

# RESTRUCTURING THE WORLD ECONOMY



J O Y C E  
K O L K O

# RESTRUCTURING THE WORLD ECONOMY

JOYCE KOLKO



PANTHEON BOOKS • NEW YORK

# ACKNOWLEDGMENTS

In addition to all who have shared their thoughts in conversations over the years on the important problems I discuss in this book, I gratefully acknowledge the help of several friends in its completion. One, sadly, is no longer here. Gaston Davoust gave invaluable counsel in the early stages of research and writing. I, like all who knew this extraordinary person, miss him greatly. Ed Herman thoughtfully sent some hard-to-obtain studies early in my research. Saburo Kugai was a constant source of useful materials, and read the manuscript, offering his advice, insights, and knowledge. Ilse Mattick generously read the manuscript several times and was warmly encouraging as well as giving extremely helpful suggestions on both substance and style. I also greatly appreciate the very important part played by Jim Peck, a senior editor at Pantheon.

But most of all, with all my admiration and much more, I happily take this opportunity to thank my husband, Gabriel, a model of serious scholarship, also committed to relating research and analysis to reality and the struggle for a better world. His very special companionship in the totality of my life and the help, thoughtful and perceptive criticism, and sharing in all important ways continuously sustained me at every phase of research and writing in the preparation of this book. While all of the above have been generous with their help, I alone, of course, am responsible for the contents and the analysis.

# CONTENTS

LIST OF ABBREVIATIONS	vii
ACKNOWLEDGMENTS	ix
INTRODUCTION	3
PART I: CHRONOLOGICAL ANALYSIS	15
Chapter 1 <i>Interaction of Events and Policy, 1974–1980</i>	17
Chapter 2 <i>The 1980s</i>	41
PART II: CAPITAL	55
Chapter 3 <i>Accumulation, Competition, and Class Struggle</i>	57
Chapter 4 <i>The Service Sector</i>	95
Chapter 5 <i>Banking: Changes in a Pivotal Sector</i>	100
Chapter 6 <i>The Industrial Sector: Steel</i>	125
Chapter 7 <i>The New-Technology Industries</i>	145
Chapter 8 <i>The Arms Industry and the Economy</i>	153
Chapter 9 <i>New Developments in Raw Materials and Agriculture</i>	161
Chapter 10 <i>Conclusion to Part II: Capital</i>	178
PART III: THE STATE	183
Chapter 11 <i>The Role of the State in Restructuring the Economy</i>	185
Chapter 12 <i>Monetary Relations</i>	192
Chapter 13 <i>The Dilemmas of World Debt</i>	201
Chapter 14 <i>World Trade Restructured</i>	214

Chapter 15 Restructuring the Industrial Capitalist States	233
Chapter 16 The Developing Countries	251
Chapter 17 The IMF and the World Bank	263
Chapter 18 Restructuring the Centrally Planned Economies	278
Chapter 19 Conclusion to Part III	297
<b>P A R T I V : L A B O R</b>	<b>303</b>
Chapter 20 Restructuring and the Working Class	305
Chapter 21 Restructuring Employment	309
Chapter 22 Unemployment	333
Chapter 23 Conclusion to Part IV	343
<b>C O N C L U S I O N</b>	<b>346</b>
<b>S O U R C E S</b>	<b>352</b>
<b>N O T E S</b>	<b>353</b>
<b>I N D E X</b>	<b>382</b>

RESTRUCTURING  
THE WORLD  
ECONOMY



# INTRODUCTION

The question of the survival of mankind mobilizes millions of people in the 1980s. But calamities short of the apocalypse shape the reality of our time. Death and destruction through war, repression, and starvation daily afflict countless persons. More struggle to survive on a subsistence level, millions of others face prolonged unemployment, deprivation, and insecurity.

For over ten years a global economic crisis has been evident to most observers, whether perceived as a series of crises—in energy, the monetary system, debt, trade, food, and the like—or as a general cyclical, structural, or systemic crisis. No aspect of the political economy has escaped the malaise.

