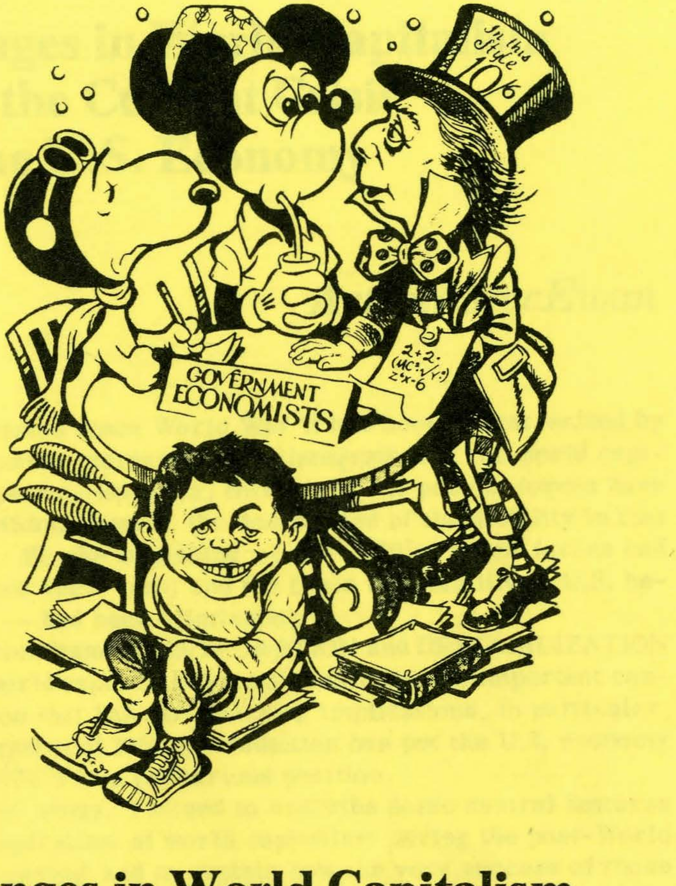
CRISIS ABROAD, CRISIS AT HOME



Changes in World Capitalism And the Current Crisis Of the U.S. Economy

Arthur MacEwan

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The period since World War II has been characterized by a continuous increase in the integration of the world capitalist system. However, throughout the period, forces have been building toward the destruction of the stability in that system. By the beginning of the 1970's, those forces had come into their own, and the basis for stability — U.S. hegemony — had been eliminated.

The simultaneous INTEGRATION and DESTABILIZATION of the world capitalist system constitutes an important contradiction that has far-reaching implications. In particular, the operation of this contradiction has put the U.S. economy of the 1970's in a precarious position.

In this essay, I intend to describe some central features of the operation of world capitalism during the post-World War II period and to explain how the very success of those years was creating the conditions for the disruption of the system. I will then be in a position to relate the current crisis of the U.S. economy to the important changes in world capitalism and show how international affairs have played a central role in the development, precipitation and continuation of the crisis. (2)

CREATION OF U.S. HEGEMONY

At the end of World War II, the United States was in a particularly fortunate position. While the economies of the other advanced nations — victors and vanquished alike — had been devastated by the War, the U.S. economy had flourished. Consequently, in 1945, the U.S. held a position of unique and unchallenged political-military and economic power among capitalist nations.

An era of U.S. hegemony had begun. The U.S. government was able to dictate economic and political policies within the world capitalist system.* Accordingly, it was possible to re-establish an international order which had been lacking for over half a century — since the time when other nations had begun to seriously challenge Britain's pre-eminence. (3)

The new era of U.S. hegemony expressed itself in several new institutional arrangements. Most frequently noted are the set of monetary arrangements imposed on the other capitalist nations in 1944 at the Bretton Woods Conference. In the earlier periods of colonial expansion, each colonial power had imposed its currency — pound, franc, mark — within its empire. Now, after World War II, the U.S. established the dollar as the principal "reserve currency" throughout the capitalist world.

