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class struggle



and the



economic cycle

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The class struggle and the economic cycle

by Alan Woods and Ted Grant

Introduction

The present document was written over a period of three months before October 2000. The intervening period has amply demonstrated the correctness of the analysis in general lines, and even in particulars.

In the past six months, the exaggerated optimism of the economic commentators has given way to a mood of anxious foreboding. Those who previously assured us that the New Economic Paradigm had forever eliminated the boom-slump cycle now assure us that, although the boom has ended, we are heading for a so-called "soft landing".

In the USA annual GDP growth was revised downwards to 1.3 per cent - from the previous estimate of 2 per cent. US manufacturing is in a deep recession. And although consumer spending continues to rise by about 1.5 percent per annum, this is the slowest pace in nearly six years. This sickness has spread from the USA to Asia and Europe, like a creeping paralysis.

However, although the process is clear, we are not in a recession yet. So far, what we have seen is a global slowdown - growth continues but at a slower rate.

This delay in the process has had some important implications for the class struggle. Over a period unemployment figures have fallen in most of the advanced capitalist countries. (Of course, this will change in the coming period, and in some countries unemployment is already beginning to increase).

For quite a long period the number of strikes in practically all the advanced capitalist countries was at a historically low level. This was a consequence of the previous period where the workers had suffered important defeats.

Added to this was the process of de-industrialisation in some areas. In many of the older industries, such as coal and steel, hundreds of thousands of jobs were destroyed. This had an important impact on the class struggle, as these were precisely those industries where the trade unions had been strong in the past. In the new industries (such as the notorious call centres) there was no trade union tradition.

However, a period of prolonged boom was

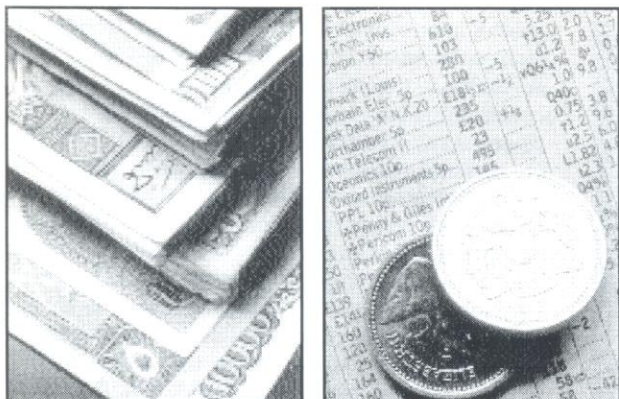
inevitably going to have the effect of strengthening the working class and giving it renewed confidence. Thus we have seen what seemed to many as a surprising development of important strikes in a series of countries. The most striking of these were the two recent general strikes in Greece. They were probably the biggest general strikes since the fall of the colonels' junta in 1974! What was striking about these two events was the level of participation and the new layers that were brought into the struggle.

These developments are not isolated to Greece. We recently saw the general strike in Galicia (Spain) which was a resounding success. Now the pressure is on for the trade union leaders to call a Spanish nation-wide general strike. In Italy recently we saw an important metalworkers' strike. In Britain also, we have witnessed a series of strikes on the railways, the London Underground and among the postal workers.

The tide is beginning to turn in Europe. But we have also seen important developments in the former colonial countries. Last year there was the successful general strike in Nigeria. Over the past year there has been a series of strikes in Bolivia.

What we can expect to see in the coming period is an intensification of the class struggle. New layers will come into the struggle and as a result previously non-unionised industries and workplaces will be unionised. Out of these struggles the workers will regain their confidence and a new period will open up, where the previous period of low levels of struggle will become a thing of the past and the workers will once again be in a position to challenge the capitalist class and offer a socialist alternative to all the ills now facing humanity.

Fred Weston



Once again on the World Economy



The capitalist system moves in a never-ending cycle of booms and slumps. That has been the case for the last two hundred years. The cycle of booms and slumps, however, does not have a fixed and regular character. To begin with, the length of the cycle has always been somewhat flexible. In Marx's day it was an average of 10 years, but in the years of upswing after the second world war it was considerably less, something like 5-6 years, or even less. The exact length of the cycle is therefore not a principled question for Marxists. What is necessary is to analyse concretely the nature of the cycle, and try to establish how it will most likely evolve. The prolongation of the boom undoubtedly has an effect on the whole rhythm of the perspectives. Twelve months

ago it seemed to us that following the crisis in Asia and Russia we would move fairly quickly in the direction of recession. We never put a date on it, however it is true to say that we did not think that the boom would continue for as long as it has done.

In mitigation, we must repeat what we have already said many times: the task of economic perspectives is not, never has been and never will be, a precise science. It is impossible to be specific about economic perspectives and frankly one should not try. In the best scenario, such predictions are no more than an educated guess. We calculated that the world would be moving in the direction of recession in a relatively short time scale and it turned out that we calculated wrongly. However, we were not alone in this error. Many of the leading

bourgeois economists (with the exception of the supporters of the New Economic Paradigm) had the same perspective.

Things did not work out as we had anticipated and we must frankly admit our mistake and draw the necessary conclusions. Such an error cannot be considered fundamental, but it is a fact, and we must readjust our time-scales accordingly.

Bourgeois illusions



The American economy has been growing at an annual rate of about 5 percent until recently, that is an impressive rate. Yet not all bourgeois economists are happy with this situation. Under normal circumstances they would already be thinking about applying the brakes. But these are not normal times! The President of the US Federal reserve Alan Greenspan has been praised for not raising interest rates. Here we can permit ourselves to make a little prediction: the same people who are praising Alan Greenspan today will be kicking him tomorrow! As *the Economist* correctly points out, the chairman of the Fed is behaving in an irresponsible manner. It is clear that the present frantic rate of growth cannot be sustained indefinitely. Nor can the breathtaking rise in stock exchange values. *The Economist* can afford to be objective in giving advice since it is several thousand miles distant from the scene of the action. It is always easy to be objective about one's neighbour's marital or financial difficulties than one's own. Unfortunately, neighbours do not usually take much notice of even the

most friendly advice.

The American bourgeoisie appears to have taken leave of its senses. Like the Roman priests and soothsayers consulting the entrails of dead animals, they look for any augury that suggests that the US economy is cooling down to the point that it reaches some hypothetical rate of growth that (they imagine) can be sustained indefinitely. They have about as much chance of finding this non-existent point as the alchemists had of turning base metal into gold. In the meantime, by taking no action to detain the mad rise of share prices and slow down the rate of growth, the Fed is acting as an accomplice to the economic equivalent of a head-on car-crash. It is a bad case of drunken driving, and will involve a large number of victims who were not looking where they were going.

Sooner or later this American Stock Market bubble boom is going to burst with serious consequences - and not only for America. That is why *The Economist* has been pleading with the Fed for the past two years to put the brakes on, to take a little bit of air out of the bubble before it bursts. But

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the problem is that in every boom in history the bourgeois are afflicted with the self-same illusions: "capitalism has solved its problems, something radical has changed, everything is different, there won't be another slump". And as a corollary, "class struggle is off the agenda, there will be no more revolutions". And always it ends in tears.

The central assertion of the bourgeois economists is simply stated. This is the longest and most sustained boom in history. It is arguably longer than the Vietnam War boom of 1961 to 1969, it has lasted for 115 months if one accepts that it began in March 1991, as they claim. It is driven, they argue, by an entirely new method of production, involving revolutionary information technology, such as the Internet and computers. This, they assert, has radically altered the cycle of capitalist development, such that the old cycle of booms and slumps has been abolished. This theory, which is very popular in the United States, is known as the New Economic Paradigm.

To back up this theory, the advocates of the NEP allege that the advent of globalisation represents a fundamental new departure which compels us to rethink all the laws of economics. The advent of globalisation has created a vast market for capital. It has opened up every nook and cranny of the world for capitalist exploitation. The rapid expansion of world trade has undoubtedly been one of the main impulses for the present boom and has helped to sustain it. However, as we have frequently pointed out, the phenomenon of globalisation was predicted and explained by Marx and Engels in the Communist Manifesto. Nor is this the first time that globalisation has existed. In point of fact, it is possible to argue that there was more globalisation and a

greater international division of labour before 1914 than at the present time. Certainly this was the case in relation to the international movement of labour.

Nevertheless, world trade has undoubtedly played a key role in reinforcing and prolonging the present cycle by providing a huge outlet for goods and services, while simultaneously acting to cheapen the price of most products and dampen inflation. The threat of competition from low wage economies has also until recently had a depressing effect on wages in the advanced capitalist countries. Although the extent to which this is the case has been disputed, and is in any case difficult to quantify, the threat of a big transnational motor company to move its operations, say, from Britain to the Czech republic, is certainly a sword of Damocles held over the heads of the workforce. The hostility of trade unionists to "globalisation" is not unrelated to this economic blackmail.

As additional proof of their case they point out that inflation is very low. And it is true - at least for the moment, that, with the exception of oil, prices have remained low. Until recently inflation was about 1.9 percent in America, which is historically low, at least for the post war period. Unemployment has fallen, and in America stands at a 30 year low. Above all, there has been a boom in labour productivity, the basic motor force of the economy. All these arguments are being put forward to justify the argument that the present boom can go on forever.

Rapid growth



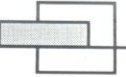
At first glance, the facts provide powerful backing for NEP theory. Since 1995 growth has averaged 4.4 percent and unemployment has fallen to about 4 percent. Most importantly productivity has risen at an annual rate of 2.8 percent. This has led many people to assume that there has been a radical change in the US economy that will permit the present boom to continue indefinitely.

The conclusion of this theory which we are invited to accept is that the capitalist system has radically changed, that the capitalists have finally managed to control the system (or, more correctly, the market simply controls itself), and that consequently, slumps are henceforth ruled out. If this were really the case, of course, Marxists would be compelled to rethink everything. What is at issue here is not just one or two little details. If the New Economic Paradigm is correct, it would mean that the economic basis of Marxism has been falsified, that the three volumes of Capital must be consigned to a museum of historical antiquities and, at the very least, a question mark would be placed alongside the whole political programme and policy and perspectives of Marxism. The purpose of the present article is to show that none of these assertions are true, and that the so-called New Economic Paradigm does not stand any critical serious evaluation.

Let us begin with the first argument, which relates to the length of the present cycle. It is true, as we have already pointed out, that the boom has now lasted 115 months. However, this point requires qualification. If we take the first four or five years from 1991 to 1995 this was an extremely sluggish boom, characterised by

extremely low figures of growth, low investment and high unemployment. As a matter of fact, for most workers in Britain, Europe and also in America, it felt more like a recession than a boom. This fact was recognised at the time by all serious bourgeois commentators, who referred to it as "joyless boom". *The Economist* recently pointed out that: "Up until 1995 most people thought that there was a recession." This little detail appears to have already been forgotten by the NEP people. Therefore when we refer to the length of the present boom, we are really talking about a period of five years - from 1995 up to the present time. This is still a respectable length of time for an economic expansion, but falls far short of the exaggerated claims made in some quarters about the present cycle.

Not only was the boom more limited in time than is usually asserted, but also it was until recently extremely limited from a geographical point of view. In effect, until quite recently, it was mainly an American phenomenon. There was a significant development of production in America, but this was not reflected in other countries, or only reflected to an insignificant degree. This refers particularly to Europe, where the boom has only really begun to take off over the past two years and then in a very irregular manner. To a certain extent Britain experienced growth more in line with the USA (although far weaker than the latter). This partly reflects its extreme dependence on the USA, to which it has been reduced to a virtual satellite. This will have serious consequences for British capitalism, whose industrial base has continued to be eroded during the boom. The fact that it is so tied to America means that, having entered the boom early it will also be one of the first to go into recession, which



will hit Britain hard.

Some other European countries have registered significant growth, although in most cases this has been a fairly late development - a by-product of the boom in America. Soaring demand in America, a high dollar and the weakness of the Euro has enabled the European capitalists to boost their exports to the USA. Ireland has had a high rate of growth. More recently Spain has also experienced a boom. But growth in Germany, the traditional motor force of Europe, has (up till a short time ago) been sluggish, with a high rate of unemployment. The weakness of Europe in general and Germany in particular is reflected in the sickness of the Euro. Incredibly, Schroeder has recently stated that Germany prefers a weak Euro, as this will make her exports more competitive - a striking reversal of the traditional German position. However, the weakness of the Euro is a luxury for which the European capitalists will pay a high price. Already there are symptoms of an increase in inflation in Europe. This will put pressure on the European central Bank to keep interest rates high thus creating a permanent drag on growth rates.

If one looks at Japan, the traditional powerhouse of growth in Asia since the second world war, the situation becomes still clearer. Japan has remained in a recession for the last 10 years and only now it is beginning to come out of it. Even so, the recovery in Japan has such a feeble character that it cannot play the same role as in the past. Moreover, it is not going to last since it is based on entirely artificial foundations. The fact that Japan which used to be one of the main motor forces of the world economy is in such a mess itself represents a fundamental change in the situation.

Then there is Asia itself. It is necessary to remind ourselves that East Asia was held up for years as the salvation of the capitalist system. It would be highly instructive to re-read now what the bourgeois wrote in 1992 and thereafter concerning Asia. It was all Asia, Asia, and more Asia. They even wrote about a supposed "Asian model" which was alleged to permit permanent high rates of growth uninterrupted by recessions. As we



explained at the time, there was nothing new in that. As far back as the mid-19th century, Engels wrote in the third volume of *Capital* about the illusions of the Lancashire cotton manufacturers con-

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cerning the apparently limitless prospects of the Chinese markets. They actually said that if only every Chinese would put a couple of inches more in their shirt-tails, there would never be another trade recession in the English cotton industry. Identical arguments are now being advanced by the proponents of the New Economic Paradigm. As a matter of fact, there is nothing new in any of the arguments that are so confidently being advanced.

