Life in these United States

INFLATION: What It Is, How It Works

Richard Pelton

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Unemployment Up . . . Living Standards Down . . .

LIFE IN THESE UNITED STATES

by Richard Pelton

INFLATION, heavy taxes, skyrocketing interest rates, declining real wages and growing unemployment have joined to form a highly explosive mixture of contradictory elements. The combination of contradictory elements is not new to capitalism; this is as old as the system itself and is, in fact, generated by it. But now this is superimposed on a background of military defeat in the predatory imperialist war in Vietnam; and as American capitalism approaches its inevitable collapse, the dimensions are larger and sharper.

Inflation is at the bottom of this development; it is the basic phenomenon that has contributed most to the emergence of the other elements. Not only the United States is troubled by inflation; the disease is world wide. Since the epoch of imperialist wars and proletarian revolutions began, inflation has been with us as a continuous process, sometimes in moderation, at other times devastating, but never absent. Now, however, inflation is combined with an economic recession. The working class faces a twin scourge: its standard of living is lowered by high costs of necessities while unemployment steadily rises.

By the end of 1969 the inflationary spiral was approaching a peak not seen since the Korean war 20 years ago. Inflation spurred by that war had pushed prices up eight per cent in 1951 when wage and price controls were imposed. During the ten years of peace, 1952 to 1962, prices rose approximately two per cent every year. Between 1965 and 1967 prices rose an average of three per cent a year. In 1968 the rate was four per cent and in 1969 the rate was more than six per cent. Food and clothing prices, rent and medical costs, which affect the working people's standard of living, went up even more sharply.

Viewing this question from another angle shows the precipitous decline in value of the "sovereign" of international finance—the almighty American dollar. The *U.S. News and World Report* (Sept. 1, 1969) has estimated, based on the Bureau of Labor Statistics consumer price index, that the 1939 pre-World War II dollar had by 1950 shrunk to 57.8 cents, by 1960 to 46.9 cents, and by June 1969 to 37.9 cents.

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More extreme examples of actually galloping inflation have occurred elsewhere in the world. What happened in China under the rule of Chiang Kai-shek put everything else in the shade. For example: During the twelve years from 1937, when the Chinese Communist Party began the war to repel the Japanese imperialist invasion, to May 1949, just before liberation, the bank notes issued by the Kuomintang government increased more than *140 billion* times. Commodity prices skyrocketed out of sight. Items that originally cost one Kuomintang *yuan* finally rose to 8.5 billion *yuan*. Though financial resources of the old regime were completely exhausted, by March 1950, only six months after the founding of the People's Republic, prices throughout the country had become stable and have since remained stable. The currency has remained firm. This is a record not matched by any other country in the world. But a mighty social revolution that brought the working class to power was needed to achieve it. And according to Lin Piao's report to the Ninth Communist Party Congress, held last year, China "is now a socialist country without internal or external debts." This is also a record entirely unmatched by any country in the world. It is also a splendid illustration of the great contrast between the two systems—socialism and capitalism.

Bourgeois Economists at a Loss

When transmitting his last economic report to Congress in January 1969, former President Johnson declared: "The immediate task in 1969 is to make a decisive step toward price stability. This will only be the beginning of the journey. We cannot hope to reach in a single year the goal that has eluded every industrial country for generations—that of combining high employment with stable prices."

That was the task Johnson bequeathed to his successor. The report of the Council of Economic Advisers to the President stated: "Checking inflationary forces that are deeply imbedded in the structure of costs and prices is an extremely difficult and delicate process...The history of both the United States and other industrial nations shows that high employment is generally accompanied by inflationary tendencies, and that when prices are reasonably stable, this is at the cost of too many idle men and idle machines."

Subsequently, further monetary restraints were applied. Measures were taken to reduce Federal spending. Congress extended the life of the Vietnam war surtax. The prime interest rate on bank loans continued its upward climb to the dizzy height of 8½ per cent, an all-time high. These were the major measures designed to affect a business downturn in order to cool the "overheated" economy. Thus began the journey toward the condition of "too many idle men and idle machines."

Leon Keyserling, who headed the Council of Economic Advisers to President Truman, disagreed with the measures taken. He said the Government economists had been making a fundamental mistake ever since the Korean war by believing inflation was connected with economic growth and that the way to fight it was to slow down the economy. But how did Keyserling analyse inflation when he occupied the high post of economic adviser to the President during the Korean war? The report the councillors then submitted declared:

"Stated most simply inflation develops when there is a general excess of demand over supply at current prices...a rising defense effort leads to the creation of additional incomes without a corresponding increase in the supply of civilian goods."

