The Anti-Samuelson

BY MARC LINDE

VOLUME TWO

Microeconomics:

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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Chapter 23: The World Market and World Money: Theoretical and Historical Outline (S’s Chapter 33)

Some U.S. producers and processors maintain the Japanese are buying shrimp for purely monetary reasons. They would simply rather have shrimp than dollars, it seems. ‘They’re overloaded with American dollars and they’re almost spreading them around the world like funny money. . . .’

—“For Some Reason Japan is Buying Lots of Shrimp,” Wall Street Journal, December 1, 1971, p. 36

I. THE WORLD MARKET

S opens his discussion by asking how trade takes place (644); this presumes that his reference to an alleged enlarged consumption-possibility frontier on the preceding page has already adequately answered the question of why foreign trade takes place.

We know that use values are not the dominant aspect of capitalist reality and therefore cannot have the dominant explanatory power within the theory S ascribes to them.

The why of foreign trade must take into account historical changes in the function of that trade. Because capitalism is a self-reproducing system, some relation must exist between the changing functions. This calls for some revision insofar as foreign trade helped give birth to capitalism (that is, it predates capitalism).

Marx saw the rise of commodity production in the trade of surplus products between non-commodity-producing communities; this was the beginnings of production not for
use but for barter. This in turn caused some members of the community to engage solely in production for others outside the community.

Something analogous took place in the transitional period between the dissolution of feudal societies and the rise of capitalism. Traders mediated among the producers of various goods in various countries. At this stage, the desire for new and probably locally unobtainable products—most likely luxury items—sparked this process. Regardless of the motives of the consumers, this at first accidental trade of surplus led to a production for exchange. In this way trade increased the volume and variety of value production, and by helping to dissolve the feudal societies also helped give birth to capitalism. But once the capitalist world market exists, it will be capitalist production, now dependent on that market, which will give the impetus to further trade.

In the beginning S appears to have been right: expanding consumption was the motive behind trade (though not the motive of the plundering traders themselves). But let's see what happens from here.

Once capitalism has created its own basis, the necessity of a world market becomes clear:

If the surplus labour or value were represented merely in the national surplus produce, then the increase of value for the sake of value and hence the extraction of surplus labour would find a limit in the narrow-mindedness, the narrow circle of use-values, in which the value of the national labor is represented. But it is only external trade that develops its true nature as value by developing the labor contained in the value as social labor, which is represented in an unlimited series of various use-values and indeed gives abstract wealth its meaning.1

Marx obviously was not ignorant of use-values, but he interprets them as phenomena capable of embodying different social relations at different times. We also see that for Marx the development of foreign trade was bound up with the development of human labor. Marx—and here he was certainly not alone—saw the incorporation of more and more societies and more and more types of concrete labor
in the world market as a civilizing force. Although he believed that the crises of capitalism would also be intensified by this process, he was aware of the extraordinary expansion of human productivity arising from capitalist industrialization and the world market accompanying it.

S appears to be so engrossed in his ideological mission of proving that world capitalism is a harmonious whole that he fails in the elementary task of impressing upon the reader the extent and significance of the tendency toward objective unification brought about by capitalism (while on the other hand he exaggerates the aspect of subjective unification by totally neglecting the divisive powers of the national capitalist states).

S’s use of British racing cars as an example of foreign trade may be calculated to what the reader’s interest, but it hardly deals with two of the major functions of foreign trade—to cheapen the elements of constant capital (machines, raw materials, fuels) and to cheapen the means of subsistence of the working class (the variable capital); the former helps to raise the rate of profit by lowering costs, and the latter, by raising the rate of surplus value. This will obviously have a positive effect on the accumulation of capital. Importers will buy abroad if the lower prices enable them to make a greater profit; these individual capitalists clearly need not be guided by societal ends in making the decisions which influence capital accumulation.

II. WORLD MONEY

The upshot of S’s discussion is that “ultimately” a U.S. purchaser of the British car must pay the producer in his, namely British, money: trade “between nations with different units of money introduces a new economic factor: the foreign exchange rate, giving the price of the foreigner’s unit of money in terms of our own” (644). This passage indicates that paper dollars, pounds, etc., are fiat money—as S has repeatedly insisted—i.e., which are money only within the nation’s sovereign territory. Yet, as we already know,
money in this view is merely a technical means to facilitate barter; it, according to bourgeois economists, serves here only as a means of circulation and/or payment. Thus on the international level as well, barter and money are mechanically united, thus permitting them to be just as easily separated. This will enable S to apply his supply-and-demand analysis to determine exchange rates, thus abstracting from the fact that exchange is exchange of commodities—having value—and not barter, and that money itself has value.

Following this section S seeks to determine the principles underlying the formation of exchange rates, whereby he distinguishes several cases (645). This "case-study" approach makes it impossible to grasp the historical and logical factors at work in the structural modification of the international monetary system—or more accurately, this barter-means of circulation approach ignores the essence of the system, and leads S to adopt an approach which looks at superficial changes.

Thus it is neither on account of its historical importance nor as a result of the fact that it is "one of the easiest cases" to master that we begin with the gold standard, but rather because it expresses most clearly the essential relations of the world market.

A. THEORETICAL ASPECTS

Marx attempted to show that the development of commodities and commodity production was accompanied by or expressed itself in a parallel development of money:

With its exit from the internal sphere of circulation money sheds the local forms of standard of price, coin, fractional currency and token of value which sprout there and reverts to the original ingot form of the precious metals. In world trade commodities unfold their value universally. For this reason their autonomous value form also appears over against them here as world money. It is first on the world market that money functions in its full scope as the commodity whose natural form is at the same time directly the social form of realiza-
tion of human labor in abstracto. Its mode of existence becomes adequate to its concept.²

In other words, capitalism will not reach its full flowering until it has taken hold of the whole world; but this does not happen with each capitalist nation developing to maturity in isolation or even with nation after nation successively completing this development; rather the full development of capitalism within each nation is dependent on its interaction with other countries. It is only on the basis of this incorporation on a world level of all human labor and the latter’s reduction to abstract labor that capitalism becomes capitalism.

The extensive development of abstract labor, and therefore of commodity production, must find its adequate expression in world money. This money serves the functions of: (1) universal means of payment; (2) universal wealth (i.e., transfer of wealth from one country to another where the transfer in commodity form is not possible, such as loans). Since in international trade commodity exchange is the realization of the commodity form of capital, and such transactions are usually undertaken as credit operations, it is the first function—the means of payment—that will predominate on the world market. This of course means that just as within a country not all exchanges are mediated by real money, thus too on the world market gold is needed only to pay the balances remaining after all reciprocal debt demands have been compensated.

When S begins to deal with this system of gold money, he states that “by definition, there would be no foreign exchange rate problem” (645) if gold bars were used or if each national currency were defined in terms of a fixed weight of gold, since then each currency could be set into relation to each other easily arithmetically.

By whose definition? What S and all bourgeois economists would like to do is to counterpose fixed and flexible exchange rates in this way: with the former the whole price structure and income structure of a country must accommodate itself to changes in trade, whereas in a
flexible or free exchange-rate system the rates of exchange themselves do the accommodating. However, S insists that it is only with the exchange rate that "a new economic factor" is "introduced" (644), whereas a gold standard leaves foreign trade "essentially" like domestic trade (645).

This approach misses the essential peculiarities of the modifications brought about by international trade. By making the exchange rate the central issue, S is able to present the sphere of circulation as the fundamental problem, thereby creating the illusion that international "disequilibria" can be cured by certain institutional changes in the monetary mechanism.

S's description of Hume's gold-flow equilibrating mechanism again attests to S's ahistorical approach. He would like to make us believe that Hume deserves much credit for destroying silly mercantilist notions of yesteryear, which he so caricatures that the reader must assume the mercantilists were nitwits. Other than the fact that the mercantilists preceded Hume and Smith, we are told nothing about them—not who they were, when they lived, etc. These authors wrote at a time—the sixteenth and seventeenth centuries—when the greatest part of production still took place under feudal conditions; this means that commodity production had not yet become dominant. The mercantilists were "farsighted" in the sense that they recognized the monetary form of wealth as the universal form, in contrast to all other commodities. In other words, they were anticipating the basis of value production by regarding the labor producing the commodities for foreign trade—which would be exchanged for gold and silver—as the source of true wealth.

