

Theses on the Present Economic Crisis

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1. Today's economic crisis is the result of the general contradictions of capitalism; specifically today's crisis expresses the tendency of the rate of profit to decline and how this tendency reveals itself under conditions of escalating imperialist competition and overproduction. In general, the law that defines rate of profit can be summarized as follows: As the total amount of surplus produced in a capitalist country increases, so does the total amount of capital invested by the capitalist class in constant capital (machinery, new factories, etc.). Thus, profit — the portion of the surplus produced by labor which the capitalist retains — shows a tendency to decline in proportion to the quantity of capital invested, even while the exploitation of the working class tends to rise.

2. In the drive to maximize profit, the capitalists must constantly combat the tendency of the rate of profit to decline, which means that the capitalists are forced to maximize the exploitation of labor. The costs of machinery and constant capital — the main components that push down the rate of profit — are not something abstract, but include previous labor: "In calculating the exchangeable value of a commodity we must add to the quantity of labour *last* employed the quantity of labour *previously* worked up in the raw material of the commodity, and the labor bestowed on the implements, tools, machinery, and buildings, which such labour assisted." (Karl Marx, "Wages, Price and Profit," *Collected Works*, p. 205.)

This is very important for the understanding of today's crisis. The tendency of the rate of profit to decline is exacerbated by imperialist competition. The multi-national corporations still post huge profits, but the cost of expansion erodes profit. The cost of previous labor that the multi-national corporations have to pay as they expand is huge, and it is increasing as advances in technology force the capitalists to change the machinery much earlier than they would like to. In recent years, the decline in the rate of profit has brought inter-imperialist contradictions to their sharpest point since the 1930's.

**Today's Crisis is Structural — It Will Not
Go Away With the Next Cycle**

3. Today's crisis is not another 'normal' cyclical crisis, but a profound crisis that has rocked the world capitalist system in the imperialist epoch. In this imperialist era, the typical cycle of upturn and bust that characterized capitalism in the pre-imperialist epoch does not develop in the same linear way as it did in pre-imperialist times. In the imperialist era of decay — which is characterized by sharp competition for the declining markets — there are no even upswings and busts every ten years or so. In order to achieve equilibrium, that is, even upturns and busts for a few decades, the imperialist system must first go through major economic and political convulsions — convulsions that bring wars and massive destruction of industries, but

Note: This is a working document and not necessarily a finished product, because we believe that the economic crisis cannot be analyzed independently of the living class struggle and the continual political contradictions of the capitalist system. The theses are general guidelines that explain the present economic contradictions of the decaying imperialist system and their trajectory.

This article, which is reprinted from the first issue (May 1994) of Soviet (journal of the ILCC), was written prior to the 1994 economic upturn, and therefore does not address it directly. However, we do not believe that this temporary cyclic upturn indicates that there has been any long-term change in the underlying structural economic crisis. The essential conclusions of the theses remain valid.

also revolutionary situations that were not possible before the imperialist epoch of decline.

Today's crisis is similar to the crisis that brought on World War I and World War II. Both wars were about which imperialist powers would dominate the shrinking world markets. Only the massive destruction of industry — which started in WW I and was completed at the end of WW II — enabled the United States to be the dominant imperialist force. The boom after World War II came to an end in the late 1960's or early 1970's, and the decline of the world economy was clearly displayed in the 1980's. By the late 1980's the imperialist powers were going for each other's throats once again.

While this process was delayed somewhat because the workers' states in Europe kept the imperialist countries united to some extent, it is accelerating today in the wake of the collapse of the workers' states. After the destruction of the Soviet Union, there is no more need for an imperialist "united front" against the degenerated/deformed workers' states. In the 1980's, the common goal of destroying the Soviet Union kept all the imperialist countries united under the leadership of the US. The growing economic antagonism between the different imperialist countries was kept on the back burner. When the imperialist countries were united against the workers' states, they slowed down the aggravation of the crisis with massive credit to failing industries, and by setting up an artificial service sector based on credit and huge public debts. This huge credit was not backed up and eventually paid by significant economic growth, because the boom of the 1980's was shallow and it started to collapse in 1990.

Without a common enemy (USSR), the inter-imperialist competition for the world markets is escalating; this inter-imperialist rivalry aggravates the collapse of the international economy which entered a severe crisis in 1990. The destruction of the workers' states in Europe brought the conflicting imperialists' interests to the forefront. Today, overproduction is forcing underutilization of the factories, and the capitalists cannot use the massive credit from the 1980's productively. Thus, a good portion of the vast capital that was spent in the 1980's had to go bust since in reality it was credit that many capitalists cannot pay back in the 1990's. Consequently, the capitalists and their governments are forced to drastically curtail unproductive credit. They are doing this by closing down many factories and laying off millions of workers. But they are also discarding many other forms of credit that were spent in the past. The most favorite credits to dump are costs that are associated with labor, i.e., direct and indirect money that benefits the workers. Hence, the huge budget cuts in all the imperialist countries (cuts are accelerating in a big way in Europe) and attacks on the working class, which in turn curtail the power of the workers to buy commodities; as a result, it is more difficult for the capitalists to halt the downturn.