This is stating the problem most simply indeed. It gave rise to the classical formula of inflation since made popular among bourgeois economists—too much money was chasing too few goods. But the question is, does this "explanation" correspond to the facts of economic life? If not, does it explain anything at all?

To be sure, the Vietnam war has produced what is called a rising defense effort, even greater than that of the Korean war. But industry has been producing at a record clip. Plenty of civilian goods have been and are available. Even so, prices have continued to mount. By May 1969 new car inventories had already become troublesome; and toward the end of the year auto manufacturers began layoffs at their plants. During the whole of last year inventories of all business climbed upward an average of $2-billion per quarter. The inventory increase in October was the largest in three years. *U.S. News and World Report* (Dec. 30, 1969) added the pertinent information: Thirty-five years ago about one U.S. worker in four was on the farm. Today that figure is one in 20, and still the country's farms continue to produce large surpluses of food, creating a national problem of major proportions.

Facts such as these refute the idea that inflation is caused by too much money chasing too few goods. Consequently some bourgeois economists have resorted to the simpler but more crude equation of the "wage-price spiral" of inflation.

This can have no other purpose than to conceal the predatory character of the capitalist system of production and cover up its essential basis of exploitation that causes wage increases to lag behind growing output and profits. The dialectical relationship between cause and effect is turned upside down. The brutal effects of inflation that compel workers to fight for higher wages to meet the rising cost of living are singled out and made to appear as its causes. The real nature of inflation becomes completely obscured.

But the "wage-price spiral" theory of inflation collided with the facts of economic life. In the first place, a study made by the previous Administration and released in 1966 showed that the overall industry index of labor costs per unit was nearly two per cent less than in 1960.

In the second place, whenever wage gains have been recorded in labor contracts, these were more than eaten up by higher prices, higher taxes, etc. Department of Labor figures, covering two-thirds of the nation's labor force, show wages measured in constant dollars suffering a persistent decline since 1965. Thus, the average worker with three dependents took home a weekly pay of $78.53 in 1965, but only $77.84 in April, 1969.

These figures tell the sordid story of capitalist exploitation; but they also reveal the brutal facts of inflation. Most assuredly, there is no evidence here of what is called a rising defense effort creating additional incomes for the broad masses of the people.

The more the actual facts of life are taken into account, the more ludicrous the disarray and the multitude of conflicting opinions among the galaxy of inflation checkers and economy coolers. All seem to view the economic slowdown as a cure for inflation, but none are too sure. Thomas E. Mullaney, financial and business editor of the *New York Times,* wrote last year that the nation's economy was entering a slower cycle, but said he: "Will this be enough to stem inflation? Probably not." He added: "Another key question is this: will the business slowdown stop short of a recession?"

According to Professor Milton Friedman, leader of the so-called "monetarist" school of economics, it will not. He views an outright recession as all but inevitable because of the too tight money policy of the Federal Reserve Board. Others, among them Robert Roosa, a former Undersecretary of the Treasury, insist that steps taken against inflation have been ineffective and that more drastic measures are needed. And Professor V. Lewis Bassie, director of the Bureau of Economics and Business Research of the University of Illinois, cries out in anguish: "Doubts about the adequacy of the prescription are in order. Even if it is the right medicine, nobody knows how long it should continue to be taken. Instead of price stability and a little more unemployment in fiscal 1970, we may wind up the year with almost as much inflation and a lot more unemployment."

Even the most candid among the bourgeois economic advisers confess that if present measures fail to check inflation, what to do next they simply know not. One wag sums it up: If you don't understand it, take heart; the experts don't, either.

Marx's Prognosis Accurate

The real nature of inflation can be understood only after an examination of the basic objective laws of capitalist economy, finance and credit. For this let us turn to Marx, who understood them best.

"The first chief function of money," he said, "is to supply commodities with the material for the expression of their values, or to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a *universal measure of value.* And only by virtue of this function does gold, the equivalent commodity par excellence, become money" (*Capital*, Vol. I, p. 106)

But gold, says Marx further, "serves as an ideal measure of value, only because it has already, in the process of exchange, established itself as the money commodity, under the ideal measure of value there lurks the hard cash." *(Capital,* p. 116)

Money (gold or silver) is the measure of value inasmuch as it is the socially recognized incarnation of human labor. For example, the value of a ton of steel is expressed by a quantity of money containing the same amount of socially necessary labor, measured in time, as the steel. In this instance money is employed in its ideal or abstract form. In its concrete form, however, money performs the function of a socially recognized means of circulation, or medium of exchange and medium of payment (including the function of means of deferred payments or credit).