The role of the dollar was closely connected to the rapid international growth of U.S. business. The expansion of U.S. banking abroad highlights the general picture. In Europe, for example, U.S. banks had only 20 to 30 branches in the 1920's, and during the 1930's and the War most of these were closed down. The 1950's and the 1960's saw a steady advance to the point where by 1968 U.S. banks had 326 branches in Europe. (4)

The largest industrial corporations were central actors

***The ability of the U.S. government to dictate was, of course, limited in the ways that the power of any dictator is limited. A dictator must compromise sometimes, must cajole reluctant followers, and must smash rebellions. But as long as he is successful in maintaining the foundation of his power, the dictator remains a dictator.**

in the post-War overseas expansion. In 1950 General Motors was annually producing less than 200,000 vehicles abroad. By 1952 it had expanded production to approximately 600,000 units. In another year, with European production being supplemented by Australian and Brazilian expansion, GM was producing over one million vehicles in its foreign plants. And the boom continued on into the 1960's: between 1963 and 1964 GM's overseas production grew by a quarter of a million. (5)

Aggregate data show the same general picture of rapid growth of U.S. foreign investment in the 1950's and 1960's. The value of all U.S. direct investment abroad stood at roughly $11 billion in 1950; by 1960 the total had risen to over $30 billion; and in 1970 the figure was over $70 billion. (6)

The absolute growth of U.S. business interests abroad is impressive, but it should be seen in the context of the establishment of overwhelming U.S. dominance in the international capitalist economy. In Latin America, for example, just prior to World War I, only 18% of foreign private investment and less than 5% of public debt was held by U.S. interests. British interests held 47% of private investment and 70% of public debt. In the early 1950's, direct investment in Latin America from sources other than the U.S. was negligible, and in the early 1960's the U.S. still accounted for roughly 70% of new foreign investment in Latin America. As to foreign public debt, the U.S. was supplying about 70% in the early 1950's and still more than 50% in the early 1960's. (7)

Not only has the U.S. replaced the European nations as the leading economic power operating in the Third World, but the post-War years saw a substantial penetration of the European economies by U.S. business. The value of direct U.S. investment in Europe tripled between 1950 and 1959 (from $1.7 billion to $5.3 billion), then quadrupled (to $21.6 billion) by 1969, and will have roughly doubled again by the end of 1974. (8)

On the political and military level, U.S. expansion kept pace with economic interests. Economic aid, military aid, and the establishment of overseas military bases helped provide a political environment conducive to corporate penetration. Throughout the European colonial world, the U.S. ambassadors began to replace the European colonial administrators as the dominant political figures. And in line with the new world order, European colonies were transformed to independent nations under the aegis of U.S. neo-colonialism. More and more, the British and French military networks were replaced by U.S.-centered "alliances" such as SEATO and CENTO.

The U.S. took on the role of maintaining an international police force to maintain "law and order" throughout the capitalist world. Moreover, it became the organizer and chief participant in the general effort of capitalist nations to contain and harass the Socialist Bloc.

BENEFITS OF HEGEMONY

This hegemony had its distinct advantages for U.S. business. To begin with, foreign activity has been a significant and growing source of direct profits. As a proportion of after tax profits of U.S. corporations, profits from abroad rose steadily from about 10% at the beginning of the 1950's to about 20% at the beginning of the 1970's. (9) Moreover, these profits accrue disproportionately to the very large firms in the U.S. economy. Gillette, Woolworth, Pfizer, Mobil, IBM and Coca Cola, for example, all earn more than 50% of their profits overseas. In 1972, the First National City Bank, the world's first bank to earn over $200 million in a single year, earned $109 million abroad. (10) In 1965 13 industrial corporations, all ranking among the top 25 on the Fortune 500, accounted for 41.2% of foreign earnings. (11)

In addition to these direct benefits of international activity, the maintenance of an open and stable international capitalist system under U.S. hegemony has provided important elements in the structural foundations of the post-World War II expansion of the U.S. economy.

It has been generally recognized that having the dollar as the central currency of world capitalism assured that U.S. businesses would always have ample funds to undertake foreign activity. With the dollar-based monetary system, businesses in other nations had an increasing need for dollars in order to carry out their own international transactions. In the 1960's for example, the growth of dollars held outside the U.S. averaged about $2 billion a year. As a result, U.S. business could make purchases abroad with dollars without having all of those dollars redeemed by equivalent purchases by foreigners in the U.S. The rest of the world was effectively extending credit, to the tune of $2 billion more each year of the 1960's, to U.S. business. (12)

Boston Globe/cpf

"GOD BLE$$ AMERICA!"

Monetary matters are, however, only the beginning of the story. The story continues with the impact of international activity on domestic power relations and with the importance of access to and control over resources and markets.

Manufacturing has been the most rapidly growing sector of U.S. foreign investment. (13) Foreign expansion of manufacturing has been motivated by the dual goals of obtaining a foothold in foreign markets and exploiting cheaper labor. The process has a structural impact on power relations that goes far beyond its direct impact on corporate profits. The ability of capital to move abroad greatly strengthens its hand in disputes with labor. Labor, whether demanding higher wages or better working conditions, is threatened by the possibility that management will choose to close shop and relocate abroad (or simply cease domestic expansion). The effectiveness of the threat has been demonstrated by the extensive expansion of overseas operations of U. S. manufacturers. And that extensive expansion has been greatly facilitated by U.S. hegemony.