America - the key to the world economy



Let us now consider the position in the USA. That growth has taken place, and that this growth has been (and continues to be) significant, is not open to question. Yet this does not at all exhaust the matter under discussion. The question is not whether or not growth has taken place in the USA. The question is whether this growth has an exceptional character that represents an entirely new phenomenon, never seen before, and that, consequently, the very fundamentals of the capitalist cycle have been changed.

Anyone who knows anything about the history of the economic cycle will be aware that the same language and the same mentality always reproduces itself with tedious predictability at the peak of every economic cycle. As soon as there is an upward spiral,

anything goes! Yes, we're in debt, but we will get it all back when our shares rise. This can go on for some time, as we have seen. But inevitably the evil day comes when you no longer get your money back, when shares head steadily downwards, and the whole thing begins to unravel. All those factors that created the upward spiral at a certain point, turn into their opposite. Of course, one can't predict the exact timing; one can only make an educated guess. But what one can say with absolute certainty is that a critical point will be reached when the whole thing starts to unwind. And then the bourgeoisie will be in serious difficulties, all the more so for having put off the evil day for so long.

Contrary to the protestations that "the fundamentals are sound", the present boom

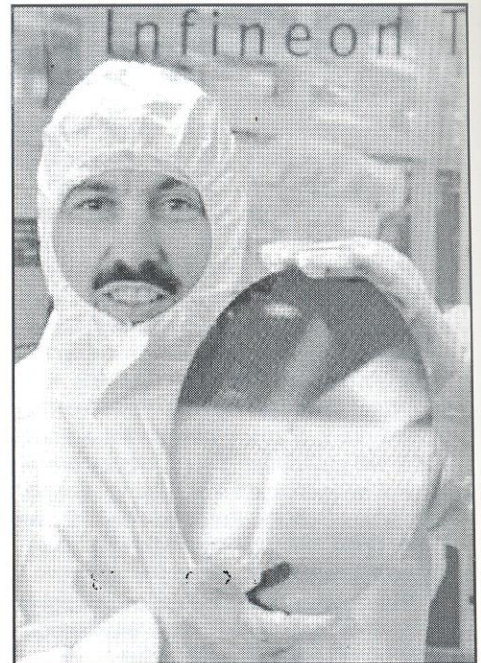
is a colossus with feet of clay. We have already explained in earlier documents that a large part of the money that is invested in the Stock Exchange is what Marx called fictitious capital - paper money with no real value. All serious bourgeois economists agree that the boom on the Stock Exchange is a huge financial bubble which eventually must burst. A large part of this speculative capital in turn is related to the orgy of mergers and take-overs. Do they represent a development of the productive forces? On the contrary. Every merger is followed by a cutting back of the means of production, closures and layoffs. By such means the capitalists attempt to reduce the productive forces to what they consider to be feasible within the narrow limits of the capitalist system.

Few people understand the stock exchange. They regard it as a bank, whereas in reality it is a casino, where one can make a lot of money, and also lose one's shirt. *Business Week* explains: "Baby boomers began searching for ways to make their sunset years more financially secure, and they poured money into equity mutual funds." (*Business Week* 14/2/2000)

People have in effect wagered their pensions and houses on the stock exchange. The effects of any asset deflation will therefore be severe. The social and political implications are clear.

All serious economists are concerned about the high level of debt in the USA: "America's private borrowing binge should never have been allowed to go on for so long," *The Economist* frets: "It has contributed to a perilous over-heating which is likely to make any 'landing' hard rather than soft." (*The Economist* 22/1/2000)

The reason why this situation in America is so alarming to the thinking layer of bourgeois economists is because the USA is behaving in the same way that Japan did in the 1980s. They know that, as a consequence, Japan has been stuck in recession for ten years, and can't get out of it. This is precisely a hangover of the previous period. That is bad enough in relation to Japan, but America is sustaining the world economy at the present time. Therefore the bourgeois on a world scale are seriously concerned about this situation. They are not at all reassured by the glib talk about a "New Economic Paradigm" emitting from the chattering classes in the USA.



Marx and innovation



As we have seen, the main area of expansion in the present cycle has been the new information technology. Former Labour Secretary Robert R. Reich believes that as much as 70 percent of credit for expansion belongs to computers and the Internet. From a Marxist point of view there is nothing new in all of this. It is already anticipated in the Communist Manifesto, never mind Capital. The Manifesto already explains what is ABC for any Marxist - namely, that the capitalist system, unlike any previous system in history, can only exist by constantly revolutionising the means of production.

It has become fashionable to talk about the far-reaching effects of information technology. Clearly these are important developments. But there have been such developments in every economic cycle. We refer here not to the trade cycle as such, but to

ment in new technology, with very far reaching consequences. Steam power was the basis of the Industrial Revolution. It revolutionised the production of textiles. This was followed by the railways boom in the second half of the 19th century.

In every cycle, the capitalists seek a profitable field of investment. At present this role is being played by IT. The Internet is without doubt an extremely significant and important invention, with enormous consequences particularly for a socialist planned economy in the future. But to argue that it has so modified the productive system that the boom-slump cycle has been eliminated is simply absurd. In every cycle, as we pointed out in *On a Knife's Edge*, there were inventions that were no less revolutionary, and often far more so. The effect of the railways, the steamship and the telegraph was far more revolutionising in linking

a future socialist society. However, from the fact that technology exists, one cannot deduce that the economic cycle does not exist. This conclusion does not follow, even from the point of view of formal logic. Seen from a historical perspective it is merely absurd. For example, in the 1920s and 1930s the most staggering technology existed: telephones, electricity, aeroplanes, cars, television and a host of other things, but it could not be developed. Why could it not be developed?

In order for a given technology to be developed, it must be in the interest of that class which has the material power to develop it. This can be shown even in ancient times. The Greeks invented steam power and actually built functioning models of steam engines. But it could not be developed and remained a mere toy and a curiosity. Why? Because the slave economy was based on an apparently unlimited supply of unpaid human labour. Why then should the slave-owners be interested in labour-saving machinery? An analogous situation existed under feudalism, which was based on the bonded labour of the serfs. The feudal landowner also had no interest in investing his surplus on machinery and technology. Why should he when he had at his disposal the labour of the serfs? Only with the advent of capitalism and the industrial revolution does the economy of labour time acquire a crucial importance, and this has been seen at every stage in the development of capitalism for the past 200 years. As Marx explains, capitalism is the only socio-economic system that has ever existed which bases itself on the constant revolutionising of the productive forces.

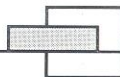
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broader historical periods that have characterised different phases of capitalist development, such as the period of the post-War upswing as opposed to the period between the World Wars, for instance. Even the most superficial examination of the broad cycles of capitalism will reveal that every one of them since the Industrial Revolution has been characterised precisely by invest-

the world together than the Internet. After the railways we had the motor car ("Fordism"), electricity, energy, chemicals, plastics, radio, television, aeroplanes, radar, nuclear power - all these represented great advances.

All these tremendous and impressive technological advances serve to provide us with a glimpse of what would be possible in



the capitalists are interested in investing in technology for its own sake. The bourgeois will invest only insofar as they get a suitable return on their investment, and not one moment longer. At a certain point in the investment cycle, the return on capital is no longer sufficient to warrant further investment. At that point, the capitalists cease to invest and the boom collapses. The mere fact of the exis-

tence of technology and productive potential is therefore no guarantee against a crisis. Rather the contrary. It is the uncontrolled flood of investment into new avenues that eventually gives rise to over-investment, over-production, a fall in the rate of profit and ultimately a fall in the mass of profit, leading to a crisis.

Investment and the rate of profit



As in every other boom in history, what keeps the whole thing going is investment. The advocates of the New Economic Paradigm point triumphantly to the flourishing of so-called venture capital which in 1999 alone invested 45 billion dollars in America. By venture capital is meant capital that is invested in the setting up of new businesses in the information technology sector. That is clearly an important amount, particularly if we compare it with the figure for 1990 which was 3.7 billion. In the first quarter of 2000, \$22.7 billion was invested on start-ups. The year before the equivalent was 6.2 billions. That is a huge increase in investment in the venture capital sector. This phenomenon has important implications for America - not just economic implications, but also social and political implications as well. A lot of this capital is raised from ordinary Americans through the Stock Exchange. In fact, the phenomenon of venture capital is closely related to the Stock Exchange boom itself.

Investment is the life-blood of the capitalist system. While it continues to flow in such copious quantities, the boom can continue. But in every case, sooner or later, the capitalist's urge to invest for profit bumps its head against the fundamental contradiction of the capitalist system: the contradiction between the unlimited appetite of the capitalists for surplus value which propels investment and the limited nature of the market and the consuming power of society. We have already pointed out (See *On a Knife's Edge*) how the process takes place. It happened in every single boom in history. When a new field of investment first appears, the capitalists who go in first make huge fortunes out of it. They make super profits. Bill Gates is the present day example. But the trouble is that the others follow suit: they are compelled to introduce the same technology. This creates a contradiction. The bourgeois saw an opening (and what an opening it seemed to be!) and they piled in. They encouraged a host of small investors to follow them, like so many lemmings heading for the nearest cliff. Naturally! They all wanted to get in on the act! But then the law begins to operate. The rate of profit which was originally immense falls to normal levels and then keeps on falling.

There is an inherent tendency to over-invest and overproduce. This is the central contradiction of the capitalist system: the contradiction between the unlimited thirst of the capitalist for surplus value and the limited power of consumption of the masses. The capitalists can avoid a crisis for a time by investing in what Marx calls Department One - the production of the means of production. This has been the case in the present boom. In the USA there has been heavy investment in the production of computers. This has been the main motor-force of the boom.

The most staggering sums have been invested in the new technology, particularly in the Internet. Internet shares initially soared to staggering levels. Yet many of these companies have yet to earn a cent of profit. This contradiction cannot last. Once the investors realise that the shares are not worth the paper they are printed on, a fall will ensue. This has already begun to happen. Amazon shares went from 103 billion dollars in December 1999 to 66 billion dollars in the space of just one month in the beginning of 2000. Subsequently, there was a sharp fall on the Nasdaq index, reflecting a crisis of confidence in new technology shares. Why? Because they are not earning any profit. Yet in spite of that fact Internet shares increased in the previous 12 months

by about 1,000 percent. This shows the staggering contradictions which are piling up and must sooner or later be resolved, just as an unpaid bill must eventually be paid.

The Asian crisis showed what happens when the market reaches the point of over-production ("over-capacity"). But in the present cycle, this decisive moment has apparently not yet been reached (we thought it would have been reached before now, but this has not happened). The expansion is continuing, driven by increased productivity. The investment - the motor of every capitalist cycle - keeps flowing. As long as this continues, the boom can still run. The money which is being spent on new investment is still having an effect in creating jobs, in developing and extending demand and credit, and thus prolonging the boom. There is, of course, no argument that all this is happening, but if one looks beyond the superficialities, a more worrying picture begins to emerge. What is all this capital being invested for? Of course, it is invested for profit. And if we ask: what is the likelihood of the anticipated profit ever materialising? The answer becomes increasingly obscure.

Productivity



The booming stock market is the most visible expression of what drives the system forward: the insatiable greed for surplus value which presents itself to investors as "manna from Heaven" - profits and dividends that appear as if by magic. This mad race to get rich quick undoubtedly played a role in accelerating the rate of technological innovation. Investors until recently were falling over themselves to offer money to anyone who promised some new innovation or other. This, in turn, served to boost productivity in certain sectors of the economy for a time. Let us recall that labour productivity boils down to obtaining a greater economy of labour time: getting the worker to produce more in a shorter space of time, and thus producing more surplus value. The importance of technology for productivity was shown by the results of a recent survey by the Bureau of Labour Statistics (BLS) which indicate that more than half of the productivity gains in 1995-8 came from accelerated technological change.

The process outlined above can be clearly seen in the present cycle. The first to enter the market did indeed make fabulous profits, far in excess of the average. But then others have poured into the same areas of investment. It is a very simple question: invest or die! Money flowed towards those ventures with the highest expected rates of return. New competitors have appeared in virtually every industry: telecom, Internet, computers. Thus the boom generated more capital, which has entered



all other areas of the economy: health care, insurance, banking, utilities, real estate, supermarkets, down to the local grocer's store. Cause becomes effect and effect becomes cause. The expansion of demand and credit feed off each other, driving the economy upwards. Profits (or the expectation thereof) fuels the stock market boom, and the stock market boom provides the funds for more innovation, more productivity, and more profits (real or imaginary). And so on and so forth...But this process (a "virtuous cycle" of growth) has definite limits.

In the first place, this expansion is not a matter of free choice or planning. It is driven by necessity and by the inner laws of capitalist accumulation. The capitalists do not introduce new technology for the fun of it. They are compelled to innovate on pain of extinction. Once Bill Gates had cornered a big share of the market for Microsoft, others were forced to follow suit, whereupon Windows is compelled to constantly upgrade its product, others try to improve on it, and so on. Of course, this does not prevent Microsoft from using its muscle to bankrupt its competitors and establish a monopoly position. But that is another matter. The main point is that they are all compelled to adopt innovations at an accelerated pace, whether they want to or not. They are compelled to invest ever growing quantities of capital and to hold down prices to compete

in a crowded market. The rate of profit rapidly falls to more normal levels. It is then a question of struggling to maintain profit margins - usually at the expense of the workforce

The process here described contains part of the reason for the low level of inflation which has characterised the present cycle - so far, at least. In every boom improvements in technology lead to a cheapening of commodities, and this cycle is no exception. Increased productivity generally means more growth and less inflation. We have seen the most dramatic fall in the price of computers and related products in recent years, and this is continuing. Initially this benefits companies, which can install the latest labour-saving machinery at a lower price. Thus, in the second half of the 1990s, rapidly falling prices for software and information technology sliced about half a percentage point from inflation.