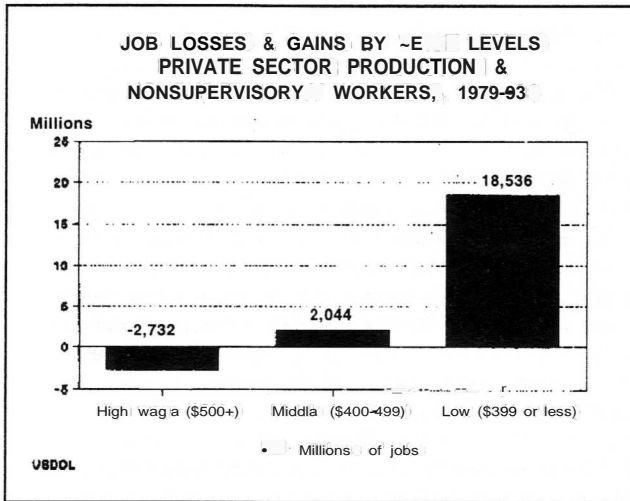
4. What was the reality behind the myth of prosperity in the 1980's? Because major manufacturing and commodities kept on losing markets during the 1980's, key

imperialist countries lived on credit. In the United States, the federal deficit more than tripled in the 1980's (to \$3.1 trillion). Interest on this debt for the last decade has been \$286 billion a year (*Time*, January 13, 1991), enough to resolve many of the economic problems of the masses on this planet. The capitalists' lies about the prosperity of the 1980's can be exposed with a simple look at the economic facts of life in the US: consumers increased their debt from \$1.4 trillion in 1980 to \$3.7 trillion in 1991. (*Ibid.*) This was a consequence of the massive attack on the working class, from which many middle class (middle income) people did not escape. While in the 1960's one person used to bring home enough income to support a working class family, in the 1980's, a two-earner couple barely brought home the equivalent income; and now, in the 1990's, many of those workers are in the streets, part of the permanent army of the unemployed.

In the 1980's, as US manufacturing industry shrank and became shaky and unprofitable, many invested — with funds borrowed from the banks — in real estate, shopping malls and the service industries, using credit to beef up an artificial service industry. Now, with the eruption of the current serious economic crisis, the service and speculation industries are collapsing like a house of cards — and taking with them a large sector of the banking industry that gave them their money in the past.

5. While the decline of capitalism today is structural, this does not mean that the capitalist cycle has disappeared. The cycle of the capitalist crisis is nothing new. Marx and Engels predicted that it would occur roughly every ten years, which was more or less true up until today. But the difference between "normal" times when capitalism is not in a structural crisis (1950's and 1960's, for example) and today, is that in "normal" times the upturn of the cycle is much longer than the downturn, while in times of structural crisis this is reversed. Over a hundred years ago, Engels accurately described the fundamental mechanism of the crisis part of the cycle, which can be applied to today's crisis: "In these crises, the contradiction between socialized production and capitalist appropriation ends in a violent explosion. The circulation of commodities is, for the time being, stopped ... All the laws of production and circulation of commodities are turned upside down. The economic collision has reached its apogee. *The mode of production is in rebellion against the mode of exchange.*"

"The fact that the socialized organization of production within the factory has developed so far that it has become incompatible with the anarchy of production in society, which exists side by side with and dominates it, is brought home to the capitalists themselves by the violent concentration of capital that occurs during crises, through the ruin of many large, and a still greater number of small, capitalists. The whole mechanism of the capitalist mode of production breaks down under the pressure of productive forces, its own creations. It is no longer able to turn all this mass of means of production into capital. They lie fallow, and for that very reason the industrial reserve army must also lie fallow." (Frederick Engels, *Socialism: Utopian and Scientific*, Part III, 1880. Emphasis in original.)



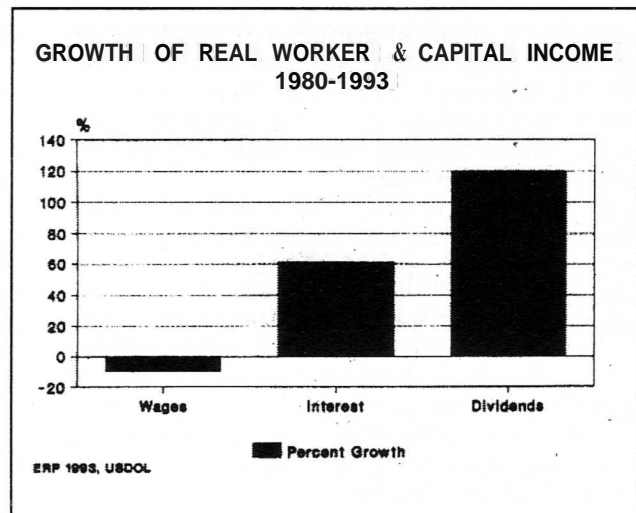
6. But even in times of profound crisis the fundamental mechanism of the cycle (upturn and crisis) does not change. Within the framework of general downturn and stagnation, there are and there will be shallow temporary upturns in the general downturn trend, such as the recovery of the US economy in 1994 or in the mid-1930's. The US "recovery" in 1994, however, can only be understood in the context of the growing imperialist contradictions. Take, for example, the auto industry. The current recovery of the American auto industry is attributed to the comeback from the devastating blows of the 1980's, which were caused by competition with Japan. Now, after the big three auto companies spent billions on renovating the factories, they are coming out with more efficient cars that beat the competition from Japan. (The low dollar rate on the world market also helps American exports.) But the amount of capital that they had to spend for these cars is enormous, and it forces the rate of profit down, despite the fact that the big three temporarily have the upper hand over Japan. In addition, the decline in the rate of profit is worsened because the increase of profit for the big three - relatively to the money spent on renovation - is minor when compared to the recent disastrous low sales in the middle of the severe recession.

Nevertheless, American companies are gaining the edge over their competitors in key areas such as the steel and semi-conductor industries. The main reason for this is the ability of American capitalism to crush the standard of living of the workers in the last decade-and-a-half. The American capitalists were able to reduce the cost of labor dramatically, while thus far European and Japanese capitalists have failed to do so. This explains the secrets of the present shallow upturn in the US and England (English workers are also suffering devastating defeats). Caterpillar Corporation provides a good illustration. It "leads" the recovery by remaining the top heavy-construction equipment company. But we cannot separate the recovery of Caterpillar from the defeat that the United Auto Workers union suffered last year. In fact, that defeat enabled Caterpillar to benefit from billions of investments and beat its competitors.

