The Anti-Samuelson

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Microeconomics:

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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Chapter 26: Aspects of the World Market and International Currency Crises (S’s Chapter 36)

Revolutionary change which shakes confidence in the fair treatment of private property is incompatible with rapid economic expansion.

Whatever one may think of the “domino” theory, it is beyond question that without the American commitment in Vietnam, Asia would be a far different place today.

The U.S. presence has provided tangible and highly visible proof that communism is not necessarily the wave of Asia’s future. This was a vital factor in the turnaround in Indonesia, where a tendency toward fatalism is a national characteristic. It provided a shield behind which the anti-communist forces found the courage and the capacity to stage their countercoup and, at the final moment, to rescue their country from the Chinese orbit. And, with its 100 million people, and its 3,000 mile arc of islands containing the region’s richest hoard of natural resources, Indonesia constitutes by far the greatest prize in the Southeast Asian area.

Introduction

This is one of the chapters referred to above as an accretion of the after-thought variety: although it purports to “put to work” “all the principles” of Chapters 33-35 “to
help understand the contemporary international scene" (643), it must be seen as an implicit acknowledgment of the somewhat less than smooth functioning of the international capitalist system and of the failure of orthodox economics to develop an analysis of predictive value. In reading this chapter one does not get the impression that one has been adequately prepared for the existence of such "problems" as are touched on here; for the "principles" espoused in the preceding chapters led one to believe that capitalism was not afflicted with what Marxists are wont to call internal contradictions. Not that S goes quite so far, yet some of the issues mentioned here might lead one to suspect that there are perhaps problems our mixed economy cannot successfully resolve.

Our primary objective in this chapter is to place the empirical material S presents in a theoretically and historically mediated context. First, we will examine the political-economic origins of the post-World War II development in the international capitalist economy; then we will analyze the origins and functions of the most important supranational "institutions"; and finally, we will discuss some fundamental aspects of the recent and/or current international economic crises.

I. PREHISTORY OF THE CURRENT STRUCTURE OF THE INTERNATIONAL ECONOMY

A. THE CRISIS OF THE 1930s AND WORLD WAR II

S's attitude toward the 1930s is ambiguous: on the one hand he appears to be hinting that if only the Keynesian policies had been instituted, the Depression could have been avoided. Thus, he says that "contractionary monetary and fiscal policies" merely accentuated the GNP gap, whereas the deficit spending attendant upon World War II finally brought on full employment (8th ed., p. 862). On the other hand, he sees, rather realistically, that a single nation cannot make the transition to Keynesianism in an otherwise un-Keynesian world without suffering severe
losses on the world market—unless it is willing to sever connections with the world markets.

These then are the two, not very conclusive, views that S seems to hold on the 1930s, and on that note he leads into an extremely abbreviated account of the round of devaluations with "as it happened." Let us try to piece together briefly what happened. These devaluations were due to onerous internal and foreign debts, the result of steep price drops. In the agrarian countries the devaluation was the immediate result of the passive balance of payments caused by the drop in world-market commodity prices; export surpluses could no longer meet the interest and amortization of the foreign debt. In England a temporary passivity of the balance of payments, strong gold outflow, and the sudden withdrawal of large parts of the short-term capital on deposit in London brought about the departure from the gold standard. In the U.S., on the other hand, the devaluation was not caused by an outflow of gold (in fact, there was an active balance of payments) but was consciously initiated to lighten the debt burden in order to redistribute profits between industrial and loan capital in favor of the former. But the U.S. departure from the gold standard did not suffice to devalue the dollar (the trade and payments balances were too favorable), so Roosevelt, wary of using the openly inflationary method of the printing press, chose a unique method: the purchase of gold at a higher price than would correspond to the exchange rate of the dollar for gold francs—in other words, the artificial lowering of the dollar exchange rate.¹ That this situation of "unbearable debts" is not such a "never-never land" as S intimates can be seen from the current situation in the U.S.

Obviously, there is a considerable truth to the contention that much of the post-World War II prosperity in the U.S. was based on the accumulation of a mountain of debt.

There are some who contend that, with the debt so large and rising steadily, the interest burden is becoming more than the economy can bear and that, eventually, a substantial part of the debt will have to be liquidated the hard way, through a rise in failures accompanied by considerable deflation.²
The devaluations thus had the double function of restoring profitability within the national capitals and making them more competitive on the world market. Aside from the self-defeating aspects inherent in the competitive devaluations emphasized by S, one must not forget that they also represent transfers of national value from one national capital to another. Moreover, the two goals are to some degree contradictory since the first requires the rise of domestic prices and the second the fall or constancy of export prices.

Without getting involved in a lengthy discussion of the various tactics used by the various national capitals to shift the greater part of the loss onto one another, we want to indicate that the matter is somewhat more complicated than S leads us to believe. He gives us the impression that the departure from the gold standard was the key to success for England and Sweden, for example. But the fact that these two countries "were already recovering nicely from the Depression" while the U.S., Germany, and France were still wallowing in it does not prove much. First of all, England really never participated in the boom of the 1920s to begin with, so that it did not have that far to fall. The depression did not develop to the same degree in England even before it left the gold standard in 1931.

S provides absolutely no material concerning the changes brought about by the Depression and World War II with respect to international investment. During the Depression, the many private and public bankruptcies reduced outstanding investment and future investment "propensities." More concretely, whereas British total foreign investment remained more or less constant, the U.S. investment position deteriorated. The following is a tabular comparison of the long-term U.S. investment position in 1929 and 1939:

<table>
<thead>
<tr>
<th>U.S. PRIVATE INVESTMENT ABROAD</th>
<th>1929</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term (total)</td>
<td>$15.4 billion</td>
<td>$11.4 billion</td>
</tr>
<tr>
<td>direct</td>
<td>7.6</td>
<td>7.3</td>
</tr>
<tr>
<td>portfolio</td>
<td>7.8</td>
<td>4.1</td>
</tr>
</tbody>
</table>
U.S. FOREIGN LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th>1929</th>
<th>1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term (total)</td>
<td>$5.9 billion</td>
<td>$8.7 billion</td>
</tr>
<tr>
<td>direct</td>
<td>1.4</td>
<td>2.9</td>
</tr>
<tr>
<td>portfolio</td>
<td>4.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Net position</td>
<td>9.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>


The long-term U.S. investment position may have deteriorated sharply during the Depression, but this was not uniformly so; the U.S. became a debtor toward Europe but remained a creditor toward the countries of the Western Hemisphere where it maintained over 70 percent of its investments. However, the U.S. maintained its direct investment whereas it suffered losses with respect to its holdings of foreign debt (government and private bonds, etc.).

During World War II, U.K. foreign assets were sharply reduced from approximately $18 billion to $4 billion; Germany, France, Netherlands, Italy, and Japan also witnessed either total or very large reductions of their foreign assets. The U.S. position improved during the war, so that by 1945 the British and American empires both amounted to approximately $14 billion in assets with a net creditor position of about $4 billion.

B. THE AFTERMATH OF WORLD WAR II

Although the political context of S’s description of international events following the war requires analysis, the information he does present is uncommonly informative. To begin with the period of the “dollar shortage”: without U.S. “gifts,” loans, and investments, the European capitalist nations would not have had the “liquidity” to purchase the means of production and consumption from the only nation in a position to sell them—the U.S.

But this “technical” mechanism for “creating liquidity” concealed other relations—the incorporation of these national capitals into a newly reconstructed imperialist world
market which, despite the fact that it involved direct sub-
ordination of the weaker national capitals of Western
Europe to U.S. capital, also was subject to autonomous
laws of motion beyond the control of even the strongest na-
tional capital. This relationship between anarchy and plan-
ning on an international scale must be understood, for in
general bourgeois economics is unable to explain both
sides; one must see that it was possible at a certain concrete
historical juncture for a uniquely powerful national capital
to "create" an international monetary system geared to se-
cure its short-term advantages without its simultaneously
being in a position to "create" a system which could re-
main under its conscious control.

Since the international monetary system was not (only) a
technical mechanism for restoring world trading links, its
"success" was not uniquely tied to the planning wisdom of
the founders of Bretton Woods; rather, the success of the
"dollar standard" must be analyzed in connection not with
the circulation of the dollar as technical means of facilitating
barter, but with the fundamental conditions of the general
world-wide postwar upswing of the capitalist world. The
dollar was not merely a temporary replacement and/or sup-
plement vis-à-vis gold as international money, but also
represented—as do all currencies—money capital; in this
way, dollar "flows" are also capital flows, proof that the
many contradictory processes within the national capital
will also find some expression on the international level.

It is important to bear in mind this complex when deal-
ing with the various post-World War II plans and organiza-
tions, because the impression has been given that in some
planned way all the old problems plaguing international
economics are being eliminated. However, money is not
just thrown into the sphere of circulation—it is done so in
accordance with regularities stemming from the production
and realization of value; to be sure, the state can interfere
within certain limits, especially externally, on the world
market on behalf of its national capital. Such "interven-
tions," however, are always embedded in and delimited by
the interests of the national capital and the expansion or
contraction of the world market.
Having indicated in somewhat theoretical terms why the Bretton Woods system was not some sort of “neutral tool,” let us approach the same subject from a more explicitly political point of view. First S makes absolutely no effort to place these events in any historical context. The sharp struggles which took place during and after World War II among the various capitalist allies and among various segments of their ruling class receded into obscurity during the era of cold-war prosperity; the contradictory forces at work in the plans of the U.S. for recreating postwar capitalism in its own image are given little attention. Students are not told that the formative phase of the glorious Anglo-American friendship involved jockeying as to how much of its empire Britain would have to sacrifice in order to obtain U.S. “aid”; thus for instance, during the finest hours of our English allies, when they were sacrificing their blood, sweat, and tears, we asked them to throw their colonies in too while they were at it. This took place at the time of lend-lease negotiations, when Churchill begged the U.S. not to connect this with the demand for the renunciation of Imperial Preference (this was the special tariff system within the British Empire which made the intrusion of outside powers more difficult and which the U.S. was most anxious to dispose of to strengthen its world market position), for this would “enable enemy propagandists to say that the United States was capitalizing on British adversity to seize control of the British Empire.”

