of the case, it cannot be. No supernational institution or condominium of leading states exists or will be formed to guide the process by common agreement. An antagonistic contradiction is involved, and the process therefore takes place by means of trade and currency wars, crises, breaks in continuity. There will be more of them as time goes on.

9. In the long run, the dollar-receiving countries which are under pressure to revalue by reason of the dollar outflow will become less concerned with the value of their currencies in relation to the dollar as their trade with the US declines in relative importance and as they are able to work out arrangements for fixed exchange rates between themselves, so that if one revalues, all do. Both of these tendencies are presently underway, with the latter more evident so far than the former. But dollar devaluation makes it more difficult and/or less profitable to export to the US and leads to protective measures against US imports. Such measures are of course the exact opposite of what the US wants, but they are bound to be used more and more as the struggle for markets intensifies. The result of arrangements for fixed exchange rates between currencies will be that the countries involved will be able to share the costs of revaluation in relation to the dollar will likewise be shared, while the position of each of the re-valuing countries in relation to the others will remain unchanged. Insofar as these protective arrangements against the dollar are successful, the inflow of dollars into countries which remain outside them will increase. They will therefore be under mounting pressure to ask to be taken into the protective field. In this game, Canada is the odd-man-out and becomes tied more and more closely to the US. Already, the proportion of Canada's trade with the US, the extent of US ownership and control, and Canada's overall dependence on and integration with the US are unparalleled among developed capitalist countries. Canada is thus Exhibit A of what others want to avoid.

10. All capitalist countries are in the grip of inflation. The fundamental cause of this inflation, which really requires a separate essay, lies I think in the prodigious spending for armaments and other proliferating forms of waste which are necessary to sustain the system of monopoly capitalism and imperialism, which are necessary to combine the requirements of production, employment, accumulation and markets in a way which will yield a satisfactorily high rate of profits. But this profit making waste inevitably runs up against the workers' struggle for decent wages, working conditions and living

standards. Inflation therefore originates fundamentally in a conflict over the composition and distribution of the national product under capitalist relations of production and the required realization of surplus value. The inflation is accelerated by wars, investment booms and by all those who try to protect themselves against its consequences by passing on the higher prices which they must pay in higher prices which they charge to others. This of course means primarily the monopoly corporations which raise prices, and the organized working class which demands a compensating rise in money wages in order to prevent a decline in real wages. Two added elements of acceleration are the rising costs of raw materials noted earlier and a shortfall of food production, the end result of decades of concerted efforts and billions of dollars paid to farmers to restrict their output.

If the foregoing is correct, it follows that to stop, let alone reverse, the rise in prices is no longer a realistic object of government policy. It would require an intolerable economic contraction, fall in profits and vast unemployment. The best that each country hopes to be able to do is to keep its costs and prices rising at a slower rate than those of others. If it is unsuccessful in this and its trade and balance of payments suffer as a result, devaluation becomes sooner or later unavoidable. The capitalists of each country accordingly use "their" workers as troops in the struggle for markets; the workers of each country are made to compete against each other for the benefit of "their" capitalists by means of wage curbs, speed-up and cut-backs in government social programs.<sup>60</sup> The struggle for markets thus takes the form among other things of a race between rising costs and prices on the one hand and competitive devaluations on the other, each country striving to remain ahead of its rivals in terms of costs and prices rather than having to devalue in order to keep in step. And the reason is that although in theory devaluation should bring about the necessary adjustment, it does not always do so, whereas there is no doubt that it accelerates inflation.

Inflation is a great worry to the capitalist class and is particularly upsetting to the banking and financial people responsible for running the monetary and credit system. A temporary and mild spell of inflation of the order of 2 to 3 per cent a year oils the machinery of class conflict, channeling and allowing it to work itself out in more or less innocuous ways; as long as the capitalists can accommodate themselves by moderate price increases to "reasonable" wage demands, everything is plain sailing. But permanent inflation at a rate of 4 to 6 or even 8% a year, even in the face of economic slack and unemployment, is something else again. Something is obviously but perplexingly wrong, as the wide array of efforts—all of them so far unsuccessful—to bring the rise in costs and prices under control testify. Not only have

these efforts sharpened class antagonisms; it is around these efforts and the class distribution of their benefits and costs that the class struggle in the advanced capitalist countries more and more expresses itself.