All agree that it has been a decade of economic problems, most of them very acute, but some question whether it is a crisis. They equate the word *crisis* with a total breakdown or collapse of the economy. But the term can be used in a more limited economic sense to signify, as *Webster's* defines it, a critical turning point to separate periods, the future from the past. For capitalism, crisis is a condition when and where the problem of accumulation and the form it takes is no longer one of productive expansion—a crisis of accumulation. This crisis over more than a decade may be obscure to a few academics, but it has scarcely been obscure to capitalists or governments in the capitalist nations. Their perceived need to “restructure” the world economy testifies to this. Nor is it obscure to the victims of the breakdown in the productive expansion of capital.

Since 1974, to be sure, there have been periods of cyclical rise and



fall of production—recovery and recession—and there are still economists who find satisfaction in observing that the 1975–80 recovery was longer than any other since that of 1933–37. Yet during the periods of “recovery,” the world economy also hovered on the edge of ruin. One can point to innumerable trigger points that could have sparked a chain reaction through this highly integrated system. These points have become more numerous and, in fact, are continually more aggravated. But a collapse on the order of that of 1929–33 has not occurred. What countervailing tendencies have prevented it?

Why was this crisis not more clearly foreseen, at least in its broad dimensions? This myopia is an important part of the problem, for the whole question of expectations, anticipations, predictions, and assumptions of the future of economic actors, from households to governments, from private investors to social movements, plays a critical role in determining their action in the present—which, in turn, partially shapes the future. Perceptions of the present and the projections based on them largely determine behavior.

Many critical analyses of the economy continue to focus on particular structural features—monopoly, international division of labor, debt crises, hegemonies, and the like—and to extrapolate them into the future. Studies of this nature have become very influential in shaping perceptions of the past and the present as well as expectations of the future. Many became mini-theories and the intellectual frameworks or paradigms providing the boundaries for new empirical studies. This was true of “monopoly capital,” “neocapitalism,” “postindustrial,” “interdependence,” “convergence,” “military-industrial complex,” the “miracle economies” (initially meaning those of the Federal Republic of Germany [FRG] and of Japan but now being extended to the newly industrialized countries), and similar conceptualizations.

Many studies seized on the structural change of high energy cost and projected the pattern into the future. Far more significantly, policies of both capital and states were predicated on this assumption, and these policies led to new structural changes in the economy. All were anchored to factors that were and are transitional and changing.

Perceptions of interests, even inaccurate ones, are elements in the scenario. Capitalists perceive and respond in the short run even in developing their long-term strategies. This is a systemic feature that undermines all efforts of others to reform or regulate the economy. Important, too, is the speed of change both in the perceptions and in the objective environment.

There is a fundamental process of interaction between objective forces, their perception, and the subjective response. The perception

may be based on faulty statistical calculations or on real experience, but perceptions in the capitalist system, true or false, form the basis for action. Hence, throughout this study the question of perception, as distinct from that of objective reality, is crucial, and action based on it, in turn, can influence or shape the objective reality. For example, the perception of the future plays a determining role in plans for investment or the development strategies of states.

## PREDICTIONS

The misperception of present forces leads to predictions of the future based on an extrapolation of the observable structural conditions. There is no end to examples.

The Club of Rome, an international gathering of prestigious government and academic economists, was utterly incapable in 1972 of comprehending the forces operating in the industrial economies when it projected perpetual rapid growth into the future, to be hampered only by the potential exhaustion of physical resources. All development strategists for the UN's Second Development Decade of the 1970s also assumed that the growth of the 1960s of the industrial countries in the Organization for Economic Cooperation and Development (OECD) would continue unabated into the future. On the left many predicted that capitalism had essentially solved the problem of crisis with a permanent arms economy, consumerism, or imperialism.

In 1977 thirty-five "experts" from fifteen countries under the auspices of MIT predicted an impending "catastrophe," because of the ever growing demand for and shrinking supply of oil. The Bank for International Settlements (BIS), the central bankers' bank, in 1980 projected an OPEC surplus of \$120 billion a year for the foreseeable future. Superseding the predictions about the OPEC countries are forecasts on the future power of the newly industrializing countries (NICs).

