

Revolutionary Communist Papers No7
Theoretical Journal of the Revolutionary Communist Party

World in recession

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Editorial Their alternative and ours

'Many trade unionists seem to have accepted Mrs Thatcher's argument that the plight of the unemployed is in large part the result of fellow union members pricing them out of jobs.'

The Economist **20 December 1980**

The Economist's observation that British trade unionists had no answer to Thatcher's arguments was not an idle boast. Today, trade unions are on the defensive and are losing the battle over redundancies and wages. To be sure, the employers' success over workers is not due solely to the compelling arguments of the ruling class. Mass redundancies and the prospect of a deteriorating economy have placed considerable pressure on those still at work. As the Engineering Employers Federation director of operations, Mr Peter Ball noted, the falling rate of pay settlements 'is a reflection of realism that is being shown at domestic level, where companies are still faced with short-time working, redundancies and hard business prospects'.[1]

How were the arguments lost?

Nor was it Margaret Thatcher on her own who won the arguments for capitalist realism. That honour also goes to the left wing of the Labour Party and their co-thinkers in the labour movement. The British left has no distinctive theory of capitalism. Its response to the world recession of 1974 was to draw up plans to eliminate capitalist anarchy and inequality through a progressive Labour government. But this naive belief that workers' interests could be defended by economic reforms was soon exposed by Labour's period of office, 1974-79.

The experience of the notorious Social Contract showed that the interests of the working class and of British capitalism were diametrically opposed. This merely confirmed Marx's proposition about the fundamental antagonism of class interest between workers and capitalists. Unfortunately the lessons of these years have not been assimilated by the workers' movement.

Why? Because right from the beginning, in fact right from the turn of the century, the Labour leadership has accepted the terms of the debate set out by the ruling class. Restoring profitability and regenerating British industry became the shared objectives of left and right alike. The left has no distinct objectives: it only puts forward distinct policies for achieving these national aims. Economic salvation, according to the left's Alternative Economic Strategy (AES), could be achieved through state investment, state planning of industry and trade, state ownership and industrial democracy.

The main effect of the AES has been to draw workers closer to the bourgeois state and to educate them about capitalist reality. A recently published pamphlet by the Labour Coordinating Committee boasts about this achievement: 'investment in the National Economic Development Council (NEDC) and other related bodies, coupled with attempts by the Labour governments to rejuvenate industry in cooperation with the unions' led 'to a far higher degree of expertise about, and knowledge of, the economy and of particular industries by trade unions'.[2]

Initially supporters of the AES emphasised the 'bold socialist potential' of this alternative. But as the capitalist economy fell into recession, the utopian elements of the AES were compromised. The ruthless anti-working class measures required for the regeneration of capitalist industry meant the left reformists had to retreat. But the most important point is that during 1974-79 the AES encouraged militant workers to find a solution to their problems through class collaboration and persuaded them to accept responsibility for the state of the capitalist economy.

Workers became uneasy about defending their living standards because this was 'unrealistic' from the point of view of industry. Once the left reformists had educated trade union militants, it only remained for Thatcher to complete the process.

An alternative business strategy

During the past two years British capitalism has declined further still. Those who take responsibility for the state of British industry in the labour movement have been forced to lower their sights, and in practice most of the socialist rhetoric of the AES has been abandoned. The aim of the left reformists is to save what's left rather than promise grand reforms. A leading article in a recent issue of *Tribune*, the paper of the Labour left, warned:

'There are no immediate economic miracles for capitalism and there will be no immediate economic miracles for socialism either.

'Even if the most radical elements of the alternative economic strategy were put into operation by a future Labour government within the first few months of achieving office, the results would take two or three years to have any effect.

'The need for re-investment in industry is so great and the damage which the Tories have done to the economy is so enormous that, apart from the redistribution of wealth between the rich and the poor, there would be little or no room for much increase in our general living standards.'[3]

The need for investment and the criterion of profitability override the interests of workers. It never occurs to these left economists that the condition for more investments is more unemployment, more attacks on working conditions and lower pay. That the restoration of profitability requires enormous sacrifices from workers is dishonestly passed over. Instead labour bureaucrats fall over themselves to demand more investment and state subsidies.

The TUC's *Plan for growth: the economic alternative* exemplifies this approach. This 'alternative' consists of demanding that the state invests £6.2 billion over two years. Others have modified versions of this investment plan. Recently the engineering union's white-collar section, AUEW-TASS, published a pamphlet on GKN. Noting that 25 000 jobs have been lost since 1976 at GKN, it proceeded to ignore the question of fighting redundancies altogether. Instead it argued that GKN must stop investing capital abroad. According to TASS, investing in Britain is

good business and is incidentally good for jobs:

'GKN should, for example, base its automotive sector here in the UK instead of investing heavily in Europe and the USA. Its virtual monopoly on constant velocity joints gives it an important advantage which would aid our UK export performance and provide much needed employment.'[4]

During the past year trade union bureaucrats have become investment specialists. In the nationalised industries union leaders have united with employers to demand more investment. Railway leaders have even threatened strike action unless more investment was forthcoming. In engineering, the AUEW has taken to articulating the demands of the bosses – lower interest rates, a weaker pound and lower energy prices for the engineering industry.

It is not surprising that with this wholesale acceptance of capitalist economics by both the left and the right wing of the labour movement the capitalist class has taken the initiative.

Preparing for power

The present capitalist crisis will not be resolved in the sphere of economic policy. There are no technical solutions to the crisis of imperialism. The stabilisation of capitalist rule requires the defeat of the working class. And that's just the beginning. It will be the outcome of imperialist rivalries which will determine who invests where and which capitalists will enjoy the fruits of a restructured system. But one thing is clear: the losers will be the working class.

The article 'World in recession' in this issue of *Revolutionary Communist Papers* outlines the main trends in the world economy today. The Marxist analysis of the crisis shows that the issue is not one of economics but of power. Class power will determine whether it is the realism of the bourgeoisie or the interests of the workers which will prevail. It follows that the job of Marxist theory is to strengthen the anti-capitalist potential of the labour movement, both to give it a wider focus and to expose the reactionary character of reformist 'alternatives'. Theory must be brought to bear on the day to day struggles so as to bring about the emergence of a distinct proletarian alternative. Workers will of course go on fighting regardless of this ideological struggle. But they will fight for more investments, import controls and, ultimately, fight the imperialist war for the bosses.

This journal is sponsoring 'Preparing for power', an international conference on the working class movement in the 'eighties. The conference will work towards identifying the political obstacles to building an independent proletarian movement. It will outline the key ideological issues that arise on the shop floor and the wider problems that face the working class as a whole. Shop-floor activists as well as speakers from overseas will examine the experience of the international labour movement over the past decade. We welcome the participation of readers of *Revolutionary Communist Papers* at this conference.

Frank Richards
July 1981

1 *The Times*, 11 May 1981.
2 Labour Coordinating Committee, *Trade unions and socialism*, 1981, p12.
3 *Tribune*, 24 April 1981.
4 AUEW-TASS, *GKN: a case of British industry at risk*, 1981, p8.

Preparing for power



Dates: 11-13 September
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At a time when the British left is in disarray, active workers need to get down to considering the major problems thrown up by the deepest capitalist recession in fifty years. This is what **the next step** conference on the working class movement in the 'eighties aims to do.

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WORLD IN RECESSION

1. THE THEORY OF BREAKDOWN

The beginning of the 'eighties sees world capitalism slide into its second general recession since 1945. The years of faltering recovery since 1974-75 are over; already weak, the system takes one more step into ruin. But why is there a recession?

Recessions can take different forms – too many goods chasing too few buyers, the under-utilisation of capacity or a series of bank crashes, for example. But the basic force behind them is the crisis of profitability. As the system grows and capital accumulates, the rate of profit on capital invested tends to fall. To survive, capitalists are forced to raise their productivity and cheapen the commodities they produce. Now, this process increases the rate of surplus-value, because each worker makes more profit for his employer than before. But because productivity rises are brought about by the mechanisation of the labour process, the extra profits created have to be measured over a still larger increase in the value of means of production. In other words, because productivity rises lead to the displacement of workers – the only source of surplus-value – by machines, the mass of profits declines in relation to the total capital outlaid.

This tendency for the rate of profit to fall has an important consequence. At a certain stage of the accumulation process the amount of profits available is not sufficient to fund investment of the scale required to continue production. A crisis sets in.

The capitalist crisis arises directly out of the contradictions inherent in the system of capitalist production. It is not the result of natural causes, 'wage militancy' or misguided policies on the part of the ruling class. Over the past decade bourgeois economists in all the major capitalist countries have noted a trend for profit rates to fall. They have also noted the underlying cause of this – the substitution of machinery for workers. As *The Economist* pointed out two years ago: 'over the past 20 years or so there has been a steady shift from labour to capital in the ratio of industrial inputs'.[1]

Marx called the tendency of the rate of profit to fall the most important law of the capitalist economy. However, to explain the crisis capitalism faces today we must establish how this law works itself out in practice. Marx's analysis itself allows us to do this. It not only enables us to understand the root cause of capitalist breakdown; it also enables us to assess vital features of the world economy today – the cyclical growth of capitalist production, the uneven impact of the crisis in different countries and so on. In the following paragraphs we set out the basic tools needed to make such an assessment.

Holding off the final reckoning

In *Capital*, Marx sets out a number of factors which can impede or even temporarily reverse the fall in the rate of profit.[2] The bourgeoisie can increase its profits at the expense of workers by extending the working day, intensifying work, employing women and children[3] and driving down wages below the value of labour-power. These methods boost the rate of profit because they increase the production of surplus-value without increasing investment in the means of production to the same degree. The present-day attacks on the living standards and working conditions of the proletariat show how the capitalists are trying to bring these counter-crisis measures into effect.

Another factor which slows the fall in the rate of profit is the cheapening of the elements of constant capital. This happens when productivity increases reduce the value of the machinery and raw materials capitalists have to buy.[4] This factor has, however, only a short-term effect. What Marx called the organic composition of capital will still tend to rise (and thus prompt a fall in profitability), because the capitalists are forced to deploy an ever greater mass of constant capital.[5]

Producing cheap and/or synthetic raw materials and reducing the price of energy is one method of cutting the cost of constant capital. It is an important method because as productivity increases the value of raw materials comes

1 *The Economist*, 25 August 1979, p61.

2 K Marx, *Capital*, Vol 3, Lawrence & Wishart (L&W), 1974, chapter 14 (all references to *Capital* are to this edition). Here we only consider the counteracting influences most relevant to today's crisis. In the next sections we show their current role.

3 This enables the capitalist to spread the costs of reproducing labour-power over the whole family. The level of the extra wages paid rises proportionately less than the extra work done. Between 1959 and 1978 the proportion of women employed in the workforce in Britain rose from 33 per cent to 41 per cent. Similar trends are evident for other countries too (*Lloyds Bank Review*, January 1980). The employers are also able to employ women under more exploitative conditions, with lower pay, fewer benefits, more short-time employment, etc.

4 In a period of crisis, the elements of constant capital can also become depreciated as companies go bankrupt and their assets are sold at knock-down prices. If machinery, raw materials or plant retains its use-value, this will be of benefit to the capitalists buying. The *Financial Times* noted that: 'Thousands of tonnes of second-hand factory machinery are being sold weekly at auctions and through private sales as a result of factory closures in Britain' (27 December 1980). Purchasers of these depreciated capital goods included capitalists from South Africa, Israel, West Germany, France and Italy. One dealer alone sold an average of 300 tonnes of machinery a week overseas. Total exports are estimated at several thousand tonnes a week.

5 K Marx, *Theories of surplus-value*, Part 3, L&W, 1972, pp366-67.

to make up a growing proportion of the value of commodities and thus has a growing impact on the rate of profit.[6]

Two more forces which can act as a counter-tendency to the fall in the rate of profit are international trade and the export of capital.

On the side of imports, trade allows a country to obtain machinery, raw materials and means of subsistence at a price lower than that at which they are produced domestically. This reduces the cost of the elements of constant capital and the cost of maintaining the working class. On the side of exports, trade allows capitalists to overcome the barriers of the national market. If the domestic market slumps or does not grow fast enough, the expansion of production can be maintained through exports. In addition, when an advanced capitalist country trades with a backward one, the higher productivity of the former can lead to further profits.[7] This is one reason why, over the past 30 years, the imperialist economies have increased their dependence on exports.[8]

The export of capital acquires a particular significance once domestic profit rates begin to fall. Capitalists invest abroad to secure a rate of return which is higher than that available at home. Overseas investment opens up new sources of labour and markets, and allows access to raw materials. It also allows the capitalists to secure more favourable conditions for production. Capital exports do not raise the rate of profit at home, but they do increase the mass of profits available to the capitalist class and, through this, curb the tendency towards stagnation.

These counter-tendencies to the fall in the rate of profit ensure that this fall operates as a tendency as capital accumulates. The rate of profit still declines, but the decline is temporarily checked through their operation. At this point we must also consider another modifying influence on the declining rate of profit: the role of credit in capitalist production.

Borrowing time

Through the extension of credit capital can go on accumulating beyond that point at which existing levels of profitability would otherwise dictate a halt.[9] Capitalists can borrow funds through the banks and other agencies to help them overcome what appear as temporary difficulties – 'cash-flow problems' and the like. In this way they can keep production going. They can borrow money to finance further investment and so expand output, in a situation when the underlying conditions of profitability do not warrant this. They can stimulate consumer demand through the provision of hire purchase facilities and other forms of credit, and so ensure that idle production capacity is utilised. Fixed costs are then spread over a greater output so that costs of production are reduced.

Credit spurs investment, which in turn raises productivity. The mass of profits is thus increased and further growth encouraged. Because large firms are better placed to obtain it than small ones, credit also promotes the centralisation of capital into fewer hands. This allows the bigger capitalists to consolidate their operations and so stay in business.[10]

The concept of 'finance capital' reveals the ever-increasing importance of the role of credit. Lenin explained it as follows: 'The concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry – such is the history of the rise of finance capital and such is the content of this term'.[11]

Alongside the accumulation of capital goes the concentration and centralisation of production. But with accumulation, the credit and banking system develops too, becoming in turn an important factor in the growth of industry. As Marx explained, in its first stages the credit system 'furtively creeps in as the humble assistant of accumulation, drawing into the hands of individual or associated capitalists, by invisible threads, the money resources which lie scattered over the surface of society, in larger or smaller amounts; but it soon becomes a new and terrible weapon in the battle of competition and is finally transformed into an enormous social mechanism for the centralisation of capitals'.[12] By accelerating the development of large-scale industry, credit becomes a major force in the socialisation of production and the transformation of capitalism into monopoly capitalism. The term 'finance capital' therefore refers not to banks alone, but to the integration of banking capital with industrial capital. Finance capital is an essential feature of imperialism.

That banking operations are more tied up with industrial ones than ever before is strikingly evident today. Big corporations, with annual turnovers of several billion dollars and enormous financial resources, are now closely intertwined with the credit system. Many have set up finance arms of their own: these issue long-term bonds and organise the borrowing of many millions of dollars.[13] In the USA, a 'commercial paper' market has been established in which companies lend their surplus cash directly to other companies for short periods of time, thus cutting out financial institutions altogether. The commercial paper outstanding at the end of 1979 totalled $115 billion.[14]

While industry gets into banking, the banks get into industry. Banks not only provide industry with gigantic loans but also take an active part in the running of it. Banking and financial institutions have developed a number of special skills with which to service industry: they now organise mergers and takeovers, finance international trade and lease capital equipment. It is true that, with the exception of West Germany, important bank shareholdings in industry are still rare; but recently there has emerged a trend for banks to convert long-term loans to ailing companies into equity stakes in them.[15] Thus when an international consortium of banks recently put together rescue packages for Chrysler and Massey-Ferguson they also took part-ownership of the two companies.

Like capitalist production, the credit system operates on an international scale. The West's idle money is centralised through the banks and put to use as the bourgeoisie sees fit. The growth of credit on an international level serves to bind each area of the world more tightly together. Through the international extension of credit the imperialists open up new markets and accelerate the pace of capital investment; the relations of dependence between debtor nations and the banks are consolidated, and the fortunes of each particular national capital have a more direct influence on the health of the whole system.

Both nationally and internationally, however, credit can only postpone or mitigate the capitalist crisis. It cannot solve it. By lubricating the mechanisms of accumulation, credit merely ensures that capitalism's fundamental problem – lack of profitability – is exposed more forcefully, in the form of monetary or financial crises. Bourgeois commentators may diagnose accelerating inflation, massive government debts and the burgeoning growth of the money supply as capitalism's basic malaise, but these are only symptoms. Credit is and will remain vital to the propping up of capitalism, but it cannot delay indefinitely the measures required to restore the rate of profit.

From all that we have said so far it should be clear that the path the capitalist crisis takes will not be one of unmit-

igated decline. There will be numerous variations on the downward trend. Much depends on the course which capitalist competition takes. It is to this question that we now turn.

Dog eats dog

Competition is the interaction of one capitalist with another in the market. Marx calls it the 'essential locomotive force' of the capitalist economy, which, however, does not establish the laws of that economy, 'but is rather their executor'.[16] Competition compels each capitalist to follow the inexorable logic of the system – to cut costs, raise productivity or make workers redundant – just in order to survive. Since the industrial capitalist experiences the crisis through the effects of competition, it appears to him that he can escape it if only he can remain competitive. His problems seem to derive from the efforts of his rivals to increase their share of the market, perhaps by using 'unfair practices'. Even if he has an inkling of the general illness gripping world capitalism his only practical course of action is to strengthen his competitive position. Thus the objective dictates of the system imposed on the individual capitalist are experienced as a matter of subjective choice.

The capitalist believes he can win if, through a higher level of investment, he can raise productivity and hence also the rate of profit earned. Despite the increase in the organic composition of capital this entails, a level of productivity above the market average will enable him to undercut his rivals, gain a higher market share, and thus temporarily secure a surplus-profit. The trouble is, however, that competition will in turn force his rivals to invest too. His advantage will disappear, his higher organic composition will become a general one and he and all his competitors will have to face the consequences of a general decline in the rate of profit.[17]

Though the individual capitalist's efforts to steal a march on his rivals are ultimately self-defeating, this apparent avenue of escape will always seem open. Because they resort to it capitalists soon find themselves in difficulties. First, overcapacity builds up so that production cannot be run profitably. Second, and as a result of this, a still more

6 *Capital*, Vol 3, pp108-9. A boom or a slump in the level of commodity prices (that is, the prices of minerals and agricultural commodities) modifies the tendency of the rate of profit to fall. Here we are talking of price fluctuations, not necessarily changes in value. The peculiar conditions under which primary commodities are produced and the generally unstable nature of capitalist growth together ensure that such prices fluctuate sharply. Moreover, the speculation that engulfs the commodity markets at a time of crisis will also exacerbate price fluctuations. Between 1972 and 1974, the IMF index of commodity prices (1970=100) rose from 107.2 to 212.3, making the fall of manufacturing profitability in that period particularly steep. Over the next three years the index grew at the same rate as OECD consumer prices, contributing to a partial recovery (figures from IMF, *International Financial Statistics*). For the more general effect and role of oil price rises in the capitalist crisis, see 'Who's over the barrel?', *the next step*, No 8, November/December 1980.

7 This is because, faced with less local competition, prices of commodities exported into these markets can be higher than those in more developed economies.

8 Between 1960 and 1970, the growth of industrial production averaged 6.1 per cent a year; that of exports, 8.7 per cent a year (World Bank, *World development report*, 1980). See the next section for the role of trade during the 'seventies.

9 *Capital*, Vol 3, p441.

10 The process of centralisation – mergers, takeovers within a single industry and across industries – has been evident throughout the post-war period. This process assumed greater importance in the late 'sixties when the first manifestation of the world crisis became evident. For a useful bourgeois account see L Hannah & J A Kay, *Concentration in modern industry*, Macmillan, London. 1977.

11 V I Lenin, 'Imperialism, the highest stage of capitalism', *Collected Works*, Vol 22, p226.

12 *Capital*, Vol 1, p587.

13 For example, Lonrho International Finance NV recently organised a multicurrency medium-term loan with a number of banks worth 270 million French francs (see advertisement in *The Economist*, 24 January 1981). Likewise GMAC Overseas Finance Corporation NV, a credit subsidiary of General Motors, issued a US$100m bond to seven international banks (see advertisement in the *Financial Times*, 5 February 1981). Where big corporations are sufficiently profitable, they may even act as net lenders to the money markets. Volkswagen of West Germany, with annual world sales of DM30bn and a workforce of 240 000 in several countries, is a good example. A *Financial Times* reporter commented that such is the strength of the VW balance sheet that 'in some respects it looks more like a bank than a manufacturing company' (19 May 1980). VW has loaned DM4.6bn to banks and has funded no less than 97 per cent of its DM3.1bn investment programme from its own resources.

14 *The Economist*, 29 November 1980.

15 *The Economist*, 20 December 1980.

16 K Marx, *Grundrisse*, Pelican, 1973, p552.

17 *Capital*, Vol 3, pp264-5. In the second part of SWP theoretician Chris Harman's recent meandering *minimum opus* on crisis theory, we find the assertion that 'the crisis can reduce or destroy the pressure for the organic composition of capital to rise' (*International Socialism*, series 2, No 11, Winter 1981, p45). As a result, 'a quite modest rise in the rate of exploitation may be sufficient to offset the downward tendency of the rate of profit' (ibid, p46). This is nonsense. Of course the crisis will see investment fall off and the elements of constant capital cheapened. But competition forces every capitalist to raise his organic composition so as to improve productivity and survive on the market. As for 'modest' rises in the rate of exploitation, they are the exception, not the rule. In West Germany, for instance, the proportion of investment that is 'capital deepening' (that is, which involves introducing new techniques) rather than 'capital widening' (that is, which involves simply expanding production) has risen from 10 per cent in 1970 to over 40 per cent in 1980 (*The Economist*, 8 November 1980, Survey of the West German economy, p26). In other words, the capitalists can only hang on today by putting through *massive* increases in exploitation. Harman also uses his considerable eclectic powers to give yet another rationale for the SWP's theory that arms spending can stave off the crisis. Using the latest revisionist interpretations of Marx's analysis of the formation of an average rate of profit, he derives the absurd result that a higher organic composition of capital in the arms sector will actually *raise* the rate of profit (ibid, p55). Again, he argues that though arms production is, because it is funded through taxation on private industry, a drain on surplus-value, it does not harm the rate of profit. The capitalists, it seems, still 'possess' their surplus-value once they have handed it over (ibid p59). Brilliant! Perhaps Harman would like to tell them how tanks and bombs – which is how their money ends up – can be converted back into productive capital. For a critique of the SWP's 'Permanent Arms Economy' theory, see 'Disarming the working class', *the next step*, No 6, August 1980.

intense competitive struggle begins as each capitalist strives to pass the burden of the losses onto others.[18]

The pressure of competition limits the room for manoeuvre each capitalist has in relation to his rivals. It also impresses upon every capitalist the need to take measures against the working class. The superiority one particular national capital has over another can best be gauged by looking at the scope of imperialist competition today. We begin by a review of the period spanning from the early 'sixties to the mid 'seventies.

World market rivalry

Table 1 shows how different major imperialist powers experienced different growth as the tendency towards capitalist collapse gathered speed. Britain and the USA had the lowest rate of growth of output and productivity in manufacturing industry, while Japan had the highest. West Germany, France and Italy also had high growth rates; although West Germany's appears the lowest of the three, its started from a higher level.

Table 1 **Output and productivity growth in manufacturing industry, 1960-73 (per cent per year)**

	Output	Productivity
UK	3.0	3.6
USA	4.9	3.4
Canada	5.9	4.0
Japan	12.0	8.8
West Germany	5.3	5.0
France	5.9	5.6
Italy	6.1	5.2

Source: *Bank of England Quarterly Bulletin*, March 1979

Uneven rates of growth have had two consequences: a change in the relative economic weight of each country in the world economy and a change in its share of international trade. Table 2 shows that the importance British and American industry had for the West declined markedly between 1963 and 1975. Though the USA remains by far the largest producer, Japan and West Germany began to challenge it in this role. Moreover by 1975, the industrial output of the EEC exceeded that of the USA.