S apparently approves of Hume's mercantilist critique. Its first part, as related by S, refers to the absurdity of maintaining a large gold stock. But all S says is that "If" this merely means that an increased gold stock leads to a proportional inflation, then there is no benefit from this (647). This is obviously true, but the point is whether inflation is the inevitable result. We know that Hume's theory of money was based on the quantity theory of money; S char-
acterizes that theory as "crude" (ibid.) and refers to the whole classical mechanism as "oversimplified" (7th ed., p. 625), so that we do not know his real position. Yet the reader is left with the impression that large gold stocks are ridiculous, an opinion shared by S and most—but not all—bourgeois economists.

Although S has told us that with the exchange rate a new economic factor is introduced, he fails to grasp what is specific about international trade. We have advised caution in talking of nations as class-undifferentiated wholes, yet: "In the exchange rate—no matter how the private interests of every nation divide the latter into as many nations as it possesses fullgrown individuals and the interests of the importers and exporters of the same nation stand over against each other—national trade receives a semblance of existence. . . ."3 By this Marx means that despite the different and opposing interests that may be affected by changes in the exchange rate, that is despite the fact that the effects will not be uniform, the exchange rate itself will affect the various national interests in a way which will not necessarily be valid for other nations.

Let us now look at S's explanation of exchange rates. S's theory rests upon this basis: "Although money prices are quoted in international trade, in the longest run there must really be an international barter of goods and services" (8th ed., p. 630). And if we have not guessed it before, S now informs us that "the forces of supply and demand will determine" the exchange rate (647). It is obvious that nothing is going to be explained: if supply and demand cannot determine the equilibrium price on commodity markets, it also cannot explain exchange rates. By viewing exchange-rate changes as mere monetary expressions of bartering, S reduces money to its fluid form of means of circulation and payment; money as a necessary form of value itself is lost sight of.

S does not explain why "Americans want to buy so many English goods at the existing $2.40 level and Europeans want so few American goods" (647); he is content merely to state this, and to see what happens once a new
level is reached. In other words, the influence of the exchange rate itself on supply and demand is central, whereas the determinant of supply and demand is shunted off.

According to S, the U.S. demand curve for pounds "comes from our desire" to import British goods, make trips, finance troops in Britain, finance foreign aid, finance U.S. investment there, pay British owners of U.S. stocks and bonds and productive capital (648). Let us for the time being separate trade from all the other categories. It is clear that this sudden "desire" for things British must somehow find an explanation. Since for the most part Britain does not export commodities to the U.S. not obtainable elsewhere or here, we must assume that these imports have become cheaper than imports from other countries or domestic production. It is of course the "cheaper" that needs explanation, for in international trade two circulation acts must be completed: one must sell one's own commodity in order to realize dollars, and then one must sell the dollars for pounds in order to buy the British commodities. Thus a change in the exchange rate can arise on either side of the Atlantic: from a change in the value either of U.S. or of British commodities. In other words, in order to "get behind" the supply and demand curves we must investigate the conditions of value production in each country and the peculiar manner in which these changes are reflected in exchange rates.

Before doing so, however, we must mention the other factors S sees as determining supply and demand curves. True, they do influence the exchange rate, but it is also true that equating them with imports and exports blurs important distinctions. Thus, for example, S himself admits that capital exports will be accelerated from a country with an overvalued currency to one with an undervalued currency. This would appear to be a case where capital exports are determined by the inability of the first country to compete with the second on its home ground; this would normally be reflected in a negative or declining trade balance of the country with the overvalued currency. In other words, here
the factors determining supply and demand manifest themselves most clearly in imports and exports, whereas capital exports would be—at least in part—a derivative phenomenon. Moreover, other, not directly related factors, such as financing the U.S. imperialist beachhead in Europe, would have to be brought in to deal with capital exports. And these are obviously even further removed from the sort of abstract theoretical analysis called for here.

B. A MARXIST THEORY OF EXCHANGE RATES

At this point we must interrupt the narrative to present a Marxist explanation of exchange rates. A Marxist theory of the international monetary system must take as its point of departure the peculiarities of this sphere vis-à-vis value production within a nation. Within a nation the value of a commodity represents the expenditure of human labor of every ordinary human being; and although this average labor is given for any country at any time, it varies from country to country and from time to time.

This national average labor is the essential foundation of Marx's theory of value; without it there could be no regularity in the economic processes; no scientific laws concerning economics could be formulated; in fact, no sense could be made of capitalism altogether: it would appear chaotic.

However this foundation was not an arbitrary "assumption" necessitated by Marx's model, for forces at work within capitalism bring about this average labor. On the one hand on the production end all capitalists feel compelled to keep up with and overtake their competitors. But since the average labor is not a condition established by the subjective desires of the workers but by the capitalist enterprises they work in, this same competitive compulsion tends to bring about an average labor throughout the country. Thus the value of a commodity is not determined by any amount of labor spent on its production, but rather by the socially necessary labor as determined by the socially normal conditions of production and the socially average degree of labor skill and intensity.
There is a compulsion within a branch of production for average conditions to prevail and for these average conditions to become increasingly more productive; on the other hand there is also a compulsion for society's total of labor power and capital to be distributed among the various branches of production in accordance with the needs of capital accumulation in those branches. Marx calls the expression of these immanent forces within capitalism the law of value. The question is to what extent these conditions prevail among nations so that the law of value may also operate on the world market. Two prerequisites of this functioning of the law of value are the unimpeded mobility of labor and capital. It is precisely the function of the bourgeois state to set limits to this mobility of labor and capital; in fact, contrary to the alleged laws of international laissez-faire as propagated by S, the formation of the various national capitals and their interaction has been characterized by the intervention of the various national states in order to create conditions under which their national capitals can compete with the others. There is a dialectic involved here: the national states have the power to hinder the free mobility of capital, labor, commodities etc., that is, they have the ability to crush competition of other national capitals, but it is done with the intention of creating long-run conditions under which its national capital can compete more effectively. To put it more abstractly; the state has the power to interfere with the workings of the law of value in the short run, but this law will assert itself in the long run, and every state must bow to it.

There is a good deal of migration of laborers and there is an enormous amount of trade and capital import and export, but there is only a blocked-tendency world-average rate of profit and there is no world state. And yet commodities are exchanged on the world market. In what modified form does the law of value assert itself on the world market?

In every country there prevails a certain average intensity of labor below which the labor producing a commodity consumes more than the socially necessary time and therefore does not
count as labor of normal quality. Only a degree of intensity rising above the national average alters, in a given country, the measure of value by the mere duration of labor time.4

The measure of value is the duration of average labor-time. The value produced by one hour's average labor is constant: it was the same in 1900 as today, although the concrete use-values produced in that time have increased enormously. If given branches of production or firms are able to increase the intensity of "their" laborers, this means that these laborers produce more value per hour.5

At some point the other producers will be forced to match this pace, and when they do a new average intensity will have formed. This does not mean that now all producers produce twice as much value per hour; rather it means that a new average labor producing the same amount of value per hour has been established; the extra surplus value disappears, but the measure of value remains unchanged.

Otherwise on the world market whose integral parts are the individual countries. The average intensity of labor varies from country to country; it is greater here, less there. Thus these national averages form a scale whose unit of measure is the average unit of universal labor. Compared with the less intensive, therefore, the more intensive national labor produces more value in the same time, which expresses itself in more money.