Consequently, we may say that one of the elements establishing labor discipline in the domestic economy is the international mobility of manufacturing capital. The labor discipline — or the power relations between capital and labor which it represents — has been a central element upon which the successful domestic expansion of the U.S. economy has been based.*

*The argument here should be distinguished from another argument sometimes put forth by opponents of the runaway shop, to wit, that capital mobility means a slower overall growth of jobs in the U.S. economy. It is not at all clear that in aggregate and over time capital mobility means fewer jobs. Of course, workers immediately affected by a runaway shop are thrown out of work. But overall, the effect of foreign investment is clearly to increase the surplus available for investment within the U.S. In any given year, profits returned from former foreign investment exceed the outflow of new foreign investment and, accordingly, contribute to the expansion of the U.S. economy, including the aggregate expansion of jobs. And if the aggregate of jobs is increased, wages are likely to increase also. However, regardless of the aggregate, long-run impact of foreign investment, at any point in time the existence of options for capital weakens labor; or, which amounts to

Another structural basis for economic growth has been provided by foreign investment based on natural resources. While not as rapidly growing as manufacturing investment, resource-based foreign investment has by no means been stagnant. (14) The central issue in assessing the importance of natural resource based investment is control. In the first place, as the past year's experience with oil makes clear, natural resource prices — of copper, bauxite, and so forth, as well as oil — are determined within a fairly wide range by power relationships. The low prices of certain resources which have been important to post-War growth of the U.S. economy can now be seen to have rested on the combined economic and political power of U.S. corporations in the context of U.S. hegemony. (15)

A second factor explaining the importance of natural-resource control is that control provides a basis for security, for both the nations and the companies involved. The U.S. military apparatus is dependent on several imported strategic raw materials e.g., nickel and chromium. (16) Thus, the position of the military and all that it implies is tied to the control of certain natural resources. From the point of view of the corporations, control of resource supplies provides security for their monopoly positions, both domestically and internationally. In oil, in aluminum, in copper, the major companies have used "vertical integration" — i.e., involvement in all phases of the industry from crude material production to sales of final products — as a basis for their power.

In numerous other types of industries as well, international activity is bound up with monopoly power. Domestic

the same thing, the threat of joblessness for a particular group of workers at a particular time means it is less able to make effective demands on capital. Moreover, the sector of labor most immediately affected tends to be the most thoroughly organized, for it is in those cases relatively more advantageous for capital to move abroad. In other words, the argument here is that (aside from groups immediately involved) capital mobility hurts labor in terms of income distribution and in terms of power; the question of economic growth and growth of jobs and earnings is another matter.

monopoly power provides the basis for successful international expansion, and the international expansion further enhances size and power which secure the original monopoly position. A description of the drug industry's activities has been provided by no less a source than Senator Russell Long, speaking in 1966: "For more than a dozen years, American drug companies have been involved in a worldwide cartel to fix the prices of 'wonder drugs'...the conspirators have embarked on an extensive campaign to destroy their competitors." (17)

All of these benefits that have been obtained by U.S. business during the era of U.S. hegemony in world capitalism have not, of course, been theirs alone. Other advanced capitalist nations have participated in and their businesses have gained from the international stability. The U.S. may have led, but the followers have done well for themselves. And therein lies one of the problems.

CONTRADICTIONS IN THE SYSTEM

The good times for U.S. business could not last because the successful operation of the system was, from the outset, leading toward its own destruction. Simply insofar as the U.S. used its power to maintain stability, it allowed the reconstruction of the other capitalist nations. Success for the U.S. meant stability, but stability would allow its competitors to re-establish themselves.

In fact, the U.S. did far more than simply maintain stability. For both economic and political reasons, the success of the U.S. required that it take an active role in rebuilding the war-torn areas of the capitalist system. Economically, U.S. business needed the strong trading partners and investment opportunities that only reconstruction could provide. Politically, the U.S. needed strong allies in its developing confrontations with the Soviet Union and China.

Consequently, throughout the post-World War II period, the other capitalist nations were able to move toward a position where they could challenge the U.S., both economically and politically. As early as the late 1950's and early

1960's, it was becoming clear that Japanese and European goods were beginning to compete effectively with U.S. products. And other nations began to grumble about the costs of supporting a world monetary system based on the dollar. It was only a matter of time before the economic challenge would become serious, and the other nations would no longer allow the U.S. to dictate the rules and policies for the operation of international capitalism.