Sooner or later, however, this process itself produces new contradictions. Marx explains that it is impossible to obtain surplus value from machinery. All that machinery can do is to add to the final product the value stored up in itself - that is, the socially necessary labour expended on its production. This value imparted by machinery is discounted by the capitalist as the cost of depreciation. Incidentally, depreciation is not only physical (rusting, wear and tear etc.) but also what Marx calls "moral depreciation", that is, obsolescence. The speed with which, for example, computers become obsolete, is phenomenal. Since the sums of money involved in this technology are very large, the first necessity of the capitalist is to get back the capital he has invested initially. As we shall see, this is sometimes easier said than done. As the cycle advances, and an ever-growing number of capitalists pile into the market, there is a tendency to over-invest and consequently to over-produce. Contrary to the illusions of the NEPers, the possibility of over-production, which is inherent in capitalism, has by no means been abolished by the new techniques of just-in-time production, and may well have been exacerbated by them.

Absolute and relative surplus value



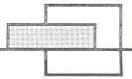
The advocates of the New Economic Paradigm have been making some extraordinary claims for new technology: some of which are justified, while some are not. New technology has undoubtedly increased productivity. The computerisation of the supply chain, allowing real-time monitoring of inventories and just-in-time production, they assert, means that production can never get ahead of sales. Thus, overproduction is ruled out. On the other hand, the continuing growth of productivity plus competition keeps inflation under control (in the USA, if we exclude food and energy, inflation has actually declined in the last period); thus, the Fed can afford to allow growth to continue without raising interest rates.

Even in relation to productivity, it is necessary to point out that while part of the increase in productivity that has taken place is due to new technology, much of it is not. Most of it is nothing new at all. It is based on the old familiar method: simple good old-fashioned pressure on muscles and nerves. It is what Marx referred to as absolute and relative surplus value, that is, the lengthening of the

working day and the intensification of exploitation. This is happening everywhere. In America, for example, in the last 20 years, the official working week has gone up from 40 hours to 50 hours (it is longer in practice).

Workers in the USA work long hours, taking two or three jobs in order to make ends meet. There are even jokes about this: for instance, President Clinton is having dinner with some business people. While they are sitting around a table sipping their champagne, the occupant of the White House is bragging: "Just look at our economy! I just created a million jobs!" At which point, the waiter, who has been listening impassively, butts in: "Yes, Mr. President I know - I have got three of them!"

This joke really hits the nail on the head. People are working long hours, working one job, two jobs, three jobs in order to make ends meet. It is a question of colossal pressure, every worker knows this. And that is no surprise to Marxists. Marx explains in Capital that under capitalism the introduction of new machinery does not signify a reduction of working hours but an increase in the



working day. The working day has increased inexorably everywhere in the last decade. That has happened even in France, despite the introduction of the 35 hour week. The French workers have come to realise the fact that the 35 hour legislation has been granted at the cost of surrendering all kinds of things. The introduction of so-called flexibility (in practice, casualisation) represents an attack on workers' rights and conditions.

The decisive factor, however, has been the merciless squeeze on wages which has characterised this boom everywhere. Merciless pressure has been exerted on workers to increase the amount produced and lessen the time needed to produce it in. Wages have consistently lagged behind productivity

gains. In America real wages up until recently had not increased for a period of something like 20 years. This cannot be sustained, as the bourgeois themselves admit. For some years, economists like Stephen Roach have been predicting a "worker backlash" in the USA, and there are signs that this is beginning. Labour shortages have begun to appear in the USA and other capitalist countries. There is particularly a shortage of skilled labour, which is causing an upward pressure on wages. That is why some capitalist politicians are calling for a relaxation of immigration controls for certain categories of workers. They are not in the least motivated by humanitarian concerns, but only by selfish, short-term economic reasons.

A new high-tech boom in Europe?



Some years ago the bourgeois imagined they had found an infinitely large market in Asia. They drooled on and on about China, where, they assured us, there was a market of 1.3 billion people. We said that this is childish, and for a very good reason. A market from a capitalist point of view is purchasing power, and where there is no purchasing power, there is no market. From that point of view there is not a market of 1.3 billion people in China, although of course it remains sufficiently large to interest the West. Now we hear the same kind of argument used in relation to new technology. There is no doubt that it will end up the same way.

Can the capitalists increase productivity by introducing new technology? This argument is increasingly heard in relation to Europe. Europe introduced the Internet later than the USA and this can give some extra improvement in productivity. Europe is ahead of America in mobile phones. The next stage will eliminate altogether the need for computers to access the Internet. In 1999 Europe spent \$200 billion on new IT and it is estimated that a further 30 percent will be spent this year. This investment, according to Smith Barney, an economist at Salomon, can boost productivity by 0.5 percent by the year 2003. Is it not possible that a new round of technical innovation in Europe can give the boom a new lease of life?

One of the arguments against the perspective of a slump is that there are many new products (and therefore, many new fields of investment) in the pipeline, notably, in the wireless areas, above all in Europe. The hope is that European capitalism, which has the edge over America in this field, can save the situation. But this argument misses the point. As we pointed out in *On a Knife's Edge*, the mere fact of the existence of new technological potential does not signify either that there will not be a slump, or even that this new technology

will take off at the given stage.

There has been a lot of noise about the prospect of a Third Generation ("3G") wireless network in Europe. But the sums of capital required to develop a new generation of smaller mobile "carriers" are truly breathtaking: anything from \$60 billion to \$200 billion. And what is the prospect of getting a decent return on these astronomic sums? Hazy, at the very best. The initial enthusiasm of investors has evaporated like water off a hot stove. Since March, the price of shares in this sector has gone down by 50 percent. Evidently, investors are voting with their feet! True, the big European companies, pushed along by cut-throat competition, are continuing to spend money on this technology. They are taking a big risk. The development costs alone are huge. Nokia, for instance, spent an incredible 9 percent of its total revenue on research and development - a total of more than \$2 billion this year. Will they get their money back? Ericsson, another important company in this field, is now struggling to keep its share in the crowded handset market, with a barely one percent profit margin.

Actually, it is not a bit of use arguing that there is a lot of new technology coming on stream: flat television sets, digital TV and mobile phones with Internet etc. Yes, all manner of wonderful inventions are, of course, possible. But we must not forget what Henry Ford said: "I am in business to make money, not cars." We know that all this technology exists. We also know that there is a potential in it to make money. However, between a potential for making money and actually making money there is more than a slight difference. In order actually to make a profit, you have to actually sell this stuff somewhere, somehow. In order to sell it you require a market. Aye! There's the rub! Sooner or later the new technology will come up against the barriers of capitalist production. Goods are produced to make a profit. In order to make a profit, they must find a market. A market

presupposes the existence of purchasing power.

It must be kept in mind that investment is always at its strongest at the peak of the boom, just before a collapse. For this reason, the collapse always occurs when least expected. This time will be no exception. The Achilles' heel of the whole argument is that productivity is no longer increasing as strongly as before. In 1999 labour productivity in the European Union's Euro zone rose by an estimated 1.9 percent. This was marginally less than the 2 percent registered in 1998. In Britain productivity is actually falling. This suggests that the increase in productivity has already reached its limits. After all, there are only 24 hours in the day, and the ability of the workers to produce more in less time eventually comes up against a physical limit.

It is already clear that the rate of return on capital is not what it was. [See article by Michael Roberts, *From Bulls to Bears*, <http://www.marxist.com>] The so-called law of diminishing returns is a vague and confused way in which bourgeois economists express the law of the tendency of the rate of profit to fall which was explained scientifically by Marx. The capitalists find that their investments in new technology no longer bring the same rate of return as before. At this point their enthusiasm for such investment begins to cool. This is shown, on the one hand, by the increasing reluctance of investors to risk their money on new technology shares, and on the other by the growing doubts about the perspectives of a new round of technological innovation related to the fusion of the Internet with mobile phones.



'The Coming Internet Depression'

Earlier on we showed that the whole of the American economy at this stage is based on one sector, that is, information technology. What is the nature of this technology? This same article in *Business Week* we quoted earlier explains that this sector is extremely volatile. Far from negating the cycle, the article explains, it will aggravate the economic cycle to the nth degree once the economy starts to slow down. And that is inevitable at a certain stage. The author of the article makes the following point: "Once high-tech growth slows, as it almost inevitably will at some point, these weaknesses [that is, the weaknesses of the NASDAQ share index] will feed upon each other setting the stage for a serious downturn." This analysis of *Business Week* is profoundly true, and is all the more remarkable coming from a journal which for years has been actively propagating the New Economic Paradigm. So if the intelligent representatives of Capital can see these things, we should be able to see them as well.

What *Business Week* is saying is that the present cycle, like all other cycles, depends on a variety of factors to keep it going. These factors cannot be taken in isolation from each other. They feed upon each other, causing a virtuous, upward-moving spiral of growth. But when the cycle reaches its limits, the spiral begins to unravel and unwind, one factor influencing another to produce a downward spiral that is uncontrollable. The factors concerned are the cost of capital investment, wages, raw materials, credit and demand.

As the cycle approaches the critical point, the most intelligent observers are beginning to sound a warning note. *The Economist* has been doing this for some time. But the tendency towards pessimism

is growing stronger all the time. The most recent - and significant - case is Michael J. Mandel, the Economics Editor of *Business Week*, who was until recently a firm supporter of the NEP. In his recent book, *The Coming Internet Depression*, he makes a sombre prediction: "There's a good chance the US is on the road to a downturn, and that downturn could turn nasty, brutish, and long if economic policy stumbles." (*Business Week*, 9/10/2000).

Last year, so-called venture capital invested about \$30 billion in start-ups and young companies, and at the start of this year their funding was running at an annual rate of about \$100 billion. This is the life blood of the boom in IT. Once it dries up, the whole process will stop dead in its tracks. And there are signs that it is already beginning to dry up. *Business Week* explains: "The pace of innovation is now tied to the growth of the economy and the rise of the stock market. Drops in the market and economic slowdowns are likely to lead to less and less funding of start-ups and a consequent slowdown in innovation. And that's where the cycle begins to feed on itself, according to Mandel. Less innovation means less productivity growth, a tendency for inflation to rise, and pressure on companies to raise prices. Those developments, in turn, threaten to further slow the economy and depress the market, leading to a *pernicious downward economic spiral*." (our emphasis)

Once the capitalist cycle reaches the critical point where quantity becomes transformed into quality, any external shock can bring things to a head. Thus, there can be nothing more superficial than to attribute the crisis to such things as the rising price of oil, as when the recession of 1974 was described - misleadingly - as "the oil crisis". It is wrong to attribute the crisis to the price of oil, because, in the first place, the rising price of oil is the product of the cycle (though this can be aggravated by external factors, such as war in the Middle East); in the second place, oil prices merely brought to a head a process that was already prepared in advance.

Marx explains in the second volume of *Capital* that the process of capitalist accumulation can be broken in any number of places. Once this occurs, one factor influences another to create a downward spiral. This is what economists like Mandel are worried about. There are several factors that could produce such a reverse: high oil prices, the growing disparity between the Euro and the dollar, the slowing down of growth in the IT sector, the nervousness of the stock market, leading to a panic. Any one of these can bring the boom to an end.

However, none of them in and of itself constitutes the cause of the crisis which is rooted in the capitalist system itself. The relation between the immediate incident that sparks off a crisis and the crisis itself is the relation between accident and necessity, or, to use a chemical analogy, the action of a catalyst which brings to a head a change which was already inherent in the chemical compounds themselves.

Actually, the "new economy" is far more volatile than most people realise. An increasing number of economists have begun to realise that it carries within itself the seeds of its own destruction. Not the majority, of course, they remain firmly wedded to the illusions of the NEP. But the view is being increasingly challenged. Mandel writes: "Just as forecasters seriously underestimated the growth potential of the US economy in the 1990s, they are now underestimating the possibility of a steep decline in the near future." (*BW* 9/10/2000).

Mandel realises what the Marxists have been saying all along: that all the factors which make for the upswing will turn into their opposite at a certain stage. The very same factors will propel the economy downwards and make the slump much more severe when it finally breaks. He writes: "The upside of the tech cycle, as we have seen in recent years, is a long, inflation-free boom, with soaring tech spending, rapid innovation, and a buoyant stock market [It should be noted that, with the partial exception of inflation, which has accompanied booms after 1945, *though not before*, these are the features of *every* capitalist boom. AW and EG] But when the tech cycle turns down - *as it inevitably will* - the result could be a *deep and pervasive downturn*. Technology spending will flatten out, innovation will slow, and the stock exchange will slide sharply. Hit hardest will be the New Economy workers, companies and stocks that prospered the most in the explosion of the 1990s". (*BW*, 9/10/2000, our emphasis.)