The current shallow upturn can deceive only the fools. The world economy is still in a deep downturn, which means that the American upturn will only aggravate international competition and the general downturn. To illustrate the point, all the imperialist countries spend an increasing percentage of their GDP in automation and factory rationalizations, but the Americans spend only eleven and a half percent in new capital equipment compared to nineteen percent invested by Japan. This means that we will not have to wait a decade (as we did when the US reversed part of its decline in the 1980's) to see the Japanese bust the American gains with new Hondas and cheaper and more efficient memory chips. In the general decline of the world economy, which is ridden with escalating imperialist competition, we will most likely have to wait only a few years to see the bust of the new American gains. This confirms our general analysis: As the world capitalist economy enters a period of general decline which can be resolved only through extreme measures (wars with massive destruction of industries), the upturns are becoming shallower and shorter in duration while the downturns are becoming steeper and longer.

The Political Implications of the Structural Crisis

7. While the United States is still the strongest imperialist power, it has lost some of its competitiveness to countries like Japan and even South Korea. The 1980's brought the US industrial base to a standstill and ruin. Basic industries which are essential for the functioning of modern life and which are crucial for any national capitalist country, such as auto and steel, were closed down in the US and in some areas of Europe. This led to massive restructuring of industries, which were rebuilt with newer automated machinery. Such measures brought a massive permanent army of the unemployed into the decaying US cities; Europe started to catch up with the US at the end of the 1980's and Japan joined the world crisis in the 1990's. What is emerging is that the capitalist enterprises cannot start another momentous boom without massive destruction of industries once again. Only after a violent shrinking of the economy will the imperialist powers redistribute the economic re-



sources according to winners and losers, bringing about the possibility of a *big boom* once again. This means that the current intense trade war is likely to evolve into a hot war, because without it world capitalist stagnation cannot be alleviated.

It is no accident that the Russian politician Vladimir Zhirinovskiy has declared that when he will be in power, he will start a world war against NATO and Japan in order to re-divide Europe and Asia. Russia is the weakest capitalist link in Europe. It is completely devastated from the restorationist process. On the one hand it is one of the poorest capitalist countries in Europe, but on the other hand it has the army and destructive machinery to start a war. Zhirinovskiy knows that if Russia is to be anything but a submissive semi-colony, it has to enter into a world war. Zhirinovskiy represents one portion of the emerging nationalist bourgeoisie, albeit a significant one -- and for this bourgeoisie, extreme nationalism and even fascism is a normal phase before it goes to war to become a world power. In reality Zhirinovskiy's plans are grand illusions. Russia cannot become an imperialist country by winning a "World War III." If such a war is not stopped by world revolution, it is likely that the entire planet will be ruined or descend into complete barbarism.

The developments in Russia are going to creep into other countries as international competition escalates. Inter-imperialist tension is growing. Germany, for example, is considering re-armament as it becomes clear that conflicts between the imperialist countries over ex-Yugoslavia are likely to develop. Europe and Germany want "peace," since Germany in particular has the influence it wanted over Croatia and Slovenia; but the US, which has less influence in ex-Yugoslavia and Eastern Europe, wants the war to continue until its influence in the area is consolidated. The US hopes to increase its influence in Bosnia and Macedonia and extend its influence beyond these countries in the Balkans and Eastern Europe. What is emerging from the inter-imperialist conflicts is an increasingly glaring contradiction between the shrinking economic might of US capitalism and its political role as a policeman for all the imperialist powers. With the fall of the workers' states (USSR) and the end of the cold war, all of the old inner contradictions of imperialism are coming to the surface. Should anyone be surprised that Japan is "rightfully" demanding a permanent seat on the United Nations Security Council? The imperialist thieves from Tokyo are just demanding a larger political role in the capitalist thieves' kitchen (the United Nations), which would correspond to their increased economic might.

In the future, the cry of war will come from the imperialist centers and not just from Russia. Bourgeois democracy will lose ground to open dictatorships and fascism as the economic and social conditions in Europe and the US continue to deteriorate, and the *weak* imperialist centers will have to resort to war to win back their influence. While we cannot predict when and how the imperialist countries will position themselves against each other and prepare for a new world war, the coming decades will nevertheless result in a devastating world war unless the proletariat stops it with a world revolution.

Automation and Movement to the Semi-Colonies Does Not Mitigate the Crisis

8. The temporary answer to the decline of the rate of profit in the 19.80's was the massive move to the semi-colonies by the multi-national corporations in search of cheap labor, a process that is only intensifying with NAFTA. But this move was made by *all* of the imperialist countries, and many of the corporations are now competing with each other with commodities that are produced at low labor cost in the semi-colonies instead of the higher labor cost in the imperialist countries. Thus, low-cost labor didn't help; as one corporation moved into a semi-colony to stay competitive on the world market, its competitors did the same.

9. This movement to the semi-colonies does not mean that the semi-colonies will become advanced capitalist countries. While it is true that some semi-colonies are experiencing a wave of industrialization, such industrialization is subordinated to the positions of these countries as semi-colonies; the workers in new factories are subject to super-exploitation for super profits.

On the other hand, it is critical to note that this movement to the semi-colonies also strengthens the political position of the proletariat in these countries to lead the anti-imperialist struggle as well as the class struggle against the local bourgeoisie. This potential is illustrated by the recent events in Chiapas, Mexico. The uprising was led by peasants and semi-agricultural workers; the Mexican working class did not participate directly because of the absence of a clear program and leadership. Nevertheless, it is important to note that the outcry of the EZLN against NAFTA, and its stand for the unity of the working class against NAFTA and imperialism, aroused widespread sympathy from the working class throughout Mexico.

10. There is a lot of talk about the de-industrialization of the imperialist countries. Right now this process of "de-industrialization" involves the transfer to the third world of many basic industries that need intensive assembly work, which is to be done by the superexploited workers in the semi-colonies. Meanwhile, the best and most expensive high-tech automated factories are kept in the imperialist countries. (For example, Kobe Steel moved all of its basic assembly line plants to China while it kept its automated sophisticated factories in Japan). While such a trend produces permanent high unemployment in the imperialist countries, it does not de-industrialize these countries. Rather, it converts the old factories to high-tech factories with a significant lower number of workers, in order to keep labor costs down. The imperialists are also using the move to the semi-colonies as a tactic to put pressure on the working class in the imperialist countries by lowering their wages considerably, so that the capitalists can bring back some of the factories that have moved.

