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UNEMPLOYMENT AND INFLATION

John G. Gurley

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For the advanced capitalist countries of the world, the 1970s have been nothing to write home about. This decade has seen a retardation of growth, widespread unemployment, sharp and persistent inflation, no end to inequalities, and much social unrest. As if all this were not bad enough, the gods on high have also seen fit to create, during these years, seven new Marxist countries, the specter of Eurocommunism, and a few more menacing national-liberation movements marching under red banners. It would seem that just when the capitalist ramparts are cracking, beyond them appears a colossus, a Goya-like giant of mean and threatening aspect.

Economic crises in capitalist societies come and go. In fact, their coming and going is the major way capitalism itself keeps going. Economic crises are partly the result of the failure to plan, which leads to disproportions and mismatches in production and consumption. But, more important, crises are needed by the capitalist class to solve the accumulating problems that sooner or later become acute during the expansion phases of

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the business cycle. During these booms, the working class gains strength as full employment is approached. Workers use their enhanced power to obtain higher wages and better working conditions. They are also able to change jobs more frequently, strike more often with good results, prevent speedups by employers, and take life a little easier. By so doing, they make life less enjoyable for the class owning and controlling capital goods and organizing the production process. During these periods, workers are often able to capture larger portions of what they themselves have produced, leaving less for the capitalists. And groups of capitalists often struggle among themselves for larger slices of the surplus remaining to them. It is at such times that capitalists lament over their meager rewards for the sacrifices they have made in abstaining from consumption in order to save, for their heroic risk-taking, for the shrinking productivity of their possessions, and, with more panache, for their sterling and patriotic qualities.

This capitalist dirge was beautifully parodied by Mendoza, the bandit leader, in George Bernard Shaw's *Man and Superman*:

Mendoza: Well, what is our business here in the Sierra Nevada, chosen by the Moors as the fairest spot in Spain? Is it to discuss abstruse questions of political economy? No. It is to hold up motor cars and secure a more equitable distribution of wealth.

The Sulky Social-Democrat: All made by labor, mind you.

Mendoza: Undoubtedly. All made by labor, and on its way to be squandered by wealthy vagabonds in the dens of vice that disfigure the sunny shores of the Mediterranean. We intercept that wealth. We restore it to circulation among the class that produced it and that chiefly needs it: the working class. We do this at the risk of our lives and liberties, by the exercise of the virtues of courage, endurance, foresight, and abstinence—especially abstinence. I myself have eaten nothing but prickly pears and boiled rabbit for three days.

One difference, however, between Shaw's bandit leader and our own modern-day capitalists is that Mendoza, even on a diet of prickly pears and boiled rabbit, did not slacken his efforts. Our capitalists, on the contrary, begin to pout as soon as they believe their abstinence is being poorly rewarded. They then reduce their capital expenditures, sack workers right and left,

and so bring on an economic crisis—just as they have recently done. These crises are really investment strikes or slowdowns by capitalists, which are treated most sympathetically by the government, in sharp contrast to its usual attitude regarding labor strikes or slowdowns by the working class. Even though strikes by capital do much more damage than strikes by labor, when capital strikes it receives investment tax credits and many other “goodies”; while labor, in similar circumstances, often gets the bum’s rush.

Economic crises are meant to restore the conditions necessary for the continuation of the capital-accumulation process. The working class, because of extensive unemployment and a precarious future, usually becomes more docile and industrious. Or, as Karl Marx expressed it: a crisis replenishes the industrial reserve army of labor. That may sound as though labor is set to win the war. But this reserve army is unemployed. It threatens not the capitalists but its own working comrades. And that, from the employers’ side of the fence, is rather nice. Moreover, a crisis reduces the production mismatches (the mishmash of mismatches) that are generated by the preceding planless boom. It also allows bloated debts to be punctured and small, pesky competitors of big capital to be absorbed. A crisis, if it is not too deep or too prolonged, strengthens capital against labor and rectifies imbalances among the various strata of capital. So, back at square one, capital accumulation is ready to roll again.

While an economic crisis always produces unemployment, in recent years it has also been accompanied by inflation. Inflation began to sweep through the capitalist world a decade ago, and it has continued with some severity into the recession of the last few years. It began in the United States as a response to excess demand growing out of deficit-financed war expenditures for Vietnam, which were added to the tail of a boom already well underway. Inflation was propelled onward and outward by the return to synchronous booms throughout the capitalist countries, which greatly augmented aggregate demand for world resources. The prolonged boom of the 1960s and the demand-pull inflation that it created in turn produced cost-push pressures which have persisted into the recession and beyond.