The Stock Exchange

It has always been the delusion of the capitalists that their profits come from outer space, that "money begets money". This optical illusion is particularly clear in the realm of the stock market, where the value of shares is endowed with a magical quality that makes the efforts of the old alchemists to derive gold from lead look like child's play. Here wealth is apparently coined, not out of base metal, but out of thin air! But in reality wealth comes from surplus value, which is only another way of saying the unpaid labour of the working class. Though the stock market may soar into the stratosphere and for a time seem to defy the law of gravity, it will always be brought back to earth with a bump. When it finally dawns on investors that the value of their shares will not be recovered, that the firms quoted on the stock exchange are not making the anticipated profits, then a slide will start which will be difficult to control. The bottom line is always the profitability of the companies, and that depends ultimately on their ability to squeeze more labour from the physical and mental exertions of the workers.

The price of shares, especially, though not only in the USA, have soared to astronomical levels. This is important, but it is not the key to the boom. That must be found in the growth of the productive forces. Nevertheless, all these factors are dialectically interrelated, and affect one another. The present boom, like any other boom depends on investment. As long as there is investment, the boom can continue. What is the position? The rate of growth in technical spending has accelerated from 11 percent in 1997 to 13 percent in 1998 and to 16 percent in 1999. That is a very important level of investment. It means precisely that the boom can continue for a while. But there is another side of the coin, namely, that any sustained slowdown of growth in technical spending, for example 5 percent, would immediately force a sharp downward revaluation of the high-tech stocks or even of the global market.

There is a psychological element in every economic cycle, the element of the herd instinct that drives the whole thing up - or down. While things are going forward, the capitalists and their theoreticians have the delusion that everything is under control. Oh, we can control, we can regulate, we can manage, we have learnt the lessons! Better still, we don't have to control: the market will take care of itself! Yes, all is for the best in the best of all capitalist worlds! Such delusions last just as long as the expansion lasts, and not a moment longer. As long as the money keeps rolling in, people feel good and keep on spending and getting into debt. No problem! The consumers keep on spending; the factories keep on producing; the bankers keep on lending; the spendthrift keeps on borrowing; the speculator keeps on speculating; the venture capitalist keeps on investing, and over-investing, right up to the moment of the crash.

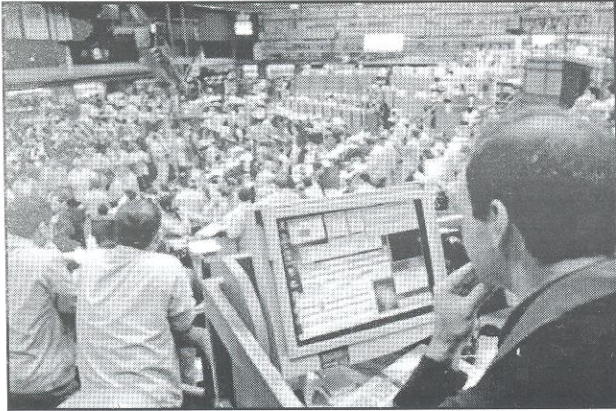
Once it gets started, a boom is a self-reinforcing process: while things are going forward it feeds on itself. While billions of dollars can be made by the

click of a mouse, while the Stock Exchange is booming, people will take risks. The whole atmosphere creates a kind of superstitious mentality (gamblers are always superstitious). The general recklessness affects even the so-called intelligentsia. Recently one smart Alec in America proposed a change in the curriculum in schools to teach the future generation of politicians and bankers how to take risks. Let's all take risks! Let's live dangerously! The flood of investment from venture capital has gone to "new economy" companies with little or no basis in fact. *Business Week* comments: "Companies with no more than a business plan have raised unseemly amounts of cash just by offering shares to the public. Since the expansion began more than 5,000 companies have come to the stock market to raise more than \$300 billion." (*BW*, 14/2/2000)

The Nasdaq Index rocketed from under 500 in March 1991 to 4,000 in February 2000. In the same period the Dow Jones, representing traditional stocks, went up by "only" 300 percent. Even "respectable" companies like JP Morgan have been dragged along. The venture capital mania has even gripped the CIA! Some law firms accept these shares instead of fees. But many of the ventures involved have no more than a "bright idea with a 'new economy' flavour" as *The Economist* put it. This is not new. It is the same old speculative capital that plays a role in every boom starting with the Dutch tulip scandal of the 17th century. All this conspires to push the market up and up, thus preparing the way for a nasty fall. The falls on the Nasdaq index earlier this year were the shape of things to come. However, for the time being, the stock market continues to defy all logic. After the March crisis Nasdaq shares fell by 27 percent - quite a steep fall. But according to *Business Week*, even after that, it is still overvalued by at least 22 percent. The capitalisation of all US stocks now amounts to a staggering \$17 trillion. In Japan the figure is "only" \$4 trillion. This wealth would be more than sufficient to solve all the problems of world poverty if it were put to productive purposes.

Even before March, there were signs that the Nasdaq shares were in trouble. Thus, Amazon.com shares stood at \$106 in December 1999 and by 16 January they had already fallen to \$66. They slumped because people began to notice that the company's losses were continuing to increase despite the fact that revenue was constantly increasing. How could that be? In this case it was the result of constant price-cutting in an already crowded market. In other words, as a result of overproduction. Amazon was losing money on every sale. Nor are they the only ones. Other "new economy" firms such as Priceline.com Inc. and E trade Group Inc. have the same problem. The persuasive propaganda of these e-companies puts one in mind of the firm that advertised during the South Sea Bubble a share "the nature of which will be revealed later".

Following the insane logic of capitalism, it is possible that shares will rise a lot more before it all



ends in tears. In 1998 stocks amounted to 54 percent of household assets in the USA according to the Federal Reserve's consumer-finance survey. Yet in 1989 the figure was only 28 percent - an astonishing increase in ten years. 40 million new investors have poured onto the market since 1991.

By 1998 80 million Americans (that is, about 50 percent of all households) owned stocks.

There is a relation between the stock exchange boom and the real economy. Indeed, it is far closer than in the past. The stock exchange boom provides the capital for new investment which boosts productivity, while increasing the market by boosting people's incomes and therefore demand and credit. On the other hand, the increased productivity provides the prospect of profits and dividends that fuels the boom on the stock exchange. One thing feeds on another. They cannot be separated.

During the second half of the 1990s, capital spending rose at an annual rate of 11 percent, far faster than forecasters had predicted. In large part this reflected the falling cost of investment goods in that period. Meanwhile, the Internet and other new technologies meant that firms had to invest to keep up with their competitors, even if there was no immediate return on this investment. However, this could not last forever. Sooner or later, the capitalists require a return on their investments. If that does not materialise, investors will lose interest and the investments will dry up.

This is the Achilles' heel of the process. So-called risk capital is generally very sensitive to fluctuations in the economy and the stock market. It is

a nervous kind of beast that can rapidly take flight at the first scent of danger. For this reason, a crisis can occur without warning and spread with lightning speed throughout the whole system. Mandel comments: "The IPO market closes almost immediately in response to market turmoil, and venture capital funding typically follows the market with a lag of a year or so." For example, venture financing dropped sharply in the years following the 1987 crash. From 1987 to 1991 venture capital fell by more than 50 percent. In the same period, first-round financing for new companies fell by 75 percent. The effect of such a radical drying-up of capital investment in the new technology is self-evident.

It is sometimes argued that there can be a crisis in the Stock Exchange but it won't necessarily lead to a slump. In general, that is correct. A Stock Exchange crisis does not necessarily lead to a slump. It depends on a variety of factors. For example, in 1920, there was a stock market crisis which did not immediately lead to a slump. The Stock Market crisis was followed by a boom that lasted until 1929, when it took on a catastrophic character. Again, the Stock Market crisis of 1987, did not lead directly to a recession, which occurred after a delay of two and a half years. It is therefore theoretically possible that a Stock Market crisis might be followed by a recovery, and then a deeper slump. Such a perspective is not ruled out. But the piling up of contradictions suggests a different outcome. Once the "correction" starts they may not be able to control it. Given the extreme interpenetration between the stock market and the real economy which has become one of the most striking features of this cycle, it is hard to see how a serious disturbance in one sector would not have the most serious consequences in the other. This is similar to the situation which existed in the 1920s. That is what they are worried about. They know that history can and does repeat itself.

Limits of the US market



The whole world now depends upon America. No less than one fifth of the output of the entire world is produced there. In fact, it is the American economy that is pulling the rest of the world at present. Growth in Europe has recently improved but on average remains uneven and sluggish. After a decade of recession, Japan has now attained a growth rate of 1.8 percent - a miserable figure for the former power-house of Asia. And the fact that at this moment in time it is all on the shoulders of America cannot be a sustainable position. The Americans realise this and therefore are putting pressure on the Japanese to reflate their economy and buy more goods from the rest of the world, especially Asia.

The Japanese have a very bad press, which is a bit unfair. The Japanese capitalists have done their best. The Japanese Government has invested staggering sums of money in the Japanese economy. And what has the effect of that been? Japan, a country which previously had no debts, is now the most indebted country on earth - at least in terms of the public debt. As a percentage of the Gross Domestic Product the public debts in Japan are greater than in Italy. That also is not a sustainable position. They cannot continue to shovel public money into the economy in the hope that it will take off, and in any case the resulting growth, as

we have seen, has been very low. Everything therefore hinges on the fate of the American market.

As we have already mentioned, there have been colossal investments in one sector - IT. But the statistics would seem to indicate that the market in America must already be reaching its limits. What is the motor force for the growth of the US market? Two thirds of real GDP and nearly all the growth of GDP for the past two years in the USA depends on consumption. This, as we have pointed out, is related to the Stock Exchange boom. Part of the reason for this phenomenon is that a growing number of companies are paying their employees in share options. Thus, any fall in the value of shares must have a serious effect on consumption and credit.

What has been maintaining the market in America? The main factor has been the unprecedented growth of private and corporate credit, i.e., debt. America now is the most indebted country on earth in terms of private debt. Although Japan has the biggest public debt, American private and corporate debts are both staggering and unsustainable. The problems associated with borrowing on the back of rising assets are well known. The problem with borrowing on the back of rising asset values is essentially this: that debt is fixed in value whereas the value of assets, such as shares and

property, is not. Moreover, as we know, what goes up must eventually come down.

Japan public debt, as we have pointed out, is worse than America's. Japan's gross public debt in 1990 was 69 percent of the Gross Domestic Product; it is now 128 percent. This is a staggering figure. But in fact that figure understates the seriousness of the position because it does not take into account things like local government debt, pensions which will have to be paid in the future. According to some economists, if you include these items, the true figure for the debt would be in the region of 250 percent of GDP. This means that the debt is out of control. The only reason why Japan can get away with this, is that it is also the world's biggest creditor nation. It owns a lot of money abroad and therefore the Japanese can get themselves out of this scrape if necessary by calling in their foreign loans. The effect of such a move on world money markets is another matter.

The position of the US is very different. Private debt in America (that is the combined debts of companies and consumers), is now 132 percent of GDP. Marx explains in *Capital* the role of credit. Credit is the means by which the capitalist can expand the market beyond its natural limits. This should be fairly obvious to anyone who has contracted a debt - which applies to most people nowadays. The credit card industry has been booming of late. With these bits of plastic one can buy a car, a television set, or even a house, without the need for money. There is, of course, only one little problem with that. This credit must be paid back - with interest: "But to the extent that much of America's recent borrowing has been on the rosy assumption of everlasting growth, low interest rates and rising share prices, many borrowers and lenders may, sooner or later, be in for a rude shock." (*The Economist*, 22/1/2000.)

If we look at the evolution of debt in America, the seriousness of the situation becomes immediately clear. Total household debt in America has increased from 85 percent of personal income in 1992 (that is at the beginning of the present cycle) to 103 percent in 1999. This constitutes a staggering increase in debt. And it is not only households that have increased their levels of debt. The same is true for companies. In the year to September 1999 total debts of non-financial companies rose by 12 percent - the fastest rise since the mid-1980s. What did they use the money for? Partly to finance high-tech investments, it is true. But a very large proportion of the borrowed money was to finance share buy-backs. In the last two years, for instance, non-finance high-tech corporations increased their debts by \$900 billion, while they retired a net \$460 billion of equity. In other words, over half was for the purpose of share buy-backs.

It is true that current rates of interest are low in most countries. That is partly why people are spending so much: this is in fact a spending boom. The main reason why people in the USA are spending so much is the Stock Market boom which seems to provide people with a never-ending supply of new purchasing power. There has been an historically unprecedented increase in Stock Exchange values, generating an equivalent amount of wealth. To quantify this, 54 percent of American household income now comes from the Stock

Exchange. But there is another side to this phenomenon. If there is as much as a dip in the Stock Exchange, or even if it just stops growing, the effect on the market will be immediate and severe. Interest rates will inevitably rise, and when they do, the squeeze on borrowers will be severe. Higher interest rates

and a decline in asset prices must affect consumption and demand, producing a slowdown. Given the sheer number of people involved, and the huge expectations that have been created during the boom, the psychological and political effects will be enormous.

It is quite clear that by such an unprecedented expansion of credit they have gone far beyond the limits of the system. There is no particular mystery about this. If you increase credit, of course you increase the market. The trouble is, as we have already pointed out, that credit must be paid back and this is causing serious concern among serious economists. The further they go beyond the natural limits of the market, the greater the risk of a sharp contraction of credit - and therefore of a corresponding contraction of demand - when the process is brought to a sudden halt. The possibility of a so-called hard landing is inherent in the situation. Worse still, we can enter into a downward spiral in which cause becomes effect and vice-versa, producing an uncontrollable and self-reinforcing downswing. The stage would be set for a prolonged depression, similar to that experienced by Japan for the last ten years.