Table 2 **Shares of OECD industrial production, 1963-75 (per cent)**

	1963	1970	1975
UK	7.4	6.4	5.6
USA	44.4	43.3	34.9
Canada	3.0	3.6	3.7
Japan	5.3	11.9	15.5
West Germany	8.5	13.2	13.5
France	5.0	6.0	7.9
Italy	3.5	4.4	4.9

Source: *National Institute Economic Review*, taken from relative weights in OECD industrial production

Table 3 shows how divergent rates of productivity growth and hence international competitiveness resulted in a redistribution in shares of world trade. The shares of Britain and the USA declined while those of Japan and West Germany rose. In 1973, West Germany's share in manufacturing exports topped America's.

Table 3 **Shares of world exports of manufactures, 1960-73 (per cent)**

	1960	1965	1973
UK	16.5	13.9	9.3
USA	21.6	20.3	16.2
Japan	6.9	9.4	12.6
West Germany	19.3	19.1	21.9
France	9.6	8.8	9.6
Italy	5.1	6.7	6.6

Source: *National Institute Economic Review*

Underlying these developments were differential rates of profitability. Those countries which enjoyed higher rates of profit could sustain a higher rate of growth; though all experienced a fall in the rate of profit, those able to gain a competitive advantage on their rivals suffered least.

Britain had one of the lowest levels of profitability on average, while Japan and West Germany stayed ahead.

Table 4 **Rates of profit for industrial and commercial companies in the main imperialist countries, 1960-75**

	1960	1965	1970	1973	1975
UK	14.2	11.8	8.7	7.2	3.5
USA	9.9	13.7	8.1	8.6	6.9
Japan	19.7	15.3	22.7	14.7	9.5
West Germany*	23.4	16.5	15.6	12.1	9.1
France	11.9	9.9	11.1	10.2	4.1
Italy*	11.0	7.9	8.6	4.5	0.8

Source: A Glyn & J Harrison, *The British economic disaster*, Pluto, 1980

*Note: not strictly comparable to other figures

The rate of profit is closely related to the rate of investment: higher profits allow more investment to be financed, and increased investment can raise profits by improving competitiveness. Table 5 shows how the pattern of rates of investment in the imperialist world mirrored that of profitability: Britain and the USA's performances were sluggish, while those of Japan and West Germany were good.

Table 5 **Gross domestic investment as proportion of GDP in the major imperialist countries (per cent)**

	1960	1977
UK	19	19
USA	18	18
Japan	34	32
West Germany	27	22
France	24	24
Italy	24	21

Source: World Bank, *World Development Report*, 1979

How the state props up the system

The bourgeois state represents the general interest of the capitalist class and enforces this interest in the realm of production.[19] In the epoch of imperialism the interventionist role of the state increases and comes to play a decisive role in maintaining the conditions necessary for capital accumulation. State intervention in industry – subsidies for ailing firms, the restructuring of particular sectors, nationalisation, credit for export – is a direct response to the obstacles that capital encounters in the accumulation process. The form and objectives of state intervention depend on the particular phase of accumulation. However, at a time of crisis, the state assumes a more direct role in the economy than ever before. Three important spheres of state intervention can be distinguished: support for industry, coercion of the working class and the defence of the national bourgeoisie against its imperialist rivals.

Support for industry was widespread before the onset of the crisis. However, over the past decade or so more and more industries have become dependent on state support.[20] In Britain, one of the weakest imperialist powers, four major industries were partly or wholly nationalised: steel (through the founding of the British Steel Corporation, 1968), cars (British Leyland, 1975), shipbuilding (British Shipbuilders, 1977) and aeroplanes (British Aerospace, 1977). Internationally, too, extensive rationalisations and investment in new capacity have taken place under the guiding hand of the state. The state has also been active in encouraging the establishment of new industries. In every imperialist country today, the state has embarked on a programme of investment in the electronics industry.

The coercion of the working class is made necessary because the capitalist crisis generates social upheaval. Millions of workers are made redundant and those at work are exploited still further; so the state is compelled to step in and discipline the working class. The judiciary, police and the army are directed to smash workers' resistance. Every effort is made to weaken the working class organisationally and ideologically.

The defence of the national bourgeoisie against its imperialist rivals becomes an urgent task for the state too; but it is the pressure of world competition that determines how the state will move. In the early stages of the crisis the state concentrates on refining trade policy – boosting exports of commodities while erecting barriers to imports. However, as the competitive struggle intensifies, it uses more overtly aggressive, less internationally 'acceptable' measures to protect the national capital. The mouthpiece of the British industrial bourgeoisie, the Confederation of British Industry, shows the way things are going:

> 'In the 'eighties the competition for trade will be so severe and our problems of industrial regeneration in Britain so difficult that we must urge Government to make the trade consequences a "first charge" on every foreign policy decision they ponder. As such it may well outweigh diplomatic and UN considerations and those of a domestic political nature. This should be reflected also in the Ministerial time and effort devoted by the Government as a whole to trade promotion. . . .'[21]

18 See Table 11 on overcapacity levels and Section 2 on competition in the world market.

19 For a discussion of the bourgeois state see F Richards, 'Revisionism, Imperialism and the state', *Revolutionary Communist Papers* No 4, February 1979.

20 A useful international summary of the forms of state intervention is provided in the survey 'The state in the market', *The Economist*, 30 December 1978.

21 CBI, *International trade policy for the 1980s*, August 1980.

2. THE COLLAPSE NOW

To understand the extent of the crisis today we must see how the capitalist world recovered from the 1974-75 recession. That recession was the worst experienced by the West in the post-war period. Every capitalist power was affected: production and investment slumped, inflation and unemployment rates rose dramatically and international trade fell. When an upturn followed, it proved very partial in character. Despite the renewed growth of production, the symptoms of crisis persisted. All the key indicators showed that the world economy was in a worse state than in the years prior to 1974. The recession was no mere passing phenomenon.[1]

After 1974-75 a number of existing traits of the world economy began to be accentuated as capital sought an exit from its crisis. Both national and international credit expanded, reliance on trade increased, and the export of capital became more frenzied. Below we show how these developments helped to sustain a mild recovery over the years 1975-79 – and how, by lifting the accumulation of capital to a higher level, they merely made the contradictions of the system sharper.

We discuss each development separately, though there are many interconnections. The aim is not to give a history of the 1974-79 period, but to provide the basis for explaining the crisis today. We focus upon the major imperialist countries, which together account for more than half the world's economic output and trade and which are the decisive factors in the world today.

Either a borrower or a lender be

Both private and state credit have played an important role in counteracting capitalist stagnation. This applies equally to national and international credit.

(a) National credit expansion

The country in which national credit expansion has been most significant is the USA. The American economy rallied remarkably after the 1973-74 recession – industrial production rose by nearly 30 per cent and unemployment fell by almost two million, 1975-79; but it did so largely through credit. As the OECD put it in 1980, 'borrowing to finance both housebuilding and consumption has been on an impressive scale'.[2] Between 1975 and 1978, mortgage debt rose 54 per cent to $750 billion, consumer instalment debt by 49 per cent to $300 billion and corporate debt by 36 per cent to more than $1 trillion (a trillion is a million million). At the same time total US government borrowing rose 47 per cent to $825 billion. Total private and public sector debt soared from $2.5 trillion in 1974 to a colossal $3.9 trillion in 1978.[3] By comparison, America's GNP stood at $2.1 trillion that same year. The enormous rise in America's debt reveals how superficial its industrial upswing has been. That most of the rise has occurred in consumer or government debt rather than in borrowing for

1 See the Editorial in *Revolutionary Communist Papers*, No 6, June 1980.

2 *Economic Outlook*, July 1980.

3 *Business Week*, 16 October 1978.

investment purposes confirms that the USA has been accumulating IOUs rather than accumulating capital.[4] Credit has helped raise US production levels but has done little for overall productivity. Between 1974 and 1979 US productivity grew at an average rate of merely 0.1 per cent per year.[5] On the other hand inflation rose continually from 1976 onwards, eventually reaching record highs. The underlying decline of US competitiveness also registered in unprecedentedly large trade deficits. Today, when IOUs fall due, many firms find themselves unable to meet their debts. Last year, for instance, bankruptcies in the USA reached record levels.

The main effect of the USA's credit-based boom was not on the structure of US capitalism, but on its relations with the rest of the world economy. Exports to the USA multiplied rapidly and foreign capital flooded in to take advantage of the growing domestic market.

National credit expansion has not been confined to the USA. While the Labour Government was busy cutting public expenditure in Britain, consumer credit here more than doubled from the end of 1976 to a total of £7.8 billion at the end of 1979.[6] In West Germany, consumer credit rose by 80 per cent to DM93.2 billion over the same period, and government debts rose from 24.5 per cent to 29.4 per cent of GNP between 1975 and 1979, totalling some DM450 billion in 1980.[7] We should remember, however, that countries more reliant on imports than the USA run higher risks than it does when they expand their credit. They do not have the same room to manoeuvre as the USA, and cannot therefore give rein to credit in the way it can.

(b) International credit expansion

The international credit markets have grown prodigiously over the past decade. In particular the Euromarkets have widened from $150 billion in 1971 to nearly $1200 billion in 1979.[8] For governments, large corporations and banks they represent one of the few sources of readily available large-scale capital.

A major reason for the flourishing of the Euromarkets has been that OPEC deposited its dollar-denominated oil revenues, or 'petrodollars', with Western banks, which in turn have lent them out via the Euromarkets to countries facing balance of payments deficits. After the 1973-74 oil price increases the Euromarkets were used as the main mechanism for 'recycling' petrodollars to indebted nations in general and near-bankrupt backward capitalist countries in particular. The principal effect of this was to allow backward capitalist countries to maintain or increase imports of Western commodities. As a result the decline in Western exports slowed down and the impact of the recession was softened.

'Recycling' is, however, no solution to the West's problems. For the West to loan money to backward capitalist countries so that they will have enough to buy its goods is patently self-defeating. What has happened is that the burden of debt has begun to weigh down on backward capitalist countries more heavily than ever – especially for the 'middle-income' states which make up significant markets for imperialist exports.[9] For these countries external public debts rose on average from 10.8 to 17.6 per cent of GNP between 1970 and 1978. Today merely paying interest on that debt takes up a large proportion of these nations' export earnings. In 1978 the ratio of debt service charges to export earnings was more than 30 per cent in Peru and nearly 60 per cent in Mexico.[10] Backward capitalist countries cannot go on like this, and nor can their creditors.

Last year OPEC's surplus revenues were estimated at some $120 billion, and the trade deficit of 'non-oil producing developing countries' at about $70 billion.[11] But revenues cannot be recycled into deficits as before. Their clients faced with mountains of debt, Western banks are reluctant to go on lending funds out and so risk a default. The sums involved are vast and the consequences of a banking crash devastating. According to a recent survey on world banking, the underdeveloped countries now figure as 'one of the greatest single difficulties facing international banks today'.[12] No wonder that, to protect their loans, the imperialist banks are moving towards imposing 'political' safeguards of a markedly colonial character.[13]

Buy cheap, sell dear

Trade has become crucial for the imperialists in the crisis; indeed the house-trained economists of each capitalist country look to exports as a means of overcoming the stagnation of their domestic economies.[14] Between 1970 and 1978, the exports of the 18 leading capitalist countries grew at an annual rate of 5.7 per cent, while industrial output increased at only 3.4 per cent.[15] As a result there was a marked increase in the ratio of trade to GDP. Table 6 shows this. Even the relatively self-sufficient US economy has become more dependent on trade and thus more vulnerable to changes in the world economy.[16]

Table 6 Trade as a proportion of GDP (per cent)

	1968	1978
UK	21	29
USA	5	10
Canada	21	25
Japan	10	10
West Germany	21	26
France	14	20
Italy	16	24

Source: Bank for International Settlements, *50th Annual Report*, 1 April 1979-31 March 1980

Naturally enough, exports have been attracted to countries whose markets have been growing fastest. Thus between 1975 and 1977 exports to the USA more than doubled in dollar terms to $207 billion and the fraction of total OECD imports accounted for by the USA also increased.[17] But, since the first oil price rises in 1973, the most significant new export market has been OPEC: its imports have on average been rising by more than 20 per cent a year. Table 7 shows how the share of exports going to OPEC has doubled for most industrialised countries over the past few years. Taken together, the OPEC countries now comprise Britain's biggest single export market. It is not surprising that the imperialists show themselves so concerned about political stability in the Middle East. Not only their oil interests, but a considerable portion of their trade is at risk there.

OPEC has not been alone in boosting Western exports. In contrast to the 'sixties, when they took an ever-declining share of industrial country exports, the backward capitalist economies have come into their own as vital markets for imperialist commodities. Table 8 shows this clearly.

Table 7 Exports to OPEC as percentage of total exports[18]

	1972-73	1978	1979	1980 (first half)
UK	6.0	12.1	8.0	8.8
USA	5.3	11.6	8.3	7.6
Canada	1.2	2.9	2.4	2.6
Japan	7.1	14.6	13.1	14.9
West Germany	3.3	8.6	6.1	6.2
France	4.7	8.2	7.7	8.5
Italy	5.4	12.6	10.8	11.9
Seven major countries	4.7	10.5	7.3	7.5
Total OECD	4.1	9.3	8.1	8.5

Source: OECD, *Economic outlook*, December 1979 & December 1980

Table 8 Importance of developing countries as markets for the manufactured exports of industrial countries (per cent share of total exports)

	1973	1978
NORTH AMERICAN EXPORTS		
To Western Europe & Japan	29	26
To developing countries	24	32
JAPANESE EXPORTS		
To North America & Western Europe	47	44
To developing countries	42	46
WESTERN EUROPEAN EXPORTS		
To North America & Japan	11	9
To developing countries	15	20

Source: GATT, *International Trade 1978/79*, Geneva, 1979

Carving up the world

The growing importance of exports for the imperialist countries is paralleled by the emergence of regional trading blocs. Here the EEC is a case in point. More than half of total exports from EEC countries go to other member states.[19] Seven of Britain's top ten export markets are other EEC countries: having taken 36 per cent of British exports in 1976, they took 42 per cent in 1980.[20] For West Germany, Britain's largest trading partner, the figures are more striking still. All of its top five export markets are other EEC countries, and the proportion of its exports taken by these five has risen from 42 to 46 per cent, 1977-79.[21]

Since the EEC has to import 90 per cent of its raw materials it maintains strong links with backward capitalist countries. Through the Lomé Convention, it has trade and aid pacts with 57 African, Caribbean and Pacific states – the so-called ACP countries, most of which are in Africa.[22] In addition the EEC has special trade agreements with the Association of South East Asian countries (ASEAN – Indonesia, Malaysia, the Philippines, Singapore and Thailand) and with Latin America in order to boost exports in general and capital goods exports in particular.

Japan and the surrounding countries in South East Asia and the Pacific form another important trading bloc. As a group they are growing faster than the economies of Europe and North America, and they are becoming more integrated – though Japanese hegemony is undisputed. Japan's neighbours conduct 30-40 per cent of their trade with it and have taken to holding yen in their foreign exchange reserves to finance this.[23] Japan can, as a consequence, now afford to price almost a quarter of its exports in yen, as opposed to the once-unrivalled US dollar; before 1973 the proportion was little over 10 per cent.[24]

4 The US economy is becoming more and more impervious to the stimulus of credit. Though consumer credit has grown faster, GNP growth has been sluggish and both unemployment and inflation have got worse:

Period*:	1961(Q1) –1969(Q3)	1971(Q1) –1973(Q2)	1975(Q1) –1979(Q1)
Average annual growth in consumer credit, per cent	9.6	13.3	14.5
Average annual GNP growth, per cent	4.6	5.1	5.0
Average unemployent rate, per cent	4.7	5.5	7.1
Average annual increase in consumer prices, per cent	2.5	5.1	7.2

*(Q) denotes which quarter

Source: OECD, *United States*, November 1979

5 *The Economist*, 26 July 1980.
6 Central Statistical Office (CSO), *Financial Statistics*, September, 1980.
7 OECD, *Main economic indicators*, September 1980; *Financial Times*, 23 September 1980.
8 Morgan Guaranty Trust Company, *World financial markets*, October 1980. In the Euromarkets banks deposit and lend money outside its country of origin. The term most commonly refers to transactions in US dollars that are carried out in the main financial centres of Europe. However a number of other currencies are also used in this way, although the dollar accounts for some three-quarters of the total business, and bank activity in other centres like Hong Kong and the Cayman Islands is also included. In 1979, Euromarket credit extended to industrial countries amounted to $2.7bn; that extended to developing countries $48.0bn. The main reasons for the growth of the Euromarket are that banking operations are left relatively unregulated in it and that capitalists can use it to bypass restrictions on domestic borrowing.
9 Bank lending has been concentrated on a relatively small number of countries. In recent years about 70 per cent of the total has gone to Mexico, Brazil, Argentina, Peru, the Philippines and South Korea. See *The Banker*, July 1980.
10 World Bank, *World development report*, 1980.
11 *The Banker*, July 1980.
12 *Financial Times*, 11 May 1981.
13 Western bankers welcomed the military takeover of Turkey in September 1980 precisely because it promised such safeguards. Increases in repression in debt-ridden countries such as Zaire, Peru and South Korea were greeted with equal enthusiasm.
14 See for example *The Economist*, 16 August 1980.
15 World Bank, op cit.
16 The US economy's dependence on trade, like that of its rivals, has increased up to the present day. See OECD, *Main economic indicators*, June 1981.
17 *British Business*, 5 December 1980.
18 The share of exports to OPEC fell in 1979, mainly as a result of the revolution in Iran, and then recovered. In 1980, 10.1 per cent of total UK exports went to OPEC.
19 In 1979, the EEC accounted for 35 per cent of world trade; 54 per cent of this figure was intra-EEC trade. *British Business*, 13 March 1981.
20 CSO, *Overseas trade statistics of the UK*, 1980.
21 *The Times*, 27 June 1980.
22 France and Britain, the main imperialist powers involved in Africa, account for the largest shares of EEC exports to the ACP countries. For an account of the Lomé Convention, see *The Economist*, 27 October 1979.
23 *Euromoney*, September 1980.
24 Ibid.

Trade war

The imperialist powers' increased dependence on trade has led to greater tensions in the world market. Since domestic markets cannot by themselves support accumulation, the impetus to try to cut into overseas markets grows. At the same time the pressure on competitive industries in every country to compete has sent inefficient national industries to the wall and has helped form a new international division of labour at their expense. It is capitalists in these national industries who have been most vociferous in calling on their governments to 'control' foreign imports.

In the USA a 'trigger price' system protects the domestic industry from much cheaper imports of steel from the EEC and especially Japan, South Korea and Brazil.[25] For its part, the EEC operates an extensive system of quotas (the Multi-Fibre Arrangements) on textiles exported to it from the 'new industrial countries' of Taiwan, South Korea, Hong Kong and so on. It also protects its agricultural producers through the infamous Common Agricultural Policy system of tariffs. And, as if this was not enough, EEC chemicals producers have been protesting about 'unfair competition' from US chemical imports. Still, the EEC and the USA have one thing in common: both have forced Japan to limit its car exports – 'voluntarily', of course.

The struggle to hold or increase market shares has become fierce. Indeed imperialist companies have shown themselves prepared to trade at a loss so as to maintain their slice of the world market. For example: in 1980 Imperial Chemical Industries, Britain's second largest exporter, increased its exports by five per cent at the same time as it reported an extraordinary slump in profits.[26]

Trade war today is not only a matter of government protection against imports. In every imperialist country the state has taken an active role in the export field too. Despite their laissez-faire philosophy, the Thatcher and Reagan administrations have thrown their weight behind their exporters. In 1979-80, Britain's Export Credit Guarantees Department underwrote loans to the tune of £500 million. France and Japan have also made a speciality of offering indigenous exporters cheap loans, which they delicately term 'development aid'.[27] Things have come to such a pass that, earlier this year, the USA's Export-Import Bank agreed to finance bids by Kaiser Engineers Inc and Motorola Inc for projects in the Ivory Coast in a clear attempt to beat off tenders made by private but state-aided French firms.[28] There now exists an export credit war, one which has suspended free trade for good. The *Financial Times* has been moved to complain: 'Companies no longer compete freely for overseas capital project contracts. The whole market has become hopelessly distorted by government intervention and subsidy'.[29]

Capital export

Britain and the USA have been, and still are, the imperialist powers with the most capital investments abroad. UK total private investment overseas amounted to just over £34 billion at the end of 1979; that for the USA amounted to $193 billion.[30] Although smaller in absolute terms, Britain's investments abroad are larger when compared to GNP. The same is true of Britain's annual outflow of investment.[31]

Both countries rely heavily on the profits they make abroad. In 1979 overseas profits accounted for at least a third of the overall profits of most of the top 100 US multinational corporations and banks;[32] US corporations alone made $37.8 billion profits from overseas investments.[33] IBM makes well over half its total profits outside America, while *all* of the profits of Ford and General Motors came from overseas operations last year, such was the crisis these companies met with at their US plants. In the case of Britain, repatriated profits from direct investments overseas (excluding those made by oil companies) amounted to £769 million in 1979 and total profits to £2.5 billion – not bad against a figure for gross trading profits made in Britain of £19.6 billion.[34]

Overseas investments do not just bring in profits. They also stimulate the export of commodities. Nearly 30 per cent of Britain's exports, for instance, are made to overseas subsidiaries of British companies.[35]

These figures in capital exports indicate the structural weakness of British and US imperialism. But, since the late 'sixties, the limited scope for domestic accumulation in West Germany and Japan has also forced these countries to increase their foreign investments. Between 1965 and 1971 the value of overseas investment rose at an annual rate of 29.4 per cent for Japan and 22.8 per cent for West Germany to reach $4.5 billion and $7.3 billion respectively.[36] In 1979, net capital investment abroad from West Germany rose by DM8.4 billion to a total of DM61.6 billion.[37] A similar pattern can be discerned in relation to Japan: estimated at $31 billion in 1979, total foreign investment there is expected to rise to $79 billion by 1985.[38] The emergence of West Germany and Japan as major capital exporters reflects the growing shift in the balance of world economic power.

The changing balance

The relative decline of Britain and the USA can be seen in other ways too. First, these two countries are importing capital faster than they are exporting it (although the absolute size of capital exports is still greater). Foreign investors have been quick to take advantage of the growth in the US market since 1974, as Table 9 shows, and West German and especially Japanese capital exports have shot up.[39]

Table 9 Foreign direct investment stock in the USA ($m at year-end)

	1974	1978	% growth
UK	5744	7370	28.3
Canada	5136	6166	20.1
Japan	345	2688	679.1
West Germany	1535	3191	107.9
France	1139	1939	70.2
Netherlands	4698	9767	107.9
Switzerland	1949	2844	45.9
Others	4598	6866	49.3
Total	25144	40831	62.4

Source: S Young & N Hood, 'Recent patterns of foreign direct investment by British multinational enterprises in the United States', *National Westminster Bank Quarterly Review*, May 1980

The form taken by each country's overseas investments indicates how the balance of world economic power is changing. While West German and Japanese firms tend to

establish new points of production and so come to represent a direct challenge to their competitors, British investment in the USA, at least, has been of a less dynamic type, proceeding largely through acquisitions of and mergers with US companies rather than through the construction of new plant or the expansion of existing subsidiaries.[40]

More and more of Britain's overseas investment goes into non-industrial projects. Table 10 shows that direct investment by banks and insurance companies, like portfolio investment (the purchase of overseas equities and securities), is increasing faster than direct investment by industrial and commercial companies. Unable to compete in world markets, British imperialism is reduced to playing a wholly parasitic role.