What has accounted for inflation when unemployment has been so high? Aside from mother nature, whose caprices bring either too little or too much rain—hence food shortages—one important reason is that, throughout the postwar years, the working classes and other adversaries of capital have in several ways gained so much strength against capitalist classes that this power can no longer be reversed by the downturns of old. The enhanced strength of the working classes is the result of prolonged high levels of employment and of expanding income-maintenance programs for the unemployed, the aged, and the needy. Both of these structural changes grew out of the Great Depression when the capitalist system itself was in jeopardy owing to the inability of the ruling classes to modify and limit their crises. Keynesian monetary and fiscal policies were designed to remedy that insufficiency—and, in the event, they did, with some success. But within success, as the Taoists say, lurketh failure. While the struggles between capital and labor decreasingly took the form of boom and bust, they more and more broke out as wage-price spirals, which reflected battles for increased shares of national income, but battles waged by a working class that could now fight more nearly on a par with monopoly capital. Furthermore, the income-maintenance programs have prevented slow death among the unemployed and so have lowered their need to offer themselves to employers for any miserable pittance or under any degrading condition. These programs, therefore, have raised the demand for output while lowering the supply of cheap labor to produce it. This is one reason why capitalism requires more unemployment today to achieve the same restraining effect on wages and prices.

What I have shown is that many workers are unemployed today throughout the capitalist world because unemployment partly reflects anarchy in capitalist production and partly because it serves a purpose for the capitalist class. Inflation also exists at the same time mainly because the working class has gained and retained sufficient strength to battle more evenly with capital over shares of the national income.

Other elements of this picture concern the colossus who throws his shadow ominously across capitalism's domain. If this century could be characterized in a phrase, it would be

called the era of Marxist revolutions against capitalism. These revolutions—which have so far gathered one third of the earth's land and population into the arms of nations calling themselves Marxist—have had a major impact on world capitalism. While they have not directly caused capitalism's latest crisis, they have shaped the circumstances within which that crisis has occurred and in this manner have molded the crisis itself.

The global spread of Marxism, which has accelerated in this postwar period, has transformed immense areas that formerly were impoverished into rapidly developing nations that are now vigorous competitors of capitalism for world resources. The diffusion of Marxism has also reduced capitalism's control over these resources, diminished its access to cheap labor supplies, raised its costs of defending the areas left to it—note well Vietnam—and increased its risks of operating in much of this reduced space. As a result when monopoly capital eyes its profit-making prospects around the world, it sees little else but rising costs, growing uncertainties, and problems piled ever higher. Moreover, the spread of Marxism has greatly enhanced the bargaining power of many lesser nations against monopoly capital—by providing options to them while weakening the power of capital. Thus, OPEC and other cartels and strong nationalist movements that aim for greater control of their own affairs have emanated largely from Marxism's growing relative strength. OPEC, for example, followed closely on the heels of America's defeat in Vietnam. In addition, the worldwide diffusion of Marxism has bolstered Communist parties and radical movements within Western Europe itself, augmenting the power of those working classes, especially in France and Italy. The success of Marxism has also made it imperative for capitalism, if it is to survive, to compete hard by maintaining high growth rates with the aid of Keynesian policies, which have in turn buttressed labor's struggle against capital.

All of these forces have shaken private investors who, with rising apprehension, have cut back on their capital investments, thereby creating unemployment. These same forces have also unleashed and intensified struggles between capital and its growing adversaries, and among various strata of capital itself, at home and abroad, over shares of national and world output,

which have resulted in inflationary spirals throughout the capitalist world.

I previously said that economic crises come and go. However they do not come and go endlessly in the same garb. Each crisis solves its own particular problems, but the solutions always contain new problems, which require still further solutions. Thus, one does not simply "solve," once-and-for-all, the unemployment-inflation problem. Any remedy for this puzzle—for example, rolling back the gains made by labor, introducing wage-price controls, prolonging periods of mass unemployment, shifting tax burdens from capital to labor, or setting forth to clobber the colossus—will produce further problems and perhaps even more intractable ones. Indeed, if capitalism as a world system is now on the decline, as I think it is, I would expect its solutions to become weaker and the problems growing out of them to become increasingly refractory.

This deterioration can be stopped either by strong-arm measures of capital against labor or by a victory of labor over capital. The latter will occur only if large numbers of people, victimized by monopoly capital's drives, come to see the welfare of the capitalist class as basically destructive of the welfare of most other people; and if, in the process of struggling against each demand as it arises, they develop new goals, different values to live by, and new conceptions of the world around them—all in opposition to existing capitalist forms.

Only when workers and others, confronted by the repeated summons to bail out the capitalist class at great public expense, gain an understanding, through practical activity, that their interests are sharply opposed to those of monopoly capital—only then will they, having changed themselves in the process, be in a position to change their world in a radical way.

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