The example of Japan is instructive. What has been taking place in America is precisely what occurred in the 1980s in Japan. It is a dangerous position, and the serious bourgeois are concerned about it. Prior to the 1980s this was one of the most powerful economies in the world and one of the main locomotives of the world economy. The economy was booming and the Japanese capitalists were making a lot of money. The Stock Exchange was growing, house prices were rising. And credit was expanding - just like the USA now. Then the bottom dropped out. Japan has still not recovered from the shock. Why? In the boom of the 1980s, the Japanese were getting deep into debt.

The level of debt of Japanese households in 1985 stood at 89 percent of disposable income. By 1989 the figure had grown to 112 percent. That is not far off the present American figure. Of course, as long as the Japanese economy was going forward everything was fine. In the same period (1985 - 89), net household wealth in Japan rose from five times disposable income to 8.5 times as a result of soaring house and share prices. The net wealth of companies also rose sharply relative to GDP. So nobody was inclined to ask many questions about the soundness of all this credit. But then, is that not the case with every bubble in history?



From boom to slump



At the moment, America is still riding high on the crest of the wave. Yet the most experienced observers are worried. All the traditional symptoms of "overheating" which we would expect to see at the peak of a boom are making an appearance, as we have seen. Labour and product markets are tight. As productivity growth slows and investment begins to fall off, companies will not be able to absorb wage increases without raising prices. Moreover, the slowing down of innovation will also signify an end to the advantages gained earlier from the cheapening of commodities. This will mean that the fall in the cost of new technology will be less marked than previously was the case.

We have often talked about the inevitability of a slump, but perhaps we have not dealt sufficiently with the mechanisms through which this comes about. How is the boom in the USA likely to come to an end? Of course, there are various possible scenarios. It is not possible to foresee every variant. But this is not necessary. It is sufficient to understand the fundamental processes (which were already explained by Marx in *Capital*, especially the third volume). The main concern at the moment is of "overheating". What does this mean? It means that the present rate of growth is unsustainable and is giving rise to all kinds of inflationary pressures: specifically, the rise in demand and the appearance of labour shortages creates an upward pressure on prices and wages. This in turn puts pressure on profit margins and raises the spectre of a rise in interest rates. We might add that this scenario is precisely what one would expect at the peak of a boom, just before a collapse.

The American economy is already displaying many of the symptoms associated with the peak of a boom. Growth is more than five percent - well above what is considered to be a sustainable rate - while unemployment is at a record low and labour shortages have begun to appear. Commodity prices - notably oil - have started to rise, and wages must inevitably follow. These elements have been traditionally associated with "over-heating": "With the world's mills operating at close to full capacity, 'we are forecasting a shortage of steel,' says Peter Marcuse, managing partner of World Steel Dynamics, a Tanglewood Cliffs (NJ) - based consultancy firm. He predicts that prices of hot-rolled steel could spike up by 50 percent later this year." (*BW*, 31/1/2000).

Some estimate that by 2002 demand for skilled labour in the EU will have outstripped supply. This must mean a rise in wages and a fall in the rate of profit. The rising price of oil is just the most striking manifestation of the fact that the boom is reaching its limits. This is clearly understood by the most intelligent observers. *Business Week* wrote on January 31: "What could stop the New economy from going global? Simultaneous rapid expansion in Europe, the US and Asia could push up the price of world commodity markets."

At this point in the cycle the Federal Reserve would be already applying the brakes, raising interest rates to dampen demand and inflation. But this has not happened. Rates have been increased so slowly that the rises have made little or no difference. The stock market has continued to soar. But the warning signals are there.

In the first half of 2000 venture capital was still spending a huge amount on fuelling new technology - about \$100 billion was invested on research and development (R&D) from this source - about 40 percent of the total. However, this is now running out of steam. "The risks of providing money to a start-up with no track record and no collateral are too high, the odds of success too low", observes Mandel.

So far this year there have been a number of sharp falls on the stock market, affecting hi-tech shares above all. Up till now the hi-tech boom has been driven by the availability of easy and abundant venture capital. Almost anyone with a bright idea and the desire to get rich could immediately find access to the necessary capital to get started. The speculative fever reminds one of other periods, like the South Sea Bubble, when everyone wanted to bet their money on apparently profitable schemes which turned out to be not worth the paper they were written on. In the heat of the boom, one does not look too closely at the details. Everyone wants to get in on the act. Nobody wants to be left behind.

Does this mean that a slump is just around the corner? It is still not possible to give a definite answer to this question. The American economy is a huge economy which enjoys considerable reserves. We have already seen how this has allowed it to keep on growing against all the odds and to shrug off problems like the slump in Asia and several panics on the stock markets. Indeed, paradoxically, these things may have helped to prolong the boom by dampening down inflationary pressures and taking some of the steam out of the stock exchange.

For the moment such a slump in investment is probably not on the horizon (short of a major shock to the world economy). The present boom still has its own momentum. But sooner or later, when the market begins to reach saturation point and returns on capital start to go down, investors will begin to dump this stock, and its value will go into decline. Productive investment - the lifeblood of the economy - will dry up. At this point we will be in a slump.





Europe and America

It is no accident that the bourgeois economists make such a fuss about globalisation. The unprecedented growth of world trade has been one of the main factors in driving the present boom. But globalisation has not removed the central contradictions, it has merely reproduced them on a massive scale. The contradictions are manifested in the growing antagonisms between America and Europe. Europe has only just begun to participate in the boom in the last two years, spurred on by the expanding American market and the weakness of the Euro. However, they cannot escape the negative consequences of this weakness. A weak currency means rising inflation; this in turn forces Europe to raise interest rates, which threatens to undermine the recovery. Simultaneously, the yawning trade gap with America has heightened tensions between the USA and Europe which the WTO has been powerless to resolve.

The boom in the USA is producing all kinds of distortions. America is sucking in a lot of imports. This is aggravating America's trade conflicts with the rest of the world. It explains why the talks broke down in Seattle. This was nothing to do with the demonstrators, but flows from the fundamental contradiction between America and Europe, and between America and Japan, which will inevitably deepen. It also means a heavy current account deficit. The current US deficit with the rest of the world is the equivalent of 4 percent of America's GDP. If it were to remain at this level for ten years, the US foreign debt would be more than 50 percent of GDP. This is a staggering figure, which cannot be maintained indefinitely. Nor is this the only contradiction; there are many more imbalances.

We have already pointed out the extraordinary level of private debt in America. But there is another side to this. At present, the USA depends on the willingness of foreigners to hold a large quantity of dollar denominated assets. The US is in hock to the rest of the world! At the present time America's total liabilities amount to no less than 1.5 trillion dollars, or 20 percent of GDP. These dollars are held by foreigners. All of this is defying the laws of gravity! The men of money do not normally hold assets in the currency of a country with such vast levels of private debt or such a huge current account deficit. Normally, the money would flow out of such an economy. The only reason why foreign capitalists continue to hold onto dollars is because of the exceptional position of the USA in the world economy, its sheer size and strength. This is also a reflection of the bubble economy. Even the international money markets are being temporarily carried away by the enticing prospects of easy gain. They also contribute to the Stock Market binge. But this situation cannot be sustained: at a certain stage the billions that have flowed into America will flow out again. The present dizzy rise of the dollar, which is unsettling world currency markets and driving the Euro down, will turn into its opposite. This will put pressure on the Federal Reserve to raise interest rates, at which point the bubble will burst, bringing the boom to an end.

Of course, interest rates do not themselves

cause the collapse of a boom. That is merely an optical illusion. Rising interest rates are just the last expression of the fact that the cycle has run its course and is approaching its limits. It is the final result of a whole series of phenomena that have already been referred to. At present, Mr. Greenspan seems determined not to increase substantially the rate of interest in America. However, events will compel him to do so. Once the foreign holders of dollars start to sell, there will be a stampede to get out of dollars. When that happens, Greenspan will be compelled to raise interest rates in order to prevent a sharp fall in the value of the dollar.

The end of the boom in the United States will have the most serious repercussions on a world scale. In fact, the same unsound character affects the world economy as a whole. Take the world-wide derivatives market for example. This is purely speculative capital, amounting to betting on the future movements of commodity prices and currencies. At the end of 1992 this market was valued at a staggering \$25 trillion. But by the summer of 1999 it stood at \$92 trillion - an unbelievable sum of money. This is a three-fold increase in less than a decade. The end of the boom will inevitably cause a general crisis in world money markets. These colossal amounts of fictitious capital will sooner or later have to be squeezed out. Meanwhile, the uncontrolled movement of speculative funds from one country to another will lend an extremely convulsive character to the crisis. This alone will add a new dimension to the crisis on a world scale. The bill for "liberalisation" and "globalisation" will then have to be paid.

The Asian crisis already gave us an idea of what will happen. The big banks and multinational companies (the "speculators") will seize the opportunity to make billions by buying and selling different currencies. Only this time their target will not be the won, the ruble or the bhat, but the dollar, the pound and the mark. This will impose a severe strain on international financial markets and the whole system of world trade. It is not excluded in such circumstances that the USA, Europe and Japan will enter into a race of competitive devaluations, as in the 1930s. Such a development would threaten the whole basis of world trade - the real basis on which the post-war economic upswing was erected. This is the scenario that most alarms the strategists of Capital.



A 'soft landing'?

A recession is inevitable. This is now accepted by all but the most stubborn adherents of the New Economic Paradigm. But the argument has been shifted to another issue: the likely severity of the slump. To some extent, this is a semantic dispute: will it be a slump or just a recession? What is the difference? Shakespeare once said: "a rose by any other name will smell as sweet." In actual fact, there is no difference between a slump and a recession. It is a question of historical usage. Before the First World War economists did not refer to slumps or recessions; instead, they talked about *panics*. There was a panic approximately every 10 years. This is a purely semantic argument. Later on, they thought that was a little bit inappropriate to speak of *panics*, since it was thought such emotive terms would only get people excited. So they changed it to a slump. This word was considered to be less objectionable than a panic. Then in 1929 they had a slump, after which everyone thought the word slump to be inappropriate. So they changed it again after the Second World War.

After 1945, they started talking about a *recession*. Recently, they have changed their minds yet again: now it is not a *panic*, or a *slump*, it is not a *depression* and it is not even a *recession*. It is a *correction!* This is, of course, the sheerest nonsense. Semantics apart, we are dealing with the same thing: namely, the same old cycle of boom and bust which Marx described in *Capital*. The rest is just words and, hair splitting. What we have here is the trade cycle, the normal cycle of capitalism, which occurs every so often for all the reasons which have been dealt with. The depth of the slump and its exact duration is impossible to determine in advance. These can and do vary. At the moment the bourgeois economists are hoping and praying for a "soft landing" and as we know "hope springs eternal in the human breast". But there is no guarantee that the much hoped-for soft landing will be achieved. On the contrary. All the factors are present for an extremely hard landing. Hence the worried tone that increasingly invades the editorials of the economic press.

As far back as February Eddie George, governor of the Bank of England was warning of the threat to the world economy and urging the financial sector to prepare for the next big financial crisis. In a speech to the City of London's annual banquet he said that Britain and the USA were "operating at close to overall capacity with ultimately unsustainable growth of domestic demand." He also warned that financial markets could "overshoot", unless banks and other financial institutions prepared themselves, "when the next storm breaks - as it undoubtedly will at some point - we will find ourselves again making things up as we go along".

"He said capital flows out of Europe were weakening the Euro and causing inflation, while flows into the US were fuelling consumer demand by pushing up share prices, and flows into Japan were driving up the yen and putting economic recovery at risk."

So much for everything being under control!

And what of the prospect for a "soft landing" for the world economy? Here Mr. George did not seem overly optimistic: "While it was possible these flows would gradually subside, he said, *we might see 'a more abrupt adjustment - in other words, a crash.'*" (*Financial Times*, 15/2/2000, our emphasis).

The unstable nature of the present situation was underlined by the sudden falls on the stock exchange earlier this year. This shows the underlying nervousness of the investors in relation to "new economy" stocks. This nervousness is now beginning to communicate itself to the most far-sighted representatives of the bourgeoisie.

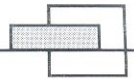
What is the likelihood of the next recession turning into a deep slump? To this question Mandel gives a conditional reply. It would depend, he says, on how the monetary institutions reacted: "If the Fed cuts interest rates aggressively in response to the unfolding tech downturn, then it could be relatively mild and short. But if policy makers dawdle and don't quickly move to counteract falling asset prices and slowing tech demand, then the downturn could morph into something deeper and more sinister, an Internet depression. Such a depression would start in tech and devastate the entire economy. And while government safety nets would prevent the 25 percent unemployment rates and shuttered factories that characterised the Great Depression of the 1930s, things could still be very ugly." (*ibid.*)

But Mandel shows no confidence whatsoever that the authorities will behave in this way: "Unfortunately, the odds of a bad policy mistake are too high for comfort."

He goes on: "But this sanguine conclusion assumes that policy makers will be able to recognise when the tech cycle turns down and draw the correct conclusions about how to react. In fact, policy mistakes are more likely when an economy is in flux and the old rules don't fit any more."

Of course the argument is often put forward that the capitalists "have learned from history". Hegel already answered this argument when he said that anyone who reads history can only draw one conclusion, namely that nobody has ever learnt anything from history. This is certainly true of the capitalists, the bankers and their governments who constantly repeat the same mistakes in every economic cycle. And that particularly goes for the economists. They did not predict the last recession, or the present boom, so it is hardly surprising that they (most of them, anyway) now think the present boom will last forever.