The law of value is modified still more in its international application by the fact that on the world market the more productive national labor also counts as the more intensive whenever the more productive nation is not forced by competition to lower the sale price of its commodity to its value.6

There the world market apparently harbors a mechanism similar to the one bringing about extra surplus value within a country. The more productive labor counts as the more intensive in the sense that the commodity value will not be lowered to the individual value—that is, increased intensity does not lower the value of the commodity in the short run—more commodities are produced but the value per
commodity unit remains unchanged (until this new higher intensity becomes the new average); similarly, this exceptionally productive labor will reap extra profit for the capitalist insofar as in the short run competition does not force the innovating capitalist to lower his price to the new, lower social value (resulting from the generalization of the higher productivity).

To go on with Marx's presentation:

According as in a country capitalist production is developed, the national intensity and productivity of labor also rise there above the international level. The different quantities of commodities of the same kind which are produced in different countries in the same labor time therefore have unequal international values which are expressed in different prices, i.e., in different money sums according to the international values. The relative value of money will therefore be smaller in a nation with the more developed capitalist mode of production than in the one with the less developed capitalist mode of production.7

In commenting on this last part of the passage, let us assume that U.S. workers produce 100 cars per day, British workers 75, and West German workers 50, with British conditions of production coinciding with the average conditions. If 100 grams of gold are equal to the value of the average work day, then the national values of the cars will be 1, 1.33, and 2 grams respectively, whereby 1.33 equals the world market price. Thus the U.S. will gain a surplus profit, whereas West Germany will be selling below its national value. If the relative value of money is smaller in the U.S. then the U.S. needs less time to buy one gram of gold but with this gold can buy more hours of labor embodied in the commodities of the less productive nations. Although there is equal exchange on the world market in terms of value—i.e., of international value—less national labor time is being exchanged for more.

It will be clear from the previous discussion that the exchange rate will express the relation between the national money form of value and world money or, what is the
same, the relation between national value production and what Marx called universal labor.

But universal labor, as opposed to the average labor within a country, is an abstraction of exchange on the world market; unlike the average labor on a national scale, it is not an immanent condition of production, although the increasing export of capital in the past two decades has created a situation in which production conditions in the major capitalist nations begins to approximate one another. How does this exchange abstraction become concretized?

The example cited above was misleading insofar as it gives the impression that every national labor on the world market gets weighted in the scale of universal labor according to the rank which its country occupies in that scale.

In fact, differences of intensity and productivity can only work themselves out through competition of specific branches of production. Let us illustrate this with the following example of three countries producing three commodities: U.S., U.K., and West Germany; cars, whisky, rubber. We set the dollar, pound, and mark in a 1=1=1=1 relation, whereby one unit of national currency represents one national labor day. Under these assumptions we get the following as a point of departure:

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>W.G.</th>
<th>U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars</td>
<td>$50</td>
<td>DM 150</td>
<td>£180</td>
</tr>
<tr>
<td>Whisky</td>
<td>$25</td>
<td>DM 40</td>
<td>£66</td>
</tr>
<tr>
<td>Rubber</td>
<td>$5</td>
<td>DM 20</td>
<td>£12</td>
</tr>
</tbody>
</table>

Obviously under these conditions, that is with absolute productivity and intensity “advantages” of the U.S., the latter would develop a very large trade surplus, whereas W.G. and U.K. would develop large trade deficits. Under these circumstances the demand for U.S. commodities on the part of U.K. and W.G. will increase; this appears as an increased demand for dollars, but it is merely a reflection of the demand for the cheaper U.S. commodities. The fact that more pounds and marks must be paid to buy dollars means that more commodities can be bought with dollars.
than with the other two currencies. Under these conditions the dollar will appreciate relative to the other two currencies, whereby the pound and mark will depreciate relative to the dollar. This in turn means that the national labor of the U.S. will be expressed in higher values on the world market, and that of the U.K. and W.G. in lower values. In this way the national labor of each country becomes part of the scale of universal labor. On this basis one U.S. labor day is set equal to one universal labor day, that of W.G. to \( \frac{1}{2} \) universal labor day, and that of the U.K. to \( \frac{1}{3} \); thus $1 = \text{DM}2 = \text{£}3$. With respect to the above branches of production we get:

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>W.G.</th>
<th>U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars</td>
<td>$50</td>
<td>$75</td>
<td>$60</td>
</tr>
<tr>
<td>Whisky</td>
<td>$25</td>
<td>$20</td>
<td>$22</td>
</tr>
<tr>
<td>Rubber</td>
<td>$5</td>
<td>$10</td>
<td>$4</td>
</tr>
</tbody>
</table>

From this table we see that the U.S. has lost its leading position in the production of whisky and rubber and has retained it only in cars, even though the U.S. continues to produce the former two commodities in the same amount of labor time—that is, in less time than the U.K. and W.G. expend on these commodities.

The reason that the smaller amount of national labor time embodied in U.S. commodities is represented in more value than the greater amounts of U.K. and W.G. national labor time is that through the modification of the law of value on the world market every branch-specific labor of a country must be weighted according to the rank which the national labor on the average occupies on the scale of productivities and intensities. This mechanism can have as a result that a branch of a nation, although it in international comparison produces most productively, nevertheless in price competition falls behind the branch of that nation which produces most unproductively. This can take place because the relative productivity advantage of this branch vis-à-vis international competition is less than the average productivity and intensity advantage of the nation in ques-
tion vis-à-vis the other nations, which latter advantage determines its rank in the international scale and therewith its exchange rate.

The reader should keep in mind the double process of international value formation: (1) on the aggregate social level—through the rank of the national labor on the scale of universal labor; and (2) through the individual capital—through the competition of the national capitals within a sphere of production.

C. A SHORT HISTORICAL OVERVIEW OF THE GOLD AND "DOLLAR" STANDARDS

1. Gold S opens this section with the bold statement that there is "of course nothing sacred about gold" (650); he then proceeds to mention other objects which "would do" too. What they or even gold "would do" or do do is not clear. It is doubtful, however, that S was restricting himself to the use-value aspect of the matter. By his use of the word "sacred" and the inclusion of paper napkins as a possible substitute for gold S would like to give the impression that the value aspect of gold is also irrelevant. This is consistent with his belief that fiat paper money is the essence of money. This cavalier attitude toward gold has long been good form among bourgeois economists who fancy that this is all part and parcel of the "modern" economists' ability to overcome the irrationality of capitalism.

S's account of the problems of the gold standard is pedagogically very confusing; for in discussing the influence of the gold supply on the monetary system at a time when there was internal gold circulation, he tells the reader that this is "very relevant for our own day" (7th ed., op. cit. p. 627). It is clear that economizing on the use of gold in circulation through the use of paper money/credit will in large part deal with the problem of gold supply under a gold circulation standard as far as the internal price structure is concerned; however, the problem of current interest
which this material is supposed to be "relevant" to is so-called international liquidity. As S sees it, the opening up of more gold mines toward the end of the nineteenth century and the increased use of the credit pyramid "enabled the world to keep on the gold standard and stave off deflation up until the 1929 crash. But this did involve a strain on international liquidity, and some experts actually attribute that slump to an increasing shortage of world liquidity" (652).

The point here is that the gold is not some sort of external physical production factor controlling the fate of capitalism: if only we could find more gold mines, crises would be forever banished. (Though this is not S's view, he at least implicitly imputes it to unnamed supporters of the gold standard.) S argues that as a result of lagging gold supply there was a sagging price level in the last third of the nineteenth century:

This gave rise to much social unrest. In an ideal world of perfect price flexibility, where the Quantity Theory worked smoothly both down and up, falling prices should not have mattered much. But as Hume himself insisted, prices and wages tend to be sticky downward; and falling price levels tend to lead to labor unrest, strikes, unemployment, and radical movements generally. Precisely that happened in the US and other countries during the 1875-1895 era of populism [650 f.].

We must admit we find this baffling both on a theoretical and a factual level. Why falling price levels should lead to "unrest" is not clear. Everyday experience in the past few years would lead one to believe that rising prices do not exactly lead to calm. If both rising and falling prices lead to "unrest," it would appear that capitalism will have very few rest periods.