Presumably the U.S. would have been strong enough to exist on its own without large trading with capitalist Europe and could have waited until these economies had pulled themselves up by their bootstraps.

But the 1920s and 1930s had already demonstrated the revolutionary dangers inherent in such a strategy, and with the rise of socialist Eastern Europe it became obvious that a repetition of that first postwar period could well spell the end of capitalism globally, and thus in the U.S. as well. Thus, the post-World War II plans on the part of the U.S. were in reality attempts to restore the viability of capitalism in the long run while securing U.S. capitalist hegemony at least for the short term. The gifts and grants and loans
made by the U.S. can be regarded as insurance premiums, and, as we shall see, it was not the beneficiary who would end up footing the bill.

S states that chronologically the aid programs ran as follows: UNRRA, Marshall Plan, then “shift” toward NATO and other military alliances—e.g., Truman Doctrine and Greece (708). UNRRA had been set up during the war to ward off starvation situations; financed by the U.S. and administered by the United Nations, it was to be disbanded in 1947 before it had actually completed its task. Thus La Guardia, ex-Mayor of New York, the administrator, asked the UN General Assembly in 1946 that a Food Fund be established to continue the work; all nations except the U.K. and the U.S. favored this approach. They decided that individual nations should give help as they saw fit, the first step, or at least the first major manifestation, of U.S. policy to use its unique economic force in the postwar period to secure its leadership in the international capitalist power structure.

The rest of S’s chronology is wrong—for the Marshall Plan did not precede “our” military involvements in time nor would it in any case be proper to speak of a “shift” from recovery to military programs. To set the record straight, the Truman speech now referred to as his doctrine was made in March, 1947, whereas Marshall’s did not come until June of that year; and whereas the Marshall Plan did not go into effect until the next year, “aid” to Greece was more urgent.

Let us see exactly how the U.S. aided Greece when it was “threatened” by communism. In 1944 the Communist-led army was clearly dominant and enjoyed large popular support; in the ensuing civil war with the discredited monarchist forces, victory would have been theirs had not “aid” been forthcoming.

But in 1946 civil war erupted again in Greece. According to Hugh Seton-Watson, this was dictated not by Moscow but rather by the “repressive policy” of the ruling government.6 This policy in turn was pushed by Britain, which
was determined to "install in power the discredited monarchy and its blindly vengeful rightist supporters."  

The only problem Britain had at this time was that its economic weakness prevented it from carrying out its imperial tasks effectively; Britain also had to admit its inability to defeat the "threat" of communism in Greece. As usual, the U.S. was glad to oblige—and this was where the Truman Doctrine came in. The Truman Doctrine in general was an attempt to circumvent international bodies such as the U.N.: thus with respect to Greece, the U.S. decided to ignore a U.N. plan for reconstruction. Basically the U.S. needed Greece for its strategic Mediterranean position with respect to Mideast oil and the Soviet Union.

That there is something suspicious about S's description can be seen from his inclusion of Yugoslavia ("even") (708) among those getting "aid"; it must be remembered that the other countries were being aided because they were "threatened" by communism. But Yugoslavia had, as it were, already succumbed to the disease—so how could we treat a dead patient short of military force? The point here is that the U.S. was not interested in saving democracy or soldiers' lives—the goal was to save markets and possibilities for capital investment (that Yugoslavia is a relatively small country is as little a refutation as is size in the case of Vietnam).

**Digression on U.S. Direct Investment Abroad and the "Multinational Corporation"**  Tucked away at the end of S's minidiscussion of the Point Four Program, we find this statement:

Besides these government plans, we have been privately exporting our "know-how." Many of our largest companies are establishing branch factories abroad; often the capital is largely raised there, with Americans supplying the technical knowledge. Some people throw up their hands in horror at the thought of our helping foreign nations to become our industrial competitors. . . . In terms of selfish long-run economic interest there is some factual basis for this gloomy view—as the post-Marshall Plan economic revival of Europe and Japan well illus-
trates. However, in terms of both long-run political interests and altruism, helping others to develop is deemed definitely good policy for the United States . . .[709].

Two aspects of this statement are remarkable: first, it is the only mention in the whole book of large-scale U.S. direct investment abroad; and secondly, it has been handed down now in an unaltered fashion through edition after edition. We consider the first point important, since the chapter is after all entitled "Current International Economic Problems," and the phenomenon under discussion has attained such significance that it has penetrated popular consciousness. Given the enormous changes that have taken place since World War II in this area, only someone who spends only a minimum of time on each new edition to liven it up for the "modern" student could reprint this section unchanged.

No attempt is made to provide a detailed account of U.S. direct investment abroad or of similar tendencies in other major national capitals. Though the main force of our criticism of S is not directed at his failure to offer such an account, to the extent that he contends that his theory immediately flows into such practical, concrete applications, he must be held accountable in this respect; similarly, if he does make the effort to summarize the major "problems" in this area, it is incumbent upon us to determine whether he has made a representative selection.

In order to understand the processes covered by the catchword multinational corporations, we must understand the connection between the overaccumulation of capital and the falling rate of profit within a national capital and the workings of the world market.

In Chapter 23 we introduced the concept of overaccumulation of capital to explain the phenomenon of capital exports by more "mature" capitalist nations to developing capitalist nations. At that point we were mainly interested in the export of loan capital (investment in "paper") in the context of S's discussion of "stages of development." Here, however, we are no longer dealing with "old" and "new"
capitals, but rather with the reciprocal export of capital by highly developed national capitals, as well as their capital export to nations which will probably never become developed capitalist nations. The contemporary situation is, furthermore, complicated by the circumstance that in large part the export of capital now means direct investment abroad instead of the traditional reliance on loan capital.

How are we to explain this new situation? We hinted at the answer when we pointed out that as early as the beginning of this century the then two most dynamic capitalist powers, Germany and the U.S., were simultaneously importing loan capital and exporting capital for direct investment purposes. There were probably two major causes of this phenomenon at that time. First, we may hypothesize that, whereas in England a general overaccumulation of capital had set in which fostered the withdrawal of segments of the total national capital and its transfer in the money form of capital to territories offering a higher rate of "return" in the U.S. and Germany opportunities for the short-term expansion of the domestic market still abounded. The situation in these two countries was such that the process of monopolization—creation of trusts, cartels, etc.—had progressed so far that these branches of industry—iron and steel for instance—had developed ahead of the rest of the economy; one very important way to overcome these disproportions was to expand the market by producing abroad.

At this point the question may be raised—then why not just export commodities, why export the production facilities themselves? There are several reasons, and we may collect them all under the second major cause of direct investment. Among these was the then burgeoning system of protectionism: in order to overcome the tariff barriers of other countries, the highly cartelized and protectionist countries such as the U.S. and Germany found it necessary to set up production abroad. (This is one similarity to the contemporary situation, in which the U.S. has been investing very heavily in the Common Market countries).

Another reason for this trend lay in the attempt on the
part of these newer capitalist powers to compensate for the enormous advantage Great Britain enjoyed as a result of the unique financial power of London as the world’s banker, which enabled it to gain the upper hand in financing commodity exports by British capitalists.

The third reason, closely connected to the foregoing, relates to the need on the part of the would-be imperialist powers to overcome the very substantial economic and political advantages inherent in the structure of the British Empire. One form this attempt assumed culminated in the colonial struggles of a productive base in foreign countries.

This summary of the rise of direct investment among the nascent imperialist powers at the time of the turn of this century can serve as the starting point for an understanding of the enormous growth of such investments in the post-World War II period. The factors mentioned were the concrete causes of the general need to overcome the falling rate of profit. Certain of these specific causes are still valid today (such as need to overcome tariff barriers), but others are still to be determined.

But before we can pursue this matter further, we must look at the other aspect underlying this process—the influence of the world market. In fact, perhaps it cannot even be characterized as “another aspect,” since the interrelation between the two must be considered in investigating the cause of these “capital movements.” The drive toward the establishment of a world market, toward the capitalization of all nations, is inherent in capital. Periodically, during times of world depression, the national capitals qua national states try to stem this tide. Nevertheless, there is a secular trend in the sense that despite the periodic “setbacks,” the interconnectedness of all national capitals is intensified; this process does not, however, exclude the intensification of the “reverse” motion: that is to say, the possibility of crises remains and this very interconnectedness can conceal the roots of deeper crises precisely because the national capitals will find it increasingly difficult to sever their ties to the world market. But this also means that attempts to protect the national capital will also be increased and intensified.
The so-called multinational corporation is the chief mechanism by which the world market relations have been deepened in the post-World War II period. Lenin recognized long ago that capital “flows” were the prime forces at work in this respect. But in his time it was the export of loan capital (buying of stocks and bonds in foreign corporations and states, bank lending, etc.) that predominated; today direct investments are the dominant form. Prior to World War I, 60 percent of foreign loans issued in the advanced capitalist countries were directed toward the perennially “underdeveloped” countries, but today such loans are much less significant because the risks involved are too great. Although direct investment in these countries has also dropped relative to direct investment among the major capitalist powers, still it has increased significantly. The reason for this difference is explained by the fact that whereas the recovery of loans depends on the development of the local economy, making a profit on direct investment is relatively independent of that economy and can be guided much more directly by the investors. By this we mean that the “underdeveloped” countries must be competitive enough to obtain enough foreign exchange in order to pay back the debts, but the world market and tariff systems limit this possibility of gaining enough foreign exchange. Thus the countries find themselves unable to pay back their debts and thus few loans are offered. Hence the “poor credit rating” of these nations.8

The other main reason for the shift from the export of loan capital is linked to the structure of finance capital; in the last sixty to seventy years a great capital concentration in the largest corporations has taken place, and they (together with their group banks) are now able to self-finance a large share of their expansion. This is in sharp contrast to the period about the turn of the century when large sums of capital, stemming from a relatively broad layer of rentiers, was centralized in banks for foreign loans.