Still, "a matter of time" can be a long time or a short time. If the only challenge had been that from the expansion of other advanced capitalist nations, the U.S. might have maintained its position of hegemony for many more years. That was not, however, the only challenge.

The successful extension of capitalism into new geographic areas is — especially in the era of the rise of socialism — a process involving considerable conflict. In providing the police force for world capitalism, the U.S. government has been obliged to engage in numerous direct and indirect military encounters. Greece, Iran, Guatemala, Lebanon, the Dominican Republic only begin the list of nations that have felt the effect of U.S. coercion. In many cases, the overwhelming military capacity of the U.S. was sufficient to prevent serious military conflict from developing.

Indochina, however, presented a different story. The liberation forces in Vietnam were not so easily contained, and the U.S. became more and more deeply involved. A particular dialectic was thus created which had far-reaching implications. On the one hand, unable to win in Vietnam, the U.S. was forced to act in a way that undermined its economic strength. On the other hand, as its economic position deteriorated, the U.S. government was less able to pursue a successful military policy in Vietnam.

This dialectic process combined the contradiction between the U.S. and other advanced capitalist nations and the contradiction between the U.S. (as the central power among the advanced nations) and the periphery of the system (i.e., the Third World). The combined operation of these contradictions has ended the era of U.S. hegemony in a manner that will be shortly described.

First, however, it should be pointed out that the operation of these two contradictions established the foundation for the operations of still another contradiction. Success in the era of U.S. hegemony meant the integration of world capitalism, the creation of a system in which business was less and less constrained by national boundaries, a system in which capital could move freely. Consequently, a general interdependence has developed within world capitalism. The continued operation of a system of interdependence requires stability and coordination. Without U.S. hegemony the basis for stability and coordination no longer exists. The resulting contradiction between an integrated capitalist system and a capitalist system that has destroyed its basis for stability plays a central role in the crisis of the 1970's.

GENESIS OF THE CURRENT CRISIS

The crisis of the 1970's has been steadily unfolding since the mid-1960's. As the economy moved toward relatively full employment in 1965 and 1966, certain "imbalances" began to appear on the horizon. Continued expansion would reduce unemployment toward the point where labor's power would be significantly increased. Continued expansion would also lead toward the development of a serious liquidity crisis and toward inflation. A mild recession would have corrected these imbalances without serious repercussions. Thus, from the point of view of the long-run interests of capital, a mild recession could have been useful. (18)

Instead of allowing a recession to develop, however, the U.S. government undertook heavy expansionary actions.

Those actions were necessitated, of course, by the inability of the government to win its war in Indochina. In terms of the immediate needs of the economy the appropriate governmental action in 1967 and 1968 would have been to allow the development of a recession. However, the broader needs of the system required that a war be fought, and that war required a spending program that was expansionary. (It should be pointed out that the government undertook a deficit spending program rather than a spending program accompanied by tax increases because of the political opposition to the War. More taxes would have increased the opposition. So to avoid fanning anti-war sentiment the government ran large deficits which led it into many more problems.)

Two sorts of problems were created for U.S. capitalism by the government's response to the system's international difficulties. First, the war-induced expansion led to relatively low unemployment rates. For four years — 1966 through 1969 — unemployment stayed below 4% of the labor force. With alternative jobs readily available and with more job holders per family, workers were more powerful in their struggle with capital. The power was revealed in the 1966-69 period both by labor's ability to obtain a larger share of total income and by labor's ability to resist speed-up and other forms of labor discipline. Labor's share of national income rose from 72.2% in 1965-66 to 76.3% in 1969; corporate profits, on the other hand, fell in that period from 10.6% of national income to 8.2%. The rate of increase of productivity in the late 1960's reflected the inability of capital to effectively control labor; that is, the increases were extremely slow. (19)

The second problem created by the government's war-related expansionary actions was inflation. Inflation was a problem for several reasons. It created social discontent. It created uncertainties which disrupt business planning. It undermined the capitalist world's international trade and payments system. And it undermined the position of U.S. business in its competition with foreign business throughout the world.

The combined impact of low unemployment rates and inflation was a decline in total profits (corrected for inflation) and profit rates from 1966 on. (20) The decline in profits, the general complications resulting from inflation, and government efforts to deflate the economy led into the recession of 1969-1970. This recession put the final touches on displacing the U.S. from its hegemonic position in world capitalism.