Stated more generally, the question is: What countries and what classes within these countries should be made to bear the rising costs of defending imperialism and of US efforts to hold on to its position as the main if no longer dominant imperialist power? US capitalists and the government which serves their interests have their answers to this question. But there are other answers, and the nations and classes whose interests these other answers express are more and more asserting themselves and coming into conflict with US imperialism in decline.

#### NOTES

1. First National City Bank of New York, *Monthly Economic Letter*, October 1971.
2. Baran and Sweezy, *Monopoly Capital*, Monthly Review Press, 1966.
3. *Survey of Current Business*, US Department of Commerce, June 1972, Table 1, footnote 1, p. 26.

Quoted in Harry Magdoff, *Imperialism*, Monthly Review Press, 1969, p. 133. Chapter 4 on aid and trade explores the relations between the two in fascinating detail.

*Survey of Current Business*, referred to from now on as *SCB*, June and October 1972. All figures in the text, unless some other reference is given, are from the tables on the US balance of payments given in the Survey, in particular the extensive and detailed tables in the June issue of each year.

In earlier presentations of the balance of payments, the value of these transfers was shown to rise until 1965 and then surprisingly fall sharply. But in the latest presentation this error is corrected with the explanation that "data on transfers of goods and services under US military grant programs and military grants of goods and services . . . have been revised upward by \$1 billion in 1966, \$1.5 billion in 1967, and by an average of about \$2 billion a year in 1968-71. The added amounts are the Defense Department's estimates of the dollar value of assistance provided . . . for 'support of Vietnamese and other free world forces in Vietnam. . . on such terms and conditions as the Secretary of Defense may determine.' . . .

"The Defense Department has also provided estimates of the acquisition of supplies and equipment which were excess to the needs of the US Armed Forces and transferred to the countries receiving military assistance funded from Defense Department appropriations. These transfers, as well, were not previously included." *SCB*, June 1972, Technical Notes, p. 72.

7. See Michael Klare, *War Without End: American Planning for the Next Vietnams*, Vintage Books, 1972.
8. *The US Balance of Payments—From Crisis to Controversy*. The International Policy Association, Washington, 1972, p. 40.

The Association's Directors represent some of the largest US multinational corporations. From an examination of the corporate positions of these Directors, the editors of *Monthly Review* conclude that the Association "is a meeting-

ground for top experts of giant multinational corporations in the area of international finance, trade, and investment. What they produce and put their stamp of approval on can therefore be taken as a genuine expression of what the most powerful section of the US ruling class thinks, and indirectly what it intends to do, about these vitally important matters." *Monthly Review*, December 1972, pp. 3-4. *The US Balance of Payments* is indeed a mine of information, and will be cited many times in what follows simply as *ZEPA*.

