

## ECONOMIC CRISIS

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The word 'crisis' is one of the most overworked in the socialist dictionary. It has come to convey less and less with the passing of the years. But it is difficult to avoid using the term to describe the present economic and political conjuncture in Britain. That is to say it is difficult to see how the problems of the British economy can be resolved without either a fundamental change in the system or in the political assumptions about the system shared by both governments and organised labour since the 1930s.

In purely economic terms the crisis of British capitalism is all too obvious. Economic output is actually falling, and falling further and faster than we have **experienced** since the end of the Second World War. Unemployment is heading towards two million and the debate among conventional economic forecasters is how far it will go towards three million in the next year or two.

In the meantime inflation shows a stubborn resistance to all known remedies. This is leaving monetarists as **baffled** now as Keynesians have been for the last few years. Even if inflation comes down in the immediate future to under 20 per cent a year, very few economists expect it to regain single figures for as far ahead as anyone can, with profit, attempt to forecast. If there are differences of prediction between the different economic forecasting bodies such as the National Institute, the London Business School, the Cambridge Economic Policy Group—and the Treasury itself—they concern the precise admixture of gloom as between catastrophic inflation, unemployment, growth, new investment and the balance of trade. The gloom remains a constant.

But if it can be accepted that the economic situation is serious enough to be described as a 'crisis'—what kind of a crisis is it? Is it essentially a short term, perhaps cyclical combination of problems, essentially peculiar to Britain? Is it something which is more the product of ideologically anachronistic monetarist government (or governments) than of any failure of the system as such?

Alternatively, is the crisis essentially international and one which, whatever its immediate, conjunctural features, betrays a more profound and longer term 'impasse' into which the economic system has fallen and out of which it is unlikely to recover without either social revolution or

dramatic changes in the political super-structure, including, perhaps, in some western countries, abandonment not only of the post-war socio-political consensus but even democracy itself?

The kind of answers given to these questions are bound to influence the political response of the Left to the present situation. If the crisis is essentially short term, or cyclical or essentially 'British' or a mere product of mistaken government policies—then it can be assumed that there is life left in the old, reformist dog. Conversely if the crisis is 'structural', a response which is limited to the horizons of 'pure and simple trade unionism' or is predicated on the possibility of a Keynesian reformist solution, may prove disastrously mistaken.

Just as there are markedly different species of political and economic 'reformism' so it would be a mistake to make an amalgam of all types of economic catastrophism which are current at present. The belief that the system is doomed is by no means limited to Marxists. In one form or another it is shared by the more extreme theorists of the Club of Rome and those who see a planetary economy increasingly starved of natural resources and doomed to a future of 'nil growth' or something remarkably like it. Such an apocalyptic view owes nothing to any analysis of the capitalist mode of production itself and is anyway increasingly challenged by the facts. There is a problem of ecologically balanced and **resource-conscious** development to which socialists have been inadequately sensitive. Such development abjures nuclear power in favour of alternative—socially and ecologically more acceptable—energy forms. But there is no reason to suppose that with responsible planning and utilisation the world's natural resources are running out. Indeed some of the more alarmist accounts of resource scarcity have been commercially self-interested—there is evidence, for instance, that the oil companies are deliberately understating the international actual and potential reserves of carbon fuels. Club of Rome alarmism about natural resource scarcity actually legitimises nil economic growth and **trade** union passivity.

Allowing for the moment that there is an economic crisis in Britain, is there also an international **crisis**? Remarkably little attention has been devoted to the world aspect of the present economic situation by conventional, mostly Keynesian economists, even by the more radical Keynesians who advise the Labour Left. It is difficult to avoid the conclusion that this is a political phenomenon. Ideologically, **Labour** Left Keynesians are firm believers in the notion of 'socialism in one country' and central to their **parliamentary** strategy for the transformation of Britain is the belief that organised labour in Britain can not only break with the established political and economic order in international political isolation, but proceed to build an alternative economic order in continuing isolation.

The essentially 'nationalist' perspective of the Labour Left (and its

Communist Party allies) inspires the demand for import controls. These form an essential foundation of the Alternative Economic Strategy, However, import controls really only make economic sense if either a) the world economy is expanding and the other capitalist states can afford to **shrug** off British protectionism or **b)** import **controls** are part of a comprehensive socialisation of British industry, including sweeping state control of the banks and **import/export** houses. Neither assumption seems justified by the facts.

Most available evidence suggests that there is a nascent but rapidly maturing international economic crisis. The **conjunctural** situation is striking. We appear already to have entered another economic recession not only in the United States, but in much of Western Europe and in Japan as well. The latest forecasts coming out of the Paris headquarters of the Organisation for Economic Cooperation and Development (the so-called 'club' of the richest capitalist economies) are gloomy indeed. They call for an average OECD growth rate of between **0** and **1** per cent (against 3% per cent last year and an average of around 5 per cent in the past fifteen years) with unemployment everywhere approaching forty year records.

At the same time the OECD foresees annual inflation rates averaging **10** per cent and still rising at the end of this year. Thanks to the succession of oil price increases in the past twelve months, the collective balance of payments deficit with the OPEC member states will now exceed \$55 billion in **1980**. At the very least the latest international recession will be longer and deeper than any since **1945**, including the downturn which followed the quadrupling of oil prices in 1973.