The new situation of the 1970's was marked by both political and economic disruption of U.S. world power. Politically, the experience in Vietnam had demonstrated the inability of the U.S. to effectively police the world. Economically, the shift in the balance of U.S. international trade brought the new reality into stark relief. In the period 1960 through 1965, U.S. power had been reflected in large trade surpluses, averaging $5.8 billion. The trade surplus began to decline in 1966, and for the 1966 to 1971 period averaged only $1.4 billion. In 1971, 1972 and 1973 the U.S. ran trade deficits of $2.7 billion, $6.9 billion, and $0.7 billion, respectively. (21)

The challenge from Europe and Japan, which had been on the horizon in the early 1960's, had now arrived. Its coming was greatly hastened by the economic problems which the U.S. economy suffered as a consequence of the Vietnam War. In this sense, the two contradictions of international capitalism had come together to change the system. The change was formalized with Nixon's declaration in 1971 of the New Economic Policy, the devaluation of the dollar, and the destruction of capitalism's international monetary system. (22)

THE CRISIS OF THE MID-1970'S

The actions of the Nixon Administration in 1971 which were designed to push the economy out of recession were effective in the short run. Wage-price controls served their intended function of boosting profits; devaluation of the dollar and other trade-oriented policies led to a surge (albeit belated) in exports; and a huge government deficit in 1971 fueled the whole process. However, these various programs, at best, only postponed the day of reckoning.

While moving the economy out of the 1969-70 recession, the government's policies worked in tandem with international forces to move the economy toward the current crisis. Two of the internationally related parts of the process will be given attention here: the inflation in food prices and the oil problems.

FOOD PRICES. The very rapid increase in food prices in 1973 was a central element in fueling the general inflation, and as such food-price increases helped create the conditions for the 1974 recession. The jump in food prices can in large part be explained as resulting from the government's response to the declining U.S. trade position of the late 1960's. (23)

The government's plan for dealing with the declining position of U.S. exports was laid out in the report of a special Presidential commission. The report, entitled UNITED STATES INTERNATIONAL POLICY IN AN INTERDEPENDENT WORLD, recognized "that many of the economic problems we face today grow out of the overseas responsibilities the United States has assumed as the major power of the non-Communist world." This document goes on to assert that the "crisis of confidence in the multilateral trade and payments system ... can be traced to the pressure of imports in the U.S. market. Moreover, our ability to capitalize on our comparative advantage has been impeded by foreign barriers to our exports."

The principal proposal set forth in the INTERNATIONAL POLICY report was for a program to improve the U.S. trade position by expanding agricultural exports. The two central aspects of the program were:

1) The negotiation of special arrangements with foreign governments. This aspect of the program was carried out through arrangements including the Soviet grain deal and pressure on European governments to adjust trade regulations in favor of U.S. agriculture.

2) The structuring of domestic prices to favor agriculture. This aspect of the program was implemented through

the wage-price controls. Raw agricultural products and exports were exempt from controls, thus encouraging both the growth of agricultural output and its sale on foreign markets.

The program succeeded. The value of agricultural exports is now running three times as high as it did in the late 1960's, while agricultural imports have increased slightly. In the single year 1973, the value of agricultural exports increased from $9.9 billion to $17.7 billion, or about 80%. In 1974 agricultural exports have continued to rise, running about 40% ahead of the 1973 levels (in value terms) during the first seven months. (24)

This very large and rapid increase in agricultural exports was an important element in contributing to the price increases of 1973 and 1974. For our purposes, what is important is the causal sequence by which changes in the structure of world capitalism led to a government policy response which helped create the food inflation which was an element precipitating the current crisis. (25)

OIL PROBLEMS. The "energy crisis" was a principal catalyst turning the economy into its downward slide at the beginning of 1974. The short supply of fuel caused direct production cutbacks. Also, the energy situation altered spending patterns in ways that have upset important sectors of the economy, particularly through declines in automobile purchases.

The "energy crisis" was set in motion by the major oil companies in an attempt to simultaneously raise profits and improve their overall political power position. (26) Their initial success was impressive. Prices and oil company profits shot upward in 1973 and the first half of 1974, and the oil companies made significant gains against environmental controls.

When, in the late 1960's, the oil companies took the first steps in creating the "energy crisis," they were operating in an international environment still dominated by U.S. power. By 1973, however, conditions had changed, and forces set in motion by the oil companies' actions could not be contained. The oil exporting nations have asserted control over the price and conditions of supply of their oil. They have continued to push prices upward, and price problems have been exacerbated by supply uncertainty.