In general, it is suicidal to move most of the industries to the semi-colonies. Capitalism -- even in the modern imperialist epoch -- is still a system based on competition among the different *national* capitalist countries. Each ma-

major imperialist country still needs a strong national base in case of war or any other political instabilities that may develop as a result of conflicts among the imperialist powers or between the imperialist powers and the semi-colonies. The imperialist powers are well aware that such conflicts are intensifying. In such conflicts an imperialist country without a strong national base will be wiped out. Also, big de-industrialization in the advanced countries will produce extreme instability, because the masses will live closer to the way the masses live in the semi-colonies. Thus, de-industrialization will be too risky for the national imperialist countries, both politically and in the last analysis economically.

While dramatic de-industrialization is out of the question, this does not mean that some of the old industries (coal, auto, etc.) in the weakest advanced capitalist countries (such as Britain) have not suffered some significant de-industrialization; to a certain degree we have seen a similar process even in the United States.

11. The decline of the rate of profit does not force the capitalists to turn to rational solutions; instead it forces them to take measures that bring further decline in the rate



Child labor at a Central American textile mill

of profit. In other words, the capitalists are automating their factories and equipment at a rate unheard of since the industrial revolution of the last century. But this automation is only increasing the size of constant capital in proportion to variable capital, thus it is causing a further decline of the rate of profit. The sharp decline of the rate of profit worsens the conditions of international crisis.

In the period of capitalist decline, automation is a measure of survival against the odds of ruthless international competition. Automation cuts the cost of labor but it does not save the capitalist, because the competitor does the same. Furthermore, automation does not lower the exchange value of the commodity sufficiently, since the costs of constant capital and machinery go up dramatically on a yearly basis and this devours a big chunk of capital. On the other hand, automation does have the tendency to produce commodities for the markets faster than before. Thus, a declining rate of profit — combined with more automated equipment which boosts the number of commodities that are produced for the market — increases international competition, the glut of the world market and overproduction.

This pressure for automation and mass layoffs of workers in order to save money is unheard of since the last century. Even strong multi-national corporations, which are surviving the current crisis fairly well, are undergoing massive layoffs and automation to survive competition in the future. Take, for example, the recent layoffs and plans for automation in Xerox Corporation. Despite the fact that Xerox posted huge profits for 1993, it decided to spend big capital for automation followed by many layoffs. The capitalists know that the present gains are very shaky, and that in order to survive they must follow the general trend of reducing labor costs by substituting workers with machines. (Xerox decided to automate the service of its photocopy machines and layoff many technicians.)

Another important manifestation of the above trend is revealed through the massive automation that the big telephone companies are undergoing. As in many other areas, international competition is extremely stiff in the communications business. Small telephone companies are being devoured by the giant communications companies, which compete with one another ruthlessly by laying off thousands of workers as they automate. MCI, for example, is teaming up with British Telecom to beat and even destroy AT&T. AT&T must react. And, as in Xerox's case, AT&T is planning thousands of layoffs even though it is doing pretty well. The *New York Times* summarizes the situation of AT&T, which epitomizes the status of many of the multi-national corporations in the rapidly decaying capitalist system: "Unlike the huge layoffs at other companies, A.T.&T's move comes at a time when its financial condition is quite healthy and most experts say the company is well positioned to profit from the emerging markets in the advanced video and data services ... But the company's problem is that competition is expected to increase sharply before the end of the decade." (*New York Times*, February 11, 1994) This is almost an open admission that any recovery is completely meaningless for the majority of the working class! Good profits do not guarantee job security. As capitalism approaches the end of this

century, it produces massive permanent unemployment and constant instability.

12. The trend to automate began last decade. In order to survive, the major basic industries in the imperialist countries had to undergo serious automation. The steel industry provides an example. In the last decade, steel companies in the United States laid off more than half of their steel workers. In the mid-to-late 1980's, they opened new factories with state-of-the-art computerized machinery and automation. But this did not bring new markets to the American steel companies, because Japan, South Korea and other countries have done the same, in many cases in a more efficient way. In the 1990's, a period of increasing imperialist competition, automation just contributes to the state of overproduction, *since with automation it takes less average labor time to produce commodities. This could be, of course, very devastating to companies that are forced to spend millions of dollars on new machinery just to find out that they cannot sell more commodities because the market is glutted.* Thus, some companies, such as Fiat in Italy, decided to retreat from automation.

13. Big technological advances propel the productive forces to develop. This contradicts Trotsky's assessment that in the imperialist epoch the productive forces do not develop any further, generally speaking. This assessment has turned out to be incorrect. The productive forces can still develop, but at what cost! With computer-driven machinery, *the capitalist has to replace machinery to survive competition much more frequently than in the past;* frequent technological advances make older machines obsolete much faster than before. With new machines the production of a commodity involves less average labor; but that does not help profit since the capitalist must buy new machines on a regular basis or be driven out of business by competitors who have the capital to buy state-of-the-art machinery that reduce the average time to produce a commodity.

The state-of-the-art steel and auto factories that were built in the US in the 1980's, for example, must be brought up to date in order to compete with the new Japanese factories, which use assemblies of robots driven by complex computers and software instead of workers. But as the capitalist needs to replace machinery and factories more often, the rate of profit declines even faster. This is one of the fundamental reasons why US imperialism is no longer the strong imperialist power that it used to be, economically speaking, and why its rivals are competing furiously for the title. Just to look at the surface of things: Japanese capitalists put more than 20 percent of their GNP into new plants and equipment during the second half of the 1980's; Japan is investing more capital on new plants and equipment than the US, which is twice the size of Japan!

14. In the imperialist countries we have seen recently a dramatic increase in the number of part-time and temporary workers. What are the reasons for this?