Once again the new recession will continue to be burdened with a high inflation rate. Rapid inflation adds to the prevailing lack of confidence in the future by capitalists, makes them less 'risk' minded and impedes the restructuring of the system (that is to say the switch from low-profit sectors to potentially **higher-profit** sectors) which is the *sine qua non* of any sustained recovery from recession. To the extent that slumps perform a 'useful' purpose for capitalism—in that they encourage the identification of new growth points and encourage the switch of investment and employment accordingly—simultaneous inflation and recession tend to lead to 'unhealthy', abortive periods of recovery which are shortlived precisely because they have not been accompanied by the scale of restructuring really needed.

This is, however, much more than a **conjunctural** problem. The pattern in recent years has been one of longer and more socially costly periods of economic recession followed by shorter, increasingly inflationary periods of recovery. The recent cycle of recessions both reflects and, at the same time has considerably exacerbated, what is the most alarming symptom of capitalist decline—the steady fall in the rate of return on invested capital. The figures for the declining rate of profit are open to a variety of **inter-**

pretations and anyway differ from country to country. But the decline in the rate of return on invested capital in manufacturing as well as the decline in the *share* of profits of total output is unmistakable.

Very often this decline in the rate of profit—extremely marked in the case of Britain and the United States but a subject of concern in most of the developed capitalist economies in the Northern hemisphere—is associated with a precipitate decline in the rate of new investment. But the decline in investment is at least as much the consequence, as the cause, of the fall in the rate of profit. Something of the same **phenomenon**—viewed from a different angle—can be seen in the remarkable decline in the rate of growth of productivity in many of the older industrialised economies.

Again, the decline in the rate of growth of output—measured variously in relation to investment or the growth in incomes—is simultaneously a cause and an effect of the fall in profitability. There is a tendency on the Left to dismiss talk—much of it emanating naturally from Tory and **right-wing** Labour monetarists—of a profits crisis. There is also dispute on the Left as to whether—if at all—workers are responsible for this decline in profitability. The fact is that the **primary** reasons for the long-term decline in profitability lie quite outside the workers' responsibility and have to do with a whole range of unpredicted (indeed unpredictable) changes in the international market leading to anarchic investment and production decisions made by individual capitalist firms and industries blind to the impact of their decisions on their fellows.

This said, the extent to which workers and their trade unions are successful in defending the real value of their wages and in defending their jobs must contribute to the total crisis. Wage demands do affect the rate of profit in particular enterprises while the more workers are able to keep threatened jobs, or factories, or whole industries in existence, the more their actions necessarily impede that restructuring of industry which is a precondition to economic recovery **within capitalism**. To exclude workers' actions from any analysis of the overall capitalist crisis is to mystify the economic system and to resort to the politics of 'conspiracy theory'. One form this takes, even on the far Left in Britain, is the belief that always and at all times the capitalists are in a better shape than they claim. Paradoxically, such 'militancy' encourages reformism both by diverting attention from the roots of the crisis in the **system as a system** and by disarming trade unionists when the employers can convincingly display that the profits cupboard is actually bare.

In the older, 'Northern' industrialised economies the profitability crisis has generated the **inflation/unemployment** epidemic which has undermined confidence in traditional Keynesian, state-interventionist, demand-management economics. This has opened up the ideological space in the system to make possible the monetarist revival. But as the cyclic recession starts to bite and preoccupy politicians and decision

makers—even at the expense of concern about inflation—monetarism comes under challenge.

The choice before governments like Mrs. Thatcher's is to pursue their monetarism to the furthest logical conclusions demanded by the situation or risk potential political disaster by retreat and a 'U-turn' back to intervention. But to pursue monetarism to its furthest extremes requires a belief that the power of the trade union movement has been decisively broken and that it is incapable of mounting any counter attack in defence of jobs, conditions and work-place organisation.

The evidence thus far suggests that the trade union movement in Western Europe (particularly in Britain) has been badly shaken and ideologically disarmed by the impact of the monetarist offensive. But it is far from having been defeated let alone destroyed. By and large money wages are keeping within spitting distance of inflation—thus preventing any significant restoration of profit margins in threatened enterprises and industries. The defence of jobs has been signally less successful but we are still a very long way from the wholesale closures of entire industries needed if the re-structuring of British and European capitalism is to proceed.

Given this uncertain balance of industrial power between the trade unions on the one side, and the employers and the Government on the other, the trend will be for the employers to turn on the Government. The worse the profits squeeze becomes the more we can expect the pressure for state intervention to grow—to cut taxes and interest rates and, if necessary, to mount rescue operations of the type that led to the Heath Government 'nationalising' Rolls Royce, Alfred Herbert and so many others in the early 1970s.

The other factor undermining monetarism is its inability to show results within its own terms of reference. The key index for British monetarists has been the Public Sector Borrowing Requirement since this, in current conditions, determines how much the state has to resort to the printing press and thus fuel inflation. But the combination of inflation and recession itself will tend to boost the PSBR—both by cutting government fiscal revenue and increasing state spending on unemployment and social security. It is very difficult to see how the Government can make the off-setting cuts in state spending to compensate since the resulting unemployment and economic deflation will itself tend to push the PSBR up again.