The actions by the oil-exporting countries, particularly the Arab boycott resulting from the war in the Middle East, would have been unimaginable in the era of U.S. hegemony. These sorts of events could not have transpired, for example, after the war in 1967. The decline of U.S. economic power gave the Arabs an opening they did not have in 1967. The U.S. had lost its power to maintain discipline in the system.

The change, however, is not simply a shift in the direct relations between the Arabs and the U.S. Loss of U.S. hegemony also meant that the unity of the advanced nations was not maintained in the face of the Arab actions. Japan and Western European nations have gone to the oil exporters on their own and do not appear willing to accept a U.S.-dictated unification policy. (27)

The actions of the oil-exporting nations should not be interpreted simply as a consequence of the change in world power relations. The general economic crisis which these actions catalyzed will have a continuing impact on power relations. Moreover, the huge sums of money flowing into the oil-exporting nations are creating new centers of economic and political strength. The way in which they manage their capital, their future pricing decisions, and their political actions will all have far-reaching effects on U.S. and world capitalism.

Oil problems and food problems illustrate the difficulties which US capitalism faces, operating as an integrated part of an unstable international economy. The coming years will see new rounds of oil and food problems, and there will surely be difficulties developing either directly out of or through responses to the changed international situation.

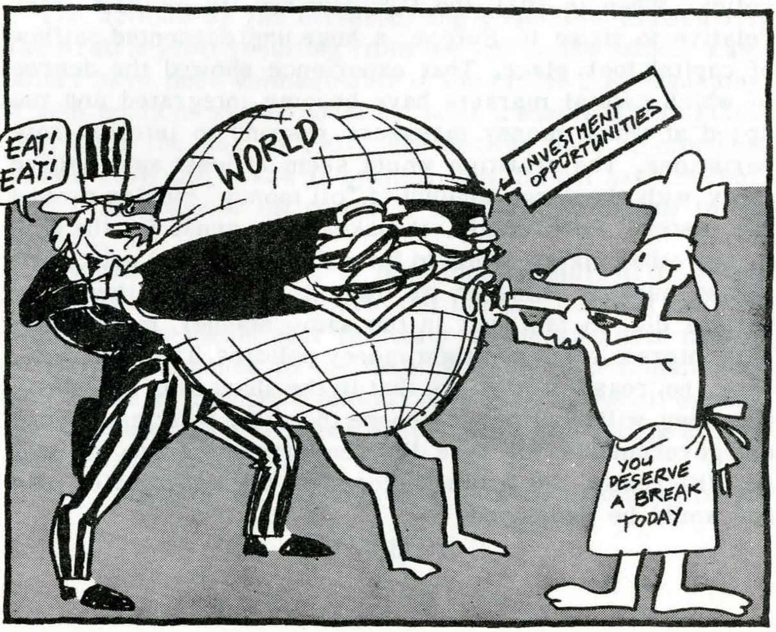
In concluding this paper it is useful to take particular note of the complications that international instability combined with integration creates for the formulation of government monetary and fiscal policy. Quite simply, under the present circumstances the implications of any particular policy are at best unclear.

Most obvious are the difficulties in formulating monetary policy. When in 1971 the U.S. lowered its interest rates relative to those in Europe, a huge unprecedented outflow of capital took place. That experience showed the degree to which capital markets have become integrated and the speed at which money managers respond to interest-rate variations. The situation would seem at least as sensitive today with the large amount of "oil money" moving around the system. Accordingly, it makes little sense for the U.S. or any other major nation to formulate monetary policy and adjust interest rates on its own. In 1974 all of the major nations did, in fact, act in the same manner, maintaining high interest rates and tight money policies. There is, however, no reason to believe that in the absence of coordination they will continue to choose the same policies; different governments will face different circumstances and will act differently. Yet it is not clear how any coordinated policy would be developed.

The problems for fiscal policy are only slightly less immediate. It is at least a possibility that in carrying out expansionary programs designed to encourage investment, the U.S. government will find itself competing with the other advanced nations to see which can provide the most favorable investment climate. The result could be a substantial expansion of overseas investment, lacking any substantial direct and immediate impact on the U.S. economy.

Moreover, under conditions of international integration and instability, the impact of any policy is difficult to predict. When the time comes again for counter-inflationary actions, a deceleration of the economy could lead to a much greater cutback of investment than the government would be aiming for. If other governments were not following similar deflationary policies, overseas options might attract an unexpectedly large amount of U.S. capital. The results of the U.S. action could then be inflation-exacerbating shortages and the development of another round of recession.