The circulation of the material products of labor, according to Marx, is brought about by the following changes of form: Commodity—Money—Commodity (C-M-C). It is the transformation of commodities into money and the change of money back again into commodities that serve as use values—or selling in order to buy. The manufacturer sells the commodities produced at his plant, he turns them into money in order to buy the commodities, machinery, etc., produced by somebody else, that he needs. Money here performs a transitory function in the process of exchange; the amount of money required is determined beforehand by the sum of the prices of all these commodities. But in the acts of exchange, money, as the equivalent commodity, is capable of performing its function in repeated succession. After having mediated between seller and purchaser, it moves away to repeat its office elsewhere.

"Hence," says Marx, "for a given interval of time during the process of circulation, we have the following relation: The quantity of money functioning as the circulating medium is equal to the sum of the prices of the commodities divided by the number of moves made by coins of the same denomination. This law holds generally." (p. 135)

Because of this transitory function, Marx observes that the mere symbolic existence of money suffices: "Its functional existence absorbs, so to say, its material existence. Being a transient and objective reflex of the prices of commodities, it serves only as a symbol of itself, and is therefore capable of being replaced by a token... it is capable of being so replaced only insofar as it functions exclusively as coin, or as the circulating medium, and as nothing else." (pp. 144-145)

Marx observes further that the circulation of paper money (the token) is subject to the laws that regulate the function of money itself. ".... the issue of paper money must not exceed in amount the gold (or silver as the case may be) which would actually circulate if not replaced by symbols" (p. 143). If that limit is exceeded the paper money will in reality represent a lesser quantity of gold. It will represent less money value, and inflation follows.

Workers face worsening conditions, higher prices, lower wages: miners, for example, face chances of 1 in 12 of being killed in mines, 1 in 5 of contracting "black lung, 4 severe job injuries--for lowering rates of pay!

As we have seen, the simplest form of circulation of money is the sale and purchase of commodities in C-M-C. The circulation of money as capital takes place by the inverted order of succession M-C-M, or buying in order to sell. In the first form the movement is brought about by the intervention of money; in the second form by that of a commodity (labor power). Money is advanced to buy this commodity not in order to recover money through the process of reproduction, but to recover money plus an increment in the form of surplus value, that is, the value created by labor over and above what it receives for its own subsistence. It is this movement that converts money into capital.

"The value of money, or of commodities, employed in the capacity of capital," says Marx, "is not determined by their value as money or commodities, but by the quantity of surplus value, which they produce for their owner." (*Capital*, Vol. III, p. 418)

Capital therefore exists only in its actual function, only in the process of reproduction, in the process by which labor power is exploited. When we observe the function of loan capital, or interest-bearing capital, we notice a difference; and it is precisely this difference that constitutes its special character. Loan capital is advanced by a person or by a bank to another person or to an industrial concern to be returned within a stipulated time. But to return as capital, it must return as money plus an increment, in this case interest. It is that portion of the average profit realized in the process of reproduction out of the surplus value produced by labor that falls to the share of the lender or the money capitalist.

Due to the firmly established practice of definite rates of interest, money capital appears in the hands of the banker as an independent self-expanding value. This is merely appearance, not the reality. Interest-bearing capital is a derivative form. The individual owner has the choice of lending his money capital out for interest or investing it directly in production. But insofar as this total money capital is concerned, the interest is derived from surplus value that is created only in the process of reproduction. In the final analysis, interest-bearing capital can have no independent existence separate and apart from capital employed in the process of reproduction.

Interest-bearing capital, or rather loan capital and usury, appeared in its primitive form at the very dawn of civilization, following closely upon the heels of the invention of money. A new power had emerged, and the debtor was entirely at the mercy of the creditor. This form of money was condemned by Aristotle.

Money lending capital, he said, is "with justice disapproved (for it is not based on Nature, but on mutual cheating) therefore the usurer is most rightly hated, because money itself is the source of his gain, and is not used for the purpose for which it was invented. For it originated for the exchange of commodities, but interest makes out of money, more money." (Quoted in *Capital*, Vol. I, p. 183)

From the primitive brutality of its youth, the power of money has advanced during the intervening centuries to become entirely respectable and even honored under capitalism; it has advanced also to employ the more subtle means of the modern banking business and the credit system. But the more subtle means have proved no less fraudulent.

The credit system, as analysed by Marx, arose out of the growing volume of values and as an indispensable accompaniment to the increasing distance of the market. By mutual interaction, the development of the process of production expands credit, which again leads to an extension of industrial and commercial operations.