The pressure for a '**U-turn**' is, therefore, fuelled both by the immediate profits and potential bankruptcy crises and also by a loss of intellectual faith in monetarism by the employers and Establishment commentators as it is seen not to produce the goods. But periods of intervention only 'buy' shorter and shorter periods of relief for the British economy. To the extent that the restructuring of the economy is delayed by intervention (and its traditional allies—reflation and incomes policy) the ground is laid for worse inflation and deeper recession thereafter. The net result is that

the state sector is left with a bigger and bigger first aid department carrying a financing load which the 'productive' and profitable sectors of the economy are too weak to sustain without a further erosion of profitability and a further exacerbation of inflation.

There is an additional exogenous factor which is tending to deepen periods of recession and restrict periods of upturn. The steady rise in the real cost of oil is important for two reasons. Firstly it transfers economic resources from the oil consumers to the producers—that is to say from economies with a marked ability to absorb capital and those with obvious socially and politically limited ability to absorb and employ oil surpluses.

The result of the mismatch between the OPEC surpluses and their re-employment in the world economy is clear even if the exact measurement of that mismatch is difficult. The best estimate is a loss of about one to two per cent in world economic growth and a rather faster loss of growth in world trade. True, the international banks are flush with oil money (for the OPEC oil states have not devised any way of dispensing with the recycling role of the banks). But the banks have to have regard for the profitability and 'security' of their investments. Demand for OPEC surplus funds is most marked on behalf of third world, non-oil-producing, developing countries where profitability and even security of investment is most in question. This gap between the funds available in the international financial system and their re-employment represents a net 'deflationary' leak from the world economy.

The picture looks somewhat different from the standpoint of a third group of countries—the newly-industrialised nations (**NICs**). Their very existence represents a challenge to socialist theory which predicted that none of the ex-colonial developing countries would make it to the degree of industrialisation and economic growth witnessed in South Korea, Taiwan, Singapore, Brazil or Mexico. They are rapidly moving from dependence on the cheap labour-intensive heavy industries to more sophisticated, high technology industries.

The very existence of the **NICs**—following on the trail blazed by Japan—has added an exacerbating element to the **structural** problems of world capitalism. These countries are typically adding to **international** productive capacity in precisely those industries which are most marked by profit and productivity declines in Western Europe and North America. Sometimes—though not always—it is the same multinationals which are expanding modern steel works or motor plants or shipbuilding yards. But the result is the same to put those industries in the older **core** countries of the capitalist world under even greater competitive pressure than they would otherwise be.

Of course this process is ridden with serious risks for the capitalist classes in those newly-industrialised countries—and for the multinationals with whom they are so often partnered. It is difficult for them to borrow

the capital needed to fuel the rate of economic expansion set in train by their **industrialisation**. They are typically authoritarian dictatorships without the advantages in terms of political stability of 'normal' democratic safety valves. That makes the system vulnerable to even limited economic and social **discontent** as witness recently South Korea. A re-awakening labour movement in these countries poses a potentially deadly political threat which, in the older capitalist states, could be at least partially defused by reform possibilities within existing parliamentary and trade union politics. Even so, the economic 'miracle' of their industrialisation and international super-competitiveness is impressive, and destabilising for the world system.

We are witnessing—on a world scale—a partial restructuring of international capitalism in sectors that are crucial to employment—away from the older centres of industrial development to a highly selective—but geographically dispersed—penumbra of rapidly industrialising economies. From the point of view of capitalism **as** a world system this process makes a great deal of sense; indeed it is difficult to imagine a future of sustained growth for the world system unless there is some episodic re-allocation of resources, reflecting changes in the international division of labour. It is what happened in Western Europe after the 19th century rise to industrial predominance of Britain and—in the years between and just after the Second World War—between Western Europe and the United States.

This is, however, not how the process is viewed from the standpoint of Western European or North American capitalism. This is partly a question of the potential scale of the restructuring of the world system which is now taking place. Take the steel industry for example. All the current projections about the rate at which modern, highly-advanced new steel-making capacity is being developed **outside** Western Europe and the US suggests that—even if there were no prospect of a lengthy economic recession—there is no way the bulk of steel making in these areas can return to profitability.

The outlook is similar for textiles and shipbuilding, while a similar nemesis may be awaiting industries as diverse **as** motors, electrical and electronics and important sectors of engineering. What recession in the older capitalist economies means is that the vulnerability of these industries to decline and obsolescence accelerates.

There is no way in which the Governments of Western Europe can allow the scale of destruction to their traditional, national industries required as a result of changes in world productive capacity. Of course some restructuring is under way and is directly responsible for much of the present epidemic of unemployment in the EEC countries. But measured by the needs of the world system, these changes are taking place too little—and too late.

The reluctance of West European capitalism to make the scale of switch

in its industrial base called for, has another important effect. It involves the national states in increasing the direct and indirect, hidden and open subsidies to 'inefficient', unprofitable industries. The scale of state support for its declining industries, particularly in the state sector, is a major factor pushing government expenditure upwards and thus feeds the dramatic growth in national money supply.