Table 10 UK private sector external assets (£m at year-end)

	1977	1978	1979	% growth
Direct investment*	14800	15800	16500	11.5
UK banks' direct investment	1152	1341	1897	64.7
Oil companies' net assets abroad	3550	3900	5250	47.9
Insurance companies' direct investment in USA	595	610	710	19.3
Portfolio investment	6900	8050	9500	37.7
Other	–	156	267	–
Total	26995	29855	34125	26.4

Source: ***Bank of England Quarterly Bulletin***, June 1980

*Note: By industrial and commercial companies; excludes oil insurance and banking companies.

At the end of October 1979, the British Government abolished exchange controls. Purchases of overseas shares and bonds by UK financial institutions increased dramatically. The total capital outflow was estimated at about £2 billion, most of which took the form of portfolio investment. In 1979, earnings from direct investments in banking and insurance and from portfolio investment overseas amounted to £928 million, compared to £804 million in 1978.[41] If this goes on, Britain will soon be doing little more than what Lenin described as 'clipping coupons'.

The growing power of Japan and West Germany is also visible in the international capital market. Parallel to the emergence of regional trading blocs, distinct financial spheres of influence have begun to develop.

For most of the post-war period the USA held the dominant position in international finance. The bulk of world trade was priced in dollars; the dollar formed the basic asset of the foreign exchange reserves of the world's central banks, and was the most common currency for denominating international loans and bond issues in. This worked to the benefit of US imperialism, for the purchase of dollars by foreign governments and corporations helped finance its balance of payments deficits, while foreign acceptance of dollars allowed it to buy up plant abroad with ease. However, because of the downward trajectory of US imperialism, a new situation has taken shape in the world financial sphere.[42] Declining US competitiveness and rising balance of payments deficits, by weakening the value of the dollar in foreign exchange markets, have led other countries to look for alternative ways of holding their wealth and settling their accounts. One has been to use gold.[43] The other has been to use the yen and the Deutsche

25 *The Economist*, 12 July 1980.
26 *Financial Times*, 27 February 1981.
27 *Midland Bank Review*, Autumn 1980.
28 *Business Week*, 19 January 1981.
29 *Financial Times*, 15 May 1981.
30 Bank of England, *Quarterly Bulletin*, June 1980; US Department of Commerce, *Survey of Current Business* (*SCB*), August 1980.
31 *British Business*, 1 February 1980.
32 *Business Week*, 12 March 1979.
33 *SCB*, August 1980.
34 CSO, *UK balance of payments*, 1980.
35 Bank of England, *Quarterly Bulletin*, March 1980. Most foreign investment from the USA and Britain is located in other developed capitalist countries. However, for the USA the proportion in backward countries has risen from 21.2 per cent in 1975 to 24.8 per cent in 1979. The reason is not hard to see: in 1979 the rate of return on US investments in backward capitalist countries was 28.9 per cent, while that on US investments in the developed economies was 18.9 per cent. In the case of Britain, about 20 per cent of overseas capital is located in developing countries and some 20 per cent of overseas profits comes from these areas.
36 C Palloix, 'The self-expansion of capital on a world scale', *Union of radical political economists*, Vol 9, No 2, USA, Summer 1977.
37 Calculated from *Monthly report of the Deutsche Bundesbank*, April 1980 and November 1980.
38 *Business Week*, 16 June 1980.
39 Capital flows abroad to attract a higher rate of return. This does not imply that the overall rate of profit in a capital-exporting country has to be less than that which obtains in the country to which capital flows. We have to look at the situation for individual branches of industry and the firms concerned. A Japanese electronics company, for instance, may secure a better return on investment in the US market than at home simply because it is more competitive there.
40 See S Young & N Hood, 'Recent patterns of foreign direct investment by British multinational enterprises in the United States', *National Westminster Bank Quarterly Bulletin*, May 1980.
41 Figures calculated from CSO, *UK balance of payments*, 1980. We are talking of the decline of Britain, a senile imperialist power. David Reed of the Revolutionary Communist Group, however, prefers to exaggerate the size of banking capital to prove the absurd thesis that British imperialism is gaining in strength (*Fight Racism! Fight imperialism!*, No 6, September/October 1980). He notes that in 1979 UK banks had overseas assets worth £135.5bn and declared that this sum 'dwarfs all other investment abroad'. But what kind of 'investment' is this? £121bn was made up of foreign currency advances and overdrafts. For the banks these assets are balanced by liabilities, that is deposits. Although banks earn interest according to the volume of lending, they must also pay interest on deposits so total loans cannot be compared with the assets of an industrial company. In fact through credit operations banks can multiply the size of their assets without any real increase of the capital on which they are based. Banks today often lend *30 times* the value of their market capitalisation! Reed also confuses Britain's role as an international financial centre with the strength of British banking. Over 80 per cent of the assets overseas to which he refers were advanced by foreign banks in Britain (mainly in the City of London) not by British banks!
42 Between 1974 and 1979 the percentage of international loans denominated in dollars fell from 78 per cent to 63 per cent; the percentage of gross international bond issues denominated in dollars fell from 63 per cent to 42 per cent. Only the massive growth of the overall market prevented a glut of unwanted dollars and a major crisis in the financial sphere. (Federal Reserve Bank of New York, *Quarterly Review*, Summer 1980.)
43 See 'Behind the dollar's demise', *the next step*, No 2, January 1980.

Mark, even though the dollar is still the main currency for foreign exchange reserves.[44]

Both Japan and West Germany relaxed restrictions on the international use of their currencies during 1980. While still anxious that speculation in the yen and the DM might destabilise their economies, balance of payments deficits consequent on dearer oil forced them to make a move. Their rulers realised that extra overseas currency holdings could finance these deficits – and allow capital exports to go on surging ahead too. Thus the yen is now the second most important investment currency – after the dollar – for the deployment of surplus OPEC revenues. So much money has poured into Japan in the form of yen deposits and purchases of bonds and equities that Japan had little difficulty in financing its $15 billion deficit in 1980.[45]

The lines of division in the international capital markets reflect and reinforce the spheres of influence of the imperialist powers. London is the main centre of the Euromarket and receives the largest share of OPEC revenues (in dollars), relending these to other markets and other countries.[46] The US national market and the Caribbean offshore market, from where many US banks operate also, are the main sources of loans to Latin America; banks in Japan are the most important for financing trade in Asia; and the credit markets in Europe, particularly London and West Germany, are the main lenders to the Comecon countries.[47]

Bottoming out?

The forces brought into play to counteract the recession after 1975 have had only a limited effect. The expansion of credit, the growth of trade and the rise in capital exports have not prevented a further recession beginning in 1980. In fact it is the use of precisely these safety valves of the past that has brought on the crisis of today.

Credit cannot play the same counter-crisis role that it did before. The bourgeoisie has recognised that, though credit can foster investment, this tends to depress profit levels.[48] Moreover credit encourages prices to rise. The OECD Secretariat, which up to 1978 called on the major imperialist powers to embark on a 'concerted reflationary action programme', now stresses that the reduction of inflation is 'top priority'.[49]

The capitalist system cannot survive without credit. But the bourgeoisie is now more interested in raising interest rates to restore financial stability than in stimulating production artificially. This is reflected in the shift towards 'supply-side' economics, an approach which emphasises the need to reorganise industry and which scorns credit expansion. Thus the OECD Secretariat notes the 'growing body of opinion' which is of the view that, in its current form, state intervention in industrialised economies may have weakened their 'responsiveness to changes in aggregate demand'. It calls on governments to improve working of markets' and to encourage 'economic agents' to accept 'changes in work and, perhaps, life styles (sic)'.[50] In other words, it advises the capitalists that the only way they will save their system is to cut state expenditure, jack up the rate of exploitation in the factories and get wider and wider layers of the working class accustomed to a new way of living – unemployment.

The bourgeoisie must curb the growth of credit if it is to avoid financial instability. A default on loan repayments, an adverse movement of interest rates, a major loss on the foreign exchange and commodity markets – any of these mishaps could precipitate economic collapse. Today central bankers lead anxious lives, concerned that they are overextending their loans (particularly to unstable backward capitalist countries) and worried about the shady deals other members of the 'financial community' get into to make a quick profit. The state is always ready to step in, but the gigantic sums of money required of it make regaining control in a financial scare harder and harder.[51]

While the expansion of credit in the past decade has made a major financial crash more likely, the international integration of the world economy established by trade and capital export over the same period has raised the intensity of competition to unheard of levels. The destruction of whole national industries is now on the cards as world imperialism tries to gear up for a new round of capital accumulation.

For the capitalists the problem presents itself as surplus capacity – capacity which must be eliminated if profitability is to be restored. Table 11 shows how the dimensions of that problem have grown.

Table 11 Manufacturing industry capacity utilisation rates[1] (per cent)

	Average 1964-73	Average 1974-78	1979 Q2	1979 Q4[2]	1980 Q2	1980 Q4
UK	45.0	32.0	44.0	38.0	30.0	15.0
USA	85.5	80.5	85.9	84.4	77.9	79.2
Canada	87.0	84.5	84.6	84.3	79.5	79.9
Japan	92.6	84.9	92.3	92.7	–	–
West Germany	86.4	80.0	85.6	84.5	83.8	78.6
France	84.8	82.7	81.9	81.8	83.0	80.0
Italy	78.5	73.2	75.2	77.6	76.6	73.0

Source: OECD, *Main economic indicators*, May 1981 and *Economic Outlook*, July 1980

Notes: 1. Each country's utilisation rate is defined differently so the series cannot be compared.
2. The figure for Japan is for the third quarter of 1979. Later figures are not published, but the operating rate for manufacturing industry fell by 6 per cent between December 1979 and December 1980. *Japan Economic Journal*, 27 January and 26 May 1981.

How fast surplus capacity can be got rid of depends on how much profitable areas for investment are available. Surplus capacity has been destroyed most effectively in Japan, the most dynamic of the imperialist powers. Between 1976 and 1979, Japan reduced shipbuilding capacity 35 per cent, sending 37 medium-sized yards into liquidation. Meanwhile, assisted by state loans, capital has moved into new and lucrative sectors such as electronics.[52]

Where capitalists hang on to outdated technology, as US automotive firms have, competition exacts a severe price. In 1980, Japan for the first time surpassed the USA as the world's leading car manufacturer, US car output fell back to 1959 levels, the major US motor corporations racked up combined losses of $3.7 billion within nine months and imports rose to new peaks.[53] On the other hand, vigorous rationalisation can pay dividends: it is this that has enabled the USA to emerge as an important exporter of textiles, and to challenge EEC chemicals producers for sales on their home ground and in third markets.[54]

Cutting capacity and rationalising industry are, however, not merely technical questions. They go hand in hand with the process of disciplining the working class to accept unemployment and low wages. Unemployment in the

world's seven major imperialist powers has leapt from 14 million to 17 million over the last year, and even optimistic forecasters do not see a recovery generating many jobs. As for wages, these have generally been on a downward trend since 1978.

Table 12 Real earnings in manufacturing industry[1] (per cent change on previous year)

	1976	1977	1978	1979	1980
UK	0.2	-5.6	6.2	2.2	-0.2
USA	2.2	2.8	0.8	-2.7	-4.9
Canada	6.5	2.5	-1.8	-0.3	0.1
Japan	3.0	-0.5	2.1	3.8	0.0
West Germany	1.1	3.7	2.8	1.1	0.0
France	4.5	3.2	3.9	2.3	1.4
Italy	4.1	9.5	4.0	4.2	1.3

Source: *British Business*, 5 June 1981

Note: 1. Calculated by deducting consumer price increase from increase in nominal hourly earnings.

Declining living standards are only a prelude to a more thorough offensive against the proletariat. Whether the individual capitalist wins or loses the competitive struggle, it is the working class which has to suffer.[55]

44 After the Second World War sterling used to be a major reserve currency; but by the mid 'seventies, in step with the decline of British capitalism, its use as a reserve asset had dropped to negligible proportions. Recently, now that the sterling exchange rate is buoyed up by exports of oil, it had made a minor comeback and is one of the currencies into which reserve assets have come to be diversified. Over the past couple of years, the growth of a diversified reserve asset system has brought about what bourgeois commentators call an 'interest-rate war'. Each imperialist power now uses interest rate increases relative to its competitors to attract flows of money capital. Matters soon get out of hand, as a recent chain of events shows. As US interest rates rocketed at the end of 1980, money capital flowed into America and drove up the dollar's exchange rate against other currencies. The DM, in particular, was hit badly, and in January 1981 West Germany chalked up a $2.5bn current account deficit as the cost of oil imports rose in DM terms. Bonn therefore set about raising domestic interest rates at once, so as to strengthen its currency. France and Switzerland followed suit so that interest rate levels rose to near-record highs. See *Business Week*, 23 March 1981. Interest wars add another element of uncertainty to the ledger books of capitalism. High interest rates depress the level of investment in productive capital and slow economic growth. As exchange rates fluctuate in response, long-standing trade patterns are overturned. In the face of phenomena it has no power to control the international bourgeoisie becomes more and more desperate.

45 *The Banker*, November 1980. We have noted the growing role of the yen in trade in South East Asia; we should also observe that the DM is the cornerstone of the EEC currency bloc, the European Monetary System.

46 London is also the main channel through which OPEC countries are buying shares in the Tokyo stock exchange, underlining the importance of the City of London as a world financial centre. See the *Financial Times*, 12 January 1981.

47 See *Amex Bank Review*, 21 July 1980. Petrobras, the Brazilian state oil company, is arranging with Citibank, the major US international bank, to borrow money on the US commercial paper market: see the *Financial Times*, 28 October 1980. West Germany led the field in extending credit to the Polish government during its crisis last year.

48 Between 1973 and 1980 investment in the USA's traditional manufacturing sector rose 4.8 per cent in real terms, yet profitability fell. Over the same period the amount of output brought by each new unit of investment shrunk by 38 per cent, and, in high technology industries, output per dollar of new investment fell by 9 per cent. See *Business Week*, 1 June 1981.

49 *Economic Outlook*, December 1980.

50 Ibid.

51 In 1974, the Bank of England had to extend a 'lifeboat' loan to secondary British banks to prevent panic spreading about their capacity to meet liabilities following a slump in property values and stock market prices. Likewise, in 1980 the US Federal Reserve Bank had to organise the rescue of First Pennsylvania, a major US bank, after it had incurred massive losses due to fluctuations in interest rates.

52 *Financial Times*, 29 October 1980.

53 *Financial Times*, 31 December 1980; *Business Week*, 12 January 1981.

54 See the survey 'America's restructured economy' in *Business Week*, 1 June 1981 for a general account of the changes in the structure of US industry.

55 Part of the process of winning the competitive struggle is to rearm. Both the USA and Britain have embarked on a major rearmament programme to help compensate for their declining economic power. The Pentagon plans to spend an enormous $1500bn over the next six years, and in 1981-82 British imperialism will fork out £12.3bn. In both cases the increased expenditure will be offset by cuts in other spending programmes, especially social services. See *The Times*, 15 June and 18 June 1981.

3. BRITAIN – THE END?

British capitalism is in its worst crisis since the Second World War. Some judge the 1979-80 recession as even sharper than the slump of 1929-31.[1] Profit rates in manufacturing are at an all-time low, output and investment levels have plummeted and there is no upturn in sight. Things are so bad that the bourgeoisie now finds comfort in the fact that the *rate* of *decline* is slowing down.[2] Table 13 shows how the impact of the current recession on employment has been worse than that made by the 1974-75 one. Official unemployment levels are bound to exceed the three million mark soon.

Meanwhile, the Conservative Government is under attack from all sides. From the CBI, the employers' organisation, whose director general last year threatened a 'bare knuckle fight' with the Government to make it see sense over economic policy. From the TUC, which, warning darkly of 'violence in the streets' if unemployment is

Table 13 How the bosses cut jobs in 1975 & 1980 in Great Britain ('000, in September each year)

	Last recession		This recession	
Employment in:	**1974**	**1975**	**1979**	**1980**
Manufacturing	7750	7280	7040	6490
(% change)		(-6.1)		(-7.8)
Other production industries	1980	1970	1940	1880
(% change)		(-0.5)		(-3.0)
Other industries & services	12710	12970	13460	13330
(% change)		(+2.0)		(-0.9)
All industries & services	22440	22220	22440	21710
(% change)		(-0.1)		(-3.3)
Registered unemployment	620	1100	1330	1950
(% change)		(+77.4)		(+47.2)

Source: *Bank of England Quarterly Bulletin*, March 1981

1 *Financial Times*, 5 January 1981.

2 *Financial Times*, 1 June 1981.

allowed to rise further, has proposed reflation to the tune of £6 billion to salvage Britain from the 'mad monetarism' of the Tories. From 364 academic economists, including five ex-chief advisers to the Treasury, who earlier this year wrote to the Chancellor, Sir Geoffrey Howe, blaming the Government for exacerbating the recession. And yet all the attacks only revolve around different methods of achieving a common goal: the rescue of British capital from oblivion.

Below we investigate the material circumstances that force the Tories to do what they do. Then we can explain not only the significance of the present attacks on the working class, but also why the 'alternative' plans offered by the reformists cannot rescue workers from further redundancies and wage cuts. First we sum up the important features of the crisis.

Glimmers of hope

The capitalist experiences the crisis through the effects of competition, not as a result of the contradictions of the system itself. In Britain today almost everything is either 'too low', or 'too high'.

On the low side are productivity, competitiveness, profitability and investment. The employers unceasingly complain of restrictive trade union practices and unwillingness to accept new technology as factors keeping productivity low and making British goods uncompetitive. Consequently, they argue, profitability is weak and capital available for investment scarce.

On the high side are wages, public spending, taxation, inflation and interest rates. Wages are too high in relation to productivity; public spending is 'more than the country can afford' and needs excessive taxation levels to finance it. The result of all this is inflation, which lowers the competitiveness of British industry further. And, if this were not enough, interest rates are being driven up to record levels by government borrowing so that company finances come under more pressure.

But to make things more complicated, in the first half of 1981 the exchange rate of the pound was both too low *and* too high. It was too low in relation to the dollar, which had been pushed up on the foreign exchange markets by soaring US interest rates – the pound fell below $2 and thus raised the costs of imported raw materials (priced in terms of dollars). And it was too high in relation to the currencies of Britain's other trade rivals, because North Sea oil production had boosted the value of the pound. Thus the situation in which both imported raw materials and exported finished products looked expensive.

Table 14 Index of British industrial production (1975=100)

	1979	March 1981
Total all industries	112.6	98.7
All industries (excluding N Sea oil & gas)	104.3	89.1
Total manufacturing	104.2	86.9
Of which:		
Metal manufacture (ferrous)	104.4	79.0
Motor vehicles	99.3	67.0
Food, drink & tobacco	107.6	104.0
Chemicals, etc	117.4	103
Textiles, leather & clothing	100.0	77.0

Source: *British business*, 29 May 1981

High here, low there, British capitalism is in a mess. Table 14 shows how total industrial production levels are now 1.3 per cent below those of 1975, the lowest point of the last recession. Were it not for North Sea oil and gas they would be 10 per cent down on 1975.

This is an important point and one worth going into further. The depth of the crisis British capitalism is going through has been masked by North Sea oil and gas production; not only in such a way as to make data on industrial output appear more 'hopeful' to the capitalists, but in other ways too. First, the rising mass of profits made by North Sea enterprises draws attention away from the falling rate of return notched up by manufacturing industry. Despite the small size of the offshore sector in the British economy as a whole, it accounted for *one quarter* of *total* net operating profits in 1979.[3] In other words, Britain's swift emergence as an oil producer helps compensate the capitalists for its fast-approaching demise as a manufacturing power.

Second, the existence of indigenous supplies of oil ensures that Britain is better insulated from the adverse effects of rising oil prices than other major imperialist nations. As a consequence, its balance of trade is not so easily sent into the red. Moreover indigenous oil production is big enough to allow Britain to fulfil its own needs and still sell millions of barrels to its neighbours. Last year, for instance, oil exports formed more than 12 per cent of total exports,[4] a sizable black entry in the balance of trade. In fact Britain is now the most important oil producer in Western Europe – an advantage it can turn to good account when dealing with other EEC countries (though the West German capitalists merely chuckle about British manufacturing, Thatcher is aware that Britain's oil exports to them are a useful card in dealing with Helmut Schmidt on issues such as the EEC's Common Agricultural Policy).

Third, and last: oil wealth gives the British state more room to manoeuvre not only abroad, but at home as well. Chancellor Geoffrey Howe upped taxation on oil company profits in his November 1980 mini-Budget to help cover the escalating public sector borrowing requirement, and has siphoned off more oil revenues this year so as to be in a position to grant additional aid to the rest of industry.

That North Sea oil is often seen as a curse, because it helps raise the exchange rate for sterling, is testimony to the weakness of British manufacturing in the face of competition on the world market. This fact also brings out the utopian character of schemes to divert oil revenues into investment elsewhere. Why should capitalists throw good money after bad and put their bright North Sea profits in dismal mainland factories?[5]

'Black gold' east of Scotland cannot disguise the truth: the central problem for the British bourgeoisie is industry. Average productivity is lower in Britain than in rival countries because of lower investment levels;[6] and investment has been lower because of lower profit rates.[7] As a result, industry has come under more pressure in the competitive struggle and the fall in profits has been exacerbated. It is the failure of industry to accumulate profits sufficiently rapidly that has made state expenditure on the social services – which is financed by taxing – such a target for bourgeois invective.[8] Industry, it seems, cannot grow fast enough either to employ workers in productive labour, or to finance their employment in unproductive positions: instead, it consigns them to the dole queue, where they trouble the Exchequer for benefits. Likewise, it is capitalists in industry who stoke the fires of inflation by trying to restore their profit margins with higher prices.

The British bourgeoisie cannot go on in the old way. Helped by the state, it must force through a radical restructuring of capitalist production. Two obstacles stand

in the way: resistance from the working class, and the plans of its rivals on the world market. On the former front, at least, it is moderately pleased with its progress. The rate of exploitation has, as increases in real take-home pay have failed to keep pace with productivity rises, been climbing for some time.[9] More important, the past two years have seen major retreats by the labour movement. The *Financial Times* recently felt confident enough to note that the rate of growth of wages had 'fallen substantially'; 'many companies', it said, 'are reporting major breakthroughs in improving working practices and manning levels'. But even this is not enough. As far as lasting changes are concerned 'the evidence', the *Financial Times* admits, 'is not conclusive'.[10] In the following sections we look at the 'evidence' and explain both the bourgeoisie's hopes for recovery and the tasks facing the working class.

Lights going out

Over the past decade, as competition in the world market has become much tougher, industrial employment has slumped. More than 700 000 jobs were lost in manufacturing industry between 1974 and 1979, and during the past two years the shake-out has accelerated. One report forecasts that in mechanical engineering, one of British capitalism's largest industrial sectors, 180 000 jobs will have vanished between October last year and December this.[11] At the same time, company liquidations have reached record levels: 1980 saw 6891 firms go bust and the first quarter of 1981 witnessed a further 2514.[12]

But it is important to look beneath the aggregate figures. The pressure of the crisis has forced a sharp differentiation between those sectors of industry which can compete and those which cannot. The former can try to sustain themselves in the domestic market or to push sales overseas, while the latter not only find themselves progressively cut out of the action abroad but also come under threat from imports.

Sectoral statistics on import penetration and the ratio of exports to total sales give an indication of what has been happening.[13] Sectors in which the import share *rose* and the export ratio *fell* over the period June 1978 to June 1980 included mechanical and electrical engineering, clothing, footwear and vehicles. In the chemicals, instrument engineering and textiles sectors, the rising share of imports was offset to some extent by increased exports. Only in the food and drink sector did import penetration fall – and even here the export ratio remained constant.