Related to this circumstance are the structural changes in capitalism itself, largely influenced by the Keynesian mode of staving off the more blatant crises, which makes for the protracted idling of productive capital, preventing its trans-
formation into the internationally mobile money form; in other words, permanent excess capacity binds previously mobile capital to the national sphere.9

The reasons for the vast increases in "international production" are not the same for all advanced capitalist nations, although the general precondition for all the nations involved has been the postwar upswing on the world market. Of particular interest in this context is U.S. direct investment, particularly in the West European countries.

In the immediate postwar period the U.S. was not a senile power buying securities in the new, young, vigorous economies of Europe. The U.S. enjoyed an enormous productive advantage over the European countries, and it was reflected in the gigantic total trade surplus it accumulated during these years; between 1945 and 1952, the excess of exports over imports reached $43.524 billion.10

On the other hand, the secular stagnation of the 1930s reappeared between World War II and the Korean War, which provided great incentive for U.S. capital to invest abroad. Given the low wages in Europe one would have expected U.S. corporations to make a rush for profits there. Yet U.S. direct investment in the Marshall Plan countries increased by less than 30 percent between 1945 and 1950 (from $1.768 to $2.272 million). For this there are probably two major reasons. First, the great instability in these countries threw doubt on the ability of capitalism to survive there. Secondly, the large corporations were making big profits from exports guaranteed by the U.S. government; between 1945 and 1951 the difference between "goods and services" exported and imported by the U.S. equaled $49 billion; this amount represents the "gifts" and loans made by the U.S. during this time.

But of course foreign investment was not caught napping during this period; the weakness of the West European "partners" was used to strengthen the U.S. position in "contested" areas. Thus U.S. direct investment in the following areas increased as follows between 1946 and 1950: Canada—50 percent; Latin America—60 percent; West European colonies—95 percent; other "underdeveloped" areas—120 percent.11
But with the political and economic "stabilization" settled by the early 1950s, it became clear that this was a good time for U.S. corporations to gain control over European markets from the inside. This is how an Executive Vice President of Caterpillar describes the situation for one individual capital:

Caterpillar had no foreign investment prior to 1950, but it had been exporting U.S.-manufactured goods all over the world for many years. A major impediment arose as World War II ended and the nations of Europe began to recover from the physical and economic devastations of that war. Several countries had hundreds and even thousands of Caterpillar-built tractors within their boundaries, but they had no US dollar exchange to purchase repair parts from the United States to keep them running.

Caterpillar's first major response to this situation was to create a British company to subcontract the manufacture of parts to British companies. It purchased the parts as they were manufactured and shipped them to any part of the world where pound sterling was more readily available than US dollars for use in making payment. (Virgil Grant, "The Multinational Company," in Federal Reserve Bank of Chicago, The International Monetary System in Transition (Chicago, 1972), pp. 109ff.)

From 1950 until 1957, the year of the founding of the Common Market, U.S. direct investments in Western Europe rose from $2.272 to $4.151 billion, or approximately 83 percent. Yet this still does not represent above-average increases in investment, and during this period West European investments continued to average about 15 percent of total U.S. investment abroad.

With the formation of the Common Market, however, a decisive turning point was reached:

The big challenge came when the European Community was created in 1957. The six countries making up the market agreed to have a uniform import tariff which, in the case of track-type tractors, was to be 16 percent. Prior to creation of the market, the rate on tractors shipped to Germany and Belgium, the two largest customers, had been only 6 percent. Since there were
two tractor manufacturers in Germany, two in France, and the big Fiat plant in Italy (which, incidentally, was built with Marshall Plan funds), we could not hope to compete in that market by exporting from the U.S. The 16 percent tariff would make our prices too high. It was clear that we had to have a factory in one of those six countries. A thorough study of the situation resulted in buying the assets of one of the tractor factories in France with 150 employees. That company now has 1,800 employees. We have since located a second company in the European Community in Belgium in response to a challenge to our rubber-tired loader line. It employs 2,300.\textsuperscript{13}

And in fact we see a similar picture on the aggregate level; the following table shows the increase in U.S. direct investment from 1957 to 1970 and compares it to the general increase in U.S. direct investment in all countries:

<table>
<thead>
<tr>
<th></th>
<th>1957</th>
<th>1970</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($000,000)</td>
<td>($000,000)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>25,394</td>
<td>78,090</td>
<td>208</td>
</tr>
<tr>
<td>Western Europe</td>
<td>4,151</td>
<td>24,471</td>
<td>494</td>
</tr>
<tr>
<td>Common Market</td>
<td>1,680</td>
<td>11,695</td>
<td>596</td>
</tr>
</tbody>
</table>


Thus by 1970, Western Europe accounted for 33.4 percent of total U.S. direct investment, compared to 16.4 percent in 1957; similarly, the Common Market more than doubled its share, from 6.6 percent to 15 percent. This increased share has been accompanied by an enlarged share of U.S. corporations in the industrial production of Western Europe.

Here we begin to see the very complicated nature of these huge U.S. investments in Western Europe. The U.S. presence doubtless had salutary effects on the growth of capitalism in these countries, although at the same time it was U.S. capital that was gaining control over ever-larger shares of the source of capital accumulation.

A further aspect of this complex process relates to the
very nature of the "multinational" corporation; for once U.S. capital has become deeply involved in, say, Western Europe, it is subject to the same vicissitudes of the industrial cycle as the local national capital. This means that in periods of "recession," the subsidiaries of the large U.S. corporations will cease to play the role of the chief mechanism for intensifying the interconnectedness of all national capitals through the world market; large capital investments in one country cannot be so easily transferred elsewhere, and thus "U.S." capital remains the profit- or loss-bringing property of U.S. owners, though economically it is subject to the laws of motion of the national capital it is embedded in.

The structure of the capital relations between the U.S. and Western Europe offers a good example of the sort of U.S. advantage which may soon be brought to a halt. Whereas the greater part of U.S. investment in Western Europe falls in the category of direct investment, the overwhelming proportion of European investment in the U.S. falls in the category of loan capital (private and state, short- and long-term). To the extent that these countries were "willing" to finance the various imperialist ventures of the U.S., some of which directly and indirectly also aided the European capitalist systems, European loan capital was being transformed into U.S. industrial capital in Western Europe, whereby the U.S. capitalists gained from the difference between the interest rates they had to pay and the rate of profit on their investments.

The complicated nature of the increase in U.S. direct investment finds further expression in its relation to the development of the competitiveness of U.S. capital. Although the original U.S. investment in Western Europe was not necessarily a sign of domestic stagnation, the continued investment in the 1960s was definitely related to an inability to compete via exports. U.S. capital export was in large part a response to the decline in its competitive position. It is important to understand the causality. Although U.S. capital export was in large measure dictated by the opportunities of higher profit rates, increasingly it came to be an
admission "that there are advantages in producing in the foreign market, which would suggest that the foreign-produced goods could outcompete the comparable United States product."  

The U.S. multinational corporations have obviously contributed significantly to equalizing conditions of production among the developed capitalist nations, although "equality" has by no means been reached. Nor, given the absence of a world capitalist state, will it be attained; for in periods of declining rates of accumulation each national capital takes care of itself.

It would be a mistake, however, to believe that U.S. capital is inevitably headed for defeat. Let us consider whether the cumulative effect of the enormous profits made by U.S. firms abroad might not act as a surplus-value injection, to compensate for the insufficient profitability of U.S. domestic capital. The following table shows the capital "flows" associated with U.S. direct investment between 1961 and 1970 (minus figures mean outflow):

<table>
<thead>
<tr>
<th>($ billion)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. direct investment abroad</td>
<td>-28.8</td>
</tr>
<tr>
<td>Borrowing abroad by U.S. direct investors</td>
<td>11.2</td>
</tr>
<tr>
<td>Interest payments on borrowing abroad</td>
<td>-1.3</td>
</tr>
<tr>
<td>Income from direct inv. abroad</td>
<td>41.8</td>
</tr>
<tr>
<td>Receipt of royalties and fees</td>
<td>12.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35.3</strong></td>
</tr>
</tbody>
</table>

Source: Susan Foster, "Impact of Direct Investment Abroad..." op. cit., p. 172.

Thus during this decade U.S. "multinationals" returned "home" about $35 billion more than they invested. It may be true that profits derived from exports cannot function as a stimulus toward an upswing—insofar as the profits realized abroad first had to be produced domestically—unless the conditions of exploitation at "home tendentially allow of high rates of accumulation anyway." (See Neüsuss, et al., "Kapitalistischer Weltmarkt..." op. cit., p. 102.) This construction, however, is not valid for profits stemming from direct investment abroad precisely because
they were produced under conditions of exploitation superior to those of domestic capital.

With respect to the possible effects of "autonomous" injections of surplus value, it is obvious that the advantages stemming from this foreign profit accrue to those capitals with foreign investments. This is also a definite impulse for concentration, which in turn leads us to the last aspect of direct investment: its significance to United States capital as a whole.