The list of uncertainties and possible problems could be continued. Different nations may attempt to solve their own



problems by raising tariffs; other nations might follow suit and a serious disruption of trade patterns could occur. Alternatively, a series of competitive devaluations may take place, or some nations might impose more stringent foreign-exchange controls. Each such action would present new problems for the U.S. economy.

The governments of the leading capitalist nations are not unaware of the dangers in the current situation, but awareness and ability to cope are not the same thing. In his much publicized BUSINESS WEEK interview, Kissinger put the problem simply: "One interesting feature of our recent discussions with both the Europeans and Japanese has been the emphasis on the need for economic coordination.... How you, in fact, coordinate policies is yet an unresolved problem." (28)

Thus, international instability of an integrated world capitalism will continue to plague the U.S. economy for some time to come. Policy problems, trade and monetary instability, price shocks, and other unforeseeables will all be part of the new agenda.

FOOTNOTES

1. An earlier version of this paper was presented to meetings of the Union for Radical Political Economics (URPE), San Francisco, December 28, 1974. The author is Lecturer in Economics, Harvard University, and a member of the staff of DOLLARS & SENSE, a monthly bulletin of economic affairs published as a project of URPE. Many of the ideas here have been developed in the context of work on DOLLARS & SENSE. Also, this paper builds on material presented in F. Ackerman and A. MacEwan, "Inflation, Recession and Crisis," REVIEW OF RADICAL POLITICAL ECONOMICS, Vol. 4, No. 4, August 1972; an earlier version appeared in RADICAL AMERICA, Vol. 6, Jan./Feb. 1972.

2. Some qualification is in order at the outset. Consideration of international issues only provides part of an analysis of the current situation. There are many other factors that will not be dealt with here simply because this is an essay of limited scope. Except in relation to international affairs, I am not going to deal with class struggle in the U.S. and its central role in the operation of the business cycle (see R. Boddy and J. Crotty, "Class Conflict, Keynesian Policy and the Business Cycle," MONTHLY REVIEW, October, 1974); nor shall I deal with the tremendous liquidity crisis that confronts U.S. capitalism (see P. Sweezy and H. Magdoff, "The Long Run Decline in Liquidity," MONTHLY REVIEW, September, 1970). I am also going to exclude consideration of fundamental contradictions contained in the capitalist relations of production that create tendencies toward stagnation and crisis (see P. Baran and P. Sweezy, MONOPOLY CAPITAL, Monthly Review Press, 1966). Finally, I have not attempted to say anything about the relations among the U.S., the U.S.S.R. and China. All of these issues are important, but they are not the subject of this essay.

3. One might date the decline of British power as beginning about 1870, when the growth rate of the British economy began to decline. Britain's ability to unilaterally impose order internationally became apparent with the rush for colonies at the end of the century and with the Berlin Conference of 1884-1885. The breakdown in world order and the consequent competition and conflict led into World War I. The War, however, left a totally unresolved power situation and a continuing lack of order in international political and economic affairs. In his analysis of the 1930's, C. P. Kindleberger, THE WORLD IN DEPRESSION, 1929-1939 (University of California Press, 1974) notes that "the main lesson of the inter-war years" is "that for the world economy to be stabilized, there has to be a stabilizer." Quoted by G. Barraclough, "The End of an Era," N. Y. REVIEW OF BOOKS, June 27, 1974.

4. See J. P. Koszul, "American Banks in Europe," in C. P. Kindleberger, ed., THE INTERNATIONAL CORPORATION, MIT Press, 1970, pp. 274-275.

5. See J. W. Sundelson, "U.S. Automotive Investment Abroad," in C. P. Kindelberger as cited in the preceding footnote, p. 256.

6. Data through 1969 are presented and discussed in T. E. Weisskopf, "United States Foreign Investment: An Empirical Survey," in R. C. Edwards, M. Reich, and T.E. Weisskopf, THE CAPITALIST SYSTEM, Prentice-Hall, Inc., 1972. For 1970, see SURVEY OF CURRENT BUSINESS, August 1974. According to Weisskopf's estimates, the value of foreign assets grew almost twice as fast as the value of domestic assets in the two-decade period. All of these figures are for book values; market values would most likely be a good deal larger.

7. See United Nations Economic Commission for Latin America, EXTERNAL FINANCING IN LATIN AMERICA, 1965, pp. 16-17, 147-148.