But is S correct? First of all, it is clear that if wages rise, remain the same, or drop less than prices do, real wages will not have declined. Let us look at the period under question. Using 1900 as our base year (i.e., all the magnitudes are set equal to 100 in 1900), we see that from 1875 to 1895 nominal wages sank from 95 to 94, the cost of living
from 104 to 92, resulting in a rise in real wages from 91 to 102. It is of course true that this period did nevertheless witness fairly intensive class struggle in the U.S. How do we explain this? The reason lay in the accelerated development of capitalist accumulation following the Civil War: the working class was rebelling against the exploitation of their labor power in capitalist factories, an exploitation not restricted to the amount of bread on their table.

Germany also experienced a vast strengthening of a socialist labor movement during this period in which real wages also rose.

In England, on the other hand, this period produced a "business trade unionism"—in other words, a departure from dealing with the broader political issues of class struggle and a concentration on consolidating union power with respect to improving the living standards of the union members.

In view of this information we cannot accept S’s presentation as accurate. In addition, the fall in price levels during this period was in any case not wholly caused on the gold side, for it was also a time of greatly increasing productivity in manufacturing industry, which would have caused prices in that premonopoly period to drop, abstracting from the factor gold.

Before turning to the "dollar standard" we wish to comment briefly on S’s treatment of the gold standard and its historical evolution. First we are told that it was on account of Britain’s "prestige" that other major capitalist countries adopted the gold standard. We assume this to be a euphemism for the economic and military power which made Britain the dominant capitalist power of that period. On the other hand, Britain’s prestige apparently was not great enough to force these other countries to join it in the great harmonious experiment of free trade. Why was Britain’s prestige great enough to bring about the one but not the other? Presumably because the national sovereignty of the competitors was not severely impinged upon by the gold standard, whereas it most definitely was by free trade. Britain’s internal gold standard was merely a reflection of
the fact that it, as the first developed capitalist nation, developed the monetary system most adequate to that economic structure. The evolution of this gold standard on a world scale meant that capitalism itself was creating an international capitalist system also with its most adequate monetary system.

A critique of the rest of S’s narrative on this subject is made difficult by its vague and folksy tone, an approach devoid of historical content; in fact, there is no chronological indication of when “small” countries like the Philippines began to hold the currencies of “big” countries like the U.S. which were on the gold standard (that is, whose currencies were still convertible into gold), a development commonly called the gold-exchange standard. This modification of the gold standard was programmatically put forward at the Genoa Conference in 1922, which was to formulate monetary reforms to deal with the disruption of the old system caused by the war-induced inflation. Since gold could no longer cover the inflated paper currencies, it was suggested that the foreign currencies of countries still on the gold standard be held in reserves to function like gold as a cover for paper in circulation.

S goes on to state that as long as the “small” country can remain on this gold-exchange standard “the effect would be much like the pure gold standard, but with great economizing on gold” (651). For whom would it be the same? Or what would be the same? One gets the impression S means things would be the same for the “small” country. Perhaps, however, now the various currencies were linked not only through the “neutral numeraire” gold, but new explicit credit relations were being constructed. In fact, one of the main reasons that Benjamin Strong, then Governor of the New York Federal Reserve Bank, turned against this gold-exchange standard was the fear that it “facilitated a pyramiding of credit on small gold holdings in center countries; that the conversion of foreign exchange balances into gold might force the center countries sharply to increase their discount rates and so to bring about the very deflation that the advocates of the League [of Nations] study feared.”

10
2. The So-called Dollar Standard  We salute S for his courage in mentioning this phenomenon at all (even if a portion has disappeared again in the 9th ed).

The origins of the dollar standard are related in admirably bold outline: "During the Great Depression of the 19-30s, political unrest and fear of Hitler's aggression caused an avalanche of gold to flow into the U.S. After World War II the world was in fact on a dollar standard" (652). The next few lines deal with the assertion that the dollar had replaced the pound as the key currency. That there must be some difference between the position of the pound and the dollar can be seen in S's own "example," according to which the Bretton Woods Conference defined currencies either in terms of gold or the dollar. But this is something new, something that the pound had never been involved in during its "heyday."

At this point S concedes that the position of the dollar gave the U.S. "in effect, something of the same privilege of creating money out of thin air that the commercial banks enjoy domestically. . . . To a degree, this key position gave America the right to get a certain amount of goods at no real cost. But it also put a special responsibility on America to keep its balance of payments in order" (8th ed., p. 630).

As to the "privilege" the U.S. gained from the mechanism, the analogy to a commercial bank does not appear accurate to us. It would appear more accurate to state that the U.S. gained a role in the capitalist world similar to that of the Federal Reserve-Treasury within the U.S.—namely its ability to print paper money.

When the state prints up paper money, the result is inflation and presumably a redistribution of income within the country. This would appear to be analogous to the present situation on the international level. It arose at Bretton Woods because the West European countries confronted their periods of economic reconstruction unable to complete the tasks alone; without gold to buy U.S. capital "goods" and consumer "goods"; without the present economic potential to produce exports with which to import U.S. commodities. If the U.S. had continued merely to export to these countries, then sooner or later the whole process
would have come to a halt. It is in this context that the Marshall "aid" must be seen; for without credits or grants there would have been no exchange whatsoever.

To return to the paper dollar: $ states that "America" acquired the "right to get a certain amount of goods at no real cost." But who is America? And from whom did it get these "goods at no real cost?" For the most part these dollars were used to buy capital—whether in productive or money form—abroad. This is not America, but the capitalist class, and more specifically the international monopolies with foreign plants. Now remember our analogy to paper money emission within a country: an inflation-induced redistribution of income follows. Something like that must occur internationally: parts of the value produced in other capitalist countries are being redistributed to U.S. capitalists.

Bourgeois economists are wont to view the matter of loss and gain one-sidedly with respect to the dollar standard; either the U.S. gets nothing from it or it suffers from having less leeway in its domestic economic policy and international balance of payments. But precisely this aspect would appear to constitute the difference between the key currency system in the 1920s and the dollar standard; for in the former case the U.S. was subject to certain constrictions which in the end caused the system to break down on account of the unwillingness of the U.S. to subordinate national capital accumulation needs to the requirements of international world money requirements.

At the present time it would appear that the power of the U.S. to issue paper money internationally eliminates at least a large part of the constriction usually associated with a key-currency nation; it is prevented from dealing with it effectively on account of its international monetary responsibilities—in fact after World War II it was the European countries, in particular Britain, that wanted some mechanism to protect it from the expected depression, recession, or slump in the U.S.

Moreover, regardless of the institutional set-up in the 19-20s, the U.S. would not have been in the best possible
situation to throw its weight about on the international level because the British banks were still preeminent there. Ever since before World War I the U.S. capitalist class sought to displace Britain as the leading finance capitalist on the world market. Such a position is a powerful lever for fostering commodity exports, capital export in the form of direct investment and portfolio investment, floating international loans to foreign corporations and governments, etc.

That the U.S. role of world banker depended in large part on its industrial capital preeminence does not refute the fact that there was a very definite strategy afoot. After all, it was not for nothing that the U.S. Treasury Secretary at the time of Bretton Woods, Henry Morgenthau, Jr., declared it to be his main objective to “move the financial center of the world from London and Wall Street to the United States Treasury. . . .”

III. HISTORICAL ASPECTS OF THE WORLD MARKET AS A DETERMINING FACTOR OF NATIONAL AND INTERNATIONAL CAPITAL ACCUMULATION

The stated purpose of the second part of Chapter 33 is to “go behind the demand and supply curves of international trade to examine each item involving foreign exchange payments and see how they all combine” (8th ed., p. 631). Instead we are given five pages devoted to a breakdown of the various elements of the balance of payments into formal classifications and three pages of extremely suspect historical material and current aspects of capital movements. The first five pages are of course necessary and useful as a guide to balance of payments tables, but they can hardly be viewed as going beyond supply and demand, for no concrete analysis is involved, merely a description of the categories.