First of all, U.S. direct investment abroad is concentrated among the largest monopolies. Only a very small percentage of all U.S. firms have any such investments, and even within this group the concentration is great. With respect to individual corporations, a major study done several years ago investigated the foreign "involvement" of Fortune magazine's 500 largest industrials for that year. It determined that 386, or 77 percent maintained foreign operations. Using five criteria of sales, earnings, assets, employment, and production, it divided these 386 companies into groups according to their "relative involvement in foreign operations": 48 percent maintained less than 10 percent foreign operations; 32 percent between 10 and 24 percent; 18 percent between 25 and 50 percent; and 2 percent greater than 50 percent.\textsuperscript{15} The "involvement" of these largest corporations is even greater today.\textsuperscript{16}

II. WORLD MARKET AND INTERNATIONAL MONETARY "INSTITUTIONS"

A. THE "WORLD" BANK

For S, the origin of the International Bank for Reconstruction and Development is extraordinarily simple:

Since the U.S. is more developed industrially than the rest of the world, there is no doubt that South America, the Orient, Europe, and Africa could profitably use our capital for their industrial development. Such capital could be expected to increase their production by more than enough to pay generous interest and repay the principal [709].
At this point S leads us into the founding of the IBRD and IMF with a "therefore." And this is where the "cunning of reason" enters the scene; for although the rhetoric surrounding the founding of the institutions centered on the aspects encompassed by the name of the Bank, S has unwittingly put his finger on the real function of these institutions: the creation of the general conditions for "safe" international investments.

Why did the more grandiose plans of the Bank recede in the early postwar years? At a certain point in the roll-back strategy the U.S. considered "multilateralism" an inefficient if not potentially dangerous instrument; hence it opted for more openly direct control of the operations. Although Treasury Secretary Morgenthau defended the view in 1945—against Senator Fulbright—that the Bretton Woods system be "wholly independent of the political connection" (this in the context of a discussion of a proposed $10 billion low interest loan to the Soviet Union),

as relations with the Soviet Bloc deteriorated, the political significance of Fund and Bank operations naturally increased. Several of the Soviet satellites were members of the institutions. The United States was understandably reluctant to permit the granting of financial assistance to members of an increasingly hostile bloc of nations.

Indeed, the growing hostility between East and West was forcing the American Government to seek ever greater control over the disposition of the resources it was making available to other nations. . . .

In the case of the Bretton Woods institutions, of course, resources had already been put under international control. But it was not too late to ensure that the resources of the Fund and Bank were employed in conformity with American political interests. The powerful voice which the U.S. had in the operation of these institutions soon began to make itself felt.17

With the U.S. decision to take direct control over the "reconstruction" process in Western Europe through the Marshall Plan, the Bank had to orient itself toward other goals, to act "as a safe bridge over which private capital could move into the international field."18
The ways in which the Bank serves this function are manifold. The fact that the Bank can perform this function altogether derives from a homogeneity of interests of the imperialist nations to keep access to the "Third" World open to capitalist investment; and although the U.S. is still the first among equals in the Bank, it must be understood that the Bank itself represents a coordinated response on the part of "First" World to the "threats" of the national liberation struggles.

Shonfield has characterized the advantages of a supranational bank for the imperialist lenders:

The association of the Bank with a country is also taken to provide some insurance of international good behavior. . . . It is generally believed that a country would hesitate . . . before . . . defaulting on a World Bank loan.

At the same time it is able to act as a kind of shield to foreign companies which want to develop some mineral or other natural resource in a distant spot, but are anxious to be protected against the political risks that are run by a rich and isolated alien concern operating in the territory of a poor nation. Thus, for example, the American steel companies, who wanted to develop the manganese deposits of the Gabon on the west coast of Africa, were able to avoid a direct connection with the business, because the Bank took the initiative, once the American interest in the manganese had been firmly established, and made a loan—knowing that it would be able . . . to sell rather more than half of the loan obligations to American insurance companies, who were standing ready to buy. These combined operations of the financial house, the large industrial corporation, and the Bank are an interesting extension of modern investment practice. . . . In time this may, indeed, become the standard formula for large-scale company investment in the natural resources of an undeveloped country. . . .

A division of labor has developed between international organizations such as the Bank and private "investors"; in large measure the former has assumed the task of investing in the "infrastructure" of the "underdeveloped" nations. The reason for this division of labor is clear: investments in infrastructure are not immediately profitable; thus such projects may "tie up" considerable amounts of capital for a
long time. Traditionally investors in such projects have had to be satisfied with interest rather than the full profit, and, of course, given a choice, large capitalist corporations will take the latter.

Such investments in infrastructure can also stem from so-called bilateral public capital, and sometimes a consortium is formed by the Bank to coordinate the "aid" programs of many nations to a large "development plan" (as, for example, with respect to India and Pakistan). Despite the general preference for multinational programs for reasons of "safety in numbers," there is the opposing consideration that such participation as a rule excludes the possibility of "tying" funds to purchases from the "donor" country. Such "aid" will of course meet with opposition from those national capitals or branches whose export position is deteriorating anyway. But this latter aspect should not make us lose sight of the fact that under certain historical conditions "multilateralism" can function as a means of penetration for one of the participating national capitals. That this was the case in the postwar period was emphasized in an article in Business Week of May 6, 1972, which quoted a high American official at the IBRD as saying: "If we didn't have the World Bank and IDA we'd have to create them. They cut through the barbed wire of the old colonial preferences and give us equal access to the markets of South Asia and Africa."

While U.S. taxpayers financed approximately $1.8 billion in paid-in capital to the Bank and IDA, by the end of 1970 U.S. capitalists had obtained orders amounting to more than $3.5 billion; when one adds the net income accruing to U.S. banks, etc., on 37 percent of the IBRD's outstanding debt, one sees that "U.S. equity-type investments and donations have been repaid two times over at least." 20

The "flow" of loans for infrastructure and related areas is not unconnected with the needs of private capital. It is essential to understand that given such a meshing of investment policies, the only result of IBRD lending can be the further integration of the "underdeveloped" countries into the world capitalist market as further objects of imperialist exploitation; since loans are often withheld if the develop-
ment purposes to which they are to be put do not coincide with those "perceived" by the Bank as having priority, and since anticapitalist measures find little acclaim at the Bank, those countries that get caught up in development via "international" institutions also find the rules of development narrowly prescribed.

We will now examine the origins and operations of the International Development Agency by scrutinizing S's optimistic view of the ability of the "borrowing lands" to repay their loans with "generous" interest. The Pearson Commission report to the IBRD, however, estimates that by the end of the 1970s debt-servicing will swallow almost all new private and public lending.

S's statement contradicts the actuality. According to him (8th ed., p. 687), "an embarassing volume of profits" gave rise to the largesse known as the IDA and IFC. The rise of the IDA was in fact the Bank's response to the prospective defaulting on many of its outstanding loans; rather than alter its policy on "creditworthiness," the Bank chose to open a more flexible branch which would offer lower interest rates and longer terms of payment.

Thus in 1970, when the foreign-exchange debt of these countries had reached $55 billion and was rising twice as rapidly as export earnings, McNamara stated that he shared the concern of these countries. But just in case, it was announced that in October of that year the Bank would start work on proposals for international investment insurance to protect foreign business against "expropriation and other hazards." 21

All S tells us is that increasing portions of the Bank's profits goes to support its "soft" loan policy. Let us look at this more closely. First of all, the fact that in every new edition S repeats the bit about the "embarassing" profits, advancing the year (1964, 1967, 1970) up to which they have accumulated, merely confirms Shonfield's opinion that "if the development problem were being treated with the urgency that is required in order to make an impression on world poverty during the decade of the 1960s, IDA would be the senior partner of the World Bank." 22

In the second place, S gives an incomplete, and thus dis-
torted, view of the financing of IDA. Through 1970 the IBRD has transferred $485 million to IDA, while IDA had lent $2,886,130,000. In other words, less than 17 percent stemmed from the Bank. The chief source of funds for IDA are the richest members of the Bank—and precisely this has been the cause of disruption, since the U.S. on occasion has so delayed its contribution that IDA lending fell off.

S’s description of the IFC is even more misleading, because this institution does not even make the “soft” loans IDA does; rather, it has emphasized its “merchant-banker function” to such an extent that “one or two countries have found its terms so stiff that they have refused to use this source of finance for development.” For a bank not pursuing profit “per se,” IFC was doing a pretty good job of hot pursuit, as witnessed by its average annual return of 9.08 percent.

B. INTERNATIONAL MONETARY FUND

With the exception of a brief reference to the “hopes” of the IMF founders, no attempt is made to place the IMF into any historical context; since the function and development of the IMF is not problematized in the analysis itself, it is no wonder that S cannot go beyond vague talk about “disappointment” and “strains” (8th ed., p. 688).

As S notes, the IMF grew out of the same conferences which gave rise to the IBRD: what he does not say is that it also became integrated into the postwar imperialist strategy.

The final plans establishing the IMF codified the outcome of yet another intense struggle or world hegemony between the U.S. and Britain. The plan proposed by Britain, worked out by Keynes, was geared to the expected debtor status of Britain in the postwar period; in essence it provided Britain with overdraft facilities, reducing the drain on gold, since the latter was being supplanted by credit ("bancor") allocated on a basis favorable to Britain in the first place. Since the U.S. would obviously be the major creditor nation, this plan did not sit well with it, especially in light of the fact that unused bancors would lapse after a certain period.
This, combined with the built-in voting bias granted to the British Empire, did not fit into the emerging U.S. strategy of removing control over the reconstruction period from multilateral organizations.

The IMF, as it developed from the White plan put forward by the U.S., enabled the U.S. to assume an unprecedented position of power in the international financial system. One should not ascribe to the U.S. the unlimited powers which find their source in the whims of the U.S. ruling class. What we mean here is that U.S. capital's strategy for hegemony accompanied the objective possibility for this power, and more specifically related to the international monetary system, corresponded to certain conditions necessary for the dollar's ability to assume the role it did.

Given the great concentration of gold in the U.S. (that is, both the fact that other countries had little gold and that the U.S. gold stock exceeded the dollars outstanding), given the relatively enormous commodity production taking place in the U.S. (which means that commodities could be bought by all dollar holders), given the role of the U.S. in world trade and finance (which permitted other countries to use the dollar as a means of payment and circulation)—given all these conditions, it was possible for the dollar to become world paper money. That all this was realized depended on the political pressure the U.S. was able to exert on the other countries; however, since no other country was in the objective position to fulfill this role, the other capitalist nations were confronted with an accomplished fact. The system that evolved was also necessary for the whole capitalist world so that in the medium run the other countries could "live with" it.