The credit system enhances the formation of monoply combinations and with it the fusion of industrial capital and finance capital. Inordinately large and speculative profits accrue from promotion of stock companies, holding companies and trust companies. Developing alongside the socialized mode of production, credit endows capital directly with the form of social capital as distinguished from private capital. Its enterprises assume the form of social enterprises. But as an inseparable and integral part of the capitalist mode of production, the credit system also serves to magnify and sharpen all of its contradictions.

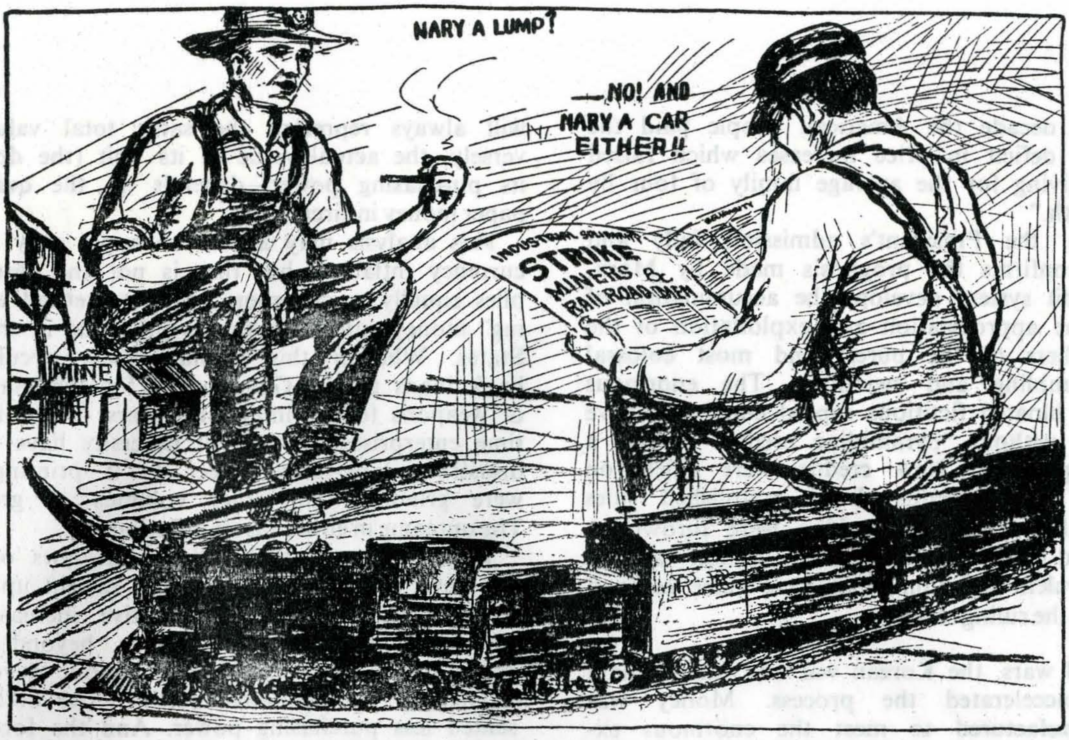
In the words of Marx, the credit system develops "the accumulation of wealth by the appropriation and exploitation of the labor of others, to the purest and most colossal form of gambling and swindling and reduces more and more the number of those who exploit the social wealth... At the same time credit accelerates the violent eruptions of this antagonism, the crisis, and thereby the development of the elements of disintegration of the old mode of production." (*Capital*, Vol. III, p. 522)

Banking capital forms the essential basis of operation within the credit structure. Marx subjected the various components of this capital to a most careful examination, and he found that its greater proportion was fictitious. First and foremost in this category are government bonds. The state, of course, pays interest on the money borrowed for which the bonds are deposited. But the creditor cannot call for the principal. He can merely sell the certificate of indebtedness. The capital itself has been spent by the state. It does not exist any longer.

It does not matter for what purpose the capital was spent, whether for public construction or for the manufacture of weapons of destruction; only the bonds remain, gilt-edged bonds to be sure, but still only pieces of paper. Thus the capital—whose progeny, interest, is paid by the state—is illusory, fictitious capital. It consists of certificates of indebtedness. Moreover, the interest and principal on these bonds can be paid only by taxing the production of real capital.