Renowned sources predicted in 1979 that the 1980s would see economic and political power shift from Europe to Brazil and Mexico. It is the vogue in the 1980s to view management techniques as the secret of Japan's economic success, just as those of the United States were perceived in the 1960s, in the so-called era of the American challenge. Both perceptions have an impact on the economy as others seek to imitate this "secret" of success.

In a highly integrated world economy, the unspoken assumptions about the future on the part of those holding the reins of power have far-reaching consequences. Among capitalists, predictions relate to the expectation of profit. The daily compulsions of competition—maintain-

ing or expanding market share and reducing costs—shape their actions. Among states, those in the centrally planned economies (CPEs) and in the less-developed countries (LDCs) predicted an expanding world market; they borrowed and built industry to export, distorting their own internal development in the process. Industries invested and borrowed on the assumption that inflation was “forever.” The 1980 projections on oil prices had reverberations throughout the world economy, affecting such raw materials as coal. Within two years the situation was reversed, with severe consequences for industry, banks, governments, and those who were forced to pay for these errors—the world’s laboring population.

It has been noted that all is predictable in retrospect. But perceptions of the future based on extrapolations of present and past trends, and actions taken on the basis of them, frequently contradict the needs of the future reality.

Needless to say, the very process of living requires behavior based on perceptions of the future, and all institutions must plan for what is to come on the basis of perceptions of the past and present. Pointing to the monumental errors does not absolve some persons from the responsibility of preparing for the future and others from that of anticipating it. It may be that there is no longer any point to analyzing the crisis unless one is able to make some kind of forecast, despite the difficulties and dangers. Obviously, questions relating to the future concern everyone. Although there is no way to predict specific events, it is not enough only to discuss empirically aspects of the crisis or even the general cause and condition. One must also search beyond them and try to ascertain or pinpoint a method for determining the direction of events in order to delineate the probable—and the possible. This requires focusing not on a particular structural condition but on the interaction of many forces and seeing the whole as a process.

The economic problems have more and more a world scope—a world market, world factories, a world system.\* Societies have never been closer and more integrated than they are today. This near universality and integration of the world economy exists in dialectical interaction with the fundamental contradiction of national capitalism. Though capitalist states have varied in specific national development—ranging from

\*While the concepts of a world system, a totality, and the integration and dialectical interaction of diverse elements in the political economy have for many generations of Marxists been useful analytical tools and conceptualizations of reality, they must now be distinguished from what is now called the “world systems” school.

that of the United States to that of Japan or Sweden, from that of India to that of the Federal Republic of Germany or Chile—the common denominator is approached in times of crisis. The objective integration of the world economy creates limits to national exceptionalism. What is more, whole realms of action that were once part of the state's domain—national finance, money supply, economic policy, trade, even the measurement of these activities—are in large part now beyond national control.

### METHOD

This book deals with the crisis in the capitalist system, a system that now prevails with astonishing uniformity throughout the globe; it identifies and examines *horizontally* some of the specifics of that crisis in their linkages and relationships. This is possible because of the de facto integration of the world economy, even in those areas where capitalism is utterly foreign to the traditional social relations and is an external imposition, by way of the imperialism of IMF policies and/or state or corporate manipulation of noncapitalist societies. One can explore the world economy in the same way one can examine, for instance, U.S. foreign policy as it relates to many parts of the world, without necessarily having expertise in each area.

Obviously, one must choose whether to pursue a microscopic examination of a particular problem or to make an effort to grasp the broader relationship of multiple forces in the political economy. A reasonable argument can be made for both approaches, and they both have limits. A specific study may lead to a profound understanding of all aspects of a problem but may not appreciate how it is affected by—and, in turn, affects—others. The alternative approach is open to charges of superficiality on a specific problem. But today all aspects of finance, of production, and of economic policy are so interlaced because of technological change that national frontiers have become abstractions. At the same time, though, nations are strong and struggle in sharpening global competition. These contradictions and changes have *objectively* restructured the economy. How can one deal with questions of trade isolated from the questions of debt and vice versa? The integration of the world economy allows, or even requires, a global focus, even for a full comprehension of the parts. This includes defining the objective factors, both systemic and structural, that interact to form the political and economic environment. The totality is mobile; the interacting parts are dynamic. But while all the disparate elements are linked and interact, they are not susceptible to a coherent global strategy. And the contradictions

that come out of that very objective integration engender a disintegration. What emerges is a dialectic of acts, perceptions, and reactions by individuals, classes, states—a dynamic of perpetual struggle.