One of the major failings of the section on the IMF is its inability to prepare the way for an understanding of the collapse of the system. At the very least S would have to point out that along with the power the U.S. obtained through the ability to issue world money came the inherent instability of a monetary system based on the national currency of one particular country.

This is the inherent constriction of every credit system: to
the extent that international trade and capital transactions grow more quickly than the gold supply, the reserve currency must be increased. In this process there comes a point at which the needs of availability of "liquidity" are bought at the expense of convertibility into gold. Once this point has been reached, it is merely a matter of time until the concrete conditions develop in the reserve country which will react on the other nations through the international processes of circulation; at such a time an economic crisis in one country can be transmitted to others which did not suffer an endogenously caused crisis.

Yet S himself "almost" provides the clue to the collapse of the Bretton Woods system when he asks why the dollar-DM exchange rates should remain unchanged after twenty years when "German productivity might outstrip America in an unpredictable way" (720). The only problem with this sort of reasoning is its tendency to locate the cause of the "disequilibria" in the technical workings of the IMF. But as we have pointed out, the exchange rate changes reflect the changes taking place among the various national capitals in their ordering on the universal scale of labor; in the long run such changes may be "predictable" or "unpredictable" as far as their specifics are concerned, but the uneven development inherent in capitalism assures their occurrence.

If this system has suffered crisis after crisis, then this in part stems from the U.S. insistence on, the European acquiescence in, the role of the dollar; but this also depends on the circumstance that there were radical changes in the scale of universal labor which had to find expression in national capitals resisting the changes being brought about by the workings of the law of value on the world market in order to secure certain important short-run trade advantages.

An example of S's technically oriented approach in his treatment of the various actions taken to "save" the pound sterling (8th ed., p. 688). Yet the underlying cause of this string of crises was the attempt of British capital to retain its imperial power despite its failure to establish the requi-
site international monetary system. In order to preserve its colonies and its competitiveness vis-à-vis U.S. capital, Britain was compelled to export more capital than it received back in the form of profits from the colonies; for this purpose as well as for the maintenance of the London money market it became necessary for Britain to build up trade surpluses. And it also became necessary to build up currency reserves large enough to guarantee gold or dollar convertibility to the sterling holders.

The pound devaluation of 1949 signaled the defeat of this strategy, although this did not prevent British capital from persisting in it. (It should be noted that IMF rules provided for Fund approval of devaluations in excess of 10 percent; in a sense this protected the U.S. against large competitive devaluations and accompanying dumping.)

The increasing inability in the 1960s to achieve these two goals of export surpluses and currency reserves stemmed from the limits of productivity and competitiveness of the British economy: the next attempt to overcome these difficulties culminated in the attempt to "modernize" British industry through governmental tax, price, and income measures. The deflationary policy curbed imports but failed to bring about a long-term improvement of productivity, and thus of the balance of payments; similarly, inflationary policy led to an outflow of reserves and the bankruptcy of "stop and go" economic policy.

The measures taken by the IMF in conjunction with the pound crisis in November, 1967, described by S (8th ed., p. 688) represented a temporary compromise on the part of the imperialist nations to bring about a devaluation rate for Britain which would neither endanger their own trading policies nor force them into a further round of competitive devaluations.26

The last part of our discussion of the IMF deals with the intertwining of its activities and those of the IBRD with respect to "underdeveloped" nations. The reader might well ask what this discussion is supposed to refer to since S does not mention this subject at all. Precisely: when S speaks of devaluations recommended by the IMF to deal
with indebtedness, he refers to "a country" without making any distinction between the effects such a policy will have on "First" and "Third" World countries.

That the international monetary system exerts different pressures on the imperialist and the imperialized is not peculiar to the Bretton Woods set-up: it was equally so during the nineteenth century, the "heyday" of the gold standard. As far as the "periphery" countries are concerned, "international cooperation" as embodied in the IMF has done nothing to alleviate the crises associated with the "automatic mechanism" of the gold standard. And this for good reason: the same features that characterized the nineteenth-century relationships still continue to characterize the "underdeveloped" nations and their dependency on the "core" countries.

In considering the essential differences between advanced and "backward" capitalist nations in this respect, we would have to emphasize (1) the difference in industrial structure which enables the advanced capitalist countries to substitute for imports when necessary and to increase exports by diverting from domestic production; (2) difference in trade structure which makes "underdeveloped" economies more dependent on a limited number of commodities and limited markets, thus narrowing its maneuverability; (3) difference in financial structure, and thus power, which enables the advanced countries to receive a large share of their foreign exchange from investment abroad and other non-commodity-export-related items, whereas the "underdeveloped" nations must rely heavily on their volatile commodity exports.

Thus, far fewer advanced nations were forced to devalue their currencies, and those that did were not subject to the same harsh developments experienced by the "underdeveloped" countries. When one of the latter countries comes to the IMF for a loan, it is usually in dire financial straits (including the danger of defaulting on its international debts, which would have far-reaching consequences for any nation intent upon remaining in the capitalist system); it is therefore not surprising that the IMF uses this opportunity to intensify the existing relations of dependence.
The political goals connected with IMF policy were clearly shown in the case of Cuba, which in 1959 turned to the IMF for help in restoring the foreign-currency reserves squandered under Batista. As the New York Times reported: "If Dr. Castro is to get large-scale aid for his budgetary and balance-of-payments problems, he will have to agree to a stabilization program proposed by the IMF. This would involve credit restraint and a balanced—or nearly balanced—budget." But since such a policy would have effectively vetoed Cuba’s agrarian-reform and employment programs, Cuba was compelled to pursue its developmental programs within another economic system.

A quarter of a century ago S was honest enough to admit the political content of the IMF and IBRD, and the possibility of just such developments:

In the Fund and International Bank, we have pledged ourselves not to force our economic doctrines on the rest of the world. . . . If a socialist government abroad wishes to supplement its income tax structure with a policy of curbing imports of luxury goods in favor of necessities, then we may privately disapprove. But without risking the charge of supporting [!] imperialism and being a propagandist, we cannot raise objections. Yet that is what insisting upon free exchanges comes close to doing. On what insisting upon financial belt-tightening measures abroad often appears like to foreign eyes.

In fact this has been the course pursued by the IMF over the years. IMF recommendations for the decontrol of exports and imports, for devaluation, for cutting government expenditures, balancing the budget, etc., all lead to a vicious circle strengthening the dependence of the “underdeveloped” countries on the “aid” of their exploiters.

C. GENERAL AGREEMENT ON TARIFFS AND TRADE

It is characteristic that S does not provide the reader with any information on the evolution of GATT. Had he done so, it would show the very opposite of the harmonious setting into which he puts the capitalist world. GATT arose amid the same general postwar conditions we have de-
scribed before. It was the successor to the "still-born" Interna
tional Trade Organization, which died as a result of
insurmountable antagonism among the allies, chief among
them the British refusal to abolish the Imperial Preference
system which granted Britain special advantages in trade
with its Empire. Another aspect of dispute centered on the
European countries' "being required, through the forceful
persuasion of the U.S., to give up trade controls which
were necessary to defend their balances of payments and
standards of living." 31 And finally, then as now, the U.S.
insisted upon reciprocal tariff reductions, despite the fact
that its tariffs were generally higher. In the end GATT was
formed as a weak substitute, an organization which al-
lowed all sorts of escape clauses and which the U.S. as well
as others have disregarded when it was to their benefit.

During the 1950s the further push toward tariff reduc-
tions was thwarted by a recrudescence of U.S. pro-
tectionism based on the fear of the recreated Western
European competition.32 The Kennedy Round must be seen
in conjunction with the creation of the EEC with its higher
common tariff policy; although the U.S. had in part at-
ttempted to come to grips with this barrier through massive
direct investments, this was only in part successful, and it
was of little help as far as agricultural exports were con-
cerned. The new-found interest in tariff reductions resulted
in large from this need to overcome the tariff barriers. Al-
though some "progress" was made toward lowering tariffs,
the fundamental disputes concerning the EEC, the U.S.,
and Japan exist to this day. Almost every day brings new
reports of U.S. or European attempts to "fend off"
Japanese exports, while the U.S. and Europe continue to
battle among themselves.

One of the major points of dispute concerns agricultural
exports from the U.S. to the EEC. S characterizes French
insistence upon high tariffs as a "wish" which leaves
comparative-advantage geographers (!) and economists un-
impressed (8th ed., p. 689). But this "wish" happens to be
one of the cornerstones of the French support for the EEC,
since France, as the strongest agricultural producer in that
group, is intent upon securing an unencumbered outlet for its surplus farm products in the EEC. On the other hand, with the EEC as its largest export market for agricultural commodities, the U.S. is not likely to accede to French "wishes" very easily.

Another major dispute surrounds the relations to the "less-developed" capitalist nations. This encompasses two aspects. The first refers to the preferential-tariffs pacts between the EEC and numerous south European and African nations. "Bargaining" on this issue should also prove to be "difficult"; on the one hand, the EEC nations, especially West Germany, have created a favorable access route to the penetration of African and Arab markets which they have no intention of sharing with the U.S.; the U.S., on the other hand, has been struggling to improve its market share in Africa, where it has still not overcome the tight control established by the original European colonial powers.

In sum, then, beneath the veil of technical-sounding tariff reduction debates a significant competitive struggle is taking place among the major capitalist powers to capture new sources of capital accumulation.

D. EUROPEAN ECONOMIC COMMUNITY

"For the great mass of the people there has been no broad improvement in conditions generally." 33

Aside from the goals of free trade and free "movement" of capital and labor, S does not provide us with any of the objective forces or subjective motivations which brought about "one of the most exciting international developments of the century" (712); in fact, from the meager description offered in these few paragraphs, it is not even demonstrated that anything "exciting" took place at all.