As imperialist competition stiffens, the capitalists want to bring down the cost of labor. As more companies move into the semi-colonies, the capitalists that remain in the imperialist countries need to bring down the cost of labor as close as possible to the cost of labor in the semi-colonies. Hence, the intensification of union busting in the US and Europe and the replacement of union members with part-time and temporary workers.

But the drive for temporary and part-time workers goes deeper than that. The capitalist needs to adjust the commodity of labor to the new levels of automation. As factories become more computerized and automated, the capitalist needs only a core of permanent workers to operate the machines and maintain them; the rest of the workers can be temporary help that is used on a short-lived or part-time basis as the need arises. For example, Nike, the running shoes company in the US, has 120 permanent workers who operate the machinery; the rest are temporary workers who make half the salary of the permanent employees. Nike "rents" the workers from temporary agencies, which train them for tasks such as forklifting. These temporary workers receive no medical benefits and they are hired only when needed.

15. The above trend is escalating as companies use temporary workers to drive down the salaries and conditions of permanent skilled workers. As the rate of profit is driven down by the constant need to re-invest in factories and machines because of technological advances and competition, the capitalist tries to lower the cost of skilled labor. The highly skilled workers in the 1990's, who operate complex computers and other machinery, are paid less than the labor aristocracy in the past. In many cases the capitalists re-trained the laid off workers from the 1980's (from auto, steel, coal industries, etc.) to work in high-tech industries, but the capitalists pay these workers less than they paid the same workers in the past. As the capitalists throughout the imperialist countries succeed in destroying some of the old trade unions from the aged basic industries, they are trying to re-open new automated high-tech factories without unions. This phenomenon is spreading, and it is vital that the proletariat organize, economically and more importantly politically, the new proletariat in the high-tech industries. As this process develops rapidly, it is becoming a life-or-death question for the proletariat.

The Need for a Planned Economy

16. The rise of multi-national corporations intensified greatly in the last two decades, to such a degree that once again we hear talk of super-imperialism. We have seen many more bankruptcies resulting from the rise of amalgams of huge monopolies owned by the same few mutual trusts and insurance companies (the new name for financial capital), and of course banks. But this process only reiterates the objective readiness of the world for socialism; it does not change at all the anarchistic, crisis-ridden character of capitalism — a system based on the marketplace, where all the national



imperialist countries fight for domination of the market. Take the example of General Electric (GE). As GE moved its operations to the semi-colonies, its income from such operations rose dramatically. In 1980 only two of GE's businesses were true international players, but now 40% of its profit comes from overseas factories and operations. (*Business Week*, November 8, 1993, p. 67) GE boasted to *Business Week* that "it is really a citizen of many countries rather than a citizen of one." (*Ibid.*, p. 70) True, there is probably more Japanese and European money in GE than before. But the core ownership is still American, and the Americans owners are the ones who pull the strings and tell the Clinton administration what to do in the GATT and other international trade war negotiations.

17. Automation and the drastic rise of monopoly point out the need for rational economic planning. Every time the system goes through a convulsion, there is a growth of monopoly. With the development of monopoly and further concentration of capitalist accumulation, the contradictions of the system become more acute. On the one hand, all the banking and manufacturing are socialized in the sense that the same company controls a bigger sector of the economy; the number of small and medium companies shrinks as these companies are swallowed up by the biggest corporations. More workers produce the same commodity in a larger socialized industry. On the other hand, the fate of the productive forces is in the hands of a smaller number of billionaires, who in accordance with the laws of capitalism use the rise of monopoly and automation to protect profit, that is, to throw millions onto the streets and increase the rate of exploitation of those who remain working. All this points to the need for

a socialized economy controlled by the working class, that is, the majority of the producers and consumers.

The solution to the contradiction between the increasingly social character of production on the one hand, and the private ownership of the means of production on the other, was clearly explained by Engels: "The social character of the means of production and of the products today reacts against the producers, periodically disrupts all production and exchange, acts only like a law of Nature working blindly, forcibly, destructively. But with the taking over by society of the productive forces, the social character of the means of production and of the products will be utilized by the producers with a perfect understanding of its nature,

and instead of being a source of disturbance and periodical collapse, will become the most powerful lever of production itself." (Frederick Engels, *Socialism: Utopian and Scientific*, Part III, 1880)

NAFTA, GATT, Maastricht, and the Escalation of Trade War

18. The North American Free Trade Agreement (NAFTA) is very important for US imperialism. The majority of the big bourgeoisie in the US needs NAFTA to gain advantages over its competitors, mainly Japan which is thriving as a result of the use of cheap labor in Asia. In the 1980's US companies, particularly those in the auto industry, moved to Latin America - the semi-colonial backyard of the US. While labor's exploitation is not as good as the potential exploitation in Asia, Latin America and in particular Mexico are viewed by the giant American corporations as a good deal, since the cost of transportation from Mexico to the US is negligible compared to the cost from other semi-colonies. After American imperialism gave minor concessions to some sectors of the Mexican ruling class, the practice of US plunder of Mexico was formalized into an agreement (NAFTA). With the ratification of NAFTA by Congress, the American industries in Mexico can sell their products made in Mexico at lower prices on the world market, with a better chance of beating their competitors.

Here are some of the chief American capitalist industries that will benefit:

AUTOS - In addition to enabling them to produce autos in Mexico with low labor costs, NAFTA will also give U.S. manufacturers far greater freedom to export vehicles to Mexico. In the first year of the pact, the Big Three

automakers will export 60,000 vehicles to Mexico, up from about 4,000 in 1993, which is a billion dollar rise in income over one year for the Big Three! (*Associated Press*, December 1993) This will only aid the Big Three, particularly General Motors, which has moved or is in the process of moving many of its plants to Mexico.