State subsidy for the unprofitable industrial sectors is a necessity imposed on governments not primarily because of the political and social consequences of seeing these industries disappear. It is also because their collapse would push into unprofitability a further layer of industries which supply or are otherwise dependent on the loss-making sectors.

According to the pure gospel of monetarism, the wholesale abandonment of loss making should be followed by the appearance of alternative, potentially profitable enterprises. Indeed the classical function of slump in capitalist economies is to lay the basis for these new industries by clearing out the **loss-making** 'deadwood' and—in the process—driving down the cost of labour to the point where its re-employment becomes profitable.

The gospel bore greater relevance to reality in times past, when wage movements responded more directly to changes in the labour market and when the impact of the market among predominantly small independent firms made price competition particularly important. It is still truer of the United States than it is of Western Europe. But in all the older industrialised capitalist economies the growth of giant multinational firms whose pricing policies are determined by much wider factors than the state of internal market competition and the growth of big **trade** unions capable of defending real wage levels at a time of falling employment and profits, have made the link between monetary restraint, recession and reduced inflation much more problematic.

The giant firms tend to price up in times of recession in an attempt to generate the cash flow needed to finance investment, promotion and the very high level of **fixed** costs with which they are typically faced. No doubt there is a level of unemployment which would undermine the **wage-**bargaining strength of organised labour, but in countries such as Britain, it is almost certainly at levels where the bulk of British industry would, by definition, have already disappeared.

It might be argued that if it takes such a radical degree of **de-**industrialisation to break the **wage/price** spiral at the cost of organised labour, the employers and the government will, in the end, have no option but to pursue their policies to that point. Maybe. But that end is still some way off in terms of the political risks which even a Thatcher Tory government will be prepared to take in the interim.

Then there is the fact that British capitalism's political strength is related to its industrial base. **Of** course that base has to prove itself reasonably 'healthy' but no base at **all** is worse than a sickly base when it

comes to governments attempting to wield political influence in international trade or other negotiations.

There is no way in which the vacuum created by the wholesale disappearance of the bulk of traditional British industry will be filled by new, smaller enterprises. For a start, there simply are not enough infant capitalists—nor have there been for a couple of generations—precisely because of the crushing size of British industrial giants. That is not to say there are not and will not be marginal, profitable sectors and markets for the petty capitalists to exploit; but they can in no way compensate for the vast enterprises they **would** replace either in terms of employment generated or in terms of international industrial muscle power. The 'enterprise' zones to be created in the decaying inner cities **will** only give birth to fly-by-night sweat shops or existing firms which will move in from regions where they are still subject to normal taxation, as well as wage and environment regulations. The net addition to employment and industrial capacity will be minimal.

This might—indeed this **would** eventually change if wage levels could be driven low enough in the major industries. But the immediate effect of a big cut in real wages would be to depress the overall level of effective demand and thus productive activity in the economy as a whole. Since this is the objective of government and employer policy in virtually every other industrial country the result of such a 'Dutch auction' in wage cutting would simply be to drive down production and employment even further but without restoring to any one national capitalism a sufficiently decisive cost and profit advantage to encourage it to reverse the trend and begin to expand investment and output.

All these observations are open to qualification. The last recession did produce a slight cut in real wages and this was followed—after 1976—by a partial and shortlived industrial recovery. But the fact is that the system comes out of each recession with a higher—not a lower—residual level of inflation and with the trend in industrial productivity and profitability still pointing firmly downwards. All of which forces the state back into 'industrial intervention'—in other words to having to prop up and subsidise an even wider swathe of industries than before.

Is the downward spiral inevitable? Clearly not if an answer could be found to persistent inflation, progressively deeper recessions, declining industrial innovation in the older core economies. It would also help if the major world economic powers could agree on a coherent international monetary system which automatically recycled available funds to where they could be most profitably and most **securely** invested. But for as long as the wholesale collapse of the traditional, heavy industries in the core capitalist countries is unacceptable in political terms, there can be no consistent anti-inflationary monetary policy. For as long as there is political compulsion to 'support' loss-making industries on anything like the

present scale, massive budget deficits are inevitable.

Of course closures and bankruptcies do take place and will take place on a much larger scale in the present recession than in any previous post-war recession. But there is no way that any government, including Thatcher's, can see its way to abandoning wholesale the car, machine tool, textile, electronic or heavy engineering industries. Worse still the closures and redundancies that do take place—in other words the partial restructuring which is under way—has signally failed to reduce real wages to the point where profitable and sustained re-expansion can begin again. Unless some ruling class somewhere can inflict a truly massive defeat on its labour force it will not be able to take advantage of what restructuring is taking place.

To say that there cannot be sustained and reasonably non-inflationary growth in the present circumstances is not to say that no growth can occur. A monetary 'U-turn' by the Tory Government or a simultaneous turn to reflation by the OECD governments as a whole would purchase some period of growth. Indeed such an option is bound to look increasingly attractive as unemployment mounts and election dates near.

But recent experience suggests that the monetarists are right when they say that reflation in conditions of declining productivity and profitability will only induce a still greater inflation. In the case of relatively 'open' economies such as Britain's this can also be relied on to lead to vastly increased import dependence—thus accelerating the indirect **de-industrialisation** of the British economy.