"Not only does the amount loaned to the state exist no longer, but it was never intended at all to be invested as capital, and only by investment as capital could it have been transformed into a self-preserving value." (*Capital*, Vol. III, p. 547)

In the year 1863, about the time when the first



Industrial Siamese Twins: splitting transportation, coal, steel, petrochemical and auto workers is rulers' main aim among U.S. workers.

volume of *Capital* appeared in print, total deposits of all the banks in the United States were $394-million. Goethe, who preceded Marx by about half a century, was modest, indeed, when in the second part of *Faust* he blamed the invention of paper money on Mephistophiles. The contempory bankers and their governmental agencies have done much better; they have literally manufactured money out of thin air. By the end of 1968 the total money supply and deposits had reached the stupendous sum of $397.3-billion. Of course, these figures do not represent workers' savings; such would be only an infinitesimal part of the total sum. What these figures do reveal is primarily two major aspects of credit and finance: first, the enormous accumulation of capital due to the fabulous profits extracted out of the relentless exploitation of labor; and second, the extraordinarily bloated portion of fictitious capital—bank-made money—created out of deficit financing.

Deficit Financing the Rule

Deficit spending and deficit financing by the Federal Government, and the resulting Federal debt, has especially since the Great Depression become the rule rather than the exception. It accounts in the main for the bloated portion of fictitious capital. At the end of 1968 the Federal debt had climbed steadily upward to the astronomical figure of $358-billion; and it has since gone higher. (This is aside, of course, from the staggering amounts of long-term private corporate debts and outstanding consumer credits.)

Of the Government bonds issued in the same amount as the Federal debt more than two-thirds are held by banks, mutual savings, other corporations and individuals. These bonds, which are in reality only a shadow of capital already spent, become a part of the money supply of the nation. And this fictitious capital flows as an element of dissolution through every pore into the financing and economic structure. There it remains as a parasite feeding upon productive capital, drawing value away from all money capital.

Marx made the observation: "With the development of the credit system and of interest-bearing capital, all capital seems to double, or even treble itself by the various modes, in which the same capital, or perhaps the same claim on a debt, appears in different forms in different hands." (*Capital*, Vol. III p. 553)

Since Marx made this observation, the steady growth of such fictitious capital has already reached a point at which the quantitive increase has been transformed into a qualitative change. What appears as an accumulation of money capital is in reality an accumulation of debt. The heavy fictitious proportion has left its decisive imprint on all banking capital and on the whole money supply of the nation. All these are debased beyond recognition. And in this is the real cause of inflation.

President Nixon's 1970 State of the Union message to Congress admitted as much. "It is tempting to blame someone else for inflation," he said. "Some blame business for raising prices. Some blame unions for asking for higher wages. But a review of the stark fiscal facts of the 1960's clearly demonstrates where the primary blame for rising prices must be placed.

"In the decade of the sixties the Federal Government spent $57-billion more than it took in in taxes.

In the same decade the American people paid the bill for that deficit in price increases which raised the cost of living for the average family of four by $200 per month."

Meanwhile, the President's admission fully and completely confirms the prognosis made by Marx, that the credit system develops the accumulation of wealth by the appropriation and exploitation of the labor of others to the purest and most colossal form of gambling and swindling. The enormous sums of the bloated fictitious capital could not have accumulated without "pyramiding credit," to use a banker's expression. New credits were piled on substrata of other credits. Long established rules of traditional conservative banking were thrown to the winds and new forces were set in motion—among them the virulent inflation—that have since escaped the control of the ruling class.

Two world wars, the Korean war and the Vietnam war have accelerated the process. Money was literally manufactured to meet the enormous expenditures for World War II. The Government borrowed about $100-billion, mostly from the banks, giving bonds as security. The transactions took the form of sale of Government bonds, and in "payment" the banks "created" deposits on their books in equal amounts, on which the Government could draw. These deposits were created out of nothing. The Government spent that capital; it does not exist any longer, but the bonds remain. Not only was the capital created out of nothing, but the Government is now paying interest to the bankers on loans spent for bullets and bombs used up long ago. The interest charges go on and people pay taxes to cover them.

At the end of 1969 the Vietnam war was estimated to have already cost $150-billion; and, as we have seen, during the sixties the Government piled up new deficits amounting to $57-billion. Most of the Government bonds issued in the same amount helped to increase the fictitious capital and feed inflation.

Armaments appropriations and business credits flow with equal ease into the fiscal structure. Speculation and gambling, along with reckless business spending to fill the pipelines of inventory in anticipation of lush profits, grow by leaps and bounds. To the extent that wages follow the upward trend, this is a consequence of inflation and not its cause. But all these factors become a part of the inflationary spiral, interacting on one another.