When we go a little deeper into particular industries the redundancy prospect looks even more dire. Take vehicles, a sector in which import penetration grew from 35 to 41 per cent, 1978-80, while export ratios fell from 44 to 42 per cent: here the structural problems are directly evident on the shop floor. For all the euphoria over British Leyland's Mini Metro, the much-publicised introduction of robot technology at Longbridge has not secured Sir Michael Edwardes the productivity increases he requires. More jobs will have to be lost[14] and hundreds more robots installed before British car producers can match their rivals in Japan. In March 1977, Japanese industry operated 14 000 robots, 35 per cent of which were in motor manufacturing, while Britain soldiered on with 185.[15] With figures like this on his desk each morning, who can doubt that Edwardes is determined to crush all working class opposition to his plans to eliminate 'overmanning'? Likewise the management of Ford UK, gains little comfort from the fact that it is marginally better placed on the market than BL. It is equally backward in productivity terms and has been trying to enforce a disciplinary code against strike action.[16]

BL, Ford UK, the vehicles sector and indeed the whole of British industry must become 'leaner' – this is the adjective now in vogue among bourgeois economists. And the Tories encourage the process. Weaker companies must

3 *British Business*, 3 October 1980.
4 *British Business*, 23 January 1981.
5 In 1980, the rate of profit for industrial and commercial companies, outside the North Sea sector, fell to its lowest ever level: 2 per cent (Bank of England, *Quarterly Bulletin*, June 1981). However, the labour movement's 'alternative planners' fully understand the British capitalist's difficulties. Len Murray, TUC general secretary, when unveiling the labour bureaucracy rescue plan for Britain in *The Times* conceded that 'Greater profitability is needed in industry, as part of our expanding economy, but' – and here comes the 'working class' bit – 'with workers receiving their just proportion of the wealth produced' (3 February 1981). Exactly what is the 'just proportion' is no doubt open to negotiation. We know the bosses will win on these grounds because the TUC has fundamentally the same aim. Even more radical versions of the alternative strategy embrace the bourgeoisie's difficulties as legitimate concerns for the labour movement.
6 See F Blackaby, ed, *Deindustrialisation*, Heinemann, 1979, p247 for comparative investment levels from 1960-75.
7 See Table 4 above on relative profit rates.
8 Employment in manufacturing has been on a declining trend since the early 'sixties. The effect of the rising organic composition of capital in industry has been to expel labour more quickly than accumulation can reabsorb it, despite the expanding scale of the latter. The shift in the pattern of employment towards services unproductive of profit for the bourgeoisie is a clear sign of capitalism's problems. See the employment survey in *The Economist*, 3 January 1981, for a useful review of the trends.
9 The CSO's *Economic Trends*, Annual Supplement 1980, shows that real personal disposable income per head rose by 25.3 per cent between 1965 and 1975 and by 11.4 per cent between 1975 and 1979. Over the same periods, industrial productivity rose by 29.5 per cent and 17.6 per cent, that is, more rapidly. In other words, the value of the means of subsistence commanded by wages paid fell and the exploitation of the working class rose – despite the increased number of use-values workers could afford. Marx's theory of capital accumulation leads us to expect this. For Andrew Glyn of the Labour Party's Militant Tendency and John Harrison, however, things are different. In *The British economic disaster*, Pluto Press, 1980, they contend that the rate of profit falls because of workers' wage demands. This is, of course, exactly what the Militant's beloved Labour Movement, in the person of Len Murray, etc, wants to hear. See *the next step*, No 10, February 1981, for a review of Glyn and Harrison's revisionist best-seller.
10 *Financial Times*, 3 June 1981.
11 See the report of the Engineering Employers Federation quoted in *The Times*, 23 February 1981.
12 *British Business*, 17 April 1981.
13 Following information from trade tables in *British Business*, 19 December 1980.
14 '20 000 more Leyland jobs to go' reported the *Daily Express*, 5 March 1981, following the Government's decision to approve an extra £990m aid for BL over the 1981-83 period.
15 *Financial Times*, 29 October 1980. So impressed is BL with Japanese technology that it has fixed up a joint-venture with Honda to produce a new saloon car, the Triumph Acclaim, with Japanese tooling. See *The Times*, 28 February 1981.
16 See 'Ford: the fatal flaw', *the next step*, No 10, February 1981.

be weeded out and the rest must boost their ability to compete by raising productivity and cutting costs, so the Government looks on as hundreds of firms go to the wall. This is why it has been reluctant to bail the bankrupt out. Every sector of industry is affected by high interest rates and a high value of sterling. But even if the Government could control these, it would hesitate to do so. The same conditions that threaten extinction for some companies provide others with an opportunity for profitable rationalisations.

The Tories have no choice but to bare industry to the full blast of the recession. Besides, the steady stream of workers onto the unemployment register gives the bosses magic powers to enforce cuts in real wages, speed-up, changes in work practices, attacks on union organisation and victimisations. Putting more than half a million manufacturing workers on short-time does the same.[17] It is, for instance, not a shock to learn that shift-working and other 'savings' made at the expense of the working class are on the increase in these conditions;[18] nor was it a surprise when the CBI, confident about its relations with the labour movement, but anxious about its prospects in the face of international competition, junked a detailed document on the implementation of new technology it had drawn up with the TUC.[19] The bourgeoisie knows that if British capitalism is to be 'regenerated' it must be on their terms. Redundancies brought about by new technology are not for negotiation.

Mass unemployment is the result of the destruction of capital in the unprofitable sections of industry and the rationalisation of capital in the profitable areas. It is also a precondition for changing the balance of class forces and ensuring workers will accept the higher levels of exploitation that newly invested capital demands. Every closure, every sacking is not a side-effect of Tory mismanagement, but part of capital's grander designs.

Banking on industry

The more manufacturing has slumped, the more the banks have boomed. Money-lending is just about the only growth 'industry' British capitalism has got: in 1979, for instance, Barclays and National Westminster emerged as the first and second most profitable banks in the world, and Midlands and Lloyds were also in the top 10.[20] Given record interest rates, the banks have been eager to lend; and given, too, that much of industry is running into massive losses, they have had plenty of customers.[21] But in fact the relationship between the banks and industry goes further than this.

British manufacturing companies derive most of the money they need from their sales revenues. But to fund new investments – and to maintain operations when a crisis sets in, they have to go to external sources of finance. Bank borrowing accounts for around 60 per cent of this external finance (relatively little is obtained through issuing shares on the stock exchange); and it is on the increase. Whereas short-term overdrafts used to be by far the most common form of borrowing, today medium and long-term loans of up to 10 years make up 40 per cent of total bank advances to industry.

The banks exact a price for their favours: interest. And when company demand for loans increases sharply, as it did in 1979, the rate of interest goes through the roof. Two years ago nearly a quarter of all the profits made by industrial and commercial concerns went on interest payments; by the first half of 1980, a third did.[22] There is little love lost between industrialists and bankers these days. All the same, because the banks know that they cannot live on interest when no profits are being produced, they are forced to use their resources to help industry out in ways other than through direct loans.[23]

One way they have adopted is to lease capital equipment to industry. Equipment leasing first took off in the early to mid-seventies, partly because of a favourable change in tax laws but mainly because the banks had cash, industry did not; and soon enough the clearing banks became Britain's main equipment lessors, through a variety of methods (hire purchase, etc). Since then the Big Four banks have taken on £1 billion of new business in 1980 alone. In fact the proportion of manufacturing investment in plant, machinery and vehicles financed by leasing has risen from almost nothing in 1970 to 13.7 per cent (£2.4 billion) in 1979. The banks now lend out all kinds of hardware to industry. In some cases the assets are worth £10 million each![24]

Here is a striking example of how capital has had to modify its operations to sustain accumulation. Without this new role of the banks, British industry would be in even worse shape than it is at present.

More recently, and more important still, the banks and the other financial institutions have been buying up industrial shareholdings and converting loans into equity at a furious rate. For some time now British companies have had money channelled to them through building societies, life insurance companies and pension funds; today these financial institutions own more than half the shares listed on the London Stock Exchange (so much for the virile entrepreneur!).[25] But a more significant development has emerged in the banks' purchase of company shares specifically for counter-crisis reasons.

We have already mentioned the international rescue of Massey-Ferguson and how banking consortia took a stake in the company. In Britain this trend was particularly marked. Towards the end of 1980, Barclays and the Midland Bank, prompted by the Government, converted a loan to Massey-Ferguson (UK) worth no less than £250 million into a shareholding.[26] Nor was this an isolated incident. Early in March 1981 the banks took a similarly 'constructive' attitude towards Stone-Platt, the tottering engineering and textile machinery group.[27] The Bank of England acted as overseer in a remarkable deal involving the company's financial adviser, Hill Samuel, Equity Capital for Industry, (a City of London body set up by institutional investors) and the Finance Corporation for Industry – an outfit run by the clearing banks – and the Bank of England. It was agreed that Stone-Platt's share capital would be doubled by issuing 40 million special new shares, ECI and FCI to take 12 million, and underwrite the issue of the rest with Hill Samuel; and that four UK clearing banks would also provide £40 million borrowing facilities for the company's UK operations. Needless to say, these financial manoeuvres have not left production at Stone-Platt untouched. Redundancies have already gone through as capacity has been cut and assets sold off. Both bankers and industrialists are united in demanding that the 'breathing space' afforded by the former's 'generosity' should be the occasion for a return to profitability – at the expense of the workforce.

Stone-Platt is part of a pattern. The biggest engineering company in Scotland, Weir, has arranged with its bankers that £10 million of loans be converted into preference shares. Likewise, BPC, the newspaper firm is about to have a £6 million overdraft with National Westminster turned into preference shares.[28] It is developments like these that have allowed the Government to ignore the recommen-

dations ex-Labour Prime Minister Sir Harold Wilson and several senior trade unionists made in an officially-sanctioned report on financial institutions drawn up in June 1980 – that it create a £2 billion industrial investment fund (£1 billion to come from the financial institutions and £1 billion from North Sea oil revenues) to help regenerate British industry.[29] Grateful as it is to such labour movement dignitaries for their advice on how best to go about the job of attacking the working class, the bourgeoisie prefers to do business its way: firmer, faster and altogether more ruthlessly. The fact that BPC's lash-up with National Westminster has been accompanied by a vicious management offensive against the company's workforce reinforces the point.

Spend, cut, spend

Throughout the post-war period, state expenditure in Britain played a key role in sustaining the accumulation of capital. Since the mid 'seventies, however, it has come to be seen as one of the major causes of the crisis. Not only is it, as we have noted, financed by taxation on profits – profits that are already inadequate – but it can only be sustained by borrowing, which tends to force interest rates up. Moreover, when inflation and unemployment rise, it quickly gets out of control: costs spiral and demands for benefits multiply. So it has to be cut back.

The snag with this is that a number of important sectors of private capital need continued state orders to stay in business. State spending cannot, therefore, be reduced indiscriminately; it must be in such a way as to suit private capital. It may even be raised in some cases to do this. To see what is going on we must look at it not only in aggregate, but also in detail.

Table 15 shows how the Labour Government managed to reduce the overall share of public spending in GNP to below 50 per cent – before, that is, the worsening crisis of 1979 pushed it up again.

Table 15 General government current & capital expenditure as a percentage of GNP (at factor cost)

	Expenditure (£m)	GNP (£m)	%
1975	51,653	94,725	54.5
1976	58,471	112,550	52.0
1977	61,807	126,157	49.0
1978	71,852	144,962	49.6
1979	84,906	163,936	51.8

Source: CSO, *National Income and expenditure*, 1980

The cuts Labour implemented were mainly on the side of social services, and then on 'capital' rather than 'current' expenditure items – that is, on buildings and equipment rather than on benefits, jobs and wages. Closing schools and hospitals and cutting back council house programmes was the easiest option, and one Labour seized with alacrity.[30] Now, while private capital was happy to go on getting lucrative business with the National Coal Board, BSC and other nationalised concerns for plant (and equally to go on buying coal, steel and other basic industrial inputs at subsidised rates), it found the situation in the rest of the public sector pretty intolerable. While on the one hand it saw local authority construction contracts become scarce, on the other it saw expenditure on teachers, nurses and direct labour organisations – and civil servants – rise to new heights and appear as an awful burden on its profits. It felt, therefore, that public expenditure needed 'redirecting'.

This is what the Tories, private capital's most direct representatives, have been trying to do. It isn't easy: current spending takes up 70 per cent of total public expenditure and has proved hard to cut. But Thatcher has no choice in the matter. Stung by what it experiences as high prices for state-produced energy, angry that it has been

17 In March 1981, 510 000 workers were on short-time, losing an average of 13.3 hours per week each. Some 64 700 of these were in the motor vehicles sector. See *Employment Gazette*, May 1981.

18 See the report in *The Times*, 25 September 1980. Even before unemployment reached the two million mark it put the employed working class under pressure. See 'West Midlands bosses find they have the upper hand', *Financial Times*, 9 July 1980, for a description of the bourgeoisie's successes in the engineering factories around Coventry and Birmingham, cities ravaged by joblessness.

19 *Financial Times*, 16 October 1980.

20 *Investors Chronicle*, 18 July 1980.

21 Notably much of industry, but also many of Britain's local authorities have had recourse to the banks. Early this year dozens of local authorities found themselves owing the banks untold millions, as high interest rates began to take their toll. The reformists' hatred of the banks reached a new pitch but this didn't prevent Labour councils from putting up rates and rents and cutting jobs to pay their bills. Even 'left-wing' councils saw the need to balance the books.

22 Bank of England, *Quarterly Bulletin*, September and December 1980.

23 Barclays bank claims to have lent out £250m-£300m to recession-hit manufacturing industry. It would not have done this, it says, in 'normal' circumstances. See *The Times*, 6 March 1981.

24 Bank of England, *Quarterly Bulletin*, September 1980. Leasing is still on the increase: between 1979 and 1980, the volume of leased assets went up while the volume of manufacturing industry's direct investment fell. See *British Business*, 25 May 1981.

25 Over the past two decades the financial institutions have amassed enormous sums of money. Between 1957 and 1978, building society assets rose sixteen-fold to £40bn and those of life insurance and pension fund companies moved from £7bn to £69bn. Three-quarters of the cash that flows into the latter institutions is channelled into public sector or company securities. See *The Economist*, 28 June 1980. More than two years ago, *The Economist* expressed its alarm about the growth of a 'private corporate state' run by 'anonymous financial gargantuans' – building societies and the like. The paper revealed how managers of occupational pension funds, controlling assets worth over £20bn, were using the money taken from parent company employees to buy shares in it or give it loans to bail it out in time of difficulty: the paper concluded that what was needed to control such activities was. . .more disclosure of information. See *The Economist*, 4 November 1978.

26 *The Times*, 21 October 1980.

27 *Financial Times*, 13 March 1981.

28 *The Economist*, 4 April 1981.

29 *The Economist*, 28 June 1980.

30 Labour's cuts in capital spending are brought out sharply by the following figures showing the real reduction in spending levels:

(£m at 1978 survey prices)	1974-75	1978-79	% cut
Education	878	505	42
NHS	681	522	23
Local authority housing	2506	2065	18

Source: Public expenditure white paper, February 1979

exposed to the rigours of the recession in a way that town halls and health and education authorities have not, private capital has been calling more and more hotly for a major offensive against current expenditure. And although schools and hospitals are still being closed down, and the Government has taken the extraordinary step of halting all new council house building, there is now little room for significant extra capital cuts.

Controlling current expenditure is made all the more necessary since, with rising unemployment levels, social security payments grow automatically. Between 1974-75 and 1980-81, the share of this item in total expenditure rose from 20 to 27 per cent.[31]

The campaign against current expenditure will have a devastating effect on working class living standards. First, the real value of welfare benefits is to be reduced by not raising them in line with inflation and by phasing out earnings-related unemployment benefit. This will impoverish the sick and unemployed.[32] Second, the new cash limits on local authority and civil service wage bills that have been announced will tend to make employers cut real wages and force through redundancies as never before. While the Government can already claim to have reversed the trend of rising local authority employment by shedding 57 000 jobs there in the year to June 1980, this is but a beginning.[33]

Overall, however, the crisis has brought about a change in the composition of state expenditure as well as an absolute increase in it – despite the fact that 'mad monetarists' are now at the helm. In November 1980, for instance, the Tory Cabinet had an internal wrangle over the control of public spending as a whole and the size of further cuts necessary to get its much-vaunted Medium-Term Financial Strategy 'back on target'. Major reductions were threatened: that necessary to bring public sector borrowing down to manageable levels was estimated at £2 billion. But eventually cuts of only £1 billion were announced; *The Times* commented, these were 'more than offset' by an increase of £620 million in the external financing limits of the nationalised industries (to cover losses and fund investment) and £510 million in other policy measures (£52 million for industrial aid, £245 million for special employment schemes and so on).[34] Again, Howe's March 1981 Budget failed to cut spending in real terms. General taxation was raised and a £400 million levy on profits was imposed on the banks so that the Treasury would have more money to parcel out to industry. Nor was this the whole story. To finance extra spending on defence, 'law and order' and still more measures to keep capitalism in one piece, the burden of cuts was pushed onto the working class and expenditure on housing and education slashed.

Prospects for recovery

'We have never pretended that industry could make the transition from where it was to where it needs to be without some transitional help. There is a popular myth – peddled by some leading commentators – that the Government attempted to jump overnight to a complete hands-off policy of non-intervention. . . .'[35]

The revival of a decaying imperialist power such as Britain does not occur automatically, especially in a period of world crisis and ferocious rivalry in the international market. That is why in the background of every bourgeois commentator's picture of economic recovery we find the capitalist state. In rationalising industry, disciplining the working class, attempting to encourage new investment, promoting exports of commodities and capital and safeguarding the nation's interests overseas, the state plays a decisive role.

In their first year of office, the Tories gave little sign of having any 'industrial strategy'. The overriding priority was to make the capitalists see the futility of giving in to double-figure wage demands; little was done to counteract the effects of the crisis on profitability. But since late last year a more interventionist mood has prevailed in Whitehall.

Industrial aid provides one example of the Government's change in tack. Whereas total aid to industry fell to £1060 million in 1979-80, it was expected to rise to £1510 million in 1980-81.[36] Though part of the extra funds spent have gone towards staving off the effects of the recession on nationalised industries, much has been allocated to plant modernisation. Sir Keith Joseph has specifically increased 'technological' aid: in 1980 Dunlop was given £6.1 million to upgrade one of its factories and the National Enterprise Board was allowed an extra £25 million to set up a microchip plant in South Wales. Early this year Joseph agreed to encourage the use of industrial robots by giving firms buying them a 25 per cent subsidy;[37] and he gave ICL, Britain's largest computer firm, a loan guarantee of £200 million – plus £4 million extra to cover research and development costs.[38] Since then Thatcher has personally authorised the expenditure of £80 million on a Government-sponsored campaign to promote research and investment in 'information technology' among ignorant British industrialists.[39] Innovation is vital for raising productivity: private capital cannot be left to its own devices here.

Another aspect of the Tories' covert industrial strategy has been the 'denationalisation' of certain sectors of state-owned industry. Here they have sold shares or have broken the legal monopoly on production to open up potentially profitable areas of investment for private capital. Almost every industry is affected. Private concerns can now compete with British Telecom in selling telephone exchange equipment and telephones; the British Gas Corporation's showrooms are up for grabs; factories generating electricity for their own use can now sell it; British Rail is handing over its hotels to the private sector; half of British Aerospace's shares have been sold to frenzied stock market buyers, and BSC has formed a joint company with GKN, integrating its modern rod mills at Cardiff and Scunthorpe with the component giant's new Cardiff steelworks. Furthermore, shares in NEB companies like Fairey, Ferranti and ICL have been auctioned off.[40]

Apart from direct/technological aid to industry and denationalisation, the Tories are toying with the idea of using state procurement policy to galvanise private capital into becoming more efficient. John Marshall, Industry Under-Secretary, has explained that the Government wants 'the full weight' of public sector purchasing to be used to 'help make British industry more competitive'.[41] In other words, the £22 billion or so spent each year by central government, local authorities and nationalised industries on direct purchasing (that is excluding salaries, etc) will not only be guided by a more coherent 'Buy British' policy (a policy of which ICL, for instance, has been an important beneficiary, having got a £35-40 million contract from the Inland Revenue for computers in the face of stiff international competition);[42] state contracts will also be used as a weapon with which to compel firms to improve the quality and design of the products they sell.

As we have already pointed out, Government plans to cut expenditure have been thwarted by the demand for funds coming from the nationalised industries. Just about every one has had its external financing limit increased over the past year. But here too we find an element of counter-crisis strategy. Sir Keith Joseph, in the speech cited above,

spelled it out clearly: 'Please note particularly that taxpayers' money is not being spent to keep BSC and BL as they were, but to slim them and make them viable'. He boasted that BSC shed 52 000 jobs in one year – nearly a third of its workforce – and BL also got rid of a third of its employees, 57 000, over the past three years. The slimming down operation extends to each state run industry. *The Times* recently commented that British Rail's success in getting approval to what could be a £700 million investment programme would mean a loss of 14 000 jobs.[43]

These massive investments are indispensible for the survival of British capitalism. Industry cannot be run without an adequate transport and telecommunications network, nor without the basic 'utilities' such as gas and electricity. But the Government is making sure that it imposes 'the most stringent provisions on increased efficiency and higher productivity'.

Whether the bourgeois state relies on new technology, selling off public sector assets, purchasing policy or a more dynamic nationalised sector to encourage capitalist regeneration, the real conditions are prepared by mass unemployment.

Unemployment for industry

In May 1981 the UK unemployment rate was 10.4 per cent. Excluding school leavers, more than 2.5 million people were out of work.[44] They are not only used by the bourgeoisie as a means of controlling those workers who still have jobs; they are used directly in the process of restructuring capital.

This becomes clear if we look at the Government's regional aid schemes, and in particular at its so-called 'enterprise zones'. In certain areas, designated enterprise zones, the Tories have arranged things so that businesses will be liable for less taxation and rates than elsewhere, and that they will generally be free from 'government interference'. To qualify as an enterprise zone, an area must have a high local unemployment level and offer good 'investment prospects', that is , offer no trade union problems. Eleven such zones have been set up in run-down urban areas, at a cost to the Government something in the region of £100 million.[45]

Likewise, to attract new capital, the state-backed Welsh Development Agency has built 103 factories in Wales in advance of definite commitments on the part of companies to invest; 23 are planned at Shotton, where closures by BSC have caused thousands of redundancies.[46]

High local unemployment rates, sometimes twice the national average or even more, are a signal to the bourgeoisie that the workers enduring them will accept all the exploitation necessary to boost profitability.[47] Companies shut down, or communities disintegrate, regional aid is made available and then the capitalist vultures home in. The *Financial Times* recently tabulated a dozen examples of this pattern: most involved overseas companies, and all

31 *The Times*, 24 September 1980.

32 In 1979 benefits for the unemployed reached their lowest level compared with average earnings since the beginning of the 'seventies. Their real value fell below 1974 levels. See *The Times*, 12 December 1980.

33 Between 1974 and 1979, private sector employment fell by 574 000, while employment in central government rose by 223 000, and in local government by 236 000. See *Economic Trends*, November 1980. In other words, were it not for the expansion of the unproductive services, unemployment under Labour would have been almost half a million higher than it was. There is no doubt that the Tories have a big job on their hands. But there is also no doubt that they are determined to do it, as can be seen from their penalties on local authority 'overspending'. See the article 'Cut spending or lose £450m Heseltine tells councils', *The Times*, 3 June 1981.

34 *The Times*, 25 November 1980.

35 Industry Minister Sir Keith Joseph in a speech on government and industry, reported in *British Business*, 17 April 1981.

36 *British Business*, 6 March 1981.

37 *The Times*, 11 February 1981.

38 *The Times*, 20 March 1981. In an editorial on the same day, *The Times* commented: 'in the mixed economy at a time of prolonged and severe recession it is difficult to pursue a coherent industrial policy of non-intervention'. Too true. ICL has been backed by the state since its formation in 1968, and Labour's NEB once held a 25 per cent share in the company. In 1979, ICL's shares were sold to the private sector; but the firm found itself back in the arms of the Treasury.

39 *The Times*, 29 May 1981. The proposed merger of the NEB and the National Research Development Corporation into a new body called British Technology is part of the same trend.