S presents “the four stages typical of the growth of a young agricultural nation into a well-developed industrialized one” (659). By reviewing how the U.S. historically passed through these stages he hopes to “consolidate un-
derstanding." Aside from the inaccuracies in the account itself, the most pernicious aspect of this approach is its implicit advice to the "poor" countries: if you too want to grow up and be industrialized like us, then you'll have to do it the way we did it.

The phenomenon S outlines here with respect to the U.S. represents the reenactment of a similar process which took place in England in the eighteenth century; this is but one aspect of the uneven development of capitalism over time and among countries at a given time. There has been a long succession of dominant capitalist powers who indirectly helped the rise of the national capital about to supplant them. This process is connected with the overaccumulation of capital on the national level; the falling rate of profit makes it imperative to withdraw a portion of the national capital from the home country and to invest in countries where, because of the lower organic composition of capital, the rate of profit will be higher and/or in countries where the extraordinary conditions of labor exploitability make enormous profits easily accessible.

In the case of Holland, at a time when capitalism was in the early part of its development and the mode of relative surplus-value production was in a state of underdevelopment as a result of the state of technology, the overaccumulation of capital set in rather early. When we speak of the decline of a great power, we do not mean that the capitalist class of that nation has become totally impoverished. In fact, in the case of Holland, that country's bourgeoisie has retained its international rentier status until the present day; for example, Holland is the only major Western European country which maintains more direct investment in the U.S. than the U.S. does in Holland.

Yet in spite of this relatively lucrative outlet for Dutch monopoly capital, the Netherlands today is a second-rate capitalist power; France and England, which in the nineteenth century also began to suffer the same fate that had befallen Holland in the eighteenth, are also minor powers today. It is this aspect of international capitalist power that S loses sight of not only in this section but
throughout the section on the international economy. Instead we are presented with a movement on the part of all countries through time to ever higher states of welfare.

S gives no inkling that anything of the sort described above could have been happening in the development of the U.S. Instead we are told that England and Europe lent to the U.S. "in order to build up our capital structure" (660). "In order to" is S's own version of intentions; they actually invested in order to make profit, regardless of what happened to "our capital structure." The fact that the U.S. happened to become a major capitalist power, which is not true for any other major areas of European investment in the nineteenth century, is only peripherally related to the foreign investment, considering the relatively small amount involved. The U.S. would doubtless have become a great power on its own.

Rather the point of this section is to support the thesis that today's capitalist investment in "underdeveloped" countries will build up their capital structures as well, and that furthermore this is the only historically tried and proven way.

Next we learn that from 1873 until World War I, U.S. capital movements were "nearly in balance, our new lending just about canceling our borrowing" (660). This is a good example of S's formal approach via the double-entry bookkeeping method without telling us what the underlying contents of these sums mean. First of all, the period itself is too comprehensive to be meaningful, for it covers two different eras in U.S. development. Thus during the first period, from 1873 to 1896, the U.S. imported almost four times as much capital as it exported, whereas during the second period the proportions were almost reversed.

Behind the formal balances there is also the hidden factor of the qualitative changes taking place in the industrial structure of the older and newer capitalist countries. As Rudolf Hilferding pointed out, the two rising powers of the period, the U.S. and Germany, both "export above all industrial capital and thus extend their own industry the working capital of which they in part receive in the form of
loan capital from countries with slower industrial development but with greater accumulated capital wealth." By this Hilderding means that direct investment abroad in a sense represents an extension of the national capital insofar as the capitalists making the investment retain control over the operations of the plant and may reinvest—including "repatriation" of their profits—as they choose, thus extracting the maximal advantage; the providers of loan capital on the other hand, England, France, Netherlands, were relegated to a much more passive position as mere creditors.

We now watch the U.S. enter the stage of "new creditor nation," which was ushered in by World War I. There is a certain irony here in S's use of qualitative and quantitative changes. On the one hand, S's quantitative discovery of balance hid a qualitative change in the relation of the U.S. to Europe and Latin America; now on the other hand, given an obvious qualitative change, S tries his best to make light of the matter: "When the warring countries suddenly became avid customers for our exports, we sent them goods in return for barren gold and fancy gilt-edged certificates" (706).

That all this wasn't quite such a surprise gift which happened to fall into the laps of the American "people" is described by William A. Brown, Jr., in his standard work on the gold standard:

For at least a decade before the passage of the Federal Reserve Act ways and means of promoting American export trade in manufacturing goods had been actively discussed in the US. . . . There had been an increasing desire to provide American exporters with facilities in foreign countries comparable to those built up during the nineteenth century by British banks and during the latter part of the nineteenth century and the first part of the twentieth century by Italian and other foreign banks. . . . Though the facilities of this system provided American commerce with cheap and efficient financing, the increasingly competitive nature of American exports of manufactures rendered dependence on these foreign facilities distasteful to those engaged in an aggressive expansion of American trade. There was a strong feeling that the use of sterling accep-
tance was a handicap to American trade because it strengthened the preference for British goods already built up by long standing connections and by British controlled enterprise throughout the world. . . . From the day on which the war broke out Americans began to lay the foundation for an extension of American banking abroad and therefore, for the provision at the points of origin of foreign business, of a supply of bills drawn under American credits. The war did not lay the foundation for this movement, but it swept away the obstacles that had impeded its development.13

World War I brought about the disintegration of the world market in its traditional form; trade treaties lapsed and currencies collapsed, thus becoming inconvertible. After the war the major capitalist nations sought to pursue a policy of economic autarchy in order to prepare themselves for the imperialist war. Moreover, the years 1920-22 brought on a new depression (in 1921 the rate of unemployment in the U.S. reached 11.9 percent). Under these conditions there developed "a trend toward economic self-sufficiency and high tariffs . . . in both Europe and the Western Hemisphere."14

1922 marks the year of the Fordney-McCumber tariff in the U.S. which served to secure the domestic market for the agricultural and industrial producers who were suffering from extreme overproduction.

Therein lies the predicament that U.S.—and to some extent British—capital had gotten into. Large reparations payments were forthcoming, but the debtors (above all Germany) were in a period of disaccumulation (that is to say, the existing stock of capital in its physical form was not even being renewed), while the creditors were suffering from overproduction and overaccumulation crises. Payments by the debtor nations in the form of commodities would only exacerbate the problem of overproduction.

Some groups of capitalists (for example the New York National City Bank) favored the cancellation of the debts. The industrial capitalists were afraid that a cancellation and thus reduction of tax burden for the German industrial capitalists would increase their competitive position on the
world market. U.S. and U.K. capitalists were interested in a deindustrialized Germany which would serve as a colonial area (as indeed all of middle and eastern Europe were supposed to) in the sense of producing raw materials and selling out its industrial potential to the U.S. and U.K. for colonial-type wages.

Thus we find objective differences between the victorious states and the debtor states, among the victorious states, and among factions of the capitalist class within the victorious as well as the debtor states. Since S is either unwilling or unable to pursue these issues and to discuss them, he is left with no other explanation than "our psychological state of mind."

We cannot go into the causes of the Great Depression here, but apportioning "blame" to various countries (660) it clearly does not constitute a scientific explanation. S implies that foolish "Main Street investors" who kept throwing their money away were partially responsible for the crisis. First of all, let us not forget that although the Allied Powers defaulted on approximately $9.5 billion of war debt to the U.S. government, it is not the capitalists who supplied the commodities that were purchased with this loan who lost out on the deal; nor the U.S. capitalists who bought the bonds which financed the loan, for they too were paid their interest; rather it was the U.S. taxpayers who kept paying taxes to support the debt payments on the U.S. national debt who had to take the loss.