As we have already noted, several economic and political forces were at work in forming the Common Market. A partially correct interpretation of some of these factors was provided even prior to the formation of the EEC by Jacob Viner in his study of customs unions:

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For the U.S. however, the political and strategic interest in a stable and prosperous and strengthened Western Europe, and the economic interest in a Western Europe able to pay for the imports necessary to maintain its economic and political health, are clearly of much greater importance than the size of the market which Western Europe offers for American exports.34

In other words, in the early postwar period the U.S. was willing to accept an increasingly competitive Western Europe in exchange for an anticommunist bulwark. This interpretation, though providing us with some insight into the relationship between the U.S. and the EEC, does not reveal its whole complexity. Sidney Dell takes us a bit further:

On the one hand integration was seen as a means of building up the strength of Western Europe in the conflict with the East. . . . Another motive for European unification, on the other hand, has been the desire to create a counterweight to the overwhelming predominance of the U.S. in the Western world.35

This interpretation introduces the further information that, going beyond U.S. willingness to put up with a new competitor in the form of a Western European economic union, the Europeans themselves had resolved to overcome the U.S. political-economic hegemony.

This, however, does not mean that Western Europe's "desire" to set up a counterforce to the U.S. merely sprang from some sort of Gaullist delusions of grandeur. To begin with, neither the U.S. nor the Europeans were concerned with imports and exports exclusively; the enormous build-up of U.S. direct investment in Western Europe provided the main stimulus to further efforts at economic integration, whereby of course the formation of the EEC itself spurred the very phenomenon that was at the root of the unification efforts: U.S. investment. With their newer technology and larger size the U.S. firms were gaining a firm place in the European economy.

In this connection it is useful to adopt Ernest Mandel's
distinction between the absolute and relative need for interpenetration of capital in the EEC. Under the former he understands the fact that: "Certain sectors of industry demand such intensive investment to attain profitable production that even all the companies in that sector in each individual Common Market country together cannot provide it." He names three examples: supersonic aircraft, space exploration, and space telecommunications. Under relative dependency on the interpenetration of capital Mandel understands the following process:

In theory, West Germany, France and Italy might be able to sink sufficient capital to set up large competitive computer industries in each of these three countries. But this hypothesis is unrealistic for two reasons. First, it goes against the principle of spreading risks—more capital would be sunk in one sector of industry than its expected profits would justify. Second, three similar firms would lead to massive overproduction. There are not enough buyers in the European or the world market for three such firms. There is, therefore, a relative necessity for the interpenetration of capital: given the size of the market, in an ever increasing number of branches of industry there are only a limited number of companies which can operate at a profit.

Here we see that there were objective forces as well pushing toward West European integration; and from preliminary studies it would appear that the accompanying concentration movement in the EEC has helped close the gap between the European and the U.S. firms. Missing from S’s narrative is the special function of the preferential trade agreements established by the EEC with the “associated” African states. According to Dell, this system was equivalent to the advantages secured by Britain in its empire or by the U.S. from its relation to, say, the Philippines; this despite the fact that “it had been taken for granted that discrimination of this sort was on its way out with the colonial era.” As Dell also notes, this neocolonial arrangement was particularly attractive to West Germany which was totally excluded from colonial sources of profit after the two World Wars.
This need on the part of the EEC countries to establish new profitable relations with ex-colonies provides part of the explanation for the divergent interests of Britain and the EEC. As Dell puts it, for the continental nations of Western Europe, in contrast to Britain, "the problem was not how to hold on to existing influence but how to rebuild a glory and prestige lost during the years of war and occupation. There was a world to gain and nothing to lose from a pooling of sovereignties." 39

Britain on the other hand was still essentially bound up with its Empire, an advantage which it would have to forgo in some form or another as the price of entry. This does not mean that monopoly capital in the U.K. was blind to the advantages of joining and to the dangers of not joining.

Of course British monopoly capital was interested in joining on its own terms; when these terms were rejected, Britain led the effort to form the EFTA. S explains this grouping on the basis of its being "anxious over the progress of the Common Market" (712); S does not quite understand this "anxiety" since such progress "ultimately" will "lead to net benefit" for others; but in any case this is a paltry explanation. In point of fact, as Dell notes, the EFTA was formed in order to put pressure on the EEC rather than as a serious effort at economic integration. 40 Britain hoped to convince the EEC to adopt its plan of a large free trading zone without common tariffs for outside trade, without regulation of relations to colonies and without inclusion of agricultural products. But the EFTA proved to be too weak to realize Britain's plans.

DeGaulle's opposition to a broadening of the Common Market was not entirely unfounded from the point of view of French capital, which from the beginning approached the EEC defensively: through customs and tariffs it wanted to protect itself from U.S., U.K., and Japanese competition. This stood in sharp contrast to the needs of West German capital, which approached the EEC aggressively; it saw in the Common Market a vehicle for overcoming the narrow confines of the German market and penetrating the rest of Europe as well as colonial areas. The conflict of interests
between France and Germany, although it still exists today, given the unchanged underlying needs of the national capitals, was somewhat alleviated by the death of DeGaulle and the recognition on the part of U.K. monopoly capital that further delay in joining the EEC could be tantamount to permanently losing its place on the world market to superior U.S., EEC, and Japanese competition.

Excursus on the "Mobility" of Labor  In the course of this discussion we have concentrated on capital export and import; in fact, this has been true of all the chapters on international economic relations. Yet labor mobility has become increasingly important in recent years, especially in Western Europe. Foreign workers have assumed the role of the reserve army in the sense of offering mobility from branch to branch as well as in the sense of moving into and out of the work force in times of high accumulation and depression.

Charles Kindleberger testifies to this internal aspect of mobility when he states that "unrestrained by ownership of property or burdened by possessions" the foreign workers "can readily effect geographic changes." Further evidence of this role was supplied even more recently by West Germany’s Minister of Labor and Social Affairs, Walter Arendt, who, while praising the "regional mobility" of these workers, warned that with lengthened stays and the eventual transfer of their families to West Germany this mobility would slacken and infrastructural investments would increase to the point at which the disadvantages would outweigh the advantages.

In fact, it is well possible that in the coming years the surplus value created by these workers will be exported to their homelands and be used to exploit their compatriots; if profitability weakens in West Germany, then capital can be exported instead of labor power imported. This reciprocal relationship fits in well with West Germany’s increasing capital exports geared to strengthening its position on the world market against other strong national capitals.

Striking proof of the other aspect of mobility—into and
out of the work force—was given during the West German recession of 1966-67 when the foreign labor force was reduced by about 300,000; this showed West Germany's ability to export unemployment to the countries from which their migrant laborers came.

This ability to shift the brunt of the unemployment onto foreign workers, who not only leave the labor force but also the country, may exert a very divisive influence on the working class in these countries; the foreign workers in essence fulfill the same role as blacks and Puerto Ricans and Chicanos in the U.S. in this respect. This similarity is also to be observed in the nature of their employment; for the foreigners are almost exclusively manual workers, allowing the natives to move into "white collar" positions of various sorts.

It is in this context that we must seek to understand the "free movement of labor" fostered by the Common Market. With the increasing need for workers during the late 1950 and 1960s, new policies intended to attract and integrate immigrant workers, but also to control them better, were introduced. One such measure was the free labor-movement policy of the EEC, designed to stimulate the flow of the rural proletariat of southern Europe to West European capital. But here, too, there were conflicts among the various national capitals, based on their need for such workers. West Germany, with no empire and thus without its own colonial source of workers, was perhaps most aggressive in its search; yet its refusal to concede priority to the recruitment of emigrants from Common Market countries, because of the more favorable conditions under which it could obtain workers from non-EEC countries, has led to only a partial realization of the free-labor movement policy.

That this movement of labor is called "free" corresponds to the ideology of capitalism: that is to say, it is a type of freedom peculiar and necessary to a certain mode of production, but which is celebrated as part of the human condition. This particular movement of labor is free in the sense that all wage labor is free—there are no slave or feudal relations that prevent the laborer from selling his
labor power elsewhere. It is also free in the sense that the worker had the choice between work and starvation. Most of the foreign workers come to Europe because unemployment is high at home.

As far as Western Europe is concerned, high proportions of foreign capital and labor appear to have become a permanent feature of postwar development. In part one cause is common to both "factors of production": the high rates of accumulation characteristic of these economies during this period. But at this point the similarity ceases, and here we can begin to see the difference between free movement of capital and free movement of labor. Capital, by and large, came not because it was idle and starving, but because the rate of profit was higher in Europe (in part because there were so many foreign laborers to exploit). But we must remember that there is a strong element of compulsion of the market variety here too: if foreign capital had not exploited these sources of accumulation, then competitors would have.

Foreign capital, in contrast to foreign labor, was not discriminated against, was not forced to "work" in the least profitable industries, was not recruited because it had nothing better to do, was not shipped home when a recession caused trouble for the domestic capitalists.

The mere arrival of additional capital did not lower the rate of profit in general, at least in the short run—in the long run all capital accumulation will, by increasing the organic composition of capital, tend to lower the profit rate—but rather increased it by introducing new methods of extracting relative surplus value.

Thus on the whole, the "factors of production" capital and labor experience entirely different situations when they happen to meet on neutral ground.

III. THE INTERNATIONAL MONETARY CRISIS

Although S points out many of the factors responsible for the dollar "shortage" and "glut," he is unable to see the two phenomena as necessary aspects of one and the same
process. In the early years the positive trade balance for the U.S. derived from its large productivity lead over the Western European nations; the very fact of this advantage necessitated the U.S. balance of payments deficits in order to provide the world capitalist economy with "liquidity." The reason that the gold outflow from the U.S. at first "went unnoticed" (713) was that with the general upswing in the world capitalist economy in general and the commodity cornucopia in the U.S. in particular Europeans had "faith" in the dollar. In the 1960s the changing relations in productivity began to manifest themselves in the U.S. trade balance. The competitive position of the U.S. deteriorated steadily. In and of itself there is nothing spectacular about such a development: given uneven development among national capitals it is necessary for such gaps to be constantly closed and opened. What was significant here was that because the national currency of this national capital had been elevated to world paper money, the survival of the entire international credit system was at stake.