Inevitably in this situation, the appeal of the import **controllers**—particularly the more sophisticated versions proposed by the Cambridge Economic Policy Group—is bound to grow. In theory, it should be possible for the British government to negotiate the right to impose across the board—non-discriminatory—import tariffs and quotas against a faster growth of output and demand in the UK. In theory, again, such a trade-off might enable other countries actually to end up selling more to Britain than if deflation and de-industrialisation are allowed to take their toll on real demand. It is true that there is no more effective way of controlling imports than through deflation and slump.

The response of the British Left to the prospect of import controls has been confused. The Labour and Communist Party Left see import controls as some amazing short cut to the development of a non-capitalist economy. Actually, the imposition of such controls would actually increase the control of the 'capitalist state' over the economy as a whole—a **quasi-corporatist** development which would immensely underpin pressure for control of wages and wew direction of labour.

On the other hand the opposition to import controls by sections of the revolutionary far Left sounds like nothing more than a left-wing defence of Manchester free trade school economics. It is one thing to oppose greater

control and direction of the economy by a bourgeois state. It is quite another thing to object to import controls because they hit other countries. This is an inevitable by-product of any kind of state control of foreign trade. Is it seriously imagined that such control of foreign trade (albeit as part of the socialist transformation of industry) would not 'discriminate against imports in any transition short of the development of international socialist planning of the world economy?'

In point of fact, the kind of import controls which would be taken by a Tory or Labour government would be bound to lead to retaliation. Even if, in theory, no one need suffer a decline in absolute trade levels, such controls would lead to a re-allocation of the international balance of trade; and this at a time when the industrialised economies as a whole have a collective balance of payments deficit with the oil-producing states.

Even the non-selective controls favoured by the Cambridge group defy the rules of the Common Market, GATT and the IMF. At a time when hidden and open protectionist pressures are on the increase throughout the capitalist world, this is probably enough to rule them out on any scale for a conventional Tory or Labour Government. It might not be enough to prevent a 'Left Labour' Government setting out down this path. But such would be the international reaction—aided and abetted by all those sectors of private industry at home who would stand to lose out in any trade—that even a Left Labour Government would be faced with some awkward choices very quickly.

It would either have to retreat precipitately at the first warning shot across its bows by the EEC, IMF or whoever. Alternatively it would have to replace private and corporate control of the economy with its own control—and at a pace which might exceed the political support of its electoral base. It is one thing to win power on the basis of a programme of wholesale socialisation, it is quite another to be forced to such a policy piecemeal and in response to **events** outside the government's own control.

There is one other possibility for securing some renewed expansion in the economic system—rearmament. Rearmament in the late 1940s and 1950s did contribute to the achievement of the longest period of stable growth in the history of capitalism. That was partly because expenditure in the arms sector underpinned employment and wage incomes. But also partly because military research and development was crucial in force-feeding capital investment in the newer technological industries—a process which helped sustain productivity and profitability levels even given the pressures of protracted full employment.

No one in their senses would suggest that Carter, or Thatcher or whoever, would boost arms spending *simply* to boost output, employment, investment and technological innovation. But they are well aware that higher spending on war preparation does, in the short term, have these effects. It is true that the 'benefits' of higher arms spending on the

economy are notoriously difficult to quantify. They were certainly far greater and more obvious during the last Cold War arms drive which began just before the Korean War in the early 1950s.

At that time—and even more so in the immediate period before the Second World War—there was a complementarity between productive and destructive industry. Typically the arms industries and civil industry had similar degrees of capital intensiveness and technological input. There was a discernible 'spin off' for every 'war dollar' spent in terms of jobs created and, more importantly, new technological innovation brought into the value-creating, strictly capitalist sector of the economy.

Today, **every** dollar spent (even allowing for inflation) purchases less sustained employment and less technological innovation. That is because the arms sector has become so highly specialised. Thirty years ago the skills and technologies needed to make tanks differed little from those needed to make tractors; or military and civil aircraft. However in the era of the multi-war-head nuclear missile there is only a very limited **civil** sector which can expect to benefit from getting its research and **develop-**ment on the cheap through state-financed arms spending.

There is evidence to suggest that inflation was kept relatively low, even during periods of prolonged full employment and rising real wages in the **1940s**, 1950s and early **1960s**, because exceptionally rapid technological innovation—obtained 'on the cheap' by capitalist **industry** as a result of state-financed military R and D—kept production costs down and sustained both productivity and profitability. As the arms sector veered away on a course of its own (including its space programme offshoots) from the generality of industry, this bonus for keeping inflation in check during periods of full employment gradually diminished.

Any gain in terms of employment, productive investment, or higher output achieved through a big increase in arms spending now is likely to be transient. It is likely to be more than outweighed by a worsening of inflation. And that is to ignore the political and social repercussions when it becomes appreciated that governments are increasing public spending on nuclear missiles, chemical warfare and the arms sector generally, while cutting back on education, health and social services.

A more attractive option is what has come to be called the 'Brandt Commission strategy' named after the recent report on relations between the industrialised and developing countries. The Brandt Report called for a radically new international economic and trading order. It was inspired by a form of global Keynesianism, involving the deliberate transfer of resources from the rich to the poor countries in order to bring the poorer countries into the global economic system and thus generate the market demand for the industrially advanced goods and services which the older capitalist countries can produce.