Secondly, the fact that much U.S. loan capital was being sent out of the country did not depend on the psychological propensities of U.S. investors to pick lemons: the point is that toward the end of the 1920s the U.S. was suffering a severe crisis of capital overaccumulation, i.e., the same vast scale of productive reinvestment of surplus value could not be maintained. This was responsible for the shift of loan capital to domestic speculation (stock market) and capital export. Although the debts in the wake of World War I doubtless exacerbated the situation, this was a classical overproduction crisis of capitalism which existed independently of poor investment choices (in fact, caused those choices to turn out to be "poor").
We now turn to the fourth and final stage—that of mature creditor nation, a blissful state apparently attained only by Great Britain, which in turn brings us to the next part of S's argument—namely that we need not "feel sorry" for Britain on account of her passive trade balance: "Her citizens were living better because they were able to import much cheap food and in return did not have to part with much in the way of valuable export goods. The English were paying for their import surplus by the interest and dividend receipts they were receiving from past foreign lending" (660—our emphasis). This statement can be broken down as follows: (1) the whole population of England as an undifferentiated mass was affected uniformly by the phenomenon under study; (2) this mass of people was living better; (3) this resulted from imports of cheap food; (4) domestic production could be consumed at home instead of being exported as payment for the imports; (5) payment followed in the form of U.K. foreign-investment income.

Although S in two places here refers to all of the English people, he specifically refers to the benefits accruing to the working class alone and only in their function as consumers. We deduce this from the reference to cheap food, which cannot be a prime concern of the capitalists as consumers, and the landowners were opposed to all food imports since they posed a threat. First let us look at the narrow argument that the working class gained as consumer. What sort of goods did England import from its colonies? Sugar, tea, tobacco, etc. The matter is hardly as straightforward as S would have us believe; in fact, the statistical calculation of consumption items alone is still a matter of dispute. Although certain better-paid workers undoubtedly gained from this "arrangement," S has in fact provided neither proof nor sources.

So who did benefit from the situation? U.K. investment abroad meant a higher rate of profit for the capital involved because the organic composition of capital as well as wages were lower in the colonies, and in many cases monopoly positions allowed monopoly profits. This in turn has a positive effect on the rate of profit at home. Thus when S says that nineteenth-century foreign investment was "twice
blessed: it blessed him who gave and him who received” (660), the first part is correct; for it “blessed” the British capitalists in the form of a higher profit rate abroad and a higher rate of surplus value at home.

This hints at the salubrious effect of British imperialism on the workers. With a large portion of British surplus value being exported abroad in the form of capital, both potential output and jobs were being destroyed. Between 1850 and 1900 the unemployment rate remained above 4 percent during twenty-four of these years, or approximately half the time; during seventeen years the rate reached 6 percent or more; and for three years it exceeded 10 percent. The unemployment picture would therefore be one indication that the English were not uniformly “twice blessed” by imperialism. As we know, capitalists invest abroad mainly because the “commercial return” there is higher, or alternatively, that continued investment at “home” would press profitability downward. Thus it must be emphasized that capitalists are responding to “market pressures” by going abroad; to support continued investment at home under these circumstances would be class-suicidal philanthropy.

Now we come to the last part of S’s statement, his assertion that the foreign investment income “paid” for the import surplus. This is a very tricky point insofar as it appears to transform the mathematics of the formal balance of payments into a causal foundation. In one very important sense, S is right: England was in a position to get more than it gave; it was able to import more commodities than it had to export. This meant a tribute was being paid to England; it also meant that other countries were exporting more commodities than they were receiving, a definite loss to them. This much then is true.

S is not asserting that somehow English workers were getting tea for nothing. Philanthropic capitalists did not offer to give workers five pounds of tea for the price of four because they, the capitalists, had “paid the difference” in their foreign investment income. No, workers continued to pay the whole price as it were. To simplify the matter let us assume that British capitalists export capital to Ceylon for a
tea plantation. Part of this tea can be now exported to England where other workers will pay for it; perhaps other countries will "pay" by in turn exporting other goods to Britain, which will, of course, also be paid for. The point is that if we only look at the sphere of circulation where exchange of equivalents presumably takes place, we will never discover the origin of getting something in return for nothing. This "trick" takes place at the source of production, where surplus value is produced. Applied to our case, this means that the surplus value produced by the plantation workers in Ceylon will be realized somewhere along the line of the trade channels we have just mentioned. Whether the case is domestic production or imports and exports, surplus value will always be realized by equivalent exchange. In the instance of foreign trade the origin is obscured even more by the intricacies of international payments. The tribute is to be seen in the surplus value produced abroad and in its various forms of realization.

Thus the exploitation is to be sought in the colonies themselves. Their loss consists in their exporting more of their annual product than they import; S's contention that the difference is made up by foreign investments in the colonies simply is not true.

A look at the structure of British investments and trade might be useful, since S does not deem this essential to his disquisition on the blessings of the system. He does not differentiate between the relatively unpopulated colonies like the U.S., Canada, Australia, New Zealand, which soon were populated by European emigrants, and the older civilizations like India, Africa, Latin America, whose already populous areas were subject to foreign domination. Of British foreign investment at the outset of World War I, which totaled about $18 billion, almost 40 percent went to the advanced capitalist countries to be.16

Without going into the matter any more deeply, the trade and investment structure was extremely complicated; generalizations about trade, etc., without going into the specifics of the countries involved can be very dangerous. S insists upon speaking of Britain and "the rest of the world"
in answer to the question whether the latter’s export surplus did not worsen its situation; S replies “not necessarily” because “normally” British investment permitted “the rest of the world” to produce more than enough to pay off British investment-income claims (660). The sense of the “not necessarily” and the “normally” does not reveal itself until one reads on and finds that “of course” things did not always “operate quite so smoothly,” but apparently only because not all investments were “wise” and those annoying “political” problems of colonies and “nationalism” “complicated” matters.

Now S’s assertion is true for the U.S., Canada, Australia, etc.; these countries were able to pay back the profits the British capitalists “earned” without being crippled. But it must be remembered that even in the nineteenth century the U.S. was a power to be reckoned with. The U.S., an enormous nation with vast resources, could have become an industrial power with or without British investment. What is perhaps equally important is the absence of a sovereign government in a colony like India. The conquest and maintenance of control over such colonies demanded large government expenditures; there was also a need for building the “infrastructure.” This produced a large government debt there. Instead of inefficiently having each individual British capitalist in India exploit his workers even more to pay this debt, the Indian government took out loans from British capitalists and paid them interest. It was then left to the Indian government to withdraw these funds more efficiently in turn from the Indian population in the form of taxes.

It is hard to see how government expenditures on non-productive activities such as building up a military to keep the people in check for the benefit of the British can be regarded as “paying its way.” Furthermore, a significant portion of British investment in the colonies flowed into mining which was basically direct investment kept under British control and management. The same would be true of many plantations such as tea, etc. Inasmuch as almost all of this production was geared to the needs of Britain, it
was, as it were, a foreign body in the colonies. In this sense it is not correct on S’s part to refer to it as “domestic” production.

Thus we are basically left with the railroad investments. These too would appear to have played different roles in the U.S. and in the colonies. In the U.S. they seem to have been purely investment activities—that is, portfolio investments for the purpose of income; the railroads themselves (and canals, too) were to be used as the infrastructure of the U.S. economy determined by the needs of U.S. capitalism.

In India on the other hand the railways were built to facilitate British exploitation of raw materials and markets for the purposes of self-expansion of British value.

That S can propagate such erroneous views at a time when their refutation has seeped into the general consciousness of students does not appear to be idiosyncratic; of the major economics textbooks we could find only one with anything even remotely resembling a realistic description of the situation:

Imperialism . . . exerted a peculiarly deforming impulse to the underdeveloped—indeed, then, totally undeveloped—economies of the East and South . . . Malaya became a vast tin mine; Indonesia a huge tea and rubber plantation; Arabia an oil field. In other words, the direction of economic development was steadily pushed in the direction that most benefited the imperial owner, not the colonial peoples themselves.18

The result today is that the economy of the underdeveloped nation is badly lopsided, unable to supply itself with a wide variety of goods. This statement too is incorrect, for “the East and South” were not “indeed . . . totally undeveloped”; Deane among others points out that British manufactured exports found restricted entry into China because “local manufactures were often at least as good and always a great deal cheaper” (The First Industrial Revolution, op. cit., p. 53).
Excursus: Import Surpluses and Stagnation—Some Hypotheses

Before we leave this rather extended commentary on this section we must try to tie up the discussion of trade and "stages" in the balance of payments. S warns us not to "feel sorry" for Britain's passive trade balance, because after all "it is imports and not exports that add to a nation's well-being" (8th ed., p. 639). And these import surpluses do represent exploitation although its fruits are distributed far from uniformly. Yet in a deeper sense, we ought to "feel sorry" for Britain, or, more precisely, Britain's ruling class ought to start feeling sorry for itself—and, contrary to S's pious wishes, does. We mean that the import surplus is an expression of the developing or developed rentier status of a now or soon-to-be has-been power.