TELECOMMUNICATIONS - As tariffs fall, raw materials and other commodities from the US needed for building American factories and maintaining them in Mexico are reduced sharply. Also, without tariffs, American commodities produced in Mexico are cheaper and more competitive on the world market. Consequently, American companies can intensify the exploitation of Mexican workers. American Telephone & Telegraph Co., for example, estimates it will save up to \$45 million in reduced tariff payments in the first year after NAFTA takes effect. Motorola said that NAFTA "will further open government procurement markets in Mexico to us." (*Ibid.*) Southwestern Bell, which moved its headquarters from St. Louis, Missouri to San Antonio, Texas, partly in anticipation of the trade accord, said the company would benefit from its investments (and intensified exploitation of cheap labor) in Mexico. (*Ibid.*)

POWER AND ENERGY: Energy companies are pleased because NAFTA will cut tariffs on exports of American oil field equipment, and give US companies more benefits in Mexican gas exploration. In addition, US imperialist firms will be able to bid for Mexican government contracts and own electricity-generating plants in Mexico. "When we bid, we won't have to add on for a 20-percent tariff," said Sherry Stevens of the Petroleum Equipment Suppliers Association." (*Ibid.*)

FINANCIAL EXPANSION - This is the classic imperialist expansion for Marxists; after all we still define imperialism as the expansion of financial capital into the semi-colonies and colonies. With NAFTA all the restrictions for the expansion of US banks into Mexico are gone. According to the *Associated Press*, "U.S. banks will be able to set up subsidiaries in Mexico. The door opens up to us on January 1," said Alfonso Martinez-Fonts, president of Texas Commerce Bank and an adviser to the American Bankers Association. U.S. banks will look to expanding their commercial business in Mexico, selling banking technology and moving into the infant Mexican market for mortgages and credit cards, said Martinez-Fonts. Gordon Cloney, president of the International Insurance Council, said, "For U.S. insurers [read: the new name for financial capital-ed.], a trade agreement with Mexico opens a major market previously closed to them." (*Associated Press*)

Behind these quotations the reality is fairly simple: Financial capital is anticipating a surge in American manufacturing activities in Mexico after the ratification of NAFTA, and it is willing to finance it. Financial capital is not willing to risk financing the small joint American/Mexican venture; it will finance giant imperialist corporations such as General Motors, General Electric, etc. As the banks see enough activities in Mexico, they need to move local agents to Mexico to make sure everything is under control and the deals are solid. This is

what imperialism does when it makes a gigantic move to a semi-colonial country.

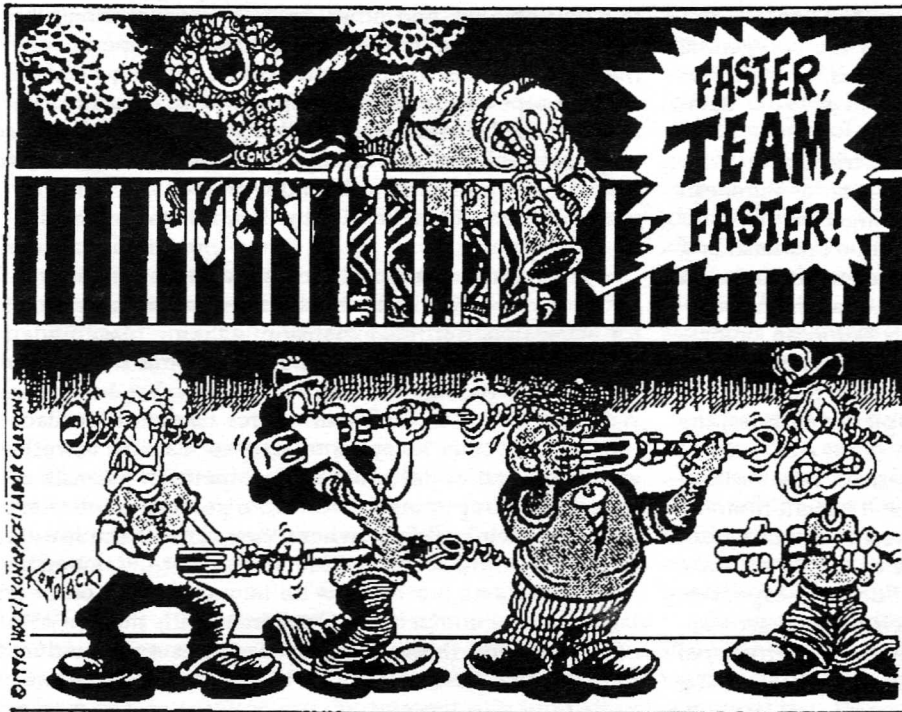
Without a doubt, NAFTA is accelerating the super-exploitation of Mexico's workers for the benefit of US corporations. But it will not resolve the problems of US imperialism. NAFTA could give some needed new blood to decaying American imperialism. But NAFTA is only a temporary boost for the United States, since all the other imperialist powers are deepening entry into the semi-colonies in their own "backyards" (Japan is trying to strengthen its grip on Asia, European imperialism is trying to bolster its link to Eastern Europe). In the long run, NAFTA and similar deals *only intensify* world competition.

19. GATT (General Agreement on Tariffs and Trade): We cannot understand GATT separately from the growing economic crisis. Today GATT is the international mechanism by which the imperialist forces temporarily try to settle their differences to avoid escalation of a crisis that can lead to world war; that is, it is the mechanism by which the imperialist powers are trying to reach a compromise until the next crisis.

Unlike NAFTA, a GATT agreement cannot work out, because it is not an agreement between imperialism and a weaker semi-colony that depends on imperialism and is forced to agree to the imperialism's dictates. While there are 116 countries who participate in GATT, the semi-colonies are secondary players. If the major imperialist countries reach an agreement on a certain subject they will force it down the throats of the rest of the participants.

Every time the imperialist forces reach an agreement, it falls apart in the next period, because any advantage for one imperialist country from such an agreement badly hurts the others. Several months after the last GATT agreement was signed, there is already tension between the imperialist countries about how to proceed in implementing the agreements. The latest GATT agreement basically produced some concessions from Japan and Europe in favor of the United States, but only with regard to some items (agricultural products, for example). However on most crucial commodities (auto, semi-conductors, etc.), where imperialist competition is too intense for an agreement, there was no agreement.