40 Increases in gas and electricity prices and in telephone charges – despite the fact that the relevant supply organisations have been making a profit – are also part of the denationalisation drive. The intention is both to cut the overall financing deficits run up by the nationalised sector (and so force through economies), and also to make it less competitive with respect to private capital. As is the case with higher transport fares and new NHS fees, the result is that the cost of living gets harder for the working class to bear.

41 *British Business*, 3 October 1980.

42 *The Economist*, 25 October 1980. Britain is not the only country to organise state purchasing on patriotic lines. See *The Economist*, 17 January 1981. Somewhat blunting the edge of radical Labour Party criticism on arms expenditure, former Defence Minister Francis Pym has also promised that 70 per cent of the £5bn cost of Trident will be spent in Britain. See *The Times*, 29 October 1980.

43 *The Times*, 18 June 1981. The same month, British Telecom's external financing limit was raised by a further £200m. *The Times* has now developed its own 'alternative' strategy for rescuing British capitalism. While standing fast against spending more money on public sector wages – by giving in to the Civil Servants' strike – it calls for a programme of public sector capital investment to pull the economy out of recession. See editorial in *The Times*, 16 June 1981.

44 It is well known that these figures understate the real level of unemployment because they leave many women and several categories of the unemployed out of consideration. See 'The big lie: unemployment statistics', *the next step*, No 7, October 1980.

45 *Financial Times*, 7 July 1980 and 6 February 1981.

46 *British Business*, 5 December 1980.

47 In February 1981, when the UK unemployment rate (exluding school leavers) was 9.5 per cent, local unemployment rates in the following areas were:

	%
Birmingham	12.4
Consett	23.8
Corby	21.5
Coventry	13.2
Ebbw Vale	17.9
Hartlepool	17.8
Irvine	21.1
Liverpool	16.2
Manchester	10.3
Mexborough	18.1
North Lanarkshire	18.3
Shotton	16.0
Wolverhampton	13.1
Wrexham	17.4

Source: *Employment Gazette*, April 1981

announced in the space of two months.[48] Yet even rapid-fire investment like this will not stop local unemployment from rising. Capital continues to get rid of jobs at existing plants, and makes people work so hard at new ones that employment creation is minimal.

One final development to take account of here is the emergence of that unlikely saviour of British capitalism, the 'small businessman'. Not simply a figure of Tory mythology, he too is a product of the restructuring process. The praises sung to him are, on the one hand, an indictment of the inability of large corporations to be sufficiently flexible to meet the demands of the market. On the other, they reflect capitalism's need to develop a healthier group of competitive companies. Entrepreneurs unhindered by trade union obstacles or government interference, it is believed, will be able to adapt to changes in the market with vigour. Of course, small businessmen will not appear without the help of subsidies from the state; at present, indeed, they are going bankrupt by the thousand. But, as one journal has noted, 'the small firms sector is the only sector which, in manufacturing, is showing a net tendency to increase employment'.[49] In addition, Britain's export base appears to be becoming more decentralised: while in 1975 259 companies were responsible for 66 per cent of UK visible exports, by 1978 the figure had increased to 337.[50] It is not surprising, therefore, that Howe's March 1981 Budget contained measures granting new businesses tax relief on the first £10 000 they invest, nor that these measures have since been made still more 'helpful' to small capitalists.[51]

Fighting for survival

British capitalism is trying to put its house in order by any means possible. Each tactic it adopts demands that it crush opposition from the working class. Each also intensifies the battle with its rivals on the world market. It must fight for survival internationally too.

No longer is the demand for import controls the special preserve of the defenders of British capitalism in the labour bureaucracy; nor is it confined to the beleaguered capitalists in the textile and clothing industries. Over the past year calls for import controls – 'planned trade' – have grown in stridency. The chairman of British Shipbuilders wants 'something done' about the Japanese to protect 'European' (that is, British) shipyards, and a London Chamber of Commerce and Industry poll has shown that 59 per cent of British companies want selective import controls. Meanwhile, high street shops and supermarkers are more and more festooned with Union Jacks and certificates of British origin, and advertisements placed by British manufacturers take an unashamedly aggressive stance towards their foreign rivals.

For the moment the state is against obvious controls on imports, apart from those the EEC as a whole imposes; instead, it concentrates on taking action against 'unfair' trading practices. Not only does it fear too quick a slide into trade war, it appreciates that foreign competition is a useful weapon for British industry. Besides, industry needs imports because they are often cheaper. A recent Government White Paper on the development of trade policy puts the issue like this:

> 'in reaching decisions on UK trade policy, the government had to balance the different interests involved: those of manufacturers, both as sellers of finished products and as users of intermediate products, and those of consumers in being able to buy both domestic and imported products at competitive prices. In individual cases, this balancing might come down for or against protective action.'[52]

On the side of exports, Britain has to strive for competitiveness with the other imperialist powers since its export markets are concentrated in their economies.[53] But it must push into other markets too, particularly those in backward capitalist countries. BL is stepping up vehicle exports to Africa, and expected £125 million sales there in 1980.[54] Earlier this year, GEC concluded the largest single export order won by British industry, a £550 million deal for a power station for Hong Kong. The *Financial Times* called it 'the outcome of a remarkable degree of coordination between Government, industry and the banks – the sort of "Great Britain Incorporated" effort which is frequently extolled by industry commentators as the only way to win major export orders but all to infrequently in Britain'.[55]

'Great Britain Incorporated' is indeed pushing ahead, led by the state. Apart from Britain's foreign 'aid' programmes, which brought in £275 million of tied exports in 1979,[56] government ministers are helping British businessmen win contracts in markets all across the world. Thatcher can hardly step off a plane without informing the potential clients of the merits of British products and services.

But commodity exports are not enough. Since domestic profit rates are falling, the export of capital is on the ascent. Pilkingtons, the glass manufacturer, is only one example. Why? Because the company made a loss of £12.1 million in 1980 on its British operations, compared to a £24.1 million profit in 1979. At the same time profits on overseas investments more than doubled to £60.3 million last year.[57]

This is a general trend. In 1980, British direct investment overseas rose by £2881 million and overseas earnings on it went up to £2645 million.[58] Portfolio investment abroad by banks and financial institutions has also risen to record levels: there was an outflow of more than £4 billion during the 15 months up to March 1981.[59] Instead of investing in industry, British capitalists are taking out insurance on its collapse. As Sir Raymond Pennock of the CBI has noted, North Sea oil 'provides the means by which the UK can invest abroad and so in turn provide some assurance of continued income from abroad in the future when our oil revenues decline'.[60]

When it comes to insurance, the bourgeoisie is realistic. At home it is determined to secure the conditions for profitable production by oppressing the working class. Abroad it looks for other lucrative sources of revenue. It goes beyond narrowly 'economic' considerations, however, and attempts to make sure it can back up its aims with the force of arms. That's why, in line with more measures to 'keep the peace' at home – greater police powers, and a bigger police force, legal restrictions on trade unions, the Nationality Act for blacks – we see the state preparing to assert itself abroad as well. British imperialism is not rearming just because the Tories are warmongers, but because rearmament is what *any* power in a hostile world must do. The Government is not intransigent in its dealings with the Irish republican hunger strikers just because it is made up of outrageous reactionaries, but because it knows that *any* challenge to British supremacy cannot be tolerated today.

Conclusion

Our analysis has shown that the current world recession is considerably more grave than that of 1974-75 and that more and more of the capitalists' escape routes are being blocked off. This is particularly true of the British capital-

ists. They are being driven to try ever more bizarre approaches to get out of the crisis they face, from working with machine tools that are only borrowed to buying up banks on Wall Street.

At the moment the bourgeoisie has had some success in making the working class pay for its problems and in setting about the restructuring of capital.[61] This is mainly because workers have yet to be convinced that the recession is, as we have demonstrated, capital's fault, not theirs. The left has not really understood this point. It makes ritual references to the 'contradictions of the system', but in practice it puts the crisis down to a few evil monopolists, bankers or ministers.

Our analysis has shown that the crisis is not about personnel. It is about a decrepit and historically transient mode of production. Until socialists begin to get this point across – in all its complexity – that mode of production may still survive. But workers will not.

Tony Allen

48 *Financial Times*, 3 March 1981

49 *The Banker*, November 1980. Some Tory MPs have even lobbied for the creation of a Ministerial post responsible for small businesses. See the *Financial Times*, 13 October 1980. Even big capital is interested in small firms as a means to promote industrial regeneration. Nine major banks and companies, including Barclays, Midland, BP, Shell, IBM and GEC, have recently got together to form a body known as the London Enterprise Agency in order to encourage the growth of small companies. See the *Financial Times*, 30 December 1980.

50 *British Business*, 8 August 1980.

51 *The Times*, 5 June 1981.

52 Reported in *British Business*, 29 May 1981.

53 Britain's top 10 markets in 1980 were as follows:

Country	1980 value (£billion)
Federal Republic of Germany	5.1
United States	4.5
Netherlands	3.8
France	3.6
Irish Republic	2.6
Belgium/Luxembourg	2.3
Switzerland	2.0
Italy	1.9
Sweden	1.6
Spain	1.2

Source: *British Business*, 13 March 1981

54 *Financial Times*, 21 October 1980.

55 *Financial Times*, 31 March 1981.

56 *Financial Times*, 28 October 1980.

57 *The Times*, 13 June 1981.

58 *Economic Trends*, March 1981.

59 *Financial Times*, 10 June 1981.

60 CBI, *Investment abroad and jobs at home*, November 1980.

61 The Bank of England's recent *Quarterly Bulletin* (June 1981) makes no bones about what it still demands from British workers: much higher productivity and 'negligible' wage increases 'for a number of years' to boost British competitiveness.

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'SELF-ACTIVITY' MAKES YOU BLIND

A REPLY TO ALEX CALLINICOS AND THE SOCIALIST WORKERS PARTY

Three years ago the Revolutionary Communist Tendency was a small group of revolutionaries based in London. Behind it lay five years of political struggle against the prevailing currents on the left wing of the British labour movement, and in particular against the adaptation to trade unionism and underestimation of Labourism that characterised the tradition out of which the RCT emerged. Then, the RCT published only an irregular theoretical journal and occasional pamphlets, even though it had made some theoretical gains in the Marxist understanding of the crisis, the state, reformism and Ireland.

By the late 'seventies the Socialist Workers Party was the largest left group outside the reformist camp. It boasted several thousand members, a national organisation, a weekly paper and a range of other publications. The RCT polemicised against its anti-Marxist theories (the 'Permanent Arms Economy', 'State Capitalism') and its economism (its narrow trade unionist focus and its neglect of broader political questions). But in 1978 and 1979 the RCT was dismissed by its critics as armchair Marxists, eccentric intellectuals and 'headbangers'.

Today things have changed. The RCT has become the Revolutionary Communist Party and is now a much more influential organisation. Programmatic development has taken place on issues such as the Labour Party, unemployment, racism and Ireland; and practical activity has expanded in parallel with this. The anti-racist work we have initiated in East London has taken off in other parts of the country, as a growing body of workers has come to side with us in our commitment to workers' defence. And our Smash the Prevention of Terrorism Act Campaign has become the leading force in raising support for the Irish national liberation struggle in the labour movement.

Meanwhile the SWP has been suffering from the effects of what it bemoans as the 'downturn' in working class militancy. Membership has declined, workers have dropped out and the party's rank and file groups in the unions have virtually collapsed. SWP campaigns such as the Anti-Nazi League have slumped and continually have to be 'relaunched', while SWP journals like *Women's Voice* and *Flame* have stagnated. And the SWP has come under fire from the RCP – not only at public meetings, but on street corners, picket lines, in union branches and on trades councils. The RCP alternative to SWP politics is no longer simply a matter of words, but of practical actions.

As the SWP's stock jibes against RCP criticisms become less and less convincing, so the pressure has grown on its leaders to prevent members and supporters from drifting away. SWP theoreticians have had to come up with some replies to our arguments. But their most substantial one to date, Alex Callinicos' article 'Politics or abstract propagandism?', reveals more about the SWP than it exposes about the RCP.[1]

The very terms of Callinicos' polemic – 'abstract propagandism' – show how much the concerns of SWP theoreticians differ from those of SWP branch activists. Though our paper, *the next step*, has been published regularly since November 1979 and has a wide readership among SWP members, Callinicos quotes it only once, preferring to concentrate instead on material dating back to 1978 and earlier. Likewise, he never once mentions the successful campaigns on race and Ireland we have launched – campaigns which represent serious problems to the average SWP member. This in itself tells us a lot about the SWP critique; but before looking further at his organisation let's see what Callinicos has to say about the history of left-wing politics in Britain and how he fits the RCP into it.

The peculiarities of the British

Callinicos' main thesis is that the bane of the British left through the ages has been its proclivity for 'abstract propagandism'. He helpfully provides a definition of this:

> 'The priority is the propagation of socialist ideas, as a means of expunging bourgeois ideology. Engagement in any partial struggle is not simply a waste of time until this task has been performed, it is positively dangerous, since it serves to reinforce workers' acceptance of capitalist society and the divisions between politics and economics.'[2]

Callinicos traces a tradition of 'sectarianism' and 'ultra-leftism' from the Social Democratic Federation (SDF) and the Socialist League (SL) in the 1880s and 1890s, through the Socialist Labour Party (SLP) and Socialist Party of Great Britain (SPGB) of the early twentieth century – plus the 'left-wing communists' of the early Communist Party of Great Britain (CPGB) – to the RCT of the late 'seventies.

To demonstrate his erudition Callinicos also gives a mention to the utopian socialists of the 1840s and the Eurocommunists of today. But he makes only a shallow abstraction from the facts – he selects isolated episodes from history and constructs spurious 'links' between them. Still, the point of Callinicos' 'analysis' is clear: what is common, according to him, to all the diverse groupings he picks from different historical epochs is their refusal to 'get their hands dirty' in the everyday struggles of the working class.[3]

This idea is easily refuted: it is simply not true that the groupings Callinicos cites took no part in the practical struggles of the working class. Callinicos dismisses the leading role of SDF members in the strike wave of the late 1880s (they acted, he says, as 'individuals'); he forgets that the SDF was *the organiser* of the unemployed for the best part of two decades. Though smaller, the SL campaigned against unemployment in East London and elsewhere on a scale that dwarfs the biggest efforts of the Right to Work Campaign. The SLP on Clydeside was intimately involved in militant and violent trade union disputes up to and during the First World War and in tenants' rent strikes too. Of all the people who came together to found the CPGB in 1920-21, the leading 'left-wing communists', Willie Gallacher and Sylvia Pankhurst, were among the most active in the day to day struggles on Clydeside and East London. Indeed

of all the organisations mentioned by Callinicos only the SPGB fits his caricature of 'abstract propagandism' – which is why, despite the fact that it has survived for more than 70 years, it still merits only a footnote in the history of the British labour movement.

Willingness to get involved in 'partial struggles' is not what distinguishes ultra-left 'propagandist' organisations from revolutionary ones. Nor indeed does such willingness distinguish between revolutionaries and reformists. From the 1880s onwards the success of the European social-democratic parties was based on their ability to win immediate improvements in workers' conditions. They intervened actively in trade union, workplace and local affairs; all their work had a strong 'practical' emphasis. The German SPD, the British Independent Labour Party and later the Labour Party were all fervent advocates of the sort of 'practical' approach to socialism which Callinicos upbraids turn-of-the-century revolutionaries for neglecting.

The real problem was very different. The early British revolutionaries did not fail to get involved in everyday struggles – *they failed to inform those struggles with Marxist politics*. Far from being 'abstract propagandists', they were not propagandist enough. And far from sectarianism being the bugbear of the British left, *opportunism* has been the most prevalent error.

Over the years the left has consistently avoided challenging the trade unionist and Labourist attitudes that dominate the British labour movement – even though these attitudes paralyse the political development of the working class. The SDF, SLP and the early CPGB provide good examples of this mistake and of its consequences: an inability to connect the immediate struggles of the working class to the task of building a party capable of overthrowing British capitalism. Because the weaknesses of working class politics in the past bear heavily on the present, these organisations merit further attention.

The poverty of propagandism

Although Marx worked in Britain his works have never been widely read in the British labour movement. Marxism was popularised among radical intellectuals and militant workers in the late nineteenth century by *England for all* (1881) in which SDF leader Henry Hyndman plagiarised and vulgarised Marx. Before the feeble plant that was British Marxism could take root it was trampled underfoot by radical liberals, Fabians and the revisionists of Continental social democracy, all of whom came to exert a greater influence on the theory of the British labour movement than scientific socialism.

Marxism never advanced much after this inauspicious start. Although some of the most class-conscious workers in the stormy period around the First World War studied Marx, organisations like the SDF, SLP and British Socialist Party were incapable of developing a Marxist understanding of the rise of imperialism, of the role of the state or of the war. From its earliest days the CPGB proved unable to develop Marxist theory and politics. CPGB theoreticians parroted the Comintern line and helped play a part in its Stalinist degeneration. As the working class movement staggered from one setback to another during the 'twenties and 'thirties, culminating in the Second World War, Marxism became virtually extinct in the labour movement. All that survived was a vocabulary appropriated and corrupted by Stalinism, a body of theory which liberal academics used as a 'model' for pursuing their fads, and a series of sterile dogmas repeated by left-wing radicals.

All this is of no concern to Callinicos: he is a theoretician whose job it is to disparage theory. He dismisses the RCT's defence of the Marxist tradition as 'palaeo-Marxism' and declares haughtily 'I shall not waste much time with their theory'.[4] And he is true to his word. His criticism is that the RCT mechanically applies the categories of Marx's *Capital* without taking any account of contemporary reality. But this indictment is not based on an exposure of RCT publications – it could not be sustained by reference to or quotation from our propaganda. Instead Callinicos refers to an article in the same issue of *International Socialism* in which a critique of our position can supposedly be found.[5] This however is of little assistance: Chris Harman's piece contains no such thing.

Callinicos' own 'critique' is pure bluster. It merely highlights the SWP's approach to theory and debate. Assertions are not substantiated, allegations are unsupported by evidence and the whole thing is wrapped up in pretentious verbiage about capitalism being 'an articulated whole motored by the contradictions internal to it'. For the SWP 'propagandist' is a term of abuse. But it is the failure of the British left to develop good propaganda and good propagandists that underlies its conspicuous lack of success in developing a programme that could mobilise workers and move them beyond their day to day struggles towards the seizure of state power.

For Marxists propaganda means the advocacy of 'many ideas to few people', the spread of revolutionary politics among the most class-conscious workers. A Marxist propaganda group is an organisation that seeks to communicate Marxism to workers (through papers and journals, speeches and meetings) and intervenes in workers' struggles both to show the practical value of revolutionary politics and to win the leadership of the working class away from the reformists. Let's now look at the SWP in the light of Callinicos' attack on 'abstract propagandism'.

The fatalism of 'self-activity'

'Abstract propagandists' are apparently not alone in seeking to avoid getting their hands dirty. According to the SWP this hygienic hang-up is also the major failing of the reformists. The SWP's central criticism of the Labour left is that it is 'not prepared to face up to the difficult, often unglamorous task of organising against the bosses' offensive on the shopfloor'.[6] The SWP, however, is prepared to do just that

1 A Callinicos, 'Politics or abstract propagandism?', *International Socialism*, No 11, Winter 1981.
2 Ibid, p111. Callinicos is nothing if not self-conscious about devoting an article to polemicising against the RCT. He claims he is only dealing with us because we provide a 'contemporary illustration' (in 'chemically pure form') of the propagandism he seeks to differentiate from the classical Marxist tradition. Ibid p119.
3 Callinicos is fascinated with dirt. SPGB members were 'not prepared to sully their hands', the left communists were 'unwilling to soil their hands'. But anybody – reformist, revolutionary or even fascist – who wants to gain influence in the working class has to get involved in its day to day struggles. What Callinicos takes to be the defining essence of SWP politics does not differentiate it from the Labour Party, the RCP or the National Front.
4 Ibid, p122.
5 Ibid, p127.
6 D Hallas, 'The end of the Labour Party as we know it?', *Socialist Worker*, 6 June 1981.

and this is held up as the dividing line between reform and revolution.

In reality 'getting your hands dirty' is not a political alternative to reformism. All that it implies is an *addition* to Labour left politics. This is made clear in the way the SWP supports Tony Benn's campaign inside the Labour Party:

> 'That's why the Socialist Workers Party, while we are fully behind Benn's campaign for the deputy leadership, will continue to make our activity that of supporting those struggles where workers are beginning to fight back.'[7]

For the SWP supporting 'struggles where workers are beginning to fight back' – supporting the so-called *self-activity* of the working class – is enough. Let's look at this dogma a bit more closely.

The concept of 'self-activity' is a vulgarisation of the Marxist notion of the 'self-emancipation' of the working class. The latter, as Callinicos correctly points out, represents the recognition that the task of overthrowing capitalism can only be achieved by the working class itself. The former means that the spontaneous activity of the working class points the way forward to socialism, or in Callinicos' words, 'the road to socialism lies through the practical struggles of workers'.[8]

The SWP's main activity – calling on workers to engage in struggle – is in fact totally unnecessary. Capitalism constantly forces workers into battle against the system. The capitalist system itself generates the struggle between classes: workers don't need the SWP to urge them to go on strike. Callinicos' question 'Are workers really likely to shake off the immense burden of traditional conceptions unless they engage in mass struggles which bring them into conflict with the employers and the state?'[9] misses the point. The point is this: *even though* they engage in mass struggles which bring them into conflict with the employers and the state, will workers shake off their traditional conceptions?

Our answer is that they will not *unless* revolutionaries intervene in these struggles and direct them in a consistently anti-capitalist direction. Callinicos' answer is different: 'The everyday struggles of the class do not merely help to undermine bourgeois hegemony – they serve to bring to the surface a socialist conception of the world that is normally suppressed and concealed'.[10] If this were true bourgeois society would have collapsed long ago. But 'a socialist conception of the world' is still far from widespread among British workers after decades of struggle. History shows that the self-emancipation of the working class requires more than 'self-activity'. It requires Marxist politics.

The dogma of 'self-activity' represents the politics of fatalism. It is an abdication from the fight for revolutionary leadership. It means that the role of revolutionaries is reduced to encouraging others to be 'self-active', while waiting for struggles to burst out. In reality it means the SWP 'supporting' workers in their industrial disputes, while leaving Tony Benn to dictate the political terms.

Piece-rate socialism

A look at the SWP's intervention in a recent 'practical struggle' shows the consequences of its fatalistic politics. It also reveals a gulf between the pontifications of the party's intellectuals and the humbler efforts of its industrial activists.

The closure of the Talbot car plant in Linwood, near Glasgow, was a serious setback to the British working class movement. A few days after it was announced the SWP national committee met in a special session on 'the lessons of the defeat'. The meeting was attended by Linwood TGWU senior steward Pete Bain and other leading SWP trade unionists, including Mick Brightman, a shop steward at Gardner's (a Manchester factory which workers had occupied to block compulsory redundancies, but which had seen voluntary job losses accepted in their hundreds). This is how SWP leader Tony Cliff summed the discussion up:

> 'We have to carefully identify the minority who will fight. The problem is the disappearance of sectional militancy. There is too much measured day work and not enough piece rate system. The piece rate system saved Gardner's because it gave the individual stewards something to fight around.
>
> 'We must always think about the minority and not the whole factory. Otherwise we will end up saying we are so small that we can do nothing. All or nothing is extremely dangerous, we have to work around the minority action.
>
> 'There is also danger in saying that the problem is the politics of the leadership and therefore we can do nothing about it. Politics for revolutionaries is where industrial muscle meets with generalisation. It is not generalisation instead of industrial muscle. We don't accept the separation of maximum and minimum demands like those who on May Day demonstrations talk about the socialist paradise and at work only talk about a 5p pay rise. We have to make the political argument at the point of the industrial muscle and not in the abstract, otherwise there is no class politics.
>
> 'Unless we understand this we will fall into the trap of talking about the downturn instead of arguing with and supporting the minority who are prepared to fight. We must start from the minority and generalise outwards, not the other way round. If we cannot get a minority fight, then there is no real class politics.'[11]

Cliff's goal is much more modest than that of Callinicos. It is not to push this 'practical struggle' on the road to socialism; it is not to involve all the workers at Linwood in industrial action to save jobs. Cliff does not even give the usual SWP advice on elementary trade union organisation and strategy. His object is merely to stimulate a 'minority' (the word appears six times in this short passage) into 'sectional militancy'. And what should be the aim of this minority sectional militancy? Cliff gives the specific example of piece work as 'something to fight around' in preference to measured day work.