Experience of currency inflation have clearly demonstrated the fact that whenever the quantity of its emission exceeds the limit imposed by organic laws of economic development the paper money depreciates accordingly. (Remember what happened in China under the rule of Chiang Kai-shek.) Let us say that the sum of the prices of all commodities appearing in the process of circulation represents a certain given value. No matter how great the quantity of paper money functioning as the medium of exchange and of payment, the sum of the latter will always represent the same total value. Conversely, the actual value of its unit (the dollar)—or its purchasing power—depends on the quantity of paper money in circulation.

This analysis may appear to apply only to direct currency inflation, but that is not the case. It applies equally to the more indirect method of "creating" money capital as this is practiced in the United States. Whether this capital enters circulation as bank loans to the Government for the manufacture of weapons for its imperialist wars or for its peacetime enterprises, it must of necessity have the same disastrous long-range effect as if printing presses were grinding out larger volumes of greenbacks. The outcome in either case is inflation.

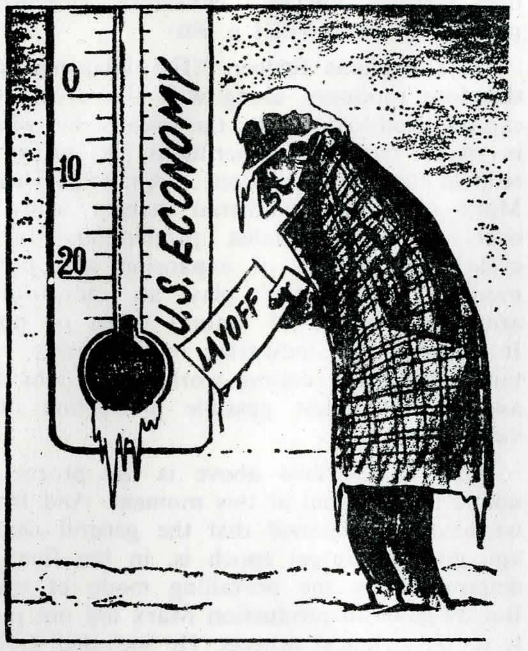
The truth is that the dialectical laws of motion and development have long since caught up with the American dollar. The quantitative increase in the money capital, real and fictitious, beyond the limit imposed by organic laws of economic development, resulted in its qualitative decline. The dollar represented less purchasing power. And the forces thereby set in motion generated their own internal logic. The qualitative decline of the monetary unit compels a further expansion of its total supply at an increasingly accelerated ratio.

But the vastly expanded supply of money capital stripped the dollar of one of its important functions. As a socially recognized incarnation of human labor, money—gold, silver or tokens—perform two major functions. In its abstract form it functions as a common measure of value; that is the accepted prerogative of money in general. In its concrete form it functions as a universal means of exchange, or circulation and payment. Not just money in general but definite quantities are needed for this function. However, with the development and the preponderant growth of the credit system, the two functions become increasingly contradictory and mutually exclusive. Constantly greater amounts of the concrete monetary unit, the dollar, were required to satisfy the needs of means of exchange and medium of payment in an economy of huge deficit financing. But the greater the quantity of money capital in its concrete form, real and fictitious, the less the quality in its abstract form—the less its ability to function as a measure of value. This is what inflation really means—and there is no cure under capitalism.

Workers Bear the Burden

No matter how virulent or how moderate the inflationary spiral, its effect always implies a redistribution of the national income. Its main victims are the workers, and especially that section of workers who are without union organization to help ward off the blows.

When former President Johnson submitted his economic report to Congress last year he said: "A decisive step toward price stability in 1969 requires labor and business to accept some mutual sacrifices..." As we have seen, labor's sacrifice, even though not accepted voluntarily, turned out to be an actual decline in real wages since 1965—a reduced standard of living. Had this been proposed as a direct wage cut we can rest assured that working class resistance, militant as it was, would have been far stormier and more tenacious; and it would have brought yet more intense struggle. As it did



COOLED OFF—OR FROZEN OUT?

turn out, the Government was able to mask its fleecing of the workers by camouflaging its operation behind the deficit financing and inflation.

But how do matters stand with the sacrifice by business? To this question the Council of Economic Advisers has already furnished an answer, included in the above mentioned report. "Corporation profits have more than doubled during the past eight years, both before and after taxes. In addition to permitting sharply increased dividends to stockholders, these rising profits have provided the financing for a wholesale expansion and modernization of the nation's productive capacity. Indeed, business has increased its real stock of capital goods by more than 40 per cent since the end of 1960 and has progressively reduced the average age of existing capital."