In the 1920s they also believed that they had "learned all the lessons". This, by the way, was in a period of furious economic expansion fuelled, like today, by new technology (motor cars, aeroplanes, etc.). This in turn fuelled a Stock Exchange boom which generated huge profits. And there was no inflation. At that time, the argument was put forward that there was not going to be a slump because they had set up the Federal Reserve Board (founded in 1913) with the express purpose of "managing the trade cycle". (They are always trying to "manage the trade cycle", but have never managed it to



date.) That illusion fell to pieces in 1929. All historical analogies are lame, of course. It is impossible to say whether the next slump will be of 1929 proportions or not. Nevertheless, the comparisons between the present bubble in America and the situation in the 1920s are quite astonishing. Barry Eichengreen, an economist at Berkeley University, says the following: "There are strong parallels, all of which make me worry. If you believe that history repeats itself, all the ingredients are there for a Stock Market-led downturn." Such warnings are not at all isolated.

The whole history of crises shows that the central banks rarely do the right thing at the decisive moment. We are not just referring to the experience of the 1930s. The Bank of Japan behaved in such a way that it managed to turn the stock market decline of 1990-91 into a depression which has lasted almost a decade. More recently, pressure from the IMF to raise interest rates seriously aggravated the Asian crisis of 1997. In all these cases, the bankers failed to recognise the real nature of the situation. The fact that Alan Greenspan now sees the world through "new economy" spectacles gives us no reason to suppose that he will show any greater understanding of the next slump. More than likely he will see it as a minor "correction" that does not require any dramatic action. As Mandel correctly points out:

"It's important to note that the economists who tell you today not to worry about a deep recession are exactly the same people who completely missed predicting the tech-driven boom of the 1990s, as well as the 1997 Asian crisis. Even after the crisis started, forecasters badly underestimated how bad it would be."

It is, therefore, very debatable whether

the Fed would reduce interest rates in reaction to a recession. This is not entirely a subjective question, as many superficial observers imagine. The behaviour of the monetary authorities is also rooted in the objective situation. Once the slump starts, the key decisions are to a large extent taken out of Greenspan's hands. They will be taken for him by the famous "market forces". This little detail has been overlooked by those who believe that the key to avoiding a slump is in the hands of individuals. Such a subjective view of economics does not correspond to historical experience. In fact, the ability of the central banks to influence the outcome of the world economy in decisive situations is quite limited at the best of times. The level of interest rates, for example, cannot be decided as a caprice, but must respond to objective economic factors.

A slump in America would inevitably be accompanied by a fall in the value of the dollar. The Fed would therefore be under severe pressure not only not to reduce interest rates but to increase them. Will the Fed ignore these pressures and simply cut interest rates to stimulate demand during a slump, as the text-books require? It would be a bold person who would bet money on such an outcome! The bankers' natural instincts would be rather to allow output to fall to what they regard as a "sustainable level". If, in order to combat the demon of inflation and restore the dollar to its former glory, it is necessary to endure the pain of unemployment (pain for the working class, that is, not for them!) then so be it! Such a position is quite logical from a capitalist point of view, and if it leads the world into a deep slump, then that is just too bad. Such a scenario is, in spite of everything, entirely possible.

But what if the Fed were to do the opposite and lower interest rates in a crisis? In a situation where confidence in the dollar was already low, such a move would lead to a further stampede from the dollar into other currencies, such as the Euro. The way would then be prepared for America to attempt to get out of the slump by exporting a mass of cheap merchandise to the rest of the world, especially Europe, whose products would be uncompetitive. The tensions between America and Europe and between America and Japan would grow a thousandfold. The whole fabric of world trade would be placed under enormous pressure. Since, in practice, this policy would amount to the USA exporting her unemployment to Europe and Japan, it would be resisted by the latter who would resort to a policy of competitive devaluations that would fatally undermine the WTO and throw globalisation into reverse with the most serious consequences for the world economic order. Even along this road, therefore, no lasting way out could be found.

Of course, sooner or later, the slump must come to an end and a new equilibrium will be found - until the next crisis. There is no such thing as a "final crisis of capitalism" in the sense of an automatic collapse. So long as the working class does not put an end to capitalism by overthrowing it, the capitalists will always find some way out. But the question is: what way? In 1914 and again in 1939, they found a way out on the path of war. Now this path is closed, for reasons we explained in the *New World Disorder*. Therefore, the only solution open to them is to put the burden of the crisis on the shoulder of the masses - the proletariat and the middle class.



A downward spiral

"When the next downturn starts," writes Mandel, "the virtuous cycle of the 1990s could start going into reverse. Instead of a rising stock market generating more funds for financing innovation, a falling market will reduce the risk capital for new start-ups. That will lead to slower technological innovation and productivity growth, depressing the stock market further. Investment will fall, inflation will rise, and so, too, will unemployment." (ibid.)

Even a slowdown of the US economy can start the ball rolling: "If the economy slows enough, even companies that still believe in the benefits of information technology will be forced to make cuts. It's a simple matter of arithmetic - tech spending now makes up 40 percent of business investment spending, so it will be hard to protect. Indeed, tech represents 30 percent of non-transportation equipment spending. *There is no other place to trim.*" (ibid., our emphasis)

There are indications that this point is already

being reached. Investors are no longer so keen on buying shares in innovative technology that has yet to earn much profit - or, indeed, any profit at all! Suddenly, a nervousness has taken hold of the stock markets, which affects particularly the "new economy" shares. This is expressed in the convulsive movements of the Nasdaq exchange that deals with such shares. This is an early warning of what is being prepared.

Once the companies begin to cut back on spending on technology, there will be an instant knock-on effect. Above all, the all-important sector of computer production would be hit hard by falling demand and squeezes on profit margins. The growth of unemployment will further depress demand, and so on. Mandel comments: "The first wave has already come this year, as struggling dot-coms have laid off almost 17,000 workers, according to outplacement firm Challenger, Gray and Christmas. As innovations slows, fewer people will be needed to create new products and companies,

leading to job cutbacks at high-tech firms. The lay-offs will eventually stretch from the telecoms to the software makers to the consulting firms.

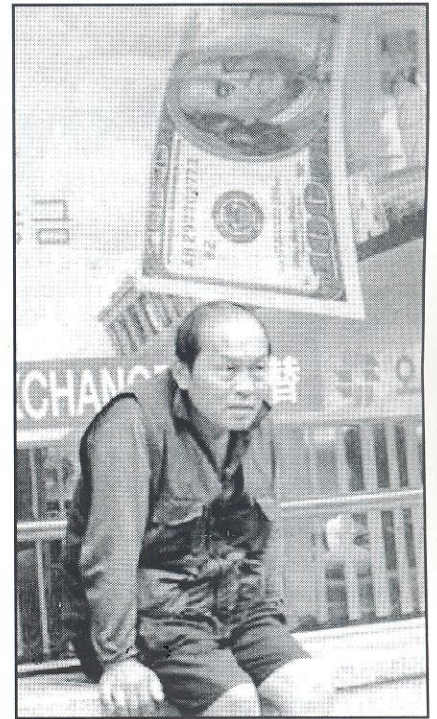
"Particularly vulnerable will be the floating workforce of temporary workers, independent consultants, free-lancers, programmers, and web-designers-for-hire, who have thrived in the boom. As of early 2000, such employees of temp firms made up a much larger 2.7 percent of total jobs, up from 0.6 percent in 1981. And that number does not include independent contractors or temporary workers directly hired by companies, who, according to the BLS make up at least an additional 6 percent of the workforce. These people will find that companies have a lot less use for them when growth slows down." (ibid.)

Mandel thinks that a serious crisis might be delayed for another two years or so: "Even

if the stock market turns out to have peaked in early 2000, it could take another two years or more until the economy conclusively falls into a slump." (ibid.)

This is possible, but not necessarily the case. The instability is now such that any serious shock can bring the whole unsound edifice tumbling down. The impulse may come from outside the sphere of economics. For example, a war in the Middle East, or even a serious deterioration of the Palestinian conflict which leads to an interruption of oil supplies to the West, would send the price of oil soaring towards \$40 a barrel or more. Such a shock could be the detonator of a crisis on a world scale as in the mid 1970s. But in any case, the exact timing of the slump is immaterial.

The important thing is that Mandel agrees that such a slump is inevitable.



Effects on perspectives

At the present time the boom is continuing, though how long for it is impossible to say precisely. It could continue for one or two years more, or it could collapse far sooner. It is impossible to say. What is possible to affirm with certainty is this: that the continuation of the boom does not mean that the class struggle is off the agenda. Quite the opposite. To the degree that the present boom continues in Britain, in America and above all in France, it will create the conditions for an explosive development of the class struggle. Indeed, the most perceptive strategists of Capital like Stephen Roach have long been predicting that the existence of a labour shortage in the USA will inevitably create what he calls a "worker backlash".

From the standpoint of the industrial struggle, the continuation of the boom should lead to a stepping up the struggle for higher wages, which have been kept artificially low in America and other countries. From this point of view, the prolongation of the boom is not a bad thing. If anything, it would be a good thing if it were intensified and generalised. The liquidation of unemployment would strengthen the working class and increase its self-confidence and fighting spirit. As a matter of fact, it is surprising that the "worker backlash" which Roach and others have been predicting for some time has so far failed to materialise. The level of strike activity remains very low in most countries. The most probable explanation for this is the memory of recent high levels of unemploy-

ment. The workers cling to their jobs and are temporarily prepared to accept all kind of impositions on condition that they are sufficiently well remunerated. They reluctantly accept the long hours and bad conditions. But the workers' patience is not infinite and there are already indications that it is reaching its limits.

The prolongation of the present boom is, of course, an important element in the equation because of its social and political effects: certain things flow from it. Every boom in history - even the briefest and feeblest - has given rise to illusions that the economic cycle has ended and capitalism has solved its problems. That is a law. The present boom is no different. That is why it is a mistake to base one's perception of the present situation on the propaganda of the bourgeois. The boom has certainly lasted longer than we anticipated. This undoubtedly has certain consequences in the psychology of all classes.

The ruling class is flushed with confidence. The hired economists - as usual - produce "learned" theories, explaining that the boom-bust cycle has been abolished forever. The working class, remembering the mass unemployment and "shakeouts" of the recent past, draws the conclusion that it is preferable to accept all the impositions of the employers, work harder for longer hours, in exchange for a job and more money. For a time the workers have kept their heads down. This situation cannot last, but temporarily it creates difficulties for the active layer which feels itself isolated and disoriented. Lacking a clear perspective,

they draw pessimistic conclusions. They do not see that the present lull in the class struggle is only an uneasy truce, and that underneath the surface calm, colossal social explosions are being prepared.

Lenin once said that politics is concentrated economics. But it would be wrong to interpret that assertion in an absolute and mechanistic way. There is not a mechanical relation between the boom-slump cycle and revolution. It is an elementary proposition for Marxists that booms do not necessarily signify reaction and slumps do not necessarily mean revolution. To cite just one example: the biggest revolutionary general strike in history took place in France in May 1968 at the peak of the post-war boom. In fact, there are many striking similarities between that situation and the present situation.

The economic cycle is an important element in the equation, but it is also important to define what we mean by cycles. One must differentiate between the trade cycle and the broader historical cycles which determine the nature of the epoch. The history of capitalism manifests such long periods: for example, there have been periods of upswing such as the period of approximately 20 years of economic upswing before 1914. This period was characterised by an enormous development of the means of production, of technology and world trade and rising living standards, especially for the privileged skilled layer of the working class. This had as its corollary a softening of the contradictions between the classes, and a lessening of the class struggle. In

turn, this found its reflection in politics in the national-reformist degeneration of the workers' mass organisations. That period ended with the first world war and the Russian revolution.

The period between the two world wars had an entirely different character. It was a period of economic, social and political crisis. Even then, the boom-slump cycle did not disappear. In the 1920s there was a boom in the USA which has many points of similarity with the present boom. That ended with the Wall Street Crash of 1929 and a world economic depression that lasted up until the outbreak of war in 1939. These were years of social convulsions, revolution and counter-revolution, in which the mass organisations of the proletariat were shaken and convulsed by crises and splits. This stormy period only ended with the *Second World War*.

The period following the *Second World War* was entirely different. It was more similar to the period before 1914. Between 1948 and 1974 there was a long period of upswing which likewise led to a powerful strengthening of reformism and illusions in capitalism within the workers' movement. These were the objective conditions that led to the isolation of the forces of genuine Marxism for a whole historical period. That period ended with the so-called oil crisis of 1973-4 which ushered in a new period of revolutionary struggles in Spain, Portugal, Greece, Italy and Britain. From this brief account we can see how the class struggle is influenced, not only by the normal boom-slump cycle, but also the broader periods of capitalist development, each of which is different to the others.

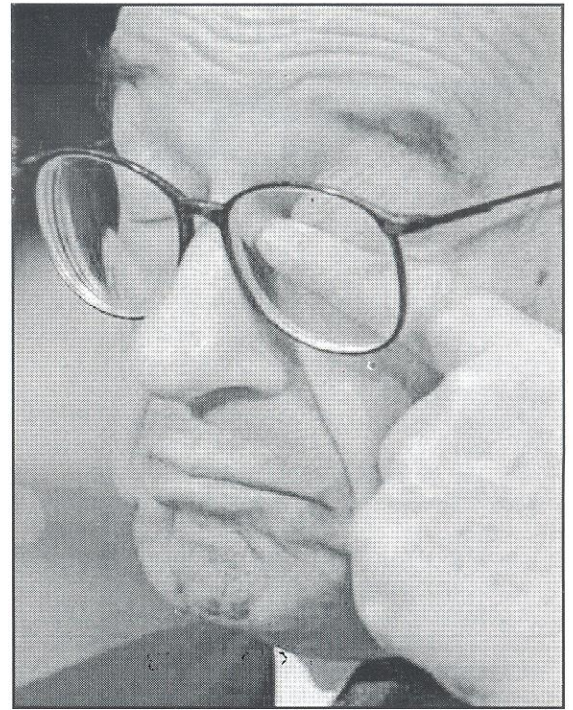
After the upheavals of the 1970s (which really began with the revolutionary developments in France in 1968 and Italy in 1968-9) there was a swing in the opposite direction. The working class cannot be in a permanent state of revolutionary ferment. If the struggles of the class do not succeed in transforming society on socialist lines, then even the stormiest strike movement will subside. The workers get tired and again fall into indifference and apathy. The bourgeoisie recovers its nerve and passes onto the counter-offensive. The stage is set for defeats and retreat. This was the social and political ground for Thatcherism and Reaganism in the 1980s.