'Piece wage is the form of wages most in harmony with the capitalist mode of production', wrote Marx in a chapter detailing the barbaric features of the particular form of payment for the sale of labour-power now favoured by the SWP.[12] The dogma of 'self-activity' leads to the celebration of a vicious form of exploitation.

Even if Cliff succeeded in mobilising a sectional, militant minority to fight for piece work, how could this sort of struggle be 'generalised'? The problem with sectional militancy is that it seeks to defend the interest of a *section* of the working class. This form of activity, no matter how militant, deepens the divisions capital creates in the working class. Indeed the kind of struggles around different payment systems that Cliff counsels often *intensify* sectionalism. And sectional militancy has often tended to operate *against* unskilled workers, women and immigrants.

Again, even if a battle for better wages and conditions were 'generalised' to involve all the workers in a plant or industry, how could this lead to a revolutionary working class consciousness? The most militant and most 'general' trade union activity is still concerned with getting the best deal for the sale of labour-power within the limits of the capitalist system. The consciousness to break out of these limits and transcend divisions within the working class does not emerge spontaneously out of the conflicts workers engage in with their employers, whether they experience such conflicts as individuals, minorities or even majorities.

The history of the British working class confirms this. British workers to whom SWP theoreticians give lectures on

the importance of 'elementary trade union principles' have 200 years of training in strikes, lockouts, blacking, picketing, dealing with scabs, etc. But in 200 years of 'self-activity' no revolutionary party has yet emerged from the elementary battle between capital and labour. We have already seen that Callinicos has little acquaintance with the history of the British labour movement, but we might have expected the past decade to have taught him this.

The politics of the downturn

Back in 1974 the embryo of the RCP existed inside Callinicos' organisation as the Revolutionary Opposition (RO). Now, Callinicos condemns the RO for being 'highly critical of mere involvement in the practical struggles of the day (the greatest Britain had seen since the 'twenties)' and for arguing that 'priority should be accorded to the formulation of the correct Marxist programme'.[13] However, he concludes his article with a sombre assessment of the 'downturn' that has emerged over the last seven years:

> 'The great economic battles which shook Britain, France, Spain, Portugal and Italy in the late 'sixties and early 'seventies did not seriously undermine bourgeois domination in these countries. Widening economic struggles did not of necessity lead to political clarification, as most revolutionaries believed they would.'[14]

'Most', perhaps – but not those revolutionaries who, during the battles against the Industrial Relations Act, the miners' strike and the three-day week formed the Revolutionary Opposition. They saw the urgency for developing a Marxist programme adequate to the situation. They argued that through a struggle for such a programme a nucleus of class-conscious workers would emerge which could combat the influence of the Labour Party and the TUC over the strike-wave then in progress. They knew that if this crucial political development failed to materialise then the struggle would be contained and militant workers would become demoralised.

They were 100 per cent right. 'Widening economic struggles' did not lead to political clarification: quite the opposite. Mere 'self-activity' allowed the strongest political force in the workers' movement – the labour bureaucracy – to remain in control. As a result the Labour Party and the TUC delivered the working class over to the new Labour Government's Social Contract and the biggest drop in living standards since the 'thirties.[15] But the SWP learnt nothing: it still waits for 'self-activity' to shatter the capitalist system.

In the present recession the stakes in the class struggle have been raised. For that reason the SWP's worship of 'self-activity' is that much more dangerous. While the SWP preaches the virtues of sectional militancy, the labour bureaucrats are left free to dictate the political terms on which workers resist the bosses.

According to Cliff the piece rate system saved Gardner's. It might have saved the profits of Hawker Siddeley (the firm's owners), and it might have helped saved face for the trade union bureaucrats; but neither the piece rate system, nor the SWP's militant defence of it, can save the jobs that are now steadily disappearing through voluntary redundancies at the factory. At both Gardner's and Linwood the SWP paid tribute to the local trade union officials involved and subordinated its activity to their politics on the shop floor.[16]

All major SWP mobilisations over the past two years have been on behalf of TUC initiatives. The TUC's People's March, tightly regimented by the labour bureaucrats and designed to suppress all dissent from their policies, became the main focus of activity for the SWP. This was scarcely the 'self-activity' of the working class. But then for the SWP any 'self-activity' – in this case the 'self-activity' of the labour bureaucrats – is preferable to no activity.

A clear choice

At the turn of the century Lenin wrote of those who ranted on about 'self-activity': 'the conception of the economic struggle as the most widely applicable means of drawing the masses into the political movement, which our Economists preach, is so extremely harmful and reactionary in its practical significance'.[17] The SWP's narrow economistic approach leads to the neglect of vital issues such as the Irish War, women's oppression, racism in its activity in the labour movement. This is how Chris Harman, the editor of the SWP's journal *Socialist Review*, justifies his organisation's move to put Irish work at the bottom of its list of priorities:

> 'Ireland is not a radicalising factor in Britain which leads people to question other aspects of capitalist society: rather it is only when people have questioned these other things that they begin to understand the significance of what is happening in the Six Counties.'[18]

By questioning 'other aspects of capitalist society' Harman means, like Cliff, disputing whether piece work is better than measured day work, whether short-time work is

7 Ibid.
8 A Callinicos, op cit, p126.
9 Ibid, p124.
10 Ibid, p125.
11 *Socialist Review*, April 1981. We are often accused of quoting the SWP selectively. Here we quote Cliff in full, largely because of the difficulty of selecting the most fatuous sentences in his incoherent ramblings.
12 K Marx, *Capital*, Vol 1, Lawrence & Wishart, 1974, p94.
13 A Callinicos, op cit, p120.
14 Ibid, p125.
15 Callinicos has a novel explanation for this fiasco. Workers stayed with their reformist leaders because 'the revolutionary alternative was tiny, predominantly petit-bourgeois and usually wildly ultra-left'. If this is a self-criticism it is misplaced. In 1974 what is now the SWP was 4000 strong, less petit-bourgeois than at any time before or since and never even moderately ultra-left. The real problem was that the radical politics of the 'revolutionary alternative' were no match for the politics of the Labour Party and the TUC.
16 'The attitude of the officials has helped a hell of a lot.' (Mick Brightman, *Socialist Review*, October 1980) 'I wish we could say that the fight at Linwood was sold down the river by the national union officials, but it isn't true. There has never been a factory that was pledged so much support before taking action. Support that included the TGWU executive, the STUC and even the AUEW executive.' (John Deason, secretary, Right to Work Campaign, *Socialist Review*, April 1981) On Gardner's see 'SWP joins TUC jobs auction', *the next step*, No 9, January 1981. The SWP has also joined the bureaucracy in blaming workers for the setbacks in shop-floor organisation and militancy in recent months. Instead of exposing the bankrupt policies of the bureaucrats which have resulted in a degree of demoralisation, Pete Bain partly laid the blame for what happened at Linwood on a minority of 'total scum' there.
17 V I Lenin, 'What is to be done?', *Collected Works*, Vol 5, p43. Ironically, Callinicos suffers from the prejudice that the SWP is in some sense Leninist.
18 'Ireland after the hunger strike', *Socialist Review*, January 1981.

preferable to closure, whether voluntary redundancies are superior to compulsory sackings. But British workers have been doing this, often in a very militant manner, ever since 1969, when the latest phase of the Irish War began; but they have never in significant numbers questioned Britain's right to rule in Ireland.

We have finally arrived at the absurd consequence of the dogma of self-activity. Fighting for piece work is a radicalising factor, the anti-imperialist struggle against the British ruling class is not. While thinker Callinicos meanders page after page, hard-headed Harman succinctly sums up the SWP's real difference with us in one paragraph.

Our position is straightforward. Trade union struggles do not 'revolutionise' workers; they do not lead workers to question 'other aspects' of capitalist domination. Rather, it is only when workers support the oppressed against the British state that they begin to develop a broad working class consciousness.[19] Directing workers' struggles in this anti-capitalist direction is the only way to save jobs, maintain wages and conditions *and* defend the oppressed. It is also the way to pull the most class-conscious workers towards a party that can lead workers' 'partial struggles' beyond the narrow limits of trade unionism and towards the overthrow of capitalism.

Despite the anti-capitalist attitudes of many of its members the SWP leadership is building an organisation which is becoming more and more a radical appendage of the labour bureaucracy. Under the guise of 'united fronts', the SWP provides a radical cover for the reformists' anti-racist and Irish solidarity campaigns; it helps the TUC out in its cynical manipulations of the unemployed; and it co-operates with trade union officials in accepting voluntary redundancies in factories up and down the country. Meanwhile the SWP keeps on hand a string of vulgar academics to provide pompous apologies for its opportunist politics. Callinicos' critique of the RCT is a superficial and cynical piece masquerading as Marxist polemic. SWP members who want to leave him and join us on the road to revolutionary communism will know where to find us.

Mike Freeman

19 This is not a question of offering workers 'the entire gamut of Marxist politics' as Callinicos caricatures our position, using as evidence a quotation which identifies but two issues – Ireland and racism – as the top priorities for the labour movement. It is a question of raising those issues which most clearly demarcate a distinctive working class approach. How little the SWP understands this approach may be judged from the fact that it chooses to raise nuclear disarmament in the labour movement. This obscures rather than clarifies class politics.

THE LOYALIST WORKING CLASS

1. Introduction

There are around one million Protestants in Ireland: the vast majority are working class people in the north east who are committed to the Six Counties remaining within the United Kingdom. Of Ireland's nearly three million Catholics, the large majority too are workers. But their aspiration is for a united Ireland, independent of Britain. The division of the Irish working class along religious lines has been a key factor in stabilising British rule in Ireland. The Partition of the country in 1920 gave particular force and permanence to the division between Protestant and Catholic workers.

The Loyalist workers of the Six Counties are wage-labourers exploited by capital. But their defining political allegiance is to the British state, the guarantor of capitalist social relations in Ireland. This is the paradox at the root of the enigma of the Protestant workers of Ulster. To understand the role of the trade union and political institutions of Loyalism it is necessary to penetrate the relationship between the Loyalist working class and the force that created it, sustains it still – the British oppressors of Ireland.

The Plantation contract

In essence the relationship between the Protestants of Ireland and the government in London has changed little in 300 years. English and Scottish Protestants were planted in Ireland in the sixteenth and seventeenth centuries. Ever since they have acted as custodians of English rule. From the earliest days of the Plantation Protestants joined with the forces of the Crown to put down rebellious natives. At the end of the eighteenth century, the Orange Order brought together Protestant tenants and their landlords to fight the United Irishmen, Wolfe Tone's movement for Irish independence. In the nineteenth and early twentieth centuries Loyalist workers joined with their employers to oppose the Home Rule movement, a battle that culminated in Partition in 1920. Today the Protestants of the Six Counties – in the official paramilitary Royal Ulster Constabulary and Ulster Defence Regiment and in their own sectarian militias – play an active part in Britain's attempts to crush the national liberation movement.

In return for their services the Irish Protestants have enjoyed the benefits of British patronage. In the Plantation they received land concessions, favourable tenancies and protection against the natives. In time the nature of the benefits changed. In the nineteenth century Protestant industrialists enjoyed preferential access to the markets of the British Empire. Their Protestant workers enjoyed preferential access to jobs in the thriving textiles, engineering and shipbuilding trades. Today Ulster's traditional industries are in terminal decline. But Protestants still have a better chance of having a job (and a better job) than Catholics. They are still favoured in housing, higher education and political representation. These privileges may be marginal but they are crucial in a crisis-ridden and impoverished society.

Conflicts in the Loyalist camp

'We are British to the core, but we won't hesitate to take on even the British if they sell our country down the river.' Billy Hull, founder member of the Loyalist Association of Workers.[1]

Although the Protestants boast their loyalty to Britain their relations with the British ruling class have often been tense; occasionally they have been openly hostile. This is why the British bourgeoisie has an ambivalent attitude to the Loyalists. To the extent that they swear allegiance to the Crown and act as a local bulwark of British rule against nationalist subversion, the government has good reason to send the Queen or Margaret Thatcher on periodic good-will trips to 'the province'. When, however, the Loyalists declare opposition to British strategy, denouncing what they perceive as any threat to their special position, the British bourgeoisie reacts with exasperation and ill-concealed contempt for the bizarre rituals and strange modes of expression of popular Loyalism.

And the alliance of Loyalist workers with their Loyalist employers has periodically come under strain when Protestant trade unionists have backed demands for better pay and conditions with militant action. But the fundamental allegiance of Ulster Protestants – capitalists and workers – has always remained with Britain. Any challenge to British rule in Ireland has soon submerged the conflicts within the Loyalist camp to ensure a united bloc in defence of Protestant privileges against the national population.

Thus Unionist discontent with Britain has always stopped short of threatening Union itself on which the status of the northern Protestants depends.[2] Protestant workers have gone on strike – and even rioted – with their Catholic fellow workers against the Orange establishment. But any nationalist upsurge (or even just the hint of it) has always been sufficient to forestall Protestant working class militancy and destroy incipient class unity. Through the 'seventies the Six Counties has drifted further and further into slump. But the ever present need to suppress the republican threat to the integrity of the United Kingdom of Great Britain and Northern Ireland has ensured that no corresponding drift towards anti-Unionist politics has occured among Loyalist workers. On the contrary the dynamic of Loyalist politics is towards the Rev. Ian Paisley, the staunchest defender of the British link.[3]

1 Quoted in D Boulton, *The UVF: 1966-73*, Torc Books, 1973, p146.

2 Any Loyalist politician who ever moved so far as to stand openly for ending the Union – and thus into alignment with Catholic nationalists – has soon lost support. Sloan and Crawford's Independent Orange Order at the turn of the century and Craig's Vanguard movement in the 'seventies, overstepped these limits and fell rapidly into obscurity as a result.

3 The success of Paisley's Democratic Unionist Party in the local government elections in May 1981 follows his personal triumph in the 1979 European elections when he won 30 per cent more first preference votes than the Official Unionist candidate. Although the DUP still holds slightly fewer council seats than the OUP, Paisley's advance is dramatic, especially in working class areas in and around Belfast where his support had previously been weak.

Labour market, trade unions and politics

Here we examine the Loyalist working class, in its dominant Loyalist and in its underdeveloped working class aspects, relating both to British imperialism. We begin by looking at the formation of the modern working class with the development of capitalist industry in Ireland.

For Marx two factors defined the wage-labourer under capitalism – the *freedom to sell* his own labour-power and the *freedom from ownership* of the means with which to produce the essentials for life.[4] The formation of a *free labour market* by the dissolution of workers' traditional dependencies and their expulsion from the land played a vital part in the emergence of the modern proletariat. In Ireland, however, one issue has distorted the labour market from the industrial revolution up to today – religion. A worker's Catholicism has always been a major constraint on his freedom to sell his own labour-power. The Protestants' key privilege under the British Union is their hard-won success in frustrating the development of a free labour market.

Trade unions are the means whereby workers combine to achieve the best possible price for the sale of their labour-power. They have also been used by sections of the working class to try to achieve some control over the competition of the labour market and sustain a sectional advantage. In Britain skilled workers have always tried to use unions to preserve their privileged position, but since the middle years of the nineteenth century they have had limited success; trade unions have generally been used to fight for higher wages. In the north of Ireland the trade unions were formed in a distorted labour market; Loyalist workers have used unions to sustain their privileged access to particular jobs and even entire industries. This function of trade unions in organising the Protestant section of the working class against the Catholics has always superceded their wage-bargaining role against the employers.

Finally, we look more closely at the tensions within Loyalism. Protestant workers have in the past temporarily supported organisations that advocated socialism – but they have never failed to respond to the beat of the Orange drum when the choice was between supporting Irish liberation or the British oppressor. The failure of social democracy and Stalinism to find a middle road between these poles of Irish politics has condemned such political organisations to a marginal role. When it comes to the crunch in Ireland the only alternatives are – for British imperialism or against it. And the Loyalist working class has always preferred full-blooded Orange to the pink patriotism of the reformists.

One thing that has changed over the past 50 years is the relative weight of workers in the all-class Loyalist alliance.[5] Before the industrial revolution Protestant *landlords* were the central figures of Loyalism; in the period up to Partition this position was taken over by the Unionist *industrialists*. Now they preside over derelict mills, closed-down factories and stagnant shipyards; most viable industry in the Six Counties is controlled directly by British and foreign capitalists. The main representatives of the Protestant community in recent years have been *workers* – shop stewards and trade union officials like Billy Hull, Andy Tyrie, Glen Barr and Harry Murray. The petit-bourgeois Orange Order is now less important than the solidly proletarian Ulster Defence Association, Ulster Workers Council and Loyalist Association of Workers.[6] It was Protestant workers who demanded internment in 1971; who brought down the power-sharing executive in 1974; who demanded more repression of the national population throughout the present war.

British labour and Loyalist labour

The British labour movement has never understood the Loyalist working class. It has always been bemused by the failure of Irish workers to develop a reformist tradition parallel to its own. Unable to relate to any significant Labour Party, the British labour movement – from right to left – has seized on the trade unions as the legitimate representatives of the Irish working class.[7] British socialists have simply assumed that trade unions in the Six Counties are the same as trade unions in Britain. But they are not: they have fundamentally different functions. The British left has however identified the Loyalist trade unions as a progressive force. It uses the institutions of the Loyalist working class to justify its own opportunist approach to the Irish national question.

British labour bureaucrats have taken advantage of the convergence of the Loyalism of Protestant trade unionists with their own loyalty to the British state. They invoke the statements and positions of Orange trade union leaders to back up their own hostility to the Irish liberation struggle and their support for the forces of repression.[8]

More radical trends seize on (at present virtually non-existent) rank and file militancy among Protestant workers in response to the cuts, closures and mass unemployment in the Six Counties as the spark of political progress. They recall exceptional moments when Protestants combined with Catholics to fight the employers – such as the 1932 outdoor relief strike. In a polemic ostensibly *against* this viewpoint (most strongly favoured by the Stalinists and the Militant tendency) Socialist Workers Party leader Chris Harman comes around to advocating the same basic position.

Harman begins with a disclaimer: 'Protestant workers will not respond to the crisis by automatically looking to forms of united class struggle'. '*But*', he continues, contradicting his opening with a typical statement of the reformist view:

> 'It would be a foolhardy prophet who denied any possibility of a class response: there have been militant strikes involving Loyalist workers (the lorry drivers, the firemen); there have been contingents of Protestant workers on unemployment demonstrations in Britain. Out of such responses new elements of class consciousness can emerge, however feeble, to compete in the ideological battle with the various fragments of Loyalism.'[9]

This perspective ignores the norm of Ulster politics – the loyalty of Protestant workers to Britain and their active commitment to the suppression of the Catholics. It forgets that the short-lived unity of 1932 ended in sectarian pogroms. Harman, as we shall show in detail, is quite wrong to suggest that 'new elements of class consciousness' can emerge out of Loyalists' trade union struggles.[10] As long as the British connection exists Loyalism will always triumph over working class consciousness.

Although individual Protestants have contributed, often heroically, to the struggle for Irish freedom, the Loyalist working class maintains its privileged position through the denial of national liberation. That is why every major mobilisation of the Loyalist workers has been in defence of the British connection. No amount of trade union militancy can alter that relationship.

The Loyalist working class is not the main barrier to the national struggle in Ireland – British imperialism is the central enemy of the Irish people. Neither is the Loyal-

ist working class the main obstacle to British strategy – it is the nationalist working class that Britain has to beat to stabilise capitalism in Ireland. But Loyalist workers play an important part in the evolving war of national liberation. For Britain they are a vital, if somewhat troublesome, ally. For the national population in the Six Counties they are enemy agents insofar as they ally themselves with the British state.

The future for Protestant workers lies in a united Ireland free from British domination. British imperialism exploits Protestants while it oppresses Catholics: the future for the working class in Ireland, and its only hope of unity, lies in the war for national liberation.

4 'The owner of money must meet in the market with the free labourer, free in the double sense, that as a free man he can dispose of his labour-power as his own commodity, and that on the other hand he has no other commodity for sale, is short of everything necessary for the realisation of his labour-power.' K Marx, *Capital*, Vol 1, Lawrence & Wishart, 1974, p166.

5 One thing that hasn't changed much is the prominent place of clergymen as the spokesmen of the Protestant people. Paisley follows a long line of demagogues stretching back to Cooke, Drew, Hanna and Kane in the nineteenth century.

6 The UDA is a Protestant paramilitary organisation formed in September 1971. The UWC organised the 1974 Loyalist general strike. It was composed of members of the LAW, UDA and other paramilitary groups, and Protestant politicians. It has recently been revived. The LAW is a grouping of Protestant trade unionists formed in the Belfast shipyards in 1969.

7 This hasn't stopped some of them from trying to create a reformist tradition in the Six Counties. Different methods are favoured by different groups. The Stalinist British and Irish Communist Organisation wants the British Labour Party to set up shop in the Six Counties; Militant thinks the Loyalist-dominated unions should do the job.

8 The TUC has endorsed a series of policy initiatives that have emerged from the Loyalist Northern Ireland Committee of the Irish Congress of Trade Unions. The central theme of the Bill of Rights and the Better Life For All Campaign, which have become official TUC policy, is denunciation of the republican movement combined with pleas for British rule to be exercised less brutally.

9 C Harman, 'Ireland after the hunger strike', *Socialist Review*, January 1981.

10 Harman is also mistaken in his implication that the battle against Loyalism is *ideological*. What is at stake is a political struggle against the material ties that bind Loyalist workers to British imperialism.

2. Protestant workers and the Protestant community

Protestant workers' profound attachment to the Union of the Six Counties with Britain has its origins in the particular conditions in which this section of Irish society came into existence. The early development of capitalist industry and the parallel emergence of the working class in the late eighteenth and early nineteenth centuries took place in the North East of Ireland, where the Protestant ascendancy had been established a century previously. Thus the working class acquired its Orange stamp from the moment of its birth.

From linen spinning to shipbuilding

A number of factors favoured capital accumulation and industrial innovation in the north east. The English government encouraged linen manufacture in the area after an Act of Parliament in 1699 put an end to the Irish woollen trade (by prohibiting exports). The settlement of Huguenots in Ulster brought the necessary technical skills and a flourishing cottage industry soon emerged. It was however cotton that played the decisive role in the development of Irish industry and the Loyalist working class.

The cotton trade was encouraged by the 1801 Act of Union which brought nascent Irish industry into closer contact with the technological revolution then in progress in the workshop of the world – England. The British government tolerated Protestants trading in the British Empire in return for their allegiance to the Crown.

Cotton differed from linen in that it had already passed beyond the handicraft to the machine stage; it was therefore manufactured in factories in towns rather than in rural cottages. And the town in Ireland where cotton production became concentrated was Belfast, at the turn of the century already an important port with foundries, rope-making and sugar refineries.

The cotton industry in Ireland collapsed after the depression caused by the American Civil War in the 1860s. But the technology it had introduced to Ulster transformed linen manufacture. The establishment of joint-stock banks in Belfast in the late 'twenties and early 'thirties assisted in the formation of a modern industry. Workers flocked to Belfast textile factories: its population rose five-fold between 1800 and 1850.[1] From the early 'fifties the number of power-looms rose dramatically. By the 1920s one third of all the linen spindles in the world were in Ulster.