Bankers seem to have done equally well. Bank profits have soared following the steadily and steeply mounting prime interest rate imposed by the Federal Reserve Board. True, this was presented to the public as a measure to combat inflation; but the bankers were the real beneficiaries, as was unquestionably intended. According to a recent issue of *Business Week*, "bank after bank reported sharply higher earnings for 1969." Credit was tight, but "bank operating earnings were up, and probably by close to the 13 per cent gain of 1968."

Comparing the banker's benefits and the double corporation profits to the downward slide of workers' real wages makes a perfect illustration of how mutual sacrifices always turn out in the capitalist system of exploitation. This is not accidental; it is rooted in the operation of the system itself. The class that holds economic power through its ownership of the means of production is also in possession of the decisive political power. With the development of monopoly formations the capitalist economic preponderance is increased and its control of the political state becomes more complete. Functions between them and interests held in common are more fully integrated. The political state is the "ideal executive of all capitalists"; its role as the manager of social relations on behalf of capitalism is more openly and more clearly revealed.

Armaments production makes the state the chief customer of an immense number of industrial products; and the special ties between the state and monopoly capitalism assume yet more definitive forms. The state becomes the guarantor of monopoly profits. Just one concrete example will serve to illustrate this relationship. The wage-price control imposed during the Korean war stipulated that the price frozen had to include a profit margin of 10 per cent on net capital before taxes. There was no corresponding guarantee for wages.

Turning again to President Nixon's 1970 State of the Union message to Congress, one cannot escape the impression that the glittering generalities presented about restoring the dynamic equilibrium of nature had a specific purpose. The lavish promises to combat pollution of air and water, building new cities and rebuilding old ones, in addition to assuring a generation of uninterrupted peace—important as all these may be—were surely offered not only as a means to divert the attention of the antiwar youth but as an attempt to erase from people's minds the painful and frightening prospect of insecurity and joblessness amidst the continued high cost of living.

By the escalation of the Vietnam war during the mid-sixties the Government outflanked the then threatening recession. Military spending rose from \$50-billion in 1965 to \$78.9-billion in 1968. At the height of the war the armed forces were eating up a high proportion of the industrial output.

Fears of galloping inflation have now dictated a reduction of military deficit spending. Other Federal spending costs have been curtailed. In both instances the industrial layoffs and the demobilized military manpower add their quota of unemployed. Layoffs in the auto industry reduce the demand for steel and cause a chain reaction of reduced demands throughout industry. The reduced mass purchasing power resulting from this and from the protracted period of declining real wages increases the downward pressure. Capital spending plans deferred because of an uncertain market do the same.

The acceptance and practice by the ruling class of the Keynesian money theory has fostered the belief that by credit controls—applying alternately a government policy of "tight money" and "easy money"—not only every pain and pimple on the economy can be cured, but economic cycles actually can be mastered. This is dead wrong: It is dealing with effects without touching the fundamental causes. Reality shows that economic recessions have alternated with the bourgeois euphoria of deficit financing for imperialist wars, the purest and most colossal form of gambling and swindling. Recessions occurred between wars in 1948-49, 1953-54, 1957-58 and 1960-61.

Capitalist Slumps Inevitable

Foremost in the modern capitalist world, both economically and politically, is the United States. Its particularly highly developed industry offers the fullest confirmation of the analysis Marx made of the laws of capitalist production. In fundamental theory and analysis Marx is more contempory than contempory bourgeois economists. Moreover, the function of bourgeois economists in a system that is in decline becomes increasingly pragmatic. In addition to justifying the capitalist system in theory they have the task of saving it in practice. While remaining ideological salesmen for the "virtues" of private enterprise, they must simultaneously devise techniques to prolong its existence.

For this modern economy the historical curve of development is no longer upward. That came to an end with the collapse of the boom of the twenties. If there be any doubts about this we may recall the Great Depression. American capitalism found a way out only by plunging into war expenditures and deficit financing on a vast scale. This, however, did not remove, or even mitigate, a single one of the basic causes of that crisis. These basic causes constantly recur, for they are generated by the system itself.

The present economic slump, regardless of initial stimulation in a belief that this would check inflation, is nevertheless the inevitable outcome of the capitalist mode of production. The forces of production have been developed beyond the capacity of consumption because of the limitations imposed on the latter by the profit system. Profits always tend to race ahead of wages, and wages tend to fall relatively to output and profits, thus restricting the purchasing power of the working masses. The capitalist mode of production "comes to a standstill at a point determined by the production and realization of profit, not by the satisfaction of social needs."