There are several obvious snags with the Brandt strategy. The first is that

it would require a truly massive transfer of resources—involving increased aid, improved terms of trade, debt relief and support for the export prices of raw material exporting countries. This could only be achieved by an international operation. But not all the advanced capitalist countries are under the same compulsion to invest in this way today in order to promote the benefits of increased world trade and prosperity tomorrow.

The very competitive relationships between the different capitalist economies makes it very difficult for them to reach a common view on what needs to be done, on what scale and by what means, to close the global development gap. The result tends to be that the rich capitalist countries reach agreement only at the level of the lowest common denominators and offer only minimal transfers of resources through official development aid and other means. And the rich countries make even this conditional on their continuing freedom to take back from the poorer countries—through repatriated profits and loan repayments—much more than they transfer in aid of all kinds.

The simple fact is that the private flow of investment far exceeds official aid. And private investment is increasingly concentrated on that handful of developing countries which has an outside chance of achieving economic take-off. To make matters worse, investment in those countries tends to flow into precisely those industries where the older capitalist countries have most excess capacity and are least competitive. In that sense the appearance of the **NICs** has exacerbated the world 'wide problem of industrial overcapacity and is adding another depressing factor to the international rate of profit—the ultimate motor and dynamic of economic growth.

For all of this, the short-term trade cycle has not been abolished. At the time of writing, we appear to be on the verge of a new downturn. The effects of this downturn will be difficult to separate from the consequences of the world-wide structural disequilibrium of international capitalism. Secondary factors such as the rapid rise in the relative price of oil or the precariously fragile stability of the international banking system could even threaten something dangerously like collapse.

A more likely perspective is that the world economy does go into a new cyclical downturn; that governments do eventually make the dreaded 'U' turn back to some species of Keynesian demand management. This can be expected to lead to a weak and hesitant recovery beginning perhaps sometime in 1981 or 1982. There is no reason to think that this recovery will not, in its turn, give way quickly to yet another and more serious downturn by the middle of the decade with inflation and monetary policy as far beyond control as they are now.

This perspective is bound to be affected by Britain's North Sea oil reserves. Indeed to listen to some Keynesians, they see this asset and the government revenue it will generate over the next few years as about the

only chance for financing a return to expansionist economic policies.

There is no denying the importance of North Sea oil. Even according to the latest, more sober estimates of the Government energy 'Brown Book', self sufficiency in oil will be achieved—for a period of about a decade—in the next year. Exchequer revenue which totalled **£2.2** billion last year could rise to £10 billions annually over the next few years in spite of the slower rate of exploitation. This is, of course, due to the dramatic and continuing rise in the real price of oil internationally.

It is no easy matter to calculate the overall economic effects of North Sea oil. For a start its impact must be put in the context of higher international oil prices generally. Britain's economic fortunes are still going to be more dependent on the growth of overseas industrial markets than on oil revenues directly. Yet the higher OPEC prices are pushing overseas markets into a steep decline. The loss of 'national income' from this contraction seems likely to be greater than the direct boost to national income from oil sales.

Oil sales will almost certainly mean that the British balance of trade and overall balance of payments will move into an even bigger surplus than might be expected during a period of recession. The effects of this will be to push up the international exchange value of sterling on world currency markets even further than it has already gone. In theory this relentless rise in the value of the pound could be offset by major reductions in interest rates. Some interest rate cuts must be expected in the coming months, but it seems most unlikely that the reductions can go far enough to offset the upward pressure of oil money attracted to sterling if only because inflation is going to remain in double figures and it is difficult seeing any establishment government—let alone Mrs Thatcher's—pushing down the real cost of money by very much.

As has been clearly established in recent months, the high and rising value of sterling is accelerating the slump in industrial profitability and—added to the recession—it is speeding up the process of bankruptcy and de-industrialisation. Yet, thanks to North Sea oil, there is little the government can do about it; foreign exchange controls on the outward movement of capital have had little effect and it is difficult to see what can be done to halt or reverse the flow of 'hot money' to London for as long as oil assures a strong balance of payments, particularly at a time when other international currencies can be expected to lose value more rapidly than sterling.

There remains the question of exchequer revenue. At the very least domestic public oil income should reduce the Public Sector Borrowing Requirement—a key financial index particularly for a government which gives top priority to monetary control policies. On the other hand, as outlined earlier, recession (particularly protracted stagnation in output) combined with protracted unemployment and continuing trade union

resistance to big reduction in real wage levels, all suggest that the PSBR will be under simultaneous upward pressure.

Even so there are bound to be increased government resources **provided** by oil which would be available for either improved social expenditure or making a start to the refurbishing of bankrupt British industry. But money is not enough for governments of the present type. Indeed the evidence suggests that it is not lack of funds which has impeded industrial investment and modernisation in recent years but lack of profitable or (within the relatively short timescale favoured by British capitalists) potentially profitable investment opportunities (witness the Wilson report on City finance markets). Without a drastic restoration of profitability it is difficult to see even the riches of the North Sea doing more than marginally slowing the relative rate of decline of British industry in relation to the world system.