Engineering emerged alongside textiles. Machines had to be serviced and maintained – and manufactured. Engineering in turn stimulated shipbuilding which began in Belfast's Queen's Island in 1853. British engineer Edward Harland bought the site in 1859; by 1884 his firm Harland and Wolff had built 168 ships with a total tonnage of 253 000 tons.[2] The firm employed nearly 4000 workers. By the end of the nineteenth century Belfast was a teeming city of textile mills, engineering workshops and shipyards; its population of 350 000 made it the eighth largest city in the United Kingdom.

The source of the funds for capital accumulation in Ireland has been a controversial issue among historians. Some have tried to explain the emergence of industry in the North East by the 'Ulster custom' – the favourable

1 In fact the ready availability of cheap labour retarded the introduction of machinery in the linen industry. The decline of the population in the famine years of the 'forties, however, stimulated the introduction of power looms. One manufacturer wrote in 1862: 'So long as a man's labour could be had at the handloom in Ireland for a shilling a day, it was felt no power loom could be worth much, if at all cheaper; but when wages, some few years back, began to advance, and the population to decrease, instead of increase, it was admitted that the power loom was at length required'. C Gill, *The rise of the Irish linen industry*, Oxford Clarendon Press, 1964, p328.

2 Harland knew the secret of his success: 'It had been accomplished simply by energy and hard work. We have been well-supported by the skilled labour of our artisans; we have been backed up by the capital and enterprise of England'. Samuel Smiles, *Men of invention and industry*, John Murray, 1884, pp322-3.

tenancies conferred on the Protestant settlers. Protestant tenant farmers enjoyed greater security of tenure and were compensated for any improvements they effected on their smallholdings. However a recent study has convincingly disposed of this hypothesis:

'The picture of a thriving Ulster agriculture, accumulating capital under the beneficient Ulster Custom and investing it in improved techniques, does not belong to the eighteenth century, when Ulster was covered with tiny holdings of weavers so impoverished that they needed the yields of primitive agriculture to bring their pitifully small earnings from weaving up to subsistence level. That these weavers should have accumulated enough capital in their condition to finance the growth of the linen industry and eventually the Industrial Revolution in Ulster is not credible.'[3]

The capital invested in industries came not from tenant farmers but from merchants trading in the products of cottage textile manufacture. However, insignificant though it may have been in capital accumulation, the 'Ulster custom' had an important influence on the formation of the Loyalist working class.

A special working class

The 'Ulster custom' made Protestant tenants beholden to their landlords: it welded the Protestant community together against the impoverished and disgruntled Catholic 'croppies'. The Orange Order promoted this unity in defence of the English connection against the United Irishmen in the 1790s. The identification of their interests with those of their Protestant rulers – in antagonism to the threat of the Catholics to their meagre advantages – was deeply ingrained in Loyalist workers as they moved off the land to seek work in the new industries of Belfast.

Thus although Belfast industrialised along the English pattern, the labour movement developed along different lines. The Protestant working class never became an integral part of the British labour movement. It had little in common – 'no bread riots, no chartists, no threat to the middle classes like Hyde Park or Trafalgar Square'.[4] Loyalist workers devoted most of their energies, not to fighting their employers, but to defending their special status against Catholic workers.

Conditions were grim in nineteenth century Belfast – worse even than in industrial cities in England. Unemployment was higher, wages lower and living and working conditions more appalling. In 1900 Belfast had the highest typhoid rate of 82 of Europe's largest cities; its poor citizens got the lowest rate for out-relief in the United Kingdom. In the early days of industrial Belfast the vast majority of the workers exploited in its satanic mills were Protestants. But by the middle of the nineteenth century there was an influx of Catholics driven by famine and destitution from the country in search of jobs. The hostile response of Loyalist workers to Catholic competition for jobs in the latter part of the century ensured that the proportion of Catholics in Belfast in 1900 was lower than that in the 1830s.[5]

The Protestant working class fought to dominate the labour market. They succeeded in holding on to their privileged position at the expense of the Catholics. Catholic workers were confined to low paid or unskilled work or chronic unemployment.

The establishment of a Protestant-dominated labour market was the outcome of a protracted series of struggles. The mass influx of Catholics led to the growth of the Orange Order in the working class. The rioting organised through Orange Lodges in 1864 against Catholic workers anticipated similar action in 1872, 1880 and 1884. In 1864 Catholic workers were attacked and forced out of work in the linen mills and factories. In the shipyards similar attacks took place.

The recurrent riots led to the demarcation of the sectarian ghettos that persist to this day in Belfast:

'Since the commencement of the late riots [1857]...the districts have become exclusive, and by regular systematised movement on both sides, the few Catholic inhabitants of the Sandy Row district have been obliged to leave it, and the few Protestant inhabitants of the Pound district have also been obliged to leave that district.'[6]

Initially the Protestant employers opposed the distortion of the labour market effected by Loyalist workers. The bourgeoisie was eager to obtain cheap Catholic labour for its mills and factories. Employers giving evidence to the Commission of Inquiry into the 1864 riots complained about the forceful expulsion of Catholics from employment.[7] However by the 1880s the Protestant bosses had changed their mind. Indeed, they had not only become reconciled to the distorted labour market but also begun to encourage sectarianism at work.

The shift in the employers' attitude was due to the revival of the nationalist movement in the 1880s. The Protestant bourgeoisie saw Home Rule agitation as a direct threat to its links with Britain. In response to the Home Rule movement they moved to strengthen their ties to the Protestant workers. In 1864 Edward Harland had resisted his workers' sectarianism; by 1886 he gave it full rein.

'In 1864, when attempts had been made to drive out every Catholic worker, Harland had posted up a notice threatening to close the yard until the Catholics were permitted to return. In 1886, however, when 190 Catholics fled from their employment in the yard, Harland virtually took no steps to prevent such discrimination. In spite of urgings from a deputation of Catholic workers, he did not threaten the 1864 sanctions.'[8]

By the turn of the century Catholics were well under the Loyalist heel. They made up 7 per cent of the shipwrights, but 41 per cent of the dockers; 13 per cent of the commercial clerks, but 32 per cent of the general labourers. Only 15 per cent of tramway workers and 8 per cent of municipal clerks were Catholics. On the other hand Catholics represented half of the workhouse inmates although only a quarter of the total population.[9]

The sectarian state

The employment patterns created through Loyalist control of the labour market have persisted up to today. Partition institutionalised and perpetuated Protestants' preferential access to jobs in traditional industries and in the state apparatus; it ratified Catholics' inferior status on the jobs market. Because capital always tends towards the creation of a free labour market, the Protestants have had to fight to safeguard their particular advantages. Since 1920 the state, itself a bigger and bigger employer, has actively sustained Loyalist control of the labour market. The unions have continued to operate sectarian discrimination – and the traditional methods of job demarcation by rioting and intimidation have been regularly deployed. A few contemporary examples illustrate the persistence of the distorted labour market in the Six Counties.

The 1971 Northern Ireland census confirmed the overall discrimination against Catholics in industry. The main source of employment for Catholics is in unskilled jobs. Catholic employment in the Harland and Wolff shipyard has never exceeded 10 per cent and on many occasions

since 1921 the Catholic workforce has been cleared out completely.[10] In their analysis of the economy in 1957 Isles and Cuthbert remarked on the lack of mobility of these unskilled workers in moving into semi-skilled or skilled jobs. Their analysis of wage rates also showed that while average wage rates were lower than in Britain, the rates for skilled workers were higher and the rates for unskilled workers lower than corresponding workers in Britain.[11] Not only have Catholics not been able to secure skilled work but they are paid low wages for the unskilled work they do.

Catholics also bear the brunt of unemployment. The 1971 census figures revealed that, while unemployment overall at 10 per cent was higher than in Britain, it was most heavily concentrated in Catholic areas: Derry 19 per cent, Strabane 15 per cent, Newry 15 per cent. The same is true at much higher levels today. The government-sponsored Fair Employment Agency reported in 1978 that there were two and a half times more Catholics unemployed than Protestants.

Belfast Corporation Electricity Department Employees, 1971[12]

	Protestant	Catholic
Motor inspectors	91	4
Installation department	995	24
Street lighting	20	1
Garage	64	1
Mains	148	27
Cooker service	28	4
Total	1346	61
Per cent	96	4

Note: Catholics make up 26 per cent of the population of Belfast.

Local government, one of the biggest employers in the Six Counties, perpetuates sectarian discrimination.

The Northern Ireland Development Agency has advertised 'a loyal workforce' in its appeals to foreign investors. But foreign capital has not altered the distorted labour market of the Six Counties:

'It is a fact of life in Northern Ireland that its skilled industrial workers tend to be Protestant. The big firms on which Northern Ireland's reputation grew – Short Aircraft and the shipbuilders Harland and Wolff among them – had a largely Protestant workforce. The high technology capital-intensive industries that NIDA is angling for find themselves, almost willy-nilly, taking on Protestants to deliver the goods.'[13]

After Direct Rule was introduced in 1972 the Westminster government stated its intention to end discrimination in employment. In practice, however, the British government has maintained the unequal job market, confirming its continuing importance for British imperialism.

In 1976 the Fair Employment Agency was set up with the acclaimed aim to 'promote equality of opportunity in employment. . .and to work for the elimination of religious and political discrimination in employment'. In other words to destroy the Loyalist-controlled labour market in the Six Counties. In 1979 the Belfast Workers' Research Unit reported on the FEA's 'investigations of sectarian bias in industries and firms':

'The FEA has twice bowed to governmental pressure on this count. In 1978 Don Concannon dissuaded it from investigating Ford Autolite in Finaghy, and in June 1978 the FEA wilted under pressure from Hugh Rossi to stop an investigation into the civil service. The FEA has also dropped an investigation into the engineering industry and one into the employment structure of Derry.'[14]

The FEA has never secured a single conviction of discrimination since its establishment. Its reports have merely revealed the intensification of sectarianism as unemployment rises. The FEA report of early 1980 concluded that 'Catholics have tended to move down the social scale more commonly than Protestants' and that 'the proportion of Catholics in lower status jobs could increase in the next decade'.[15]

A still-born class

The privileged position of Loyalist workers is above all based on the abolition of a free market for labour. In return for their loyalty, Protestant workers have been accorded a degree of control over the hiring of labour-power. It is this privilege that has defined the attitude of Protestant workers both towards their employers and towards Catholic workers.

Loyalist workers have never differentiated themselves as a class from the wider Protestant community. Their primary identification of themselves is as Protestants, not as workers. Their social and political institutions reflect their Loyalism rather than their class consciousness. Protestant workers cannot act as a class because their control over the labour market shelters them from Catholic competition. That's why the dominant form of action taken by Protestant workers is not against employers but against Catholic workers.

Loyalist sectarianism is not a result of misguided ideology, but of real material relations. As long as the distorted labour market continues in the Six Counties with other types of privileges, Protestant workers will derive limited but definite advantages from the Union with Britain.

3 B L Solow, *The land question and the Irish economy, 1870-1903*, Harvard University Press, Massachussets, 1971, p31.
4 S Baker, 'Orange and Green Belfast, 1832-1912', in H J Dyos and M Wolff, eds, *The Victorian City*, Vol 2, RKP, London, 1973, p801.
5 Catholics as a proportion of Belfast population (per cent): 1750: 6.5; 1834: 31; 1848: 43; 1900: 25. Senior, *Orangeism in Ireland and Britain, 1795-1836*, London, 1966.
6 E Jones, 'The distribution and segregation of Roman Catholics in Belfast', in *The Sociological Review*, Vol 4 (new series), 1956, p170.
7 *Report of the Commissioners of Inquiry*, 1864.
8 P Buckland, *Irish Unionism Vol 2: Ulster Unionism and the origins of Northern Ireland*, Gill & Macmillan, Dublin, 1972, p39.
9 S Baker, op cit, pp789-814.
10 K S Isles and N Cuthbert, *An economic survey of Northern Ireland*, HMSO, Belfast, 1957, p237.
11 Ibid, pp217-219.
12 J Darby, *Conflict in Northern Ireland: the development of a polarised community*, Gill & MacMillan, Dublin, 1976.
13 *The Economist*, 28 June 1980.
14 'Trade unions in Northern Ireland', *Belfast Bulletin*, No 7, Summer 1979, p28.
15 *Irish Times*, 17 January 1980.

3. Orange unions

Trade unionism in the Six Counties is the product of the Loyalist-dominated labour market. Far from uniting the working class against capital, the unions themselves have played a key role in fostering sectarian divisions.

Divided they stand

The guilds and early craft unions in Belfast were Protestant organisations. When Catholic peasants came in search of work the unions closed ranks to protect their jobs and positions.[1] The sectarian character of the trade unions was reinforced by the growth of skilled manufacturing workers' unions linked with their British counterparts in the mid-nineteenth century. By regulating apprenticeships and the closed shop these unions kept the shipbuilding and engineering trades exclusively Protestant. One historian summed up the situation: 'Protestant dominance in the skilled trades was strengthened undoubtedly. . .by the Trade Unionists' barriers against Catholic labour'.[2] Even the organisation of unskilled workers towards the end of the nineteenth century did little to alter the domination of the trade unions by Loyalism. Catholic workers were ultimately obliged to form separate unions to defend their interests at work.

The Loyalist workers were well organised. But because their main enemy was not the employers but Catholic workers they were susceptible to collaboration with the Protestant bourgeoisie. The Loyalist unions' long tradition of 'good industrial relations' dates from the period of their formation. A recent bourgeois history of the engineering industry noted the class harmony that prevailed in Belfast compared with Manchester and Sheffield:

> 'There was less antipathy between unions and employers than in many other industrial cities; the Belfast employers appear to have made no attempt to destroy the trade unions in the 1860s and 1870s when this was being attempted in Britain.'[3]

The Belfast employers were shrewd: the Loyalism of their workers was a precious asset, not only in the expropriation of profit in the factories, but also in rallying popular Protestant opposition to any change in the political status quo in Ireland.

'Home Rule is Rome Rule'

The trade unions played a full part in mobilising Protestant working class opposition to the nationalist movement for Home Rule. In the decisive battle against the Third Home Rule Bill Loyalist workers followed the leadership of bourgeois Unionists Carson and Craig.

Early in 1911 the Ulster Unionist Council began to organise Unionist Clubs in the shipyards: within 12 months 6000 men were drilling in arms.[4] The Ulster Unionist Labour Association was created specifically to rally working class opposition to Home Rule. Mobilised for action, the Protestant workers turned on 'Fenians' and Home Rulers – Catholic labourers in the shipyards. As a result 2000 men were forced out of their jobs. As the Home Rule Bill went through Parliament in 1912 Carson convened mass meetings of Loyalists, culminating in a vast Belfast rally which pledged violent resistance to Irish independence.

The Home Rule controversy simmered until the outbreak of the First World War. In April 1914 2000 Protestant trade unionists met in Belfast to protest at the collusion between the British Labour Party and Redmond's Irish Parliamentary Party over Home Rule. Boilermakers' leader J Hanna declared that 'as freemen and as members of the greatest democracy in Great Britain and Ireland, the organised trade unions of the country, they would not have Home Rule'. The trade unionists were urged to support a manifesto which acclaimed Carson as their leader. 'Sir Edward Carson leads us because we, the workers, the people, the democracy of Ulster, have chosen him.'[5]

Two months later, Protestant trade unionists and Belfast Trades Council protested at the Irish Trades Union Congress against Redmond's compromise plan for the Partition of Ireland. They wanted Ireland as a whole to remain British. A Belfast printer spoke for the Loyalist workers: 'Ireland was theirs and Ireland they were going to keep'.[6]

By 1920, however, the Unionists had become convinced that Partition was inevitable. The war of independence from 1918 to 1920 was largely conducted in the south and west of Ireland; the northern Protestants were not required to assist the British forces. Partition, however, transformed Britain's drive to suppress the republican movement into civil war (conducted by the pro-Treaty government with British backing) in the south and sectarian pogroms (conducted by Loyalist workers) in the north.[7] In the Six Counties, two years of rioting, burning and intimidation left more than 500 dead; thousands of Catholics were driven from their jobs and homes.

Recriminations were not, however, directed exclusively at Catholics. Because full Loyalist backing was essential for the new Stormont regime no dissent could be tolerated in the Protestant camp. The Labour Party – which won 20 per cent of the seats on Belfast Corporation, its best result ever, in 1920 – also became a target of Loyalist attack. At the July 1920 Orange parade Carson condemned Labour as being the same as Sinn Fein, as a sinister force to be given no quarter:

> 'We have been handed down great traditions and great privileges, and in our Orange Order we have undertaken to preserve those and to hand them on to our children, and we must proclaim today clearly that, come what will, and be the consequences what they may, we in Ulster will not tolerate no Sinn Fein – (cheers) – no Sinn Fein organisation, no Sinn Fein methods.'[8]

Protestant Labour supporters soon followed Catholics out the gates of the factories and shipyards. 'If you ask me my opinion of your action', Craig later told shipyard workers, 'I say "well done".'[9]

In the aftermath of the 1920 expulsions, Vigilance Committees were established at workplaces to consolidate Loyalist control.[10] In the shipyards, special vetting committees were formed to prevent the infiltration of 'Sinn Feiners'. All the unions except one were complicit in these attacks on Catholic workers.[11]

Sectarianism and 'non-sectarianism'

There was little place for Loyalist trade unionism in the 'twenties and 'thirties. The government built sectarian discrimination into every aspect of the new state apparatus. The national population had been beaten into temporary submission. And conditions of slump and mass unemployment were not conducive to trade union organisation. By 1937 trade unionists made up only 20 per cent of the Six Counties workforce.

The temporary revival of Ulster's traditional industries during the Second World War led to renewed growth of the

unions. It was at this time that the Loyalist trade unionists, organised in the Northern Ireland Committee of the Irish Trades Union Congress, formally adopted the approach to politics that it has pursued ever since:

'The activities of the Committee should be confined to industrial and economic operations and matters which affect trade unions and workers, as such, leaving aside political issues in so far as they are bound up with Trade Union interest.'[12]

The function of this 'convention' was to exclude from discussion any consideration of sectarian discrimination in employment whilst the NIC fully accepted the Stormont regime that enforced sectarian divisions. Once the NIC had reassured the Belfast government of its autonomy from the Dublin-based ICTU it was granted official recognition in 1964. The government was so pleased with the moderate and loyal behaviour of the NIC that by 1972 it was subsidising the committee to the tune of £10 000 per year. During the past decade of war the 'non-sectarian' convention of the NIC has paid dividends for British imperialism.

While the more militant Loyalist workers have joined the UDA and the Ulster Volunteer Force in carrying out traditional-style intimidation and assassinations, the trade union leaders have played a more discreet role in backing up British rule.[13] Firstly, they have worked overtime to prevent strikes that might damage the economy. Up to 90 per cent of the disputes that occurred despite their efforts were British in origin – 'national' strikes such as the lorrydrivers' strike of 1978 or the engineers' strikes in 1980.

Secondly, trade union bureaucrats have constantly urged workers not to let sectarian politics disrupt collaboration with the employers in the production of profits. On the day the troops went in to Derry and Belfast in 1969, Harland and Wolff shop steward Sandy Scott pleaded with workers not to bring sectarian strife into the shipyards and to 'recognise that the continuation of the present civil order can only end in economic disaster'.[14] Scott was later awarded the MBE for his services.

In 1974, *The Times* paid tribute to the role of the unions in keeping politics out of the factories, for keeping the wheels of capital turning while the national struggle raged on the streets of Belfast:

'Last year [1973] a long and tough battle was fought between shopfloor management in the Belfast shipyard. But the issues were confined to those involved in the straight-forward industrial dispute. All attempts to introduce sectarian arguments – and several were made – were quickly stopped by unions and management alike.... Throughout the troubles the unions have successfully negotiated a tricky tightrope. Their position was exposed and vulnerable. There have been all sorts of elements and pressure groups seeking to involve them. Wisely the unions have decided to pursue their traditional role of shopfloor representation, maintaining worker solidarity and using its strength to contest industrial issues.'[15]

When, however, the trade union bureaucrats went so far as to oppose industrial action called by militant Loyalist shop stewards in defence of the Union with Britain they were spurned by Protestant workers.

In May 1974 the Ulster Workers Council called a general strike in protest against the British government's scheme for a 'power-sharing' executive. British TUC leader Len Murray joined with NIC leaders to oppose this attempt to disrupt the industrial life of the Six Counties and frustrate a legitimate government policy. Their 'back to work' march was a fiasco: it was attended by only a couple of hundred people who were jeered and spat upon by Belfast workers. The trade unions were irrelevant to Loyalist workers when the defence of their historic privileges was at stake. But once 'power-sharing' was defeated, the unions resumed their position as the 'non-sectarian' representatives of Protestant workers.[16]

Trade unions in the Six Counties are an instrument of Loyalist privilege. Their central function is to maintain the status quo of the labour market. However, because Protestant workers fear Catholics more than they hate their bosses, trade unions are of limited use. Thus whenever the republican movement puts British rule in jeopardy or when British policy seems to put the Union in question, Loyalist trade unionists ignore the NIC and the TUC and turn to the Loyalist paramilitaries. The Loyalist trade unions are the creations of British imperialism: the struggle against it will require the establishment of different organisations to defend workers' interests.

1 'The local unions had to take strong action from time to time to keep workers from other areas out of Belfast, in order to prevent them flooding the labour market and depressing the level of wages. . .the trade unions' main interest was in restricting the number of apprenticeships, in order to maintain the wage level of existing journeymen.' W E Coe, *The engineering industry in the North of Ireland*, David & Charles, Newton Abbot, 1969, pp173,175.
2 S Baker, op cit, p802.
3 W E Coe, op cit, p181.
4 H Patterson, *Class conflict and sectarianism*, Blackstaff, 1980, p88.
5 J Biggs-Davison, *The hand is red*, London, 1973, p74.
6 J D Clarkson, *Labour and nationalism in Ireland*, p299.
7 After expelling Catholic workers on the Great Northern Railway, Loyalist workers explained that 'we would have no hesitation in resolving to work with any of our fellow workmen who sign a declaration of loyalty to their King and Constitution'. Ibid, p370.
8 Ibid, p365.
9 Ibid, p371-2.
10 H Patterson, op cit, p135.
11 Only the Amalgamated Society of Carpenters and Joiners opposed the expulsion of Catholics. The British TUC, however, pressed the ASCJ not to take disciplinary action against its members in Belfast who participated in the pogroms. A Boyd, *The rise of the Irish trade unions, 1729-1970*, Anvil, Dublin, 1976, p97.
12 C McCarthy, *Trade unions in Ireland, 1884-1960*, Institute of Public Administration, Dublin, 1977, p322. The Irish TUC was formed as an offshoot of the British TUC in 1894. The Northern Ireland Committee of the ITUC was set up in 1944. In 1959 the ITUC fused with the Dublin-based Congress of Irish Trade Unions (originally formed when the Irish Transport and General Workers Union split from the ITUC in 1945) to form the Irish Congress of Trade Unions. The NIC became the virtually autonomous Six Counties section of the ICTU. The British TUC has no regional organisation in Northern Ireland although it has close contacts with the NIC. Approximately 50 per cent of workers in the Six Counties are trade union members: 78 per cent belong to British unions, 14 per cent to unions based in Northern Ireland and 8 per cent to unions with their headquarters in Dublin.
13 The UVF is a paramilitary rival of the UDA, formed in 1966 in emulation of Carson's militia.
14 Quoted in *Belfast Bulletin*, op cit, p13. In June 1970 500 Catholics were thrown out of Harland and Wolff when the IRA began to fight back against the British troops.
15 *The Times*, 29 March 1974.
16 R Fisk, *The point of no return*, Andre Deutsch, London, 1975, pp109-119.

4. Tensions within Loyalism

Protestant workers have never been simply lackeys of the Unionist bourgeoisie. On several occasions substantial sections have moved towards working class politics, embracing socialism and joining in militant collective action with Catholic fellow workers. Such movements have generally taken place in times of economic recession when the national struggle was at a low ebb; they have ended abruptly upon the emergence of any threat to the British connection. It is also noteworthy that the tendency of Loyalist workers to move in a left-wing direction has become progressively weaker during the present century.