This last sentence above represents the verdict of Marx. And from the analysis made by Marx we have learned that progress in technology, in the form of more efficient machinery of production, affects directly the organic composition of capital—a qualitative change is introduced into the relation of its components. It increases the constant part (equipment and raw materials) at the expense of its variable part (wages, labor) and thereby reduces the demand for labor. The demand for labor "falls relatively to the magnitude of the total capital, and at an accelerated rate, as this magnitude increases. With the growth of the total capital, its variable constituent or the labor incorporated in it, also does increase, but in .. constantly diminishing proportion." (*Capital*, Vol. I, p. 690)

Marx explains further: "The laboring population therefore produces, along with the accumulation of capital produced by it, the means by which itself is made relatively superfluous, is turned into a relative surplus population..." (p. 692). This is what Marx calls the "industrial reserve army." Moreover, modern capitalist production, due to its cyclical movements of expansion and contraction, requires for its free play an industrial reserve army independent of natural limits of population. It requires the industrial reserve army to maintain competition among workers for jobs and thus assure the greatest possible production of surplus value.

What is described above is the process of economic development at this moment. And from Marx we have also learned that the general character of any given historical epoch is, in the final analysis, determined by the prevailing mode of production. But by mode of production Marx did not refer merely to its technical aspects. He included in its meaning and description most particularly the social relations of production. In essence these are the relations ot social classes. And questions such as wages, prices, interests and profits, together with inflation and unemployment, are capable of final explanation only in terms of the class relations that underlie them.

All these questions are now more crucial because of the economic instability. And economic instability is a distinct characteristic of capitalism in the age of decline. Periods of recession and heavy unemployment alternate with periods of deficit financing and inflation. The one cannot be avoided without intensifying the other. Both are destructive and devastating to its main victim, the working class. Attempts to remedy the one prepare the ground for the other. For the capitalist system this represents an insoluble contradiction.

As recent history has amply demonstrated, capitalism knows no other way out of a recession than to escalate armaments production, deficit financing and inflation. To check inflation it knows no other means than the economic recession, and promoting the combination of both. It is a vicious circle. For the working class only one sure alternative remains—to follow the example of revolutionary China.

Armaments production and deficit financing have now been curtailed. But that is only a temporary measure. To maintain the American imperialist hegemony over a decrepit world capitalist system and prevent revolutionary outbreaks in any part of the globe, a high level armaments production with further escalation becomes mandatory. The political state will continue to assert its great power and direction of all economic activity. But the bourgeois political state is at all times an instrument of coercion. Its increasing economic role leads to the violent compression of social contradictions. The more compressed, the more explosive the contradictions. The result is the same as if powder kegs were planted throughout its foundations.

Class Struggle Intensifying

In terms of class relations this spells intensified class conflicts. Workers will have to fight harder and more militantly for the minimum concessions necessary to sustain life. This being the perspective, the high paid union officials—the labor lieutenants of capitalism—are again called upon to hold the ranks in check, to make the unions more responsible, more concerned with what is euphimistically called "the needs of the nation" but in reality means the needs of the prevailing system. For effective execution this will require more authority for the leaders in an effort to further dilute the power of the members. This is precisely what a special Presidential commission has recommended in a report submitted early this year. While aiming directly at the construction industry, the report is conceived as a model for all industries.

Behind it all is the growing number of times that rank-and-file union members have rejected contracts negotiated for them by union leaders. More often yet, members have gone on wildcat strikes against both the employers and the union officials. And so the commission proposed that union bargaining committees and union leaders be empowered to negotiate binding contracts without membership ratification votes.

Any attempt to enforce these recommendations will surely increase the already existing polarization between rank-and-file members and their reactionary union officials. The rising working class solidarity, so well demonstrated in recent strikes, is certain to become more complete and lead to more stormy developments in the class struggle. But the fact that these recommendations have been made shows that the capitalist rulers are taking measures to ride out the storm.

This is not as easy for them as they may believe. For the system over which they preside, the condition of unlimited and unbridled expansion has long since turned to the opposite. A number of its most serious contradictions are now coming to a head simultaneously. The antiwar sentiment is on the rise in the population, radicalization tends to increase among students and workers, and the black liberation struggles are turbulent.

Repeated periods of recession and inflation, and the combination of both with all the hardships and distress that this entails, tend to become more debilitating and more deadly to their system. The violent compression of these social contradictions by the bourgeois state power accelerates the advance toward greater and more explosive upheavals. It poses more sharply the alternatives of a declining and decaying capitalist world or a rising, healthy and exuberant socialist world.

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