9. *Ibid.*, p. 101.
10. Speech to the US Council of the International Chamber of Commerce, December 1965.
11. In the short periods of most intense speculation, the rates were undoubtedly much higher. But the figures are given only by quarters.
12. "The International Investment Position of the US: Developments in 1971", *SCB*, October 1972. A similar article appears each year in the October issue.
13. *IEPA*, p. 39. The importance of these multinational corporations as vehicles and chief beneficiaries of US imperialism is discussed in "Notes on the Multinational Corporation", in *The Dynamics of US Capitalism*, Monthly Review Press, 1972.
14. Canada's position in relation to the US and the possibilities of Canadian national independence have been the subject of many books and a constant stream of periodical writing. They have also given rise to two political movements: The Committee for an Independent Canada, which emphasizes Canadian independence within a capitalist framework, and The Waffle, originally organized as a left-wing group within the New Democratic Party and emphasizing socialist demands as essential to achieving independence. In Ontario the Waffle is now outside the NDP with the name Waffle Movement for an Independent Socialist Canada. See Tim Buck, *Canada: The Communist Viewpoint*, Progress Books, 1948; Walter Gordon, *Choice for Canada*, McClelland and Stewart, 1966; George Grant, *Lament for a Nation*, McClelland and Stewart, 1965, and *Technology and Empire*, House of Anansi, 1969; *Foreign Ownership and the Structure of Canadian Industry (The Watkins Report)*, Privy Council Office, Ottawa, 1968; Kari Levitt, *Silent Surrender: The Multinational Corporation in Canada*, Macmillan of Canada, 1970; Ian Lumsden, Editor, *Close the 49th Parallel: The Americanization of Canada*, University of Toronto Press, 1970; James Laxer, *The Energy Crisis Poker Game*, New Press, 1970; Dave Godfrey and Mel Watkins, Editors, *Gordon to Watkins to You*, New Press, 1970; *Foreign Direct Investment in Canada (The Gray Report)*, Government of Canada, 1972; Gary Teeple, Editor, *Capitalism and the National Question in Canada*, University of Toronto Press, 1972; Abraham Rotstein, *The Precarious Homestead*, New Press, 1973; R. M. Laxer, Editor, *The Political Economy of Canada*, McClelland and Stewart, 1973; and in a completely different vein, Margaret Atwood, *Survival: A Thematic Guide to Canadian Literature*, House of Anansi, 1972.
15. Bank for International Settlements, *42nd Annual Report*, Basle, June 1972, p. 148. Cited from now on as *42nd BIS*.
16. See footnote 12.
17. Bank of Canada, *1971 Annual Report*, Ottawa, 1972, page 11.
18. *42nd BIS*, p. 6.
19. *IEPA*, p. 28. See also *Fortune Magazine*, June 1971, Chart on page 48.
20. *42nd BIS*, p. 9: The First National City Bank concurs. "Structural changes in world trade during the 1960s have weakened the US competitive position and impaired the US trade balance. . . . The explosive growth of industrial capacity in Japan and Western Europe as well as the narrowing or elimination of the US lead in technology in many sectors have weakened the competitive position of US industry." *Monthly Economic Letter*, March 1973.

21. Marx, *Capital*, Vol. 3, Foreign Languages Publishing House, Moscow, 1962, pp. 472-3.
22. Speech of 15 August, 1971.
23. *Ibid.*, 23 August, 1971, quoted in "The End of US Hegemony", *Monthly Review*, October, 1971.
24. *Ibid.*, 30 August, 1971.
25. ZEPA, Preface.
26. *New York Times*, 20 August, 1971.
27. *42nd BIS*, p. 27.
28. *Ibid.*
29. The distinction between the countries in which the dollars are initially spent and the countries which ultimately absorb them is well stated in ZEPA, pp. 51-2.
30. Ernest Mandel, *The Decline of the Dollar*, Monad Press, New York, pp. 39 and 47.
31. See for example B. J. Cohen, *Balance of Payments Policy*, Penguin Books, 1969, Chapter 1 and E. K. Hawkins, *The Principles of Development Aid*, Penguin Books, 1970, Chapter 3.
32. See for example, Ernest Mandel, *Marxist Economic Theory*, The Merlin Press, 1968, Chapter 6; Maurice Dobb, *On Economic Theory and Socialism*, Routledge and Kegan Paul, 1955, pp. 253 and ff; Maurice Godelier, *Rationality and Irrationality in Economics*, New Left Books, 1972, Chapter 1; Ian Gough, "Productive and Unproductive Labour", *New Left Review*, No. 76, and much other writing besides. It seems to me that the narrowly orthodox Marxist view, according to which only labour embodied in material commodities creates value and is productive, bears a remarkable resemblance to the Physiocrats' view according to which only agricultural labour is productive, since workers in industry do not increase the material substance but only alter its form. See Marx, *Theories of Surplus Value*, Part 1, Foreign Languages Publishing House, Moscow, Chapter 2.
33. See Harry Magdoff, "Economic Myths and Imperialism", *Monthly Review*, December 1971, in which the market is shown to be "merely an instrument of existing institutions (which) are as much, if not more, the product of politics and the way power is exercised as of economics", and the "unequal exchange between industrially advanced and industrially backward nations (is) the result of the social transformations imposed by colonialism and the whole complex history of imperialism". This view, grounded in an examination of the historical origin and specifics of each relationship, differs from the theoretical explanation elaborated in A. Emmanuel, *Unequal Exchange: A Study of the Imperialism of Trade*, Monthly Review Press, 1972. See also the exchange of views between Charles Bettelheim and A. Emmanuel in *Monthly Review*, June 1970.
34. ZEPA, pp. 14-15.
35. An average change in relative values of 11% as of December 1971, multiplied by a further change of 15% in February-March 1973. See First National City Bank, *Monthly Economic Letter*, April 1973.
36. ZEPA, p. 74.
37. *Ibid.*, p. 83. "Subsidizing" is good! What is meant is that the pressure of the dollar inflow tending to push the exchange rate up is prevented from penalizing the country's exports.
38. *Ibid.*, pp. 83-4.
39. See for example the 1972 *Annual Report of the Commission of the European Communities*. In presenting the report, the new president of the Commission, François-Xavier Ortoli said, "The fundamental and essential joint interests which are the basis of EC-US relations eclipse the inevitable points of dispute in any healthy relationship". *European Community*, April 1973, p. 3.
40. Thus the Report by the Executive Directors to the Board of Governors of the