Such a situation cannot continue indefinitely. The political tolerance of the middle class to debilitating periods of inflation and speculative growth followed by protracted periods of recession and decline is limited. If Thatcher's strategy fails, there may well be a polarisation of opinion in the middle classes. Some may be tempted by a Labour Government (even one which by virtue of its 'left' programme and the left-wing records of some of its leaders enjoyed some authority with trade unionists). Others may be tempted to play with the extreme Right or quasi-authoritarian figures who promise the smack of firm government. There should be a market for salon conspirators and organisers of businessmen's governments in the aftermath of a Thatcher defeat.

Further speculation as to different political options has little value. The question that begs answering is what will be the response of the Labour movement to any development remotely on the lines suggested above. Here trade union militancy is already seen not to be enough. Trade union militants do not live by industrial bread alone. The famine of socialist politics on the shop floor has directly fed the demoralisation and partial undermining of the shop steward movement. A link between trade union resistance to attacks on jobs, living standards and shop floor organisation, on the one hand, and a socialist vision of a practical, humane, alternative economic order, can halt the draft to the right in the trade unions.

Such a link will not be forged by the mere recital of old and **favourite**—(or new and unorthodox)—programmatically formulae. The gap between the particular on the shop floor or **trade** union branch and the general—in terms of an alternative socialist order—is too great to be credible. There have to be steps in between. It is a sense of the need for these intermediary steps which has inspired those trade unionists who have tried to work out a strategy based on 'alternative production'. Without some understanding and acceptance by rank and file trade unionists of the possible alternatives for running society—which means, in practice, practical alternatives for this

industry, in *this* place at *this* time—any fight back in the **trade** union movement will have an episodic, defensive and self-defeating character.

Only a fool would fail to realise the weaknesses of the socialist movement in Britain today. The Left is paying the price for office-seeking (whether in Parliament or the trade unions) at the expense of securing a real, mass base. But there is also evidence of a loss of faith in the 'status quo', and a related loss of confidence in the expertise and authority of those in power (a function of political disillusion and failure by successive governments). There is also a much narrower educational and cultural gap between rulers and ruled, managers and managed, (a function of the mass media as much as the post-war schooling system). Among socialists, there is greater realisation that the world is a small place whose problems require world-wide solutions. Another is the widespread adoption of **non-capitalist** cultural values illustrated, for example, by the numbers of school leavers who prefer social service employment to managerial careers.

A socialist strategy which embraces agitation and propaganda for 'alternative production plans' offers no guarantee that the credibility gap which has opened up between socialists and the mass of even organised workers will be quickly or easily bridged. That would be to ignore the roots of ruling-class ideology in the ranks of organised labour (racism, sexism, nationalism etc.). But it does offer one important way of closing the gap between what workers perceive as the reality of the present economic situation (unprofitability, decline in demand, uneconomic working etc.) and a perspective which links trade union **defence of** jobs and conditions to a perspective of how else industry could be organised.

In one important sense the agitation for the replacement of market criteria in production with those based on social need actually cuts with the grain. It is perceived widely to 'make sense'. It is also a means of combatting the real fears of bureaucratic control (remote officialdom laying down what will be produced and how in the now totally discredited Soviet model). It is one of the living links between day-to-day struggles against closures, redundancies and public spending cuts and a system of planned production for social need under democratic workers' control.

It also cuts with the grain in another less direct sense. In a growing number of ways the British economy is already 'post-capitalist', in the sense that purely market considerations are less and less central to production and investment decisions. Government control and state intervention is here to stay and everyone knows it. The logic of the market place IS giving way to a variety of other considerations. There is some truth in the Keith Joseph complaint that there are too many obstacles in the way of the capitalist entrepreneur in Britain today for the market system to work as it should. The 'obstacles' have been erected partly by working-class pressure (minimum wage legislation, regional planning, consumer protection) and partly by the capitalist state for its own interests

(preservation of loss-making prestige industries, arms spending, etc.).

Central to the Thatcher strategy is the belief that the clock can be turned back and the dynamic of the market place restored. It is a dubious prospect and one that does not command the wholehearted support of **the Tory Party**, the CBI or the bulk of the economic establishment. If there is a reaction away from 'monetarism', it may well be towards a kind of Tory corporatism (incomes policy etc.) which will actually weaken the play of purely market forces still further.

Thatcherism does seem, on this view, to be a temporary deviation on Britain's road to some kind of state capitalism. But a state capitalism which occurs through gradual social and economic change and not one created in the aftermath of a failed socialist revolution or the imposition of authoritarian rule from outside (as in eastern Europe) is unlikely to command the active loyalty of working people.

At present the political pendulum is set firmly to the right. But a determined socialist strategy, which attempts to link reaction to the present crisis (unemployment, social services, wages etc.) to the working-out of detailed alternative production plans covering the major industries (and by definition the major trade unions) could provide the ideological impetus to renewed advances by the Left.