Imports are not the measure of "well-being" of a capitalist country because consumption does not drive that society; the world market represents an extremely important mechanism for strengthening the forces that ward off the development of crises within a capitalist country (although the world market will also foster the crisis since all escape routes turn into dead ends in the capitalist industrial cycle). A passive trade balance signalizes declining competitiveness of the national capital on the world market; this in turn stems from a relative lagging behind of this national capital in the development of its productive forces with respect to other national capitals.

Thus on the one hand an import surplus is a sign of the relative decline of national capital, and on the other it indicates that this national capital will soon be involved in various structural crises insofar as its exports no longer enjoy ready access to the world market.

But we also must look at the problem historically. In the middle of the nineteenth century when England entered its free trade phase it was by far the most advanced capitalist nation in the world; yet it experienced a passive trade balance. It would appear as though the reasoning just outlined does not apply to the "case" of England. Or perhaps the "case approach" altogether should not be applied.
In any event we would like to present a hypothesis concerning Britain in the nineteenth century. We have posited certain competitive pressures favoring export surpluses; or, alternatively, we have stated that such surpluses, at least among the advanced capitalist countries, were associated with the most productive national capitals, whereas trade deficits indicated relative stagnation. We might look for the roots of England's peculiar position in the historical situation of the time. The very fact that England had a headstart in its capitalist industrialization exerted an adverse influence on its trade balance; that is to say, the other countries were not yet sufficiently industrialized to fulfill the role of good markets for English exports. But there is another reason as well. The competitive forces we spoke of in large degree refer to countries competing in the export of the same commodity or type of commodity (machine tools, aircraft, chemicals, generators, etc.); in the middle of the last century British foreign trade basically consisted of importing commodities it could not produce.

Regardless of this historical situation, we reject S's view that one should not "feel sorry" for a "mature creditor" country with an import surplus. In typical fashion he appears to favor "progress" at all times regardless of the short-run harm this may cause individual producers or countries.

S is referring to the international economic scene where, as we pointed out above, the individual capitalist states are in a position to limit the pressures of competition. The point with S is that he is not merely wishing that the world were run harmoniously, but he is also contending that the theory he presents helps to understand the world as it is and that the reader can become an informed citizen by mastering this theory. It is precisely this "idealistic" approach which militates against an understanding of national policies. The sort of "philanthropic" approach to international trade S seems to advocate has never been and never will be the basis of the economic policy of any capitalist country. And today the situation is no different than it was yesterday. The bawling of U.S. capitalists and their gov-
ernment agents over the “first trade deficit since 1893” is not a sham; the U.S. is becoming less and less competitive on the world market. One of the main troubles with S’s discussion is his failure to explain real—as opposed to the arithmetical—relations among the various items in the balance of payments. All we are told is that a plus must offset a minus “for it is a tautology that, What you get you must either pay for or owe for” (658). This statement is in itself very enlightening, for as we already know it can only refer to the sphere of circulation and can otherwise only obscure the real sources of gain and loss on the world market. But going beyond this we must try to establish some relations. That S is unable to do this is borne out by his treatment of capital movements as mere “loans private citizens make” and his pedagogic admonition to treat them “like any other exports and imports” (ibid.). During the 1960s U.S. export surpluses were diminishing while capital exports were increasing. Direct investment abroad was in part an attempt to overcome the diminishing competitiveness of U.S. commodities. In the short run this can enhance the productivity of the European competitors by introducing more advanced methods of production there; in the long run, however, it is likely to foster equalization of productive conditions among the major capitalist nations.

Appendix: The Phenomenal Form of the Varying National Conditions of Accumulation in the Bretton Woods System—Over- and Undervalued Currencies In our discussion of the appendix we will focus on the account of over- and undervalued currencies given by S. This appendix first appeared in the 6th edition (1964).

The 8th and 9th editions depart from the previous two insofar as West Germany has now replaced England as Europe’s representative. Aside from this problematical approach of lumping all West European countries together, thus blotting out important differences, S also is unclear on the time spans involved. On the one hand there might be some merit in speaking of Europe as a whole inasmuch as in the postwar period those countries, unlike the U.S.,
supported certain common features. This may well have been true of West Germany and Italy and perhaps of France too; however, England in large measure suffered the same stagnation which prevailed in the U.S. More importantly, the period was not uniform even in Western Europe; one must distinguish between different stages of postwar development if one is to make sense of the monetary situation.

Perhaps the most disturbing aspect of the whole presentation is the absence of any statistical information. This makes matters very difficult if not impossible for the student, especially the beginning student who is probably not familiar with the necessary sources and who would expect a beginning text to furnish at least some direction.

The first section of the overvaluation discussion is devoted to a description of its origin. S begins his account by "let[ting] productivity in Europe grow faster than in America" (7th ed., p. 642). There then follows a very brief description, culminating in the statement that overvaluation "results from the more rapid technical change abroad, which partially closed the gap between their technology and ours and lowered their relative costs" (665). Since productivity is defined technologically S has assumed what has to be explained; in other words, he "lets" productivity increase faster in Europe; from this he draws a straight line to overvaluation of currencies; and then he explains the latter in terms of technological change which is merely a repetition of the "let" clause.

Although productivity is a concept which relates to use-value production, use-value production takes place within a certain social system whose specific characteristics determine how technology develops. To look at the technological results without seeing what creates, fosters, or limits them is to miss the causal aspects of the process.

With reference to postwar Western Europe we must of course take war-caused destruction into consideration. Western Europe, forced to rebuild much of its productive facilities, was at a distinct advantage, for this enabled it to start with the most modern and efficient plants. Thus both total output and productivity increased more rapidly in
West Germany than in the U.S.: the annual rate of growth of total output from 1950 to 1960 equaled 7.6 percent in the former and 3.2 percent in the latter; whereas the per capita rate equaled 6.5 percent and 1.6 percent respectively.\(^{19}\)

Aside from this and from the additional circumstance that the production facilities were modernized more rapidly in an ongoing manner in Western Europe, there is the further growth factor of channeling labor into the most productive spheres on the Continent by withdrawing workers from previously small firms (also farms), the construction of mass production facilities, etc.: in short, the capitalization of previously non- or small capitalistic producers.

Equally important in the process of accelerated capital accumulation in Western Europe was the extreme exploitation of the working class. In large part this exploitation was made possible by an enormous reserve army of the unemployed. In West Germany, for example, the source of this labor supply consisted of the three million who left the G.D.R. and former German areas, foreign workers from Italy, Turkey, Greece, etc., starting in the late 1950s, ex-farmers, small commodity producers and entrepreneurs, and women. As Charles Kindleberger points out, West Germany's "miracle's" "sine qua non was the elastic labor supply which held down wages and maintained profits and investment."\(^{20}\)

This mechanism of keeping wages low can be seen in the trend in the share of labor in national income. By comparing net wages (i.e., minus taxes) with (net) national income, one economist has determined that in West Germany labor's share did not regain the 1950 level until 1961.\(^{21}\) And when one further considers that wage and salary earners as a percentage of all "gainfully employed" rose during this period, then that share of national income must be spread over a larger share of the population.