The transition from chronic to acute dollar crisis first took the form of rising gold prices, the result of the fact that at a certain point the European nations ceased to be interested in the overvaluation of the dollar because it threatened the value of their large foreign exchange (i.e., dollar) reserves; at the same time they began to fear adverse effects on their surplus trade and payments balance when the U.S. began to take measures to protect its balance. These European countries did not become "apprehensive" that the dollar "might" be devalued (716); the prices on the gold market indicated that it already had, and the declining trade position of the U.S. demonstrated that the dollar had depreciated vis-à-vis other currencies. This meant that the dollar's function as reserve currency and key currency had been seriously impaired, that the dollar was not "as good as gold," and that the exchange rates were no longer accurate reflections of the relations among the national capitals as value-producing units.

The introduction of flexible exchange rates might provide an illustration of what Marx called the sharpening of con-
tradictions stemming from false legislation based on false
theories of money. This theory of floating exchange rates is
based on the bourgeois theory of the exchange rate as de­
determined by supply and demand on the foreign exchange
markets. This approach is incorrect in part because it fails
to see the formation of exchange rates as an expression of
the relations on the universal scale of labor; in this sense
there is no equality among the various entries in the bal­
cence of payments, for the trade balance reveals more clearly
than any other entry the changes taking place among the
national capitals. Floating exchange rates, however, are
based on all transactions taking place on the foreign-
exchange markets (all private and state capital movements,
etc.), thus blurring in practice what is also blurred in
bourgeois theory.

By putting into practice a false theory, this "reform"
would doubtless lead to exchange rates incompatible with
the law of value, and unless corrected, would also lead to
the same delayed and shifted type of crises that we have
seen under Bretton Woods.

The same constraints present in all the other systems also
impinge upon the flexible rate system. And finally, the dol­
lar ceased to be the intervention currency because the other
nations were no longer willing to support the exchange
rate.

A. GOLD

We cannot here attempt an exhaustive treatment of the
question of gold as world money. Instead, we will analyze
S's treatment of two important aspects—the two-tier gold
system and an increase in the "price" of gold.

S's description of the origin of the two-tier gold market
follows a time-honored bourgeois tradition: Crisis ("time
had run out on the precarious gold-and-dollar standard");
men of good will meet to solve their common problems
("the ten leading nations of the world met"); a new suc­
cessful system arises ("Up until 1973 it has been working
very well indeed") (722).
Yet this meeting of the Group of Ten and its decisions differ little in their orientation from other, similar conferences and the systems they generated.

When studying this or any other international monetary conference, two important aspects must be kept in mind: (1) since "technical" problems are not responsible for the contradictions which surface in the various crises, technical solutions will merely delay and shift the crisis; and (2) despite the fact that it is generally in the interest of all capitalist nations to have a functioning international monetary system, each system contains advantages and disadvantages for each national capital (parities, key currency, reserve currency, gold "price") which makes it imperative for each to assert its special plan.

S's description of the two-tier gold market is not consistent. On the one hand he states that "time had run out on the precarious gold-and-dollar standard"; on the other hand, he asserts that the new arrangements have worked "very well." But the purpose of the new arrangements, if we understand S correctly, was to block out the disruptive influences of the gold hoarders and speculators. Had this succeeded, one could say that S was correct. But the basic problem, as S himself points out, relates to the danger that Fort Knox would be "stripped" of all its gold. And that "danger" remained even after the speculators and hoarders were cut off from gaining access.

The point is that the splitting of the gold markets, far from securing the dollar, represented an admission that the dollar no longer played the role of reserve and key currency: for these two functions depended on the convertibility of the dollar into gold, and this convertibility in practice no longer existed even among central banks. Yet S announces triumphantly: "Outside the IMF Club, gold has finally been completely demonetized. Its price is freely set by supply and demand, just like the price of copper, wheat. . . . For the first time in 15 years the international financial structure has been able to be completely indifferent to the vagaries of hoarders and the ups and downs in free-market gold prices" (723).
A careful analysis of this reasoning will prove worthwhile inasmuch as it will show that the inability of bourgeois economics to understand gold as an expression of the fundamental contradiction of capitalist commodity production ultimately leads to its inability to see the phenomena now manifesting themselves as international crises and even to understand the plans which the bourgeois economists themselves have formulated and put into practice.

First of all, what does it mean that gold has been demonetized? It would seem that S means that only the fact that the U.S. had committed itself to paying $35 per ounce made gold money, and now that it had shed this obligation—except within a limited sphere—gold was no longer money. Unfortunately for S, this does not prove that gold has been demonetized; on the contrary, the removal of gold convertibility has tendentially demonetized the dollar as world money.

As far as the domestic sphere is concerned, this line of reasoning basically rests upon the false identification of money as measure of value with, on the one hand, money as standard of price, and on the other, money as means of circulation. This results in the belief that because paper can replace gold as means of circulation, the measure of value need not have any value, that its value is conventional, established by the state. Now we know that gold need not circulate in order to function as measure of value; and, in fact, for national purposes gold need not even be accessible to private citizens (convertibility is not necessary). This is the rational kernel of the "fiat" theory. This does not mean, however, that the state can create all the paper money it wants; for the laws of circulation will merely deflate it to the value of gold that would be in circulation (the standard of price has been changed). Thus it is not "gold backing" in the sense of convertibility that gives paper money a value domestically, but rather the representational relation of paper to gold as a measure of value.

In this sense, we see that removing gold from circulation in the U.S. has not demonetized gold. It is true, however, that the U.S., through its temporary power of maintaining
the gold "price" at an artificial (in the sense of not corres-
ponding to the law of value or, if you wish, the "law" of
supply and demand) level, has been able to violate this rep-
resentational relation within the U.S. This has provided
the "institutional" framework within which the inflationary
forces of the extended credit system could find full expres-
sion.

The point is not that a "law" of capitalism has been viola-
ted, but when and how that law will reassert itself; for
this is but another illustration of the ability of the state to
delay and shift crises.

According to S: "Money, as money rather than a commodity,
is wanted not for its own sake but for the things it will buy! We
do not wish to use money directly, but rather to use it by
going rid of it; even when we choose to use it by holding
it, its value comes from the fact that we can spend it later on" (276). We contend that with this definition, S has re-
futed both his own claim that the value of paper money
does not derive from gold and his assertion that gold has
been demonetized through the inconvertibility of the dollar.
First of all, the function of gold as "a heavily defended 'last
ditch' reserve" contradicts S's notion of money as a mere
tool for facilitating barter. Secondly, if money is not wanted
for its own sake but only for what it can buy, then the fact
that dollar holders were no longer satisfied with what they
could buy with dollars proves that the dollar was no longer
world money. Indeed, dollar holders wanted to use it "by
going rid of it"—in exchange for gold. Once they could no
longer get gold, which was the only commodity they
wanted at this point, the dollar became a first-ditch
reserve—it was the first to be ditched.

The open admission by the U.S. of its inability to convert
dollars to gold was simultaneously a tacit admission of the
artificial gold parity.

This leads us to S's second statement, that with the split-
ting of the gold markets the international monetary system
had finally thrown off its cross of gold. Just the reverse.
The existence of a free gold market has made public what
previously only experts knew: that the dollar was over-
valued. The rise of the gold price to a multiple of its official dollar parity now makes manifest the forces that have been disrupting Bretton Woods for years.

Neither the proponents of a higher gold "price" nor S in his critical remarks see that the existence of crises under the gold standard did not derive from the gold standard, but rather that their form was merely determined by the international monetary system then in existence. Thus when S states that mixed economies will not subject themselves to the deflationary possibilities of a gold standard, all he is saying is that the crises will continue to be delayed and shifted.

In any event, we have seen that on the contrary, modern mixed economies have been pulled into the international monetary crises against their "will"; the interconnectedness of the national capitals is an objective tendency of capitalism as a world system and any monetary system will have to express this tendency in some significant way. Certain systems may permit certain capitals to "go their own way" in the short run, but in the long run, as long as there is no crisis which specifically leads to a decomposition of the world market into trading and currency blocs, no country is immune to the elements of crises.

More specifically, with reference to raising the price of gold, if gold continues to play a role in the "next" international monetary system, then its "price" will doubtless be raised. S does not explain the factors involved in such a move, but rather is concerned with reinforcing the enlightened prejudice he has fostered against gold. Most of the arguments he offers are totally irrelevant from a scientific point of view. His only reference to the price rise per se is a derisive one: "But at the stroke of a pen, the shortage of international liquidity will have disappeared" [723]. How ironic! If anything, this should have been said about the creation of SDRs—but no, that was a "rational international system" (727). Here, where it is not a matter of "raising" any price but rather of eliminating political controls which had prevented gold from exchanging at its value, S finds it necessary to speak of pen strokes, giving the im-
pression that something foolishly artificial is taking place. This stands in sharp contrast to his indictment of minimum wage laws, rent control, etc., as inefficient interference with the laws of supply and demand.)

As we have already indicated, if gold remains an important part of the international monetary system, then the gold "price" will rise toward its real value. This is a "rational" step because it will release the liquidity which had been suppressed by the U.S. ability to keep the price down. This is not "the solution" to the threatened breakdown, although by spurring on gold production it will doubtless provide increased liquidity later on as well. Nor does this mean a return to the gold standard: this is a strawman S uses, but the two are not related. There will be no return to the gold standard because it is incompatible with present-day Keynesian methods of dealing with crises. But this in no way rules out a fundamental role for gold in other systems. This in the end is also admitted by S, when he says IMF reforms will "build around gold and supplement it" (724), but again it stands in no relation to his arguments elsewhere in the text, except as a contradiction.