Thus it is no surprise that a few months after the GATT agreement was signed, Japan and the US are once again at each other's throats, especially when it comes to the most competitive commodities. According to *AP*: "Under a new framework reached last July, both countries agreed to seek to boost sales of American and other foreign products in the Japanese market with the leaders of the two countries meeting every six months to review progress. By the Feb. 11 [1994] meeting, agreements are supposed to be reached in four areas - autos and auto parts, medical equipment, telecommunications products and insurance services. But senior U.S. officials, who all briefed on condition of anonymity, said that with a little over two weeks to go before the sum-



mit, there were wide disagreements in all four areas. One administration official said that the discussions in the auto and auto parts area were at a 'complete impasse' while talks in the other three areas had made only 'marginal' progress. Both sides remained far apart on a key issue - America's insistence that any agreement contain numerical benchmarks to measure progress at opening Japan's markets. Japan has rejected that suggestion, saying it would require government interference in the free market system and amount to managed trade." (*Associated Press*, January 25, 1994)

The situation is clear: Japan is too strong of an imperialist country to capitulate to the bullying of the US. The reality behind GATT is that the national competition between the imperialists is reaching unheard-of levels. In the case of steel industries alone, for example, the United States in 1993 doubled the punitive duties for imported steel. The average penalties jumped to 51 percent from 20 percent. In the case of Britain and Brazil, the punishment (punitive duties) that a corporation has to pay when it exports steel to the US is 109% of the price of the steel sold on the American market! Under the conditions of the present crisis, Japan will not open its markets. If the US wants to open the Japanese market seriously (that is, to defeat Japanese imperialism), it needs more than a trade war - and the only thing that can surpass a sharp trade war is a hot war.

The heat behind the trade war is so intense, because a victory for one country could mean the ruin of others. If the imperialist countries will have their way - for example, on the question of forcing their agricultural products into some semi-colonies and Japan - hundreds of millions will be ruined. According to the *Associated Press*, "Indian farmers are concerned that plans for international patent

protection will give American seed multinationals like Cargill Inc. rights over local farmers producing their own seeds. MD. Nanjundaswamy, a representative of the Indian National Alliance, said this (GATT) would force about 450 million subsistence farmers with less than 2 1/2 acres out of business. India has a population of about 800 million. A 12-member Japanese farmer delegation warned that millions of Japanese rice farmers would go under if the country were open to cheaper imports. Farmers groups in the 12-nation European Community predict the cuts in farm subsidies will halve full-time jobs in agriculture, wipe out supply industries, empty villages and wreck traditions." (*Associated Press*, December 1993)

20. Behind Maastricht: In Europe, the birthplace of capitalism,

small-drawn national borders limit the accumulation of capital the most. While the USA and Japan dominate huge domestic markets as well as a huge sphere of influence in the semi-colonies (Latin America, Asia), this is clearly not the case for European capitalism. Accumulation, concentration of capital, expansion and rationalization of production are limited by the relatively small domestic markets, harsh agreements and compliance with these agreements among the capitalist neighbors in Europe. Such compliance restricts unlimited expansion by one country, while the economic crisis creates a contest for the leadership of Europe, with stronger countries benefiting at the expense of weaker countries. European trusts try to protect national borders with harsh protectionist measures, but this is not working because they are much smaller and often less productive than their American and in particular their Japanese competitors. This is one reason why the recession is lingering longer in Europe.

Now, with an escalating inter-imperialist trade war, big European capital - if it wants to take up the struggle and not surrender without resistance - is forced to create a much larger base for accumulation by building an all-European domestic market. This will mean an enormous destruction of capital (that is, of the weak European monopolies), followed by a wave of concentration of capital never seen before. If the treaty of Maastricht is implemented, small capital will be destroyed after losing its protection from European governments, which in the last analysis always represent big capital in times of economic crisis.

As a result, the European working class faces the most ferocious attacks ever. Millions of jobs have already been destroyed, and millions more are likely to follow. The European bourgeoisie wants to dramatically decrease wages and dismantle the social benefit system. These attacks have

already reversed many of the gains of the last few decades. We predict that this general offensive of the bourgeoisie will produce an explosion of class struggles, as the initial response of the European working class in 1993 has demonstrated.

It is important to note that the Maastricht treaty cannot be implemented fully. The contradiction of European capital is as follows: The European bourgeoisie needs to unite against the working class and overlook national and economic antagonisms between the different countries. In order to stay competitive with the US and Japan, the bourgeoisies of Europe must proceed with European unification, which means the dismantling of national borders and the creation of a new national state. But this will not work out. As the concentration of capital continues, the national industrial base of capital is more and more at stake. It is clear, for example, that German capitalists — the strongest capitalists in Europe — will benefit from the unification of Europe more than the rest of the European capitalists, most likely at the expense of the latter. Thus, threatened by extinction, the weaker European capitalists will use their national borders and their national state apparatus to defend and protect themselves. As international rivalry intensifies, the EU is in grave danger of falling apart, with intensifying political and possible military conflicts between the European countries.

21. The Pacific Rim: As soon as President Clinton got what he wanted with NAFTA, he started to make noise about a "NAFTA" for the Pacific rim, i.e., Asia. After the psychological boost from NAFTA, American imperialism is ready to move against its competitors in the ripest area for exploitation in the world, where one can get the lowest rate for labor. But Asia is not the backyard of the United States, and there are other dangerous sharks in the water — namely Japan and to some degree different European countries — that will not give up their prey without a bitter fight.