- International Fund, *Reform of the International Monetary System*, 1972, is written in a language of rarified abstraction.
41. Marx, *Articles from The Neue Rheinische Zeitung*, 1848–49, Progress Publishers, p. 180.
42. Mandel, *The Decline of the Dollar*, pp. 26–9.
43. Text in *The New York Times*, 27 September, 1972.
44. It is ironic that the chief US negotiator at Bretton Woods, Harry Dexter White, was hounded to his death a few years later by the baying pack of anti-communist witch hunters. This was in the Truman years, before Senator McCarthy became prominent. White worked "skilfully to protect American interest—and primacy—within the framework of a new world monetary order. The difference between the original Keynes proposals and those of White is the difference between proposals tailor-made to British needs and those framed to suit American purposes." I. F. Stone, *The Truman Era*, Monthly Review Press, 1953, p. 49.
45. Paul Sweezy and Harry Magdoff, *The Dynamics of US Capitalism*, Monthly Review Press, 1972.
46. Ernest Mandel, *Europe vs. America: Contradictions of Imperialism*, Monthly Review Press, 1970, and *The Decline of the Dollar*.
47. Mandel, in fact denies that this levy occurs. In May 1971 he wrote: "The dollar standard, which some insisted on condemning as a permanent drain on the riches of capitalist Europe for the benefit of capitalist America, has not lasted even two years." *The Decline of the Dollar*, p. 74.
48. *The Decline of the Dollar*, p. 45.
49. *Ibid.*, pp. 28, 37, 49 and 156.
50. Mandel, *Europe vs. America*, pp. 56–7.
51. See for example J. Pen, *Modern Economics*, Penguin Books, 1958, Chapter 5. (In technical terms, the *real* external balance, measured in goods and services, is what is shown in the national accounts of GNP, income and expenditure; the balance of payments show in addition the money flows over and above the real balance. The difference between the two represents the transfer problem.)  
Quoted in *Co-operation Canada*, Canadian International Development Agency, March–April 1973.
53. *IEPA*, pp. 69–70.
54. *On Economic Theory and Socialism*, p. 97.
55. For two conflicting views of US oil imperialism see M. A. Adelman, "Is the Oil Shortage Real, Oil Companies as OPEC Tax Collectors", *Foreign Policy*, Winter 1972–73, and James E. Akins, "The Oil Crisis: This Time the Wolf is Here", *Foreign Affairs*, April 1973. Mr. Adelman is an oil engineer on the staff of the Massachusetts Institute of Technology, Mr. Akins, is Director of Fuels and Energy in the US State Department.
56. See the celebrated chapter in "Capital" on Machinery and Industry. Environmentalists wishing to understand the holocaust of destruction of which capitalism since its earliest days has been capable should read this chapter.
57. Bob Rowthorn, "Imperialism: Unity or Rivalry?" *New Left Review*, No. 69. See also Mandel's *Europe vs. America* and articles by Karl Kausky, Ernest Mandel and Martin Nicolaus in *New Left Review*, No. 59.
58. Joyce and Gabriel Kolko, *The Limits of Power: The World and US Foreign Policy*, 1945–54, Harper and Rowe, 1972. This is a sequel to Gabriel Kolko's extremely interesting study on *The Politics of War*, 1943–45.
59. The dilemma of the multinational corporations in face of the conflict between national states is well-expressed in the following: "As far as the US multinational corporations are concerned, they most definitely do **not** want a fight.

They want a world of free trade, convertible currencies, harmony and peace—  
with themselves on top." *Monthly Review*, January 1973, p. 7.

60. Current developments in the US are a perfect illustration of all this. Although exports are not doing very well, profits are soaring.