B. SPECIAL DRAWING RIGHTS

Finally, we turn to the latest attempt to solve the world monetary "muddle" by use of sophisticated hylo-alchemical techniques—"paper gold." In contrast to the seventh edition, which at least mentioned the existence of criticisms of this reform even if it did not elaborate on them, the eighth and ninth editions are the usual Samuelsonian celebration of that which is; the only reservation voiced is a brief appeal to the future—"success of the system is not yet assured" (727). But since none of the three editions offer any explanation of the prerequisites of such a system, it seems appropriate to begin with this aspect.

A hint in the right direction is provided by S himself—to be sure in connection with floating exchange rates—when he lets the protagonist say: "within a country like the United States there is one central government, one Federal Reserve and money system, and one labor market in the
sense that workers can migrate to a low unemployment re-
gion. All these features are lacking internationally” (725).
This is all true, but it belongs in the section on “paper
gold,” because it points up the barriers to the creation of
“fiat” money internationally. Even more important is the
lack of full capital mobility and its competitive expression in
real tendency toward an average rate of profit; and most
importantly, whereas the tendency toward an average rate
of profit finds political expression on the national scale in
the bourgeois state, there is no world state.

This essential aspect of any attempt to create paper gold
has not been absent from discussions surrounding the re-
form plans, although it often appears in the more harmless
guise of “national sovereignty.” We may introduce a re-
view of those discussions by picking up one of S’s remarks
to the effect that such a system runs into the same criti-
cisms usually aimed at international languages like
Esperanto—namely how to agree on it (7th edition, p. 698).

One interesting approach—though only implicitly
analogous—is offered by an economist who comes to a cor-
rect view of gold as the only world money despite, or
perhaps on account of, an incorrect understanding of the
essence of money:

All modern currencies that circulate within the territories of
countries are essentially fiat monies, that is, money established
by governmental decree. Sovereign governments also exercise
control over the issuance of their national money supplies.
However, their legal monetary sovereignty does not extend be-
yond their borders.

A full-fledged international money would require the ex-
istence of a supra-national issuing authority. . . . In this world
of sovereign nation-states, a universally accepted international
money does not exist. . . . In the absence of world govern-
ment, there is no other type of financial asset that receives in-
ternational monetary acceptance fully equal to that of
gold. . . . In a world of nation-states, there is nothing that
could fully replace gold as international money.44

Eugene Birnbaum, quoted above, is so fixated on the es-
semble of money as fiat money, as an artificial creation of
man, that he rejects the possibility of international money on the basis of its inability to be fiat money.

Another economist, Charles Kindleberger, who also stressed "the futility of a synthetic, deliberately created international medium of exchange" with the explicit reference to Esperanto, takes a different approach. Since for him the re-enthroning of gold would be analogous to the return to Latin as an international language, he views the elevation of a national currency to international money as the only possibility. Drawing a parallel to the use of English, he says:

But a common second language is efficient, rather than nationalist or imperialist.

The power of the dollar and the power of English represent *la force des choses* and not *la force des hommes*.

The selection of the dollar as the lingua franca of international monetary arrangements, then, is not the work of men but of circumstances. Pointing to its utility involves positive, not normative, economics.

The reasoning here seems to run as follows: since the dollar as world money, as opposed to national money, was not consciously invented by man but generated by the needs of commerce spontaneously, it shares the impartiality inherent in gold.

The problem with this argument is rooted in its failure to give an account of the conditions under which the dollar could become world money, i.e., it could become world money only to the extent that U.S. capitalist hegemony enabled it to act as a surrogate for a world government. Only by assuming the identity of interests on the part of the strongest power with those of imperialism as a whole is Kindleberger able to establish homogeneous interests between the U.S. (i.e., dollar) and the other nations of the capitalist world. This set of identities in part corresponded to reality; to the extent that the dollar was "efficient" Kindleberger is right. But in part that identity of interests did not exist, and as soon as the European countries and Japan became strong enough to assert their interests as
separate from those of the U.S., that is to say, as soon as the set of nonidentities began to assert itself over the set of identities, the dollar was no longer "efficient" and the system based on it was doomed to collapse.

What are the objective possibilities for any system such as paper gold; and secondly, how would the existing political struggles shape the particular system which is coming into being?

S states that the new paper gold system "will represent a significant step forward" (727). The question is, forward to what? Although S does not inform us as to what he sees as the end goal, we can surmise that it "would be the establishment of a world central bank that would regulate monetary policies in all countries and, in effect, decide what all currencies would be worth in terms of one another. It's a fact of political life, however, that no government at present appears willing to give up so much of its authority to an international body." Probably not even such a drastic change would suffice: to "regulate monetary policies" presupposes the same ability on the part of this new world organ to intervene presently possessed by the national states. This means that during the "recessionary" phases of the industrial cycle—if such an anachronism will continue to plague our world mixed economy—this supranational body will have to be empowered to take the same coordinating "anticyclical" measures now taken by the national state to restore profitability. And all of this, in turn, would presuppose the existence of one currency—world fiat money—and a tendential average rate of profit unimpeded by any national organs designed to thwart competition.

We contend that unless this blissful state is reached, the present SDR system will be merely another stopgap measure in a long list of delaying tactics. And we also contend that such a state will never exist.

We do not deny that the possibility of certain capitalist states uniting to fight another bloc of capitalist states exists; this may happen in wars or in times of relative peace, as in the Common Market. Unification, if it does occur, would be
grounded in the degree of capital interpenetration lacking elsewhere; and more importantly, it would be grounded in an effort to expand at the expense of the U.S. (and more and more of Japan).

Assuming that the world central bank will not to be realized, let us concentrate on the second of the two points we mentioned above: how political forces will shape the limited system now coming into being.

First of all, it must be understood that SDRs are basically an answer to the problems of the dollar within Bretton Woods. Increasingly the EEC countries had to come to the aid of the dollar and the pound sterling. But they wanted to do this within the Group of Ten rather than directly under the authority of the IMC, where the U.S. had greater power. SDRs represent a further compromise along these lines.

One issue at stake, as Birnbaum notes, consisted in the fact that: “From the European point of view—that of countries in chronic surplus—there is no general inadequacy of international liquidity. The Americans, feeling a shortage of liquidity, have had to be ‘supplicants’ vis-à-vis the Europeans.” It appears that originally the U.S. was opposed to such a plan of paper gold. Thus Robert Roosa, Treasury Under Secretary for Monetary Affairs under Kennedy and Johnson and later a partner in Brown Brothers Harriman & Co., took a negative view of the Triffin Plan, one of the first American-authored plans in the 1950s designed to create liquidity along the lines of Keynes’ bancor plan defeated at Bretton Woods. The reason for this initial opposition to the supplanting of the dollar lay in the concrete advantages accruing to “the U.S.” as a result of the special position of the dollar; but this was a more complicated matter, for although “the U.S.” did not want to renounce this power, the Triffin Plan and others embodied certain proposals which would have provided an “American” solution to the problem of the U.S. deficits.

There was a fundamental ambiguity in the U.S. attitude toward such a plan. It would appear that at some point the U.S. realized that if it was fighting a losing battle, it ought to throw its weight behind a plan which would secure it
the least unfavorable position: this would entail preserving the role of the dollar for as long as possible as well as reducing the severe U.S. debt as much as possible.

This transition can be observed in the development of the SDRs, which "were originally intended to be in part repayable loans to nations from the I.M.F. rather than a purely monetary reserve." This is where the EEC enters. S mentions (726) that SDR creation is subject to a veto by 15 percent of the voting quotas; but he does not tell us why. Previously major decisions were subject to a 20 percent veto, because the U.S. held more than 20 percent of the votes and thus possessed an effective veto over all important decisions. At the time Roosa was willing to go along with this set-up on the grounds that no new system could be created without EEC cooperation anyway, regardless of whether it had a formal veto. One hypothesis for the turnabout of Roosa et al. would relate to their need to include the EEC in the creation of a new system which would go beyond the short-run goals of the original SDR plan. This expanded plan would seek to relieve the U.S. of the burden of paying off its foreign debt.

The pressure for the European countries to come to terms with the U.S. is mounting because with the growing dollar accumulations the problem is being exacerbated. This increasing pressure on the Europeans to come to a settlement may be the reason for the acceptance by the U.S. of the SDR approach: because it allows the U.S. to combine it with a means of eliminating the huge debt problem.

But contrary to S's view that when the SDR system is paired with a realignment of major currency parities, "we can forget unofficial gold, letting it become the concern of dentists, jewelers, the Mafia, and smugglers" (727), the major realignment of December, 1971, has not eliminated the problem of gold—official or unofficial. At the same time the Bank for International Settlements, an influential "central banker's central bank" has called for the restoration of the convertibility of the dollar into gold lest the capitalist world be divided into currency blocs as a result of the EEC's being forced into creating its own unified currency.

The first possibility, that of a split of the capitalist world
into two currency and thus two trading blocs, would signal the outbreak of economic hostilities which would be the practical negation of S’s entire book.

The continuing functioning of gold as a guarantee for the SDRs is contradictory. If the SDR system really ever got off the ground, that is, became the credit system it must eventually become if it is to follow the same development traced by the national central banks, gold convertibility is by definition not possible. In other words, there are two possibilities: (1) the non-likelihood of a world capitalist state in which paper money replaces gold; (2) a limited credit system among national capitals with persisting heterogeneous interests. Within this latter system we can again discern two possibilities: either the SDRs remain so limited that gold convertibility is not excluded—in which case merely another delay has been institutionalized which has not dealt with the fundamental problems of the international monetary system; or, the credit system is expanded beyond guaranteed convertibility—in which case another credit pyramid on top of a narrow gold base has been created, but without the homogeneity of interests expressed in a world state which can compel nations to keep or accept SDR’s instead of gold. Under this latter system crises could no longer be staved off, and for this reason it is unlikely that SDR’s will ever get that far, although “false legislation based on false theories of money” may nevertheless rule the day.