There was also an economic basis for the monetarist reaction of the last 20 years. The general application of Keynesian policies, deficit financing, "managed capitalism" after the war was a result of fear of revolution and "communism". This was one of the factors that contributed to the long post-war economic upswing of 1948-74, although the main factor was the development of world trade. But, as predicted by the Marxists (See "*Will there be a Slump?*" by Ted Grant) Keynesian policies inevitably resulted in inflation, which led to the breakdown of this so-called model in the latter half of the 1970s. Having burned its fingers with inflationary Keynesianism, the bourgeoisie swung in the opposite direction, reverting to the earlier policy of "sound money and balanced budgets."

For the past 20 years the pendulum has swung in this direction. In one country after another we have seen the rise of monetarist reaction. The capitalists and their governments have abandoned the old Keynesian nonsense that thought that capitalism could avoid crises through the intervention of the state. Instead they have adopted a policy which, as JK Galbraith wittily defined as the belief that the poor have too much money and the rich not enough. Under

the guise of a "new idea", monetarism was really an attempt to go back to the policies of "classical capitalism". But precisely these policies caused the disaster of the 1930s. They amount to a policy of open reaction, of plundering the state, plundering the working class and plundering the colonial world. That is to say, they are a finished recipe for class war in its most naked form.

For a time it seemed that the new "liberalism" had won on all fronts. The workers had their heads down. The trade union and Labour leaders enthusiastically embraced the new nostrums and helped put them into practice: privatisation, liberalisation, deregulation - a real social counter-revolution on all fronts. In relation to the colonial world, the new world order represents a return to imperialism and the gunboat diplomacy of the 19th century. The imperialists (and their Social Democratic hangers-on) display the most cynical indifference to the suffering and wars caused by their actions. Just as



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the priests of Baal sacrificed children to Moloch, so these civilised Christian gentlemen and ladies are prepared to sacrifice millions of men, women and children in the name of their only true God, Capital.

Not content with plundering the state in their own countries (known as "privatisation"), they advocate the systematic plundering of the poorest countries on earth also. Through their agencies, the IMF and the World Bank, they demand that these countries remove their protective trade barriers and sell off their publicly-owned utilities to Western monopolies. It means nothing to them that such policies are an economic death sentence that will crush and devastate the weak economies of these countries. In this way the imperialists are preparing a new explosion of the colonial revolution. The events in Palestine are only an anticipation of a process that will sweep with elemental force from one continent to another in the coming period. And for all the power at their disposal, they will not be able to control it, as Colombia proves.

The colonial revolution



One of the main arguments of the proponents of the NEP is that the present boom is different to the past because prices have remained low. Why is there no inflation? Doesn't this mean that something fundamental has changed and this "virtuous cycle" of low prices and high productivity can go on forever? It is necessary to ask the question: why are prices low? Prices have been low - at least up until recently - for a variety of reasons. There was the element of cheapening of commodities as a result of the new technology, allowing higher rates of productivity; there was the holding down of wages; there was competition, heightened as a result of the slump in Asia, which we dealt with in *On a Knife's Edge*. Paradoxically, the overproduction in Asia helped to prolong the boom in the USA by compelling the capitalists to limit prices. As far as the USA is concerned, one of the key factors has been the high dollar which has kept the import prices low.

However, one of the fundamental reasons for the absence of inflation has been cheap raw materials, for example, oil. Up till recently the price of oil and all commodities from the Third World were on record lows. The colonial world has been squeezed and squeezed. According to the United Nations, there are now at least 800 million people in the world living at or below the poverty line. This is the position in the middle of a boom in which more millionaires and billionaires have been created than at any other time. This obscenity must have an effect, and is already having an effect, in one country after another: in Peru, Bolivia, Colombia, Ecuador; in Iran, Indonesia, Nigeria and Palestine. This gives us a slight idea of the social and political convulsions that are being prepared everywhere at the present time, that is, during the boom. For it must be borne in mind that the present situation is the best position that capitalism has to offer the peoples of the world.

The collapse in Asia was a serious slump. It had profound effects, for example the beginnings of a revolution in Indonesia, which is not finished and will unfold over a long period. The beginning of the revolution in Iran, which we predicted, represents a most fundamental change

in the situation. Iran is yet another an oil producing country. There have been general strikes and social convulsions in South Korea. These movements took place in a slump, which indicates that one should not be mechanical

about the effects of the slump. It depends on the whole of the previous period. In South Korea, for example, the onset of slump did not signify an end of the class struggle. Nor has the subsequent recovery. On the contrary. The South Korean economy grew by 10.7 percent in 1999. But this merely encouraged the workers to move into struggle. They demanded their share of the profits. During the slump wages were cut by 2.5 percent (in 1998). Now the workers are demanding increases of 15.2 percent.

On the other hand, the rising price of oil will have a very serious effect in America. One of the main reasons why they have managed to keep the boom going has been the low price of raw materials, especially oil. That is obviously finished now. The continuation of the boom is causing prices to rise. According to the laws of supply and demand, commodity prices will tend to increase, but they can't increase prices too much because of the cut throat competition. That must have an effect, sooner or later, on the rate of profit in America. But the violent oscillations in the price of oil have immediately had a destabilising effect everywhere in the so-called Third World.

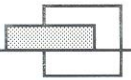
At the beginning of this year we saw the beginnings of the revolution in Ecuador. This was an astonishing state of affairs which took everybody, including ourselves, by surprise. Without warning, the masses - the Indians, peasants, the workers and students - invaded the capital, Quito, kicked the Government out, and elected committees. Only the lack of leadership prevented them from carrying the revolution through to the end. Ecuador is another oil



producing country. Oil prices have now tripled. Yet the rise in oil prices did not prevent this movement because it does not affect the masses. Nor does it help the Government much. The bourgeois regime has been unable to stabilise the position.

The failure of the revolution in Ecuador as a result of the lack of leadership has allowed the bourgeois to regain control of the situation, at least temporarily. But in the longer term nothing has been solved. Under the terms of an agreement with the IMF, the government must raise the price of petrol by 60 percent (this was before the latest round of oil price increases). Bottled gas, used by most people for cooking, was to go up by 40 percent. The announced intention is to cut the budget deficit by slashing fuel subsidies which cost \$360 million per year. The effect is to cut the living standards of the population. While the minimum wage has remained unchanged at \$47 a month, since January inflation has risen by 49 percent and is expected to rise to about 80 percent by December. This is a finished recipe for class war.

Here we have a paradox. The fact that oil prices over the last twelve months have tripled does not mean that revolution is off the order of the day in the oil producing countries. The crisis facing them is too deep, the contradictions too great to be resolved on a capitalist basis. They will lurch from one crisis to another.



End of the 'American dream'



The feverish speculation in the USA represents a kind of collective mania. It is the latest resurrection of the celebrated "American dream".

This may be very simply stated at the present time: everybody wants to be a millionaire. As a matter of fact quite a few people have become millionaires. In the course of the present boom, at least 100,000 Americans have reached the point where they are now earning more than a million dollars a year. This is the image that the defenders of capitalism like to present to the world. But it is fundamentally the top end that is making the big money, and to a far more limited extent the middle class. If one looks at the bottom fifth of Americans, however, the exact opposite is the case. This boom has been characterised by the most brutal inequality and the most glaring polarisation between wealth and poverty, especially (but not uniquely) in America. At the present time the top fifth of American households possess over one half of the gross national income. The bottom fifth has 4 percent of the gross national income. 44 million Americans do not even possess such a thing as health insurance. Thus, even within this boom even at the present time there is a massive glaring development of polarisation between the classes, just as Marx predicted: a colossal concentration of unprecedented wealth and power at the top, accompanied by the most unprecedented misery at the bottom. This will have the most far-reaching consequences in the future, and possibly the not-too-distant future.

In addition there is another dimension to the present discussion, which we might call the human dimension. This aspect has, needless to say, received scant attention from most capitalist commentators. Yet from a Marxist standpoint, it is the most important question of all, namely, how does the present economic climate affect the working class and society as a whole? Even within this recovery in this boom there has been

an enormous intensification of exploitation, the application of merciless pressure on the workers' muscles and nervous system, the continuation of layoffs and downsizing, related, of course, to the process of monopolisation, which has taken place at historically unprecedented levels.

Every week in the pages of economic publications like *The Economist* one finds new reports of take-overs, creating the world's biggest giant in pharmaceuticals, Internet, entertainment, cars, and so on. This is a laboratory case of what Marx described as the concentration of capital. In the present cycle this process has reached unprecedented levels. The concentration of wealth and power into fewer and fewer hands and the consequent growth in social inequality is rapidly increasing the polarisation between the classes in all countries, but especially in the USA. This fact is already having an effect on the consciousness of the working class and the middle class. This was highlighted in a recent poll conducted by *Business Week*, which reveals in a very striking way the growing malaise and simmering discontent at the base of society even at the present time. Movements like the Seattle and Washington demonstrations are the heat lightning that announce future storms that will affect one country after another.

Nor do matters end there, because all this business is going to end in tears. The collapse of the boom will undoubtedly have a fundamental effect, shaking up the psychology of all classes. The longer it is postponed, the higher the Stock Markets soar, the greater the likelihood of a hard landing at the end. That prognosis remains correct. But does that mean that the class struggle will remain paralysed until the boom comes to an end? That would be an entirely false and mechanistic conclusion.

A slump is not a panacea for the class struggle. In fact, at least initially, a deep slump could even have some negative effects as far as the industrial movement is

concerned. However, the coming slump, which is likely to be a serious slump, the deepest slump, for the first time since 1945 will undoubtedly have the most stunning effects on the consciousness of the masses, particularly in America where illusions in the market have sunk deeper roots than elsewhere. The dialectic of history is preparing some big surprises for the bourgeoisie, especially in America. When the dream of prosperity turns to ashes - which it will - the road will be open for a rapid transformation of the consciousness of millions of people, not only in the working class but also in the middle class. A lot of people can pass straight from Republicanism to revolution.

The defenders of the NEP insist that there have been fundamental changes in the US economy. There have undoubtedly been some changes. Which ones? For example, there have been changes in the workforce. A very large part of the workforce - not only the American, but particularly the American - no longer consists of full time workers with long-term contracts and the corresponding rights. Nowadays in the IT industry the vast majority of the workers are not full time, but part time. And not only in the IT industry. More than three million people in America work for employment agencies. That is double what it was in the 1980s. A further 10 percent are temporary workers or contractors, taken on or not as the case might be. We must ask ourselves what happens when this boom begins to get into trouble? What happens when it is no longer profitable to invest, when they start getting scared that they are longer going to get their money back. There will be such a wave of sackings that unemployment will soar far quicker than it did in the past. That in turn will affect the market. Demand in the US will slump, credit will be choked off, and the market will contract sharply.

The molecular process of revolution



A slump of this magnitude would also have a powerful political effect. The class struggle is not only measured in the number of strikes. All kinds of developments can exercise a powerful psychological effect on the minds of the masses. And the most important thing to grasp is that the process has already begun. It is what Trotsky, in a masterly phrase, referred to as the molecular process of revolution. A widespread ferment and a general questioning of the established order has already begun. It was manifested on the streets of Seattle, then in Washington and Prague. The Seattle demonstration was a perfect example of a sharp and sudden change in the situation. Who would have predicted twelve months before that thousands of young people and trade unionists would come together in such a militant demonstration in the United States?

What was behind these events? Like a good doctor, a serious Marxist cannot wait until things develop to a critical state. We must accustom ourselves to examine symptoms with great attention before they develop into more dramatic manifestations. Seattle was supposed to relate to globalisation and the World Trade Organisation. But this does not explain the phenomenon at

all. In all probability, most people had never heard of the WTO before the demonstration hit the TV screen. The Seattle events actually represented a symptom. They were a manifestation of a growing awareness, or, more correctly, a gut reaction among ordinary people, especially young people - but also to some extent among trade unionists and workers generally - that "there is something bad about this society and this system", a growing feeling that "we are living in an unjust world", and that "this is all wrong".

This is not just an isolated question; nor is it confined to the USA. Subsequent events have shown that a growing number of young people are prepared to come onto the streets to protest against capitalism. True, the composition of these demonstrations is largely petit bourgeois and marginalised layers of society. But nevertheless, they have great symptomatic significance, as have the more recent movements of the farmers and lorry drivers in France, Britain and other European countries. The recent increase in the price of petrol sparked off movements on the streets of France, Britain, Belgium and other countries. These movements, which were fundamentally of the lower middle class, farmers and lorry drivers, sprang up suddenly like a bolt from the blue. This is yet another symptom of the growing social instability and malaise

What this shows is that, even at the height of the boom, there is a ferment and a change in the mood of society. This was graphically demonstrated by the recent poll organised by the American magazine *Business Week*. According to this poll, no fewer than 72 percent of Americans think that big business has too much power over too many aspects of their lives. Despite the boom, the crushing pressure on workers is producing a reaction against the system. Last year, 43% of workers at big US corporations said they "find it very difficult to balance my work and personal responsibilities," up sharply from 36% in 1997. Again 44% said that they are "very much underpaid for the work I do," up from 38% two years earlier. At the same time there is growing resentment at soaring profit levels and high levels of boardroom pay. *Business Week* explains that "such feelings reflect the stark discrepancy between the high productivity rate the US economy has achieved in recent years and the slower pace of wage gains. This is one reason an astonishing 40 million employees say they would vote in a union today if given the chance, double the number of a decade ago, according to pollsters Peter D. Hart Research Associates."