There will be no shortage of critics pointing to the dangers of such an approach. There are those who see any concern with alternative planning as 'reformist' and, worse, encouraging class collaboration by militants and active trade unionists. Such dangers do exist. It would be surprising if some employers would not be tempted to try and divert any demands for 'alternative production plans' into safer waters. Indeed in most other countries, the ideas and suggestions of the work force about new products, processes and changes in work practices, are already treated more seriously than in Britain.

Fears that trade unionists will be turned en **masse** into collective entrepreneurs to replace the discredited marketing managers, investment bankers and the like is a fantasy. The point about alternative planning is not that there are lots of market-place winners which capitalist managements are too dim to see and exploit. It is that the market place is 'too marginal' today to give birth to those new products and processes which offer the possibility of reasonably guaranteed employment for the bulk of the industrial labour force.

The experience of the Lucas Aerospace experiment, still very much the lone pioneer in this area, was that the potential alternative production grew out of calculations about social need. What is needed throughout British industry today is an elementary census on what kind of social needs exist which are not satisfied and are unlikely to be satisfied by traditional market place, capitalist enterprise but which could be satisfied by existing work forces and (with modest chances in the first instance) existing plant

and machinery.

It should go without saying that any general acceptance by the trade union movement of a 'Lucas-type' strategy would immediately raise the question of the state and state power. For alternative production planning on any scale requires that working people have control of the banks, responsibility for the financing of investment—in other words have **control** of the levers of state power.

It would also be an additional means of raising all the issues surrounding public spending cuts. To talk about production for social need is to talk about ways in which 'productive' industry should be sewing the **needs**—among other things—of health, welfare and education. It is to develop a socialist perspective in which the social services are not seen as a 'drain on resources' but as part and parcel of the process by which society will add to its wealth-creating potential.

In the short-run it offers the possibility of trade unionists in the social services discussing with trade unionists in manufacturing industry about how their interests are actually and should increasingly be, interlinked. Why should not social service workers present industrial trade unionists with ideas about the equipment which they need and which they are denied at present?

Of course in the immediate future, at best, such an approach is really only meaningful as part of the battle of 'ideas' which forms such an important terrain over which the class struggle is fought today. But even the most elementary trade unionism requires some kind of political context in contemporary conditions, when 'national interest'—'economic realities' and a hundred and one other concepts which seek to limit the industrial and political options before working people are being deployed with such vigour and, it must be admitted, success by government and employers.

The Left cannot allow the arguments about what is 'practical' and 'realistic' to be coopted by the other side. To do so is to assist the process of de-politicisation in the broad labour movement which has made possible the retreats and the Tory counter-offensive of the recent past. An alternative politics cannot, of course, be proscribed independently of the actual struggle of trade unionists in particular industries. But the general approach can be canvassed and encouraged by the Left with profit.

What this means is transitional politics. There is no more reason to believe that ultimatum slogans or maximalist demands carry any more conviction among the mass of working people today than they did fifty years ago. That is not to say that the scope for reformist politics in the labour movement is exhausted. It is not. But in today's conditions of semi-permanent economic crisis the consistent reformist is obliged to reject the institutional limits of reformism or acquiesce in the counter-reformism which has increasingly been the hallmark of recent Labour governments.

What then of internationalism? The circumstances of the Left and the labour movements in the older capitalist economies is not so very different to those of the British Left and trade unions. Most of them are some way down the path of de-industrialisation on which Britain has been a trail blazer.

Internationalist politics at the moment is a question more of propaganda than of anything else. But surely it is possible for Left to speak unto Left about national economic and industrial strategy. Surely it is possible to air demands for international trade planning by countries with like-minded socialist governments to begin to arrest economic and industrial decline. This would mean, in the first instance, 'a European policy' for industries such as steel, shipbuilding, textiles, which are obviously facing similar crises.

If the Left fails to project its alternative strategy in an internationalist context, it will be all the more vulnerable to a nationalist, rightist backlash if the Tories lurch from pure monetarism to a 'little England' corporatist strategy. That is why mere anti-Common **Marketism** is not enough—indeed in and for itself it is another glaring ideological gap in the Left's political armoury.

Of course to speak about a socialist 'European' strategy is itself unacceptably abstract. What it means, in the first instance, is the exchange of experience and analysis on the Left in Europe. Secondly, it implies agreement on at least an outline socialist programme which conceives of the socialist reorganisation of society on a European basis. This would imply the application, on a European basis, of a planned international division of labour but one based on the principle of production for social need. It might involve, in the interim (and it could be a protracted interim) to a world-wide socialism, a confederation of socialist states in Europe. In the here and now it **would** mean the coordination of trade union struggles against unemployment, austerity, falling living standards, but in the context of a Europe-wide struggle for a different social and political order.

Even to put this down in black and white is to invite the charge of utopianism. But might it not be more 'practical' in a situation where purely reformist, national political perspectives simply do not carry credibility with a larger and larger number of militants? Of course to win the advanced guard of industrial militants to such a programme is not to win the mass of the British, let alone the European working class. But it is the essential first step. In a prolonged period of economic crisis, with sections of the middle class turning sharply to the right (and, in so doing influencing the climate of 'public opinion' which so largely shapes popular working-class attitudes) and with the present lurch back to Cold War stances between the nuclear blocs, the time is surely overdue for the Left to come to terms with its declining influence and prepare the political ground for a counter-offensive?