8. Sources are the same as in footnote 7.

9. There are various complications in calculating these figures due to difficulties in determining the taxes on foreign earnings and in treating royalties and other payments. Most of the raw data are obtainable in the annual report on foreign earnings that appears each year in the August or September issue of the SURVEY OF CURRENT BUSINESS. Profit calculation problems are discussed in F. Ackerman's review of H. Magdoff, THE AGE OF IMPERIALISM (Monthly Review Press, 1969), APPEARING IN PUBLIC POLICY Vol. 19, No. 3, Summer 1971. Magdoff's book is the most thorough treatment of the various issues discussed in this section. Also, see Weisskopf as cited above.

10. See R. J. Barnet and R. E. Muller, GLOBAL REACH, Simon and Schuster, 1975, pp. 26 and 28.

11. See Weisskopf as cited above, p. 433.

12. For more on this, see Magdoff and Ackerman and MacEwan as cited above. By holding dollars as reserves, foreigners were allowing the dollar to be overvalued (i.e., the demand for dollars as reserves pushed the price of the dollar above what it would have been as a result simply of the demand for U.S. goods and services); foreign assets were accordingly cheaper to U.S. firms than they otherwise would have been. While the system was useful for business, its maintenance required that certain costs be born by workers. According to one analyst, the system "put constraints on the use of monetary policy for the achievement of full-employment, so that there had to be a resort to fiscal policy. The passage of the required legislation took several years, during which time, unemployment remained high." H. G. Grubel, "The Benefits and Costs of Being the World's Banker," THE NATIONAL BANKING REVIEW, Vol. 2, No. 2, December 1964.

13. The value of manufacturing assets abroad rose from 32% of the total in 1950 to 44% of the total in 1970. See footnote for sources.

14. The value of foreign assets in petroleum and mining and smelting tripled between 1950 and 1959 (from $4.5 billion to $13.3 billion) and had almost tripled again by 1973 (to $37.1 billion). Sources as in footnote 7.

15. The situation with oil is now relatively well known. For background on control of bauxite, see P. Reno, "Aluminum Profits and the Caribbean People," MONTHLY REVIEW, October 1963, and N. Girvan, "The Caribbean Bauxite Industry," STUDIES IN REGIONAL INTEGRATION, Vol. 2, No. 4, University of the West Indies, 1967.

16. See Magdoff as cited above. p. 45-54.

17. Quoted by Barnet and Muller as cited above, p. 187, from the CONGRESSIONAL RECORD-SENATE, Feb. 10, 1966, 2886-94.

18. See Boddy and Crotty as cited in footnote 2 for an elaboration of this point.

19. The data on shares of national income are taken from Ackerman and MacEwan as cited above, where their meaning is more fully discussed. Boddy and Crotty make a similar point by looking at the ratio of wages to profit which was rising during the period in question. They also provide the data on productivity increases.

20. See BUSINESS WEEK, Dec. 14, 1974. According to BUSINESS WEEK the after-tax rate of return on non-financial corporate capital fell from its peak of about 10% in 1965 and 1966 to less than 6% in 1970.

21. From the ECONOMIC REPORT OF THE PRESIDENT 1974.

22. For an analysis that was on top of the events as they happened, see P. Sweezy and H. Magdoff, "The End of U.S. Hegemony," MONTHLY REVIEW, October 1971.

23. Much of the argument here is adopted from R. Boddy and J. Crotty, "Food Prices: Planned Crisis in Defense of Empire," forthcoming in SOCIALIST REVOLUTION. Quotes from the government report referred to in the text are taken from Boddy and Crotty.

24. From the SURVEY OF CURRENT BUSINESS, various numbers.

25. It is probably reasonable to assume that the price increases resulting from the government's policies were a good deal greater than it expected. That is one of the problems of operating in a changed and unstable international environment — it is not clear what the impact of various policies will be.

26. See F. Ackerman and A. MacEwan, "Energy and Power," MONTHLY REVIEW, January 1974. A more comprehensive analysis is provided by M. Tanzer, THE ENERGY CRISIS: WORLD STRUGGLE FOR POWER AND WEALTH, Monthly Review Press, 1975.

27. In February, 1974, the U.S. attempted to establish some cohesion among the oil-consuming nations. According to the New York Times, "Kissinger's entire argument was couched in terms of 'interdependence,' suggesting that nations which sought to promote their self-interest at the expense of others would wind up injuring themselves — by weakening the entire world system of production, trade and investment for decades to come." The success of the conference was shown by the action of the French: "For its part, France has followed the ancient

doctrine of 'sauve qui peut' —or, roughly, 'every man for himself.'" NEW YORK TIMES, Feb. 13, 1974, p. 5.

28. BUSINESS WEEK, January 13, 1975, p. 76.

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