China is the biggest market for multi-national corporations in Asia; some corporations talk about China as if it were the only place left to expand aggressively. In 1993 alone, the imperialists poured more than \$100 billion (!) into China, twice the amount they invested two years ago. Japanese imperialism and its cronies lead the plunder, but the US is boiling with jealousy and is aggressively trying to get into China. Germany is doing the same; Helmut Kohl was in China at the end of 1993 with forty capitalists. German capital showed that it is still fit for competition — after all Germany is still the master of Europe — and Germany signed \$4 billion worth of contracts in one day!

Nevertheless, American imperialism is fighting for its domination of the world and is ready to get into Asia at all costs. Take for example General Electric (GE), one of the biggest corporations in the world. GE is *closing its operations in the US* and moving them to Asia and Mexico. It plans to invest massively in India, China and Mexico, and it projects that profits will exceed \$20 billion. (*Business Week*, November 8, 1993) If Clinton arranges a "NAFTA" agreement with China and India,

this will give GE and other American corporations the advantage they must have to beat their competitors) in the area. But everybody knows that a NAFTA for Asia is just a pipe dream. If the competitors accept a *NP/FTA* between the US and Asia, it will amount to an acknowledgment by Japan and Europe that the entire globe is just an American backyard! And with today's crisis they would rather go to war with the United States than settle for that.

The bottom line is as follows: Capitalist restoration in China gives the different imperialist forces some room for expansion, but this expansion is taking place under conditions of general international economic downturn. Under these economic conditions, imperialist entry into Asia can take place only with fierce competition. Each imperialist power is trying to stab the back of the others at the first opportunity. As competition intensifies, the imperialist powers are forced to go deeper into Asia and other semi-colonies where they can get the lowest rate of labor exploitation. This means that the imperialist corporations must spend billions of dollars on new factories. But competition, combined with the fast rate of exploitation (high speed-up factories that produce more commodities per day on the average, etc.), is only contributing to the glut of commodities on the market that the impoverished workers throughout the world cannot buy.

One example to illustrate the above is the "illegal" flow of garments from China to the United States: a large sector of clothing that comes to the US is from China. During the GATT negotiations, American garment manufacturers put enormous pressure on the US team to extract concessions from China. When the GATT negotiations were over, the US threatened China with big retaliation measures unless China stopped the flow of "illegal" garments into the US. American garment manufacturers are afraid that cheap Chinese clothing will wipe out the American market for US manufacturers, because the market is glutted and in times of economic instability, consumers tend to be more conservative and buy inexpensive commodities. From the standpoint of the United States, the "illegal" Chinese garments consist of commodities from the free zones, that is, they come, at least to some degree, from imperialist owned factories. The retaliation threats by the US against China for the entry of "illegal" clothing are directed not only against China, but also against the US imperialist competitors. Thus, in the present conditions of world economic stagnation, the result of deeper imperialist expansion into the semi-colonies is a deepening of the world glut as the different imperialist powers dump their cheap commodities that they produced in the semi-colonies into the countries of their respective competitors.

The Crisis and the Class Struggle

22. The general tendency of decline of capitalism and the intensified attacks on the working masses will make the 1990's a decade of class struggles; not only in

the third world but also in the imperialist heartlands, beginning with Europe. The massive strike waves in some European countries, notably Italy and France, are indicators of the future. The working class must fight back, since not fighting back means, in the context of the present situation, the acceptance of historical defeats.

23. The recent uprising in Chiapas, Mexico is one of the most significant events in the latest round of class struggle. The fact that the most oppressed part of the Mexican masses recognize the need to unite with American workers in order to defeat NAFTA indicates that the objective situation forces a change in the consciousness of the masses. NAFTA is nothing but a formulation for the deeper internationalization of capitalism; the multi-national corporations are moving their factories all over the world. As the capitalists deepen their international exploitation, the workers must deepen their international class struggle and solidarity. National-centered struggles are insufficient to defend the working class. For example, if the United Auto Workers (UAW) go on strike against General Motors in the US, the union cannot win as long as General Motors keeps its factories open in Mexico. The recognition of this by the most oppressed sectors of the masses in Mexico (who have nothing to lose) is a barometer for the development of the masses' consciousness and hence, for the future of the international class struggle. The working class must be engaged in real international solidarity up to the point of building common, combative international class struggle bodies or it will be defeated. In this respect the work of revolutionaries in defense of immigrant workers in the imperialist countries is important for building unity between workers in the advanced countries and the semi-colonies. It is a start for a real non-chauvinistic links between the workers of the oppressor countries and the workers in the semi-colonies.

24. In the 1980's, the imperialist bourgeoisie was able to use the "salami tactic" by slowly cutting the

gains that were won in previous decades (in the United States, it was much more than a salami tactic ~ it was major butchery that resulted in significant historical losses). The capitalists were counting on the reformist consciousness of the workers in Europe and the bourgeois leadership in the mass workers' organizations to stop resistance, so that the bourgeoisie could attack these gains. Thus, the 1990's began with a politically demoralized and weak working class. For the time being, the class struggles are mainly restricted to economic struggles led by the advanced sectors of the workers. These struggles are intense, but they are centered only on economic demands and they are fragmented (as in Italy and France).

Under these conditions, which lack political perspectives, the advanced layers of the proletariat are not able to attract the petty bourgeoisie and the backward strata of the working class shaken by the crisis. As a result, these strata are following right wing populism and proto-fascist movements which could eventually pave the way for outright mass fascist movements.

The next decades will be crucial ones for humanity. If the proletariat does not show the way forward, humanity could fall into barbarism through wars and the capture of state power by fascist movements in key countries. Only genuine communists are able to prevent this by leading the working class to power. Such communists must be part of the workers' struggles, win over the advanced layers of the workers to revolutionary perspectives, and emerge as a leadership in arising revolutionary developments. If this will not be the case, the second part of the 1990's could intensify the preparation for fascism and World War III -- particularly in Europe.

These are the economic and political conditions that the world is entering because of the structural international crisis, and they cannot be resolved by peaceful means. The ILCC must prepare for an eruption in the class struggle internationally. The victory of the proletariat is crucial to save humanity from a catastrophe.

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