Labour's high tide

Around the turn of the century Belfast had a high reputation for socialist politics and militant trade unionism. Between the end of the Second Home Rule Bill in 1893 and the beginning of the Third Home Rule Bill controversy in 1911, Loyalist working class politics flourished. Trade unions adopted a militant syndicalist outlook and socialist groups such as William Walker's branch of the Independent Labour Party were established.

Labour's first electoral breakthrough came in 1897 when six candidates were elected to Belfast Corporation.[1] But this was no triumph for socialism – the Loyalist establishment welcomed the new members as representatives of Loyalist workers. In Shankill the Conservative Association left a seat open for one of the Labour candidates.[2]

One of the most significant developments of the period was the split in the Orange Order as a result of working class pressure. In 1903 shipyard worker Tom Sloan and journalist Lindsay Crawford denounced the unholy alliance between the Order and the Tories and founded the Independent Orange Order. Sloan advocated 'Protestantism, Orangeism, total abstinence, trade unionism, in a word Protestant Belfast'.[3] But Crawford was more radical, producing in the Magheramore manifesto of 1905 a call for religious toleration and a measure of devolved government for Ireland.[4] The IOO backed a working alliance of Labour, Nationalist and Independent Unionist candidates in the 1906 general election. Sloan captured South Belfast in an unprecedented challenge to the Unionist establishment.

The IOO also joined with Labour in support of the 1907 dock strike. Catholic and Protestant workers came out against the employers' attempt to break the unions. The police force mutinied and the authorities found it necessary to transfer the entire force to outlying districts, and pour thousands of troops into the city. The military were mainly concentrated in the Falls Road district in an attempt to provoke Catholic antagonism and break the unity of the strike.[5]

The appearance of another Home Rule Bill on the horizon led to the rapid demise of the IOO. Crawford came out in support of Home Rule and was sacked from his job on the *Ulster Guardian* and was expelled from the IOO for going one step too far. Sloan tried to backtrack and began making virulent sectarian speeches. But it was too late. He was outflanked by the official Unionists and lost his Westminster seat in 1910.

The collapse of Labour support among the Loyalist workers confirmed the strength of their allegiance to Britain in comparison with the weakness of their identification with Catholic fellow workers. The Labour Party retreated to the Catholic ghettos:

> 'The Home Rule crisis of 1912-14 so polarised Belfast along traditional sectarian lines that the local Labour Party, which in Walker's day had been a unionist body, could find refuge only among the Catholic nationalists of the Falls district.'[6]

From class unity to pogroms

The pattern of a period of support for Labour politics and class unity, followed by a wave of renewed sectarianism arising out of a threat to Ireland's constitutional relationship with Britain, was repeated in the early 'twenties and 'thirties.

In 1919 and 1920 there were significant instances of Loyalist radicalisation. The strike committee that led the February 1919 shipyard strike included Catholic and Protestant trade unionists. Labour Party leader Sam Kyle cooperated on the committee with Ulster Unionist Labour Association leader shipwright William Grant. But when the national struggle came to the fore later in 1920 the UULA encouraged the same shipyard workers to go on the rampage against the Catholics. Grant tried to justify the pogroms:

> 'The happenings in the shipyard were bound to occur. For the safety of their Unionist Party Association and organisation it was necessary that steps should be taken to put down the Sinn Fein movement when the government had practically acknowledged that they were unable to do so.'[7]

While Labour supporters were driven from the shipyards with Sinn Feiners, Labour candidates were trounced at the polls. In the first election to the Northern Ireland Parliament in 1921 the Belfast ILP candidates denounced the division of Ireland: together they received less than 2000 votes. When the Northern Ireland Labour Party was formed in 1923 it decided to avoid taking a position on Partition.

Again, in the early 'thirties Protestants united with Catholics to oppose a cut in the levels of benefits to the unemployed. Two factors were important in creating the conditions for the outdoor relief strike. Firstly, unemployment had risen rapidly amongst Protestant workers. Between January 1930 and October 1932 when the strike broke out employment had fallen by 87 per cent in the shipyards.[8] Secondly, the republican movement had been further disorientated and weakened by the election to government in the Twenty-six Counties of the Fianna Fail (anti-Treaty) party in 1932. As a consequence there was no apparent threat to Partition in the minds of Protestant workers. This combination of poverty and the security of Partition facilitated the united action.

However, the more traditional response to rising unemployment amongst Protestant workers was never far from the surface. In 1931 the Ulster Protestant League was set up 'to safeguard the employment of Protestants'. Unionist politicians made inflammatory speeches encouraging Protestant employers not to employ any Catholics. The shortlived unity was decisively terminated with the outbreak of sectarian riots in 1935. Loyalists killed five Catholics, pushed hundreds more out of work and drove more than 500 from their homes.[9]

Labourism in the Irish War

In the post-war period Loyalist workers have shown little inclination for Labour politics. Although reformist political organisations have endorsed Partition and embraced the sectarian state, Protestant workers have for the most part remained solidly loyal to Unionism. The slow decline of the Northern Ireland Labour Party reveals the lack of appeal of social democratic politics for Loyalist workers.

In 1949 the NILP gave up its equivocation over Partition and recognised the Stormont state:

> 'The Northern Ireland Labour Party, being a democratic party, accepts the constitutional position of Northern Ireland and the close association with Britain and the Commonwealth. Furthermore we are not seeking any mandate to change it.'[10]

The Protestant workers were not impressed: the NILP lost its three remaining seats in the 1949 elections.

In the late 'fifties and early 'sixties, however, the NILP began to make some headway. The decline of traditional industries created rising unemployment; Protestant workers fought a number of redundancy disputes. The IRA's border campaign was no threat to the Union: it fizzled out early in 1962. The NILP won four seats in Stormont in 1958, vehemently denouncing the IRA in the election campaign. In 1962 the Party won 76 000 votes – its highest score ever – and retained all four seats.

In 1963 the new leader of the Unionist Party Terence O'Neill moved to curb Labour's incursions into the Loyalist ranks. He encouraged new investment in the Six Counties – and he made sure that Protestant workers got the benefits. New towns were sited in Orange country – at Craigavon and Ballymena – and Ulster's new university went, not to Catholic Derry, but to Protestant Coleraine. And, despite his highly publicised meeting with Irish Taoiseach Sean Lemass and visits to Catholic convents, O'Neill's appeal to Loyalist workers succeeded. The NILP was routed in the 1965 election.

However, O'Neill's concessions to the Catholics soon became his undoing. The Rev. Ian Paisley began his protests against O'Neill's conciliatory approach towards the Irish Republic, the Catholic Church and its northern congregation in the early 'sixties. By 1969 and the rise of the civil rights movement he was attracting a growing body of support from Loyalist workers. O'Neill was the first victim of the movement of the Loyalist community towards more and more extreme exponents of traditional Ulster Unionism. Ten years after O'Neill's resignation Paisley won 300 000 votes in the European election and proclaimed himself Mr Ulster.

In the years of war since 1969 reformist parties have fared badly. The NILP scarcely exists today. There are, however, new contenders for its place as the reformist party of the Loyalist workers – the Workers Party-Republican Clubs (the remnants of the Stalinist Official IRA) and the Labour and Trade Union Group (the Militant Tendency in Orange). All these fragments have been humiliated in recent national and local government elections.[11]

Loyal workers and Orange ideas

Relations between Loyalist workers and Unionist capitalists have never broken down so far as to allow the emergence of a genuine workers' party. Conflicts have always been limited by the common concern of the Protestant community to defend its distinctive way of life. And since the guarantor of this way of life is the British state, Loyalist politics have always prevailed over the particular concerns of any section of the Protestant community.

Social democratic politics have played a marginal role because Loyalist workers need to line up with their employers against the national population. Reformist groupings from the NILP to the WP-RC have adopted a pro-imperialist stance in an attempt to win Protestant working class support. But to no avail: Protestant workers do not want reforms – the maintenance of the status quo is their overriding objective.

British socialists have failed to appreciate that it is the *social position* of Protestant workers that has led them to line up with the Loyalist ruling class. They have not understood that the condition for uniting Protestant and Catholic workers is the destruction of the force that prevents them coming together by promoting the all-class sectarian unity of the Loyalist alliance – British imperialism.

A group of radical academics, in an influential recent book, recycle the traditional reformist appeal for an alliance between Protestants and Catholics to fight for reforms. They call for 'the construction of a progressive alliance to reform the state and create the best possible conditions for the development of the class struggle'.[12] But it is the state – the British state – that has contained the class struggle, by using its powerful influence on Protestants (and most importantly on Protestant workers) to prevent any such alliance with Catholics from taking place. The struggle 'to reform the state' in the Six Counties simply accepts the existing divisions in the working class. It is only the national struggle against the British state that can create the conditions for the development of the class struggle in Ireland.

1 E Larkin, *James Larkin*, RKP, London, 1977, p316.
2 H Patterson, op cit, p40.
3 J Boyle, 'The Belfast Protestant Association and the Independent Orange Order, 1901-1910', in *Irish Historical Studies*, Vol 13, No 50, 1962, p123.
4 Crawford appealed to Catholics: 'We stand once more on the banks of the Boyne. . .to hold out the right hand of fellowship to those who, while worshipping at other shrines, are yet our fellow countrymen'. E Larkin, op cit, p313.
5 The strike was eventually sold out by British trade union leaders.
6 E Rumph and A C Hepburn, *Nationalism and socialism in twentieth century Ireland*, Liverpool University Press, 1977, p197.
7 N Campbell, *The Unionist Party and the Protestant working class*, unpublished thesis, New University of Ulster, Coleraine, 1978.
8 K S Isles and N Cuthbert, op cit, p594.
9 M Farrell, *Northern Ireland: the Orange State*, Pluto, 1980, pp136-140.
10 Ibid, p194.
11 The Stalinist Stickies were dumbfounded by their disastrous performance in the May local government elections: 'What then is the overall assessment? Absolute polarisation? A straight return to the Roman Catholic versus Protestant politics of the pre-civil rights days? Extreme communal violence generated by the H-Block issue? The questions are easier than the answers'. D O'Hagan, *Worker's Life*, June 1981. For the *Militant* the answer is easy: 'the North is out of gear with political developments in Britain and Southern Ireland'. Bill Webster, *Militant*, 29 May 1981. In the Six Counties workers, Protestant and Catholic, obviously thought it was Militant that was 'out of gear' with the reality of a war of national liberation.
12 P Bew, P Gibbon, H Patterson, 'Some aspects of nationalism and socialism in Ireland: 1968-78', *Ireland: divided nation, divided class*, Morgan and Purdie, eds, Irish Links, 1980, p170.

Fearing above all to endorse the national struggle against British imperialism, British radicals submerge themselves in the quest for 'contradictions' within the Loyalist camp. One of the leading left-wing analysts of the Protestant working class, Henry Patterson, argues in his recent study of the pre-Partition period that 'the complicated nature' of 'intra-Protestant conflicts' has to be closely examined. For 'it can be shown that in these contests involving Protestant "democrats" a significant amount of class feeling was articulated'.[13] Having identified progressive trends within Loyalism, Patterson goes on to discover a positive side to Orange ideology. He dismisses those who 'treat the main ideological currents among Protestant workers simply as obstacles to be overcome'.[14] Because 'Orangeism as an ideology if not an institution could develop into a militant populism'.[15]

Patterson never explains the basis for Protestant workers' class collaboration. As a result he ends up portraying Orangeism as having autonomous laws.

> 'Orangeism, it will be argued, derived its significance not simply as a pliant instrument in the hands of the bourgeoisie, but as a relatively autonomous institution with practices and demands that could and did bring it, or sections of its membership, into conflict with the leaders of Belfast Conservatism.'[16]

The actions of the Protestant working class cannot be reduced to the flights of fancy of 'relatively autonomous institutions'. Patterson is asking the wrong questions altogether. Protestant workers were neither 'dupes' of the Loyalist bosses nor a threat to the Protestant ascendancy. Their opposition to the Unionist establishment was motivated by the same force which led them to expel Catholics from the shipyards. In both cases they were defending their positions in the labour market. Protestant workers are not haunted by 'semi-autonomous' ideology – their actions are determined by the real material relations of the Six Counties.

The weakness of the social democratic tradition and the limited role of trade unions reflect the special character of Protestant workers. Like all wage labourers under capitalism, they work and they are exploited. But their special position in the labour market means that they cannot act as a working class as long as their privileges survive. The modification of the labour/capital relationship produced by the constraints on the free sale of labour-power mean that Protestant workers have no interest in common with the nationalist working class. The call for Protestant-Catholic unity is a chimera which masks the real issue – the political oppression of Ireland by British imperialism.

Andrew Clarkson
Phil Murphy

13 H Patterson, op cit, p*xii*.
14 Ibid, p*xi*.
15 Ibid, p144.
16 Ibid, p*xi*.

BOOK REVIEWS

IMPERIALISM AND THE CRISIS

Bill Warren, *Imperialism: pioneer of capitalism*, NLB and Verso editions, 1980, pp274, pbk £3.95.

Ernest Mandel, *The second slump*, Verso editions, 1980, pp226, pbk £2.95.

Richard Day, *The 'crisis' and the 'crash': Soviet studies of the West (1917-1939)*, NLB, 1981, pp300, £9.50.

Rudolf Hilferding, *Finance capital* (edited with an introduction by Tom Bottomore), Routledge & Kegan Paul, 1981, pp467, £22.50.

These recently published books were written over the span of 70 years. Yet in one way or another they all address essentially the same problem: the nature of the capitalist crisis in the epoch of imperialism.

All four works can be seen as alternatives to Marx's theory of crisis and Lenin's theory of imperialism. In contrast to Marx these four authors look not to the realm of production but to the sphere of competition to explain the root cause of the capitalist crisis. Their analyses begin from the point of view of the individual capitalist and then proceed to make generalisations about the different forms through which individual capitalists relate to each other. The Marxist theory of crisis, his discussion of the overproduction of capital relative to the existing level of exploitation and of the tendency of the rate of profit to fall, are alien to their tradition.

Warren's book can be dismissed quite easily: Warren denounces Lenin's work on imperialism, but his critique of Lenin is not a theoretical one. Instead he produces facts from different periods to try and prove that Lenin was an ignoramus. This presents him with few difficulties because he manages to invent positions which Lenin never held, the better to destroy them. For example, Warren often uses the term 'imperialism' to mean colonialism (pp45-47). In reality this is the position of today's bourgeois-academic experts in 'dependence theory', not that of Lenin.

A clear purpose lies behind Warren's distorting of Lenin. He seeks to demonstrate that imperialism is progressive and, further, that capitalist backwardness in Africa, Asia and Latin America has nothing to do with imperialism. Backward capitalism is explained from the point of view of Malthus, not Marx. All its evils, we are told, 'stem from population growth' (p113). With this kind of vulgar apology for imperialism we should not be surprised at Warren's observation that capitalism and democracy are linked 'virtually as Siamese twins' (p28).

Mandel cannot be accused of sharing any of Warren's illusions in the progressive character of imperialism. On the contrary, over the past 30 years he has made himself a reputation for predicting doom for capitalism and for drawing out in vivid terms the fragility of the imperialist system. Mandel means well. He is also a good journalist.

The second slump is full of useful information about the world recession of the 'seventies.

As a description of some of the recent developments in the world economy, *The second slump* provides a passable introduction for the non-specialist. Problems emerge, however, when Mandel tries his hand at Marxism. Crisis theory is not Mandel's strong point and he intuitively compensates for his theoretical shallowness by playing safe. Just in case he gets caught out, Mandel puts forward every conventional explanation for the capitalist crisis. The resulting blancmange leads him to the absurd proposition that the recession of the 'seventies 'must be understood as a focal point of *five different* crises' (p180).

Everything that goes amiss in the capitalist system becomes a 'crisis'. Having covered his tracks several times, Mandel declares in a typical flourish:

> 'The conjunction of these four crises and the structural crisis of bourgeois society that has been developing under the surface for more than a decade has accentuated the crisis of all bourgeois social relations and more particularly the crisis of capitalist relations of production.' (p182)

So the four crises have 'accentuated' the crisis of 'all bourgeois social relations' and in particular 'the crisis of capitalist relations of production'. Crisis leads to crisis. Every answer is correct. Everybody wins a prize. *The second slump*, more aptly entitled *The second coming*, demonstrates that the art of tautology, so well perfected by the ancient Greeks, is alive and well and living in modern-day Europe.

Richard Day's work attempts to explore the important debates on the crisis that took place in the Soviet Union in the 'twenties, and in a more vulgarised form in the 'thirties. Day's book is without doubt a valuable account of these discussions; it shows very clearly how Marxist theory was degraded as the Soviet system became bureaucratised.

The main flaw with it derives from Day's misunderstanding of Marx's theory of accumulation. Day believes that Marx saw the origins of the capitalist crisis in the disproportional growth of different departments of production. He criticises the underconsumptionist approach of Luxemburg and others from this standpoint. In reality underconsumption is itself a form of disproportion theory. It represents a disproportion between supply and demand. For Marx disproportional growth was merely a symptom of the crisis, not its cause.

Day's erroneous interpretation of Marx's theory leads him to establish two schools of thought in the Soviet debates: the 'Hilferding tradition' which included in its ranks Lenin, Preobrazhensky and Bukharin, and the 'Luxemburg tradition', which included Varga and Stalin (pp38-39). This conceptual distinction is difficult to support. Lenin's breakdown theory was based on a recognition that the overaccumulation of capital, expressed as a crisis of profitability, would result in stagnation and decay. It was developed as a revolutionary response to the neo-harmonist theories of disproportionality: it took issue not only with Kautsky, but also Hilferding and Bukharin.

The reformist consequence of disproportionality theory is best expressed in Hilferding's *Finance capital*. This bears some scrutiny.

Despite its theoretical defects Hilferding's book is a work of science. It attempts to probe the evolution of capitalism into imperialism and, in the process, draws out some important points. Some of these – for instance those on the concentration and centralisation of production and on the role of finance capital – were assimilated by Lenin in his work on imperialism. Unfortunately Hilferding's work fails to locate the key contradictions in the capitalist system. His shallow understanding of accumulation leads him to a subjective theory of competition. Since Hilferding saw the basic problem as one of disproportional growth it followed that some form of planning could put the proportions right.

For Hilferding disproportional industrial growth is based on anarchic competition; it can thus be avoided by organising competition. All the state needs to do to bring in socialism is to remove a handful of monopolists:

> 'Even today [1910], taking possession of six large Berlin banks would mean taking possession of the most important spheres of large-scale industry, and would greatly facilitate the initial phases of socialist policy during the transition period.' (p368)

Hilferding followed through the logic of his theory. He served as finance minister in two governments during the Weimar period, trying to organise competition and trying to get the proportions right. The result of his experiments was the destruction of the German working class.

Hilferding's work retains its importance today. He gave reformism a coherence which has been unsurpassed since. All the present-day Alternative Economic Strategies owe Hilferding a debt. Moreover the influence of Bukharin's treatment of Hilferding's ideas is evident in the analysis of groups as disparate as the Soviet Communist Party and the British Socialist Workers Party. Supporters of the radical left would do well to study Hilferding. In *Finance capital* they would discover the substance of their 'original' and 'distinctive' theories.

Frank Richards

PHILOSOPHY AND REVOLUTION

Geoffrey Pilling, *Marx's 'Capital': philosophy and political economy*, Routledge & Kegan Paul, 1980, pp212, £10.

Pilling's book is a refreshing change from the usual rubbish presented under similar titles. Its discussion of Marx's method brings out both the strength of the Marxist approach, and the facile character of revisionist criticisms. Pilling acknowledges his debts to Rosdolsky's *The making of Marx's 'Capital'* and Rubin's *Essays on Marx's theory of value*. But his work stands on its own as a useful contribution to debates in Marxist theory.

Marx's 'Capital' gives us a systematic treatment of Marx's differences with classical political economy. Pilling shows how Marx rejected not merely the conclusions of the classical theory, but more importantly, he transcended the method which led to these conclusions. For example, whereas Marx worked out how the law of value governed the various phenomena of the capitalist economy by analysing the way in which the law had to operate in a modified form, David Ricardo, the last and greatest of the classical economists, could only refer to a series of 'exceptions' to the law when confronted with reality.

'Ricardo's false understanding of the relationship between value and price for instance (the transformation of values into prices) arose from the fact that the immediate, day to day expressions of bourgeois production relations (in this case prices) were allowed to stand in the way of his presentation of the law of value.' (p22)

Pilling goes beyond the standard criticisms of the classical economists – that their understanding was 'ahistorical' – to examine the crucial philosophical differences with Marxism. He deals with the shortcomings of empiricism and the relationship between dialectics and formal logic in an admirably lucid manner. At the same time he takes to task the modern day followers of Ricardo and Adam Smith.

In a chapter on the concepts employed by Marx, Pilling brings out how each one – use-value, value, capital and so on – has a definite historical character. Marx derived these concepts from a thorough inquiry into the mass of data available to him. After analysing the different forms of development and tracing their 'inner connection' Marx was able to grasp the laws of motion of capitalism. That is why, a century later, Marx's theory retains such force today.

Pilling does a useful job in explaining the significance of the opening chapters of volume one of *Capital* which many find so difficult. But the difficulties do not excuse theorists, like Stalinist revisionist Louis Althusser, who consider Marx a Hegelian obscurantist in the chapters on commodities and money. The elementary concepts Marx discussed here are vital for the later analysis which the vulgar commentators fasten upon. As Pilling puts it, Marx

'reveals throughout the *whole* of *Capital* how the contradiction of the commodity form unfolds, intensifies and dominates every aspect of bourgeois society. The contradictions of the commodity are *never* left behind. . . .This basic contradiction (use-value, value) continually reappears in newer and higher forms which grow out of the lower forms as part of an uninterrupted process. It is through the development of these forms that development in the sphere of economy takes place.' (p137)

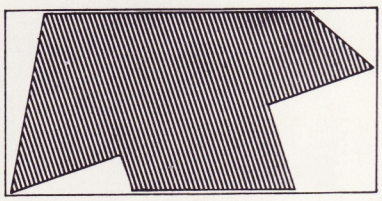
Marx could never have gone on to develop the concept of labour-power, and hence capital, without his analysis of the commodity contained in chapter one. And the use-value/value distinction pervades the rest of *Capital*, in Marx's discussion of productivity, the organic composition of capital, social reproduction, etc. In fact the very aim of the work, to reveal how the specific social form of organising production – capitalism – determines the development of society, would have been impossible without the first chapter of *Capital*.

Marx's 'Capital' draws out similar points in a chapter on Marx's concept of commodity fetishism. This concept characterised the relations between commodity producers – relations that are not expressed directly, as social relations, but only indirectly through the exchange of their products on the market. Thus social relations between producers are expressed as relations between things: relations determined outside of the control of the producers, but controlled by the law of value. Pilling demonstrates that Marx follows through this basic feature of commodity production in his treatment of the more developed relations of capitalism. As the social power of capital grows, the means of production come to dominate their producers, the working class. In a crisis the resulting oppression of the working class becomes clear. Marxism shows that the overthrow of capitalist social relations is a precondition for overcoming the crisis in the interests of the workers.

These are the great strengths of Pilling's book. But it does deserve some criticism. Although its aim is to examine the underlying concepts of Marx's *Capital*, the book would have been strengthened by considering the development of Marx's theory in relation to today's crisis. Pilling himself recognises that Marxists have to go beyond Marx and analyse the development of contemporary capitalism. But his failure to do this leads to certain theoretical problems.

An example is the question of 'finance capital', a concept developed by Hilferding and Lenin to denote the 'coalescence' of banking and industrial capital in the imperialist epoch. Pilling misuses the term, confusing financial (or banking) capital with finance capital (pp95,185). The latter refers to the relationship between the two functions of capital, not just one-sidedly to the banks. Although Lenin emphasised the control of industry by the banks, it is clear that the development of the credit system has led industrial companies also to perform certain banking operations. This is an important reminder that we need to study capitalist development *now* to generate the concepts adequate for understanding it.

Tony Allen



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