This is the social meaning of S's gracious "realistic" assumption that wages did not increase as quickly as productivity (665). The significance of the reserve army can be, as it were, independently controlled with the examples of Britain and Japan. The former country had a relatively low
rate of unemployment in the 1950s which enabled the labor unions to exert much greater resistance to "rationalizations" of the production process, a resistance force in part responsible for the British lag in growth. As for Japan, we merely refer to an official government publication which itself points to enforced savings through inflation and low wages based on an "excess labor force" as part of the key to Japanese capital accumulation.\textsuperscript{22}

The increased productivity of Western Europe finds no expression in the currency relations. Yet S's conclusion that as a result U.S. exports "dwindle physically and (probably) in value" (665) is unclear since U.S. exports in fact doubled in the 1950s.\textsuperscript{23} And although it is true that U.S. capitalists will under these conditions begin to transfer production abroad (capital export), it does not automatically follow that current account balance of payments will be harmed by this, since repatriated profits exceed U.S. capital invested abroad.

But this is not enough: other countries became more competitive on the world market because the exporters were able to underprice their U.S. competitors not only on the basis of lower national values, or prices of production, but also because their costs of production gave them an objectively greater leeway.

In connection with the overvalued dollar country (U.S.), S is mainly concerned with the lower aggregate employment and income resulting from the drop in exports (although the drop is not in any case in absolute terms); for the undervalued currency countries S focuses on the inflation (if there had been full employment previously) and on the fact that with the terms of trade turned against the latter they are, "so to speak, throwing away goods" to the U.S. which is getting them for "barren gold or mere dollar IOUs" (666).

What remains to be explained is the specific position of the dollar in an international monetary system of fixed parities. In the immediate postwar period the U.S. productivity advantage guaranteed it large trade surpluses; at the same time this absolute hegemony made the dollar accept-
able as a world currency. The fact that the U.S. trade balance becomes negative at the same time that the surplus countries no longer are willing to hold on to their dollars is merely an expression of the one basic process of tendential equalization of production conditions in all advanced capitalist nations.

Up until now S has stressed the advantages accruing to the U.S. and the disadvantages accruing to the undervalued-currency countries; we have also seen that the underlying unity of productivity differentials is not emphasized. Very little attention is devoted to the reasons that West Germany or Japan was willing to put up with this situation for so long.

Bourgeois economists admit the existence of "special interests" which attempt to thwart "progress." What social forces are at work behind the special and the general interest?

In our discussion of the exchange-rate system we spoke of the modification of the law of value that takes place on the world market; on the one hand, there exists an institutionalized tendency toward unequal exchange insofar as the countries with above-average productivity and intensity can exploit their labor on the world market as producing more value (one must keep in mind that this refers to absolute terms of productivity and intensity); thus this would work to the favor of the U.S. in the postwar period against Germany or Japan. (This is not inherently connected with the paper dollar as world currency; it would also be true of any two countries with different positions on the scale of universal labor. The advantages accruing to U.S. capital specifically from the dollar's position are additional.) On the other hand, this tendency does not exist in isolation; for there is a compensating mechanism in the form of exchange-rate changes on the part of the countries with lower absolute productivities. Such national capitals can expand their market shares through devaluations and competitive price advantages on the world market.

When S discusses the possibilities for correcting overvaluation he suddenly becomes much more realistic; he briefly
mentions inflation in Europe, deflation in the U.S., a “miracle” of greater productivity in the U.S., devaluation of the dollar and up-valuation of European currencies, continued gold shipments and dollar accumulations, U.S. troop withdrawals from abroad, tariffs, exchange controls, etc. These are in fact some of the factors that must be taken into account when a national capital is faced with the decision concerning exchange rates. Now it is clear from our discussion that the workings of the law of value on the world market would necessitate a realignment of currencies; if none took place, the monetary crisis would finally become an international trade crisis. But even though in the long run the mere existence of international capitalism requires these changes, there is no reason to believe, as S would have us do, that individual national capitals are going to forgo temporary advantages in their competitive struggles without a struggle; and this struggle takes place both among factions of the national capital and among national capitals.

The realism of this section appears to reach its climax in the section entitled “The Achilles’ Heel of Classicism,” where, if we understand it correctly, it is hinted that little if nothing can be done to discredit the “discredited notions of the mercantilists” under conditions of over- and undervaluation. Immediately following this S advises the reader to look at Chapters 34 and 35 on comparative advantages and tariffs which “would be unanswerable” “if” prices and wages were everywhere flexible and/or exchange rates were flexible and thus no over- and undervaluation occurred (667). Yes “if,” but the whole point of the Bretton Woods system was to free the various nations from having to relinquish control over their national economic policies as required by the gold standard.

We do not have time to develop this theme at length, but we would like to try to show some of the factors involved in upward valuation in Germany and Japan. Prior to the 1969 revaluation of the mark a struggle raged in Germany concerning this “decision.” Among the arguments against revaluation were these: (1) since the West German
economy is relatively heavily oriented toward exports, the adverse market situation resulting from revaluation would hurt the entire economy; (2) the subsequent cheaper imports would weaken the domestic markets for certain already weak branches such as coal and steel, textiles, agriculture; (3) revaluation would diminish entrepreneurial propensities. On the other hand, there were certain consequences to be expected from not revaluing: (1) a continued export boom would relatively diminish domestic supply while the continued inflow of U.S. dollars would increase the domestic money supply (via the gold-exchange standard in which Germany is a non-key currency country) thus accelerating inflation; (2) the economy becomes increasingly dependent on exports and thus on the trade and tariff policies of other countries which sooner or later must take restrictive measures against West German imports; (3) capital concentration will be fostered (this results from the fact that the exporters can avail themselves of large cost economies on the basis of their producing for a market much larger than that served by the purely domestic producers); (4) since Department I commodities ("capital goods") preponderate among West German exports, a further growth of exports would serve to accentuate the differential growth of the two departments, which would have negative effects on the industrial cycle; (5) the inflation-induced tendency toward a drop in real wages will be compensated for by increased wage demands which can be met with the higher profits but which will affect different branches differently according to their competitive positions and will thus further accentuate discrepancies in this respect.

There was no single correct answer. Each side was correct because each side represented certain interests. If the West German economy was to remain a stable capital accumulating economy, then every measure would have to be flanked by others. Given the importance of the export industries, one could not revalue to an extent which would harm them; on the other hand, one would have to revalue enough to give the other national capitals more leeway in
their competitive struggle. Those who favored the up-valua-
tion had in mind more the long-term possibilities of an expanding West German economy within an expanding world market than the economy in general, since the relatively small devaluation would have to be a "foul com-
promise" anyway.

Another example of revaluation as a political-economic problem and struggle of interests can be seen in Japan. De-
spite a 17 percent upward revaluation in December, 1971, Japan is still widening its export surplus. But one must also take into account the peculiar foreign trade structure in Japan: approximately two-thirds of Japan's imports consist of raw materials, a very high proportion for a major industrial nation. Given the comparatively severe import restrictions and tariffs of Japanese trade policy, it is to be doubted whether the enhanced position of Japan on the scale of universal labor attendant upon a revaluation of the yen will really redound to the benefit of the "broad and scattered consumer interests" as so many bourgeois theoreticians fancy; given this protection from foreign competition it is more likely that domestic profits will rise as a result: "Japan as a whole depends on the outside world for about three-fourths of the raw materials it uses. Increasing the yen's value automatically lowers the cost of these materials here and thus cuts the cost of manufacturing." At the same time of course it is pointed out that the "shake-up" in Japanese industry resulting from its higher prices on the world market will really be beneficial to Japan since it will eliminate "inefficient marginal producers" and "free millions of workers" and "speed capital" into "more sophisticated fields." All this may well be true, but the branches concerned are not going down without a fight, nor is the capitalist state about to engage in wholesale euthanasia. Just as in the case of West Germany, the capitalist state in Japan is developing flanking measures in case of revalu-
ation. Recent measures concerning the export of capital are not merely a "neutral" mechanism to disaccumulate large dollar reserves. These capital exports are meant to strengthen Japan's external position.