The *Business Week* article continued: "The revved-up New Economy has also left many families feeling

overworked and stressed out." One of the key elements in the recent strike at Verizon Communications, where the unions gained a victory, were complaints about stress and compulsory overtime. "At the same time," states the article, "many Americans feel they're not getting their fair share of the riches. The reason: Average wages and benefits have outpaced inflation by only 7.6% since the last recession ended in 1992, while productivity has jumped by 17.9%." (*BW*, 11 September 2000).

There are other symptoms. In Britain, the number of strikes is at an all-time low, and the life of the Labour organisations is at a low ebb. Yet even here an incident could have a fundamental effect on the consciousness, not only of the workers but also of the middle class. The

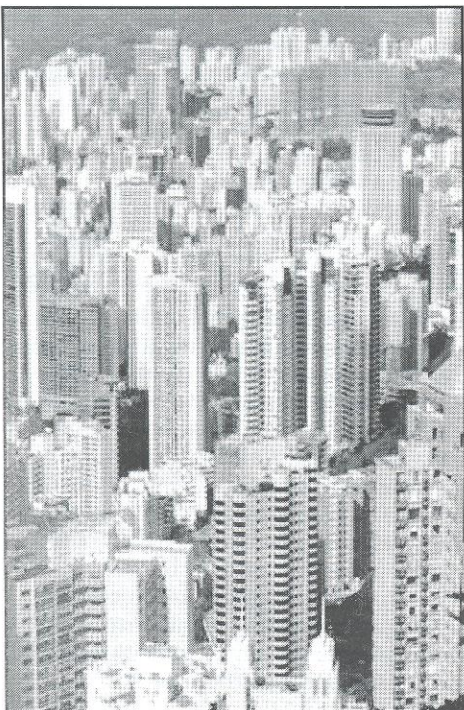
Paddington train crash, when a number of people were killed and injured, gave rise to a feeling of revulsion against the profit system among commuters in London who are mostly middle class people. With amazingly insensitive timing, the privatised railway company Railtrack awarded big increases to its directors soon after the crash. When BBC television asked a commuter with a tie and suit to give his reaction, he said: "What else can you expect in a world driven by profit?" What do such comments reveal? That a certain incipient anti-capitalist mood exists even now. The potential exists not just for a workers' backlash everywhere, but also for a massive reaction against the market, the capitalist system and all its works among broad layers of society.

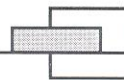
This again was sharply revealed by the recent events in Austria. This was supposed to be a prosperous little sleepy Alpine country, where apparently nothing much ever happened. But the election of Haider soon changed all that. That there could be such a violent turn around only a matter of days after the election victory of Haider, is a striking confirmation of the underlying instability and the inevitability of sudden and sharp changes even before the slump. Again the radicalisation was most pronounced among the youth. The Viennese social elite have a liking for extravagant balls in which they dress up in top hats and tails. Presumably they derive a sense of comfort and stability when disguised in the paraphernalia of the Hapsburg Empire. But this time they were in for a rude shock. Some 15,000 youths turned up to demonstrate against the ball. This again represented the protest of the youth against capitalism.

The Austrian events are a warning of what to expect in the next period. The bourgeoisie can shift from "democracy" to Bonapartism with the ease of a man shifting his weight from the left foot to the right. In the coming period we will see movements towards revolution but also towards counter-revolution. At the moment the danger of reaction in Europe is "a cloud no bigger than a man's fist." But that can change. The Austrian events show, on the one hand, the potential for reaction even in the most civilised and "democratic" country, but also the reaction of the working class and the youth.

Of course, one must not exaggerate. These events are still only on the level of anecdotes. But for a trained observer, anecdotes also have their importance. Their importance lies in the fact that they are symptoms which reveal a growing malaise which exists even now and which manifests itself at the slightest provocation. We must ask ourselves the question: If that is the position now, what will happen in the event of a slump? The contradiction will be especially explosive in the case of America, though it is by no means confined to that country. When all these dreams of enrichment and never-ending prosperity, are dashed, one can only imagine the political reaction that will set in very quickly not just among workers and young people, but amongst middle class people whose illusions will be shattered. This must have the most far-reaching psychological repercussions in all classes in society.

All this - we will be told - appears to fly in the face of the facts insofar as there is nothing at this moment in time which appears to justify this analysis. But such a view would be a serious mistake. Dialectics teaches us to look beyond "the facts", that is the appearances, and to bring out the processes which are silently at





work beneath the surface. It is not sufficient merely to say what is. It is necessary to show the inner contradictions that impel the process forward, and to show the limits of the process and the most likely direction it will take. From the bourgeois, whose perspectives extend no further than their latest bank-balance, no understanding of the processes are to be expected. Until very recently, in all the speeches and articles coming out of America, with one or two honourable exceptions, one could detect nothing suggesting the possibility of a collapse. Rather it all resembled one grand triumphal march, with politicians, journalists and investors falling into step behind the band. We have here a situation that is strikingly similar to the 1920s, just before the 1929 collapse: the same smug speeches, the same false optimism, the same conviction that the boom would go on forever. It is like the hubris of ancient Greek tragedy - the overweening pride that comes just before a terrible fall.

Even before a slump we already see, as we have already pointed out, what Trotsky called the molecular process of the revolution. Everywhere there are symptoms of a growing ferment and a questioning of capitalism. In the colonial world this already finds a revolutionary expression. And not only in the colonial world. To give just one example, which may sound a little ridiculous, but which was certainly regarded as significant by bourgeois observers. The film *Titanic* has quite an interesting class content. It is now well established that the lives of the poor passengers were cynically sacrificed while the rich were helped. This is an allegory for the capitalist system. When a rich person drowned there was wild cheering and applause from the audience, not just in one cinema, but all over America. Was this incident just an anecdote of no particular importance? *The Economist* certainly didn't think so. They commented with some alarm that this kind of thing shouldn't happen in America - the "land of the great, the land of the free", above all the land of the market, where rich people should be looked up to with respect and admiration. This indicated, as did Seattle, the *Business Week* survey and other things, that there is a beginning of a questioning of the system in which we live. This is already the case now, at the peak of the boom. Once the present boom comes to an end - irrespective of when that may be - the psychological and political fallout, above all in America, will be tremendous.

This affirmation seems to be contradicted by the low level of strikes. This can be explained in a number of ways. The fear of unemployment played a big role especially in the early years of the boom which, as we have pointed out, was more similar to a recession. The widespread introduction of part-time working, contracting out and other kinds of "labour flexibilisation" has kept

alive the sense of insecurity and exercised a dampening effect on militancy and trade union organisation until now. On the other hand, changes in the workforce have meant a big loss of jobs in the old heavy industries that formerly were bastions of the unions. The older layer of union activists has been hard hit and disheartened. They look back and see nothing but defeats, and lack the Marxist ability to look further into the future and understand the nature of the storm that is brewing. Lacking any real understanding of the situation, they tend to blame the working class for their problems. It was just the same before May 1968, which came like a bolt from the blue at the peak of a boom.

While the older activists are disoriented and disappointed, the new layers of youth, who are destined to play the key role in the future struggles, lack experience and have yet to find their feet. They suffer the worst exploitation at the hands of the bosses and have an inexhaustible reserve of energy and fighting spirit. They will get organised in the course of the coming battles and will be very open to revolutionary ideas.

The most decisive factor in the present situation has been the complete bankruptcy of the trade union leaders who have in every country capitulated to the bosses and are playing the most reactionary role. They are striving for deals with the bosses that will, they hope, relieve them of the painful necessity of organising the workers and fighting for improved wages and conditions. This is completely utopian, since for every step back they take the employers will demand three more. Weakness always invites aggression. Events will be needed to shake the trade union and Labour organisations to the core, and prepare for the emergence of a mass left wing that will transform them from top to bottom. Needless to say, despite the bankruptcy of the leadership, the trade unions remain a key focal point for the work of the Marxists in all countries.

From a Marxist point of view, if the boom continues it is not necessarily a bad thing. As far as the trade union struggle is concerned it would be a good thing in fact. The continuation of the boom can only have beneficial effects for the industrial struggle. In the USA there are signs of a revival of the strike movement. If this continues for two or three years more, we can expect big movements of the workers in all countries to claim their share of the prosperity created by their labour. As the economic cycle approaches its peak, it should lead to a rising graph of economic strikes, and increased confidence of the working class. Increases in wages, together with increased raw material prices signify increased inflation, which in turn gives rise to new demands for higher wages. The capitalists always blame inflation on wages, whereas every worker knows from his or her own experience that wages always follow prices.

If the coming slump is a deep one, this may temporarily cut across the movement on the industrial front. The workers might be temporarily stunned and disoriented. The mood in the workplaces might be subdued for a time. But politically and psychologically that questioning which already exists will be re-doubled and magnified. Sooner or later this must find its expression within the labour movement itself, preparing the way for a new wave of radicalisation in the workers' organisations - both the trade unions and the political parties. There will be a ferment of discussion, a polarisation to the right and left, convulsions and splits, out of which a new mass left wing will emerge.

Only Marxism can provide an explanation for the processes that are unfolding on a world scale and show a way out. The advanced elements of the working class and the youth are looking for just that. This is not a time for facile slogans or for running around in ever-decreasing circles, as the ultra-left sectarians imagine. What is needed is to reunite the forces of the proletarian vanguard on the fundamental principles of Marxism. In such a period that tendency will win which shows itself able to explain and foresee events and advances slogans that actually correspond to the experience of the workers' movement and its objective necessities.

The Marxist tendency represented by Socialist Appeal and Marxist.com alone can claim to have kept the banner of Marxism flying. We can point with pride to our analyses and documents over the past period and which in essentials do not require any fundamental amendment. The superiority of our ideas - the ideas of Marx, Engels, Lenin and Trotsky - fills us with confidence. We have made some mistakes, and we have corrected them, but in general we have kept our heads and stuck to our guns in what has been a difficult objective situation. We have held our own and maintained the basic cadre of Marxism together, nationally and internationally. We have responded to events as they have occurred while maintaining a consistent class position. Above all, we base ourselves where we should be based: within the traditional mass organisations of the working class: within the trade unions, within the Labour Movement. Unlike others, who have abandoned the movement to build phantom armies in the air, we have kept on course. On the basis of events, ideas that were listened to by tiny handfuls will get an audience of thousands and hundreds of thousands in every country. The turbulent period that now opens up in front of us will create the most favourable conditions for the rebirth of Marxism and the regeneration of the workers' movement on a world scale.

Alan Woods and Ted Grant
London, 18th October, 2000

Socialist Appeal Fights for



- ☆ **For a Labour government with a bold socialist programme!** Labour must break with big business and Tory economic policies. Vote Labour and fight to reclaim the party.
- ☆ **A national minimum wage of at least two-thirds of the average wage.** £6.00 an hour as a step toward this goal, with no exemptions.
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- ☆ **No more sell offs.** Reverse the Tories privatisation scandal. Renationalise all the privatised industries and utilities under democratic workers control and management. No compensation for the fat cats, only those in genuine need.
- ☆ **The repeal of all Tory anti-union laws.** Full employment rights for all from day one. For the right to strike, the right to union representation and collective bargaining.

Election of all trade union officials with the right of recall. No official to receive more than the wage of a skilled worker.

- ☆ **Action to protect our environment.** Only public ownership of the land, and major industries, petro-chemical enterprises, food companies, energy and transport, can form the basis of a genuine socialist approach to the environment.
- ☆ **A fully funded and fully comprehensive education system under local democratic control.** Keep big business out of our schools and colleges. Free access for all to further and higher education. Scrap tuition fees. No to student loans. For a living grant for all over 16 in education or training.
- ☆ **The outlawing of all forms of discrimination.** Equal pay for equal work. Invest in quality child-care facilities available to all. Scrap all racist immigration and asylum controls. Abolish the Criminal Justice Act.
- ☆ **The reversal of the Tories' cuts in the health service.** Abolish private health care. For a National Health Service, free to all at the point of need, based on the nationalisation of the big drug companies that squeeze their profits out of the health of working people.
- ☆ **Reclaim the Labour Party!** Defeat Blairism! Fight for Party democracy and socialist policies. For workers' MPs on workers' wages.
- ☆ **The abolition of the monarchy and the House of Lords.** Full economic powers for the Scottish Parliament and the Welsh Assembly, enabling them to introduce socialist measures in the interests of working people. ☆ No to sectarianism. For a Socialist United Ireland linked by a voluntary federation to a Socialist Britain.
- ☆ **Break with the anarchy of the capitalist free market.** Labour to immediately take over the "commanding heights of the economy." Nationalise the big monopolies, banks and financial institutions that dominate our lives. Compensation to be paid only on the basis of need. All nationalised enterprises to be run under workers control and management and integrated through a democratic socialist plan of production.
- ☆ **Socialist internationalism.** No to the bosses European Union. Yes to a socialist united states of Europe, as part of a world socialist federation.

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