Capitalism is a ubiquitous system; however, since it is not a state of nature but rather a relationship within and between classes, one must focus on that relationship as a dynamic process and probe analytically for the weak points and contradictions. In examining the ingredients of the contemporary crisis, one may usefully distinguish between the *systemic* (intrinsic) and the *structural* (transitional). To overlook the daily interaction of the systemic features is to risk being misled as to the probabilities and possibilities of future developments. Because these terms differ widely in their meaning, some definitions are in order. They form the crux of the methodology of this study.

### THE SYSTEMIC FEATURES

The economic crisis of world capitalism is primarily systemic and guaranteed in the sense that the contradictions and antagonisms are intrinsic to the capitalist system itself. I am referring to such basic features as (1) a society organized for the accumulation of capital for its own sake, (2) capitalists' decisions based on their perception of expected profitability for the present and/or future, (3) competition, (4) relations of production based on exploitation and commodification of labor and its attendant class struggle, (5) the state as promoter and protector of the system, and (6) the anarchy of market relations.\*

Most would agree that these systemic features serve in part to define the capitalist system. But to analyze and anticipate future developments, one must see them as predominating and interacting dialectically with the structural features in the political economy. The intrinsic characteristics will remain constant as long as the system itself exists. This means the economy cannot be reformed—that is, the intrinsic features cannot be altered—though it can be, and is being, restructured. Such assertions would indeed be tautological except that the interactions of these features, essential to understanding the present and, particularly, anticipating future developments, are often ignored by economic analysts. Many economists take them for granted and then proceed to construct their theory or analysis on a structural feature,

\*Marx used the term *structure* for these features, but for the sake of my methodological aim in this study and because of the widespread use of the terms *structural* and *restructure*, I want to make the distinction between permanent and transitional features *within* the capitalist economic system, using the term *systemic* for the former and *structural* for the latter.

ignoring the interaction and tension between the systemic and the structural. Of great importance is the dominance of the systemic, such as the decisions of individual capitalists in their pursuit of profit, in day-to-day activity that mocks all efforts at national, let alone global, reform. Major swings of analytic perception occur by shifts of focus away from the systemic and to only the sometimes rapidly, sometimes slowly, changing structural features.

## STRUCTURAL

Structural features are characteristics not intrinsic to the capitalist system but the outcome of the dynamic interaction of economic and political factors. They define particular periods and are always changing.

They may be "restructured" by objective forces or by subjective design, but the outcome is rarely as intended. The structural features of capitalism include colonialism, neocolonialism, the new international division of labor, monopoly, low- or high-cost energy, technological developments, national hegemonies, shifts in industry, monetary and trade structures, inflation, deflation, debt, slow growth, and the like. They also include changes in the working class, state intervention in the economy, the "arms economy," fiscal crisis, and stagnation—all the arrangements in the economy at a particular time that have a major influence on society.

Structural features can be introduced by great events of history—war, revolution, depression—by major developments in science and technology, or by more gradual changes in the political economy. But it is dangerous to build a theory on one structural feature in the economy, because structural features have changed significantly over the decades, often very rapidly, as during the oil crisis. Furthermore, the state's tendency to play a greater role in the economy, widely discussed as a permanent feature, faced contradictions and retrenchment with the fiscal crisis. And the idea of an ever increasing standard of living for certain countries now confronts the retrogression in living standards for the masses and the official acceptance of high levels of unemployment.

In economic analysis one can and should pinpoint tendencies and new structural conditions in the political economy that define the specific character of different periods and crises. In the capitalist system, however, they do not evolve in a straight line; rather, they are changed in their interactions, into something new. For instance, the tendencies toward monopoly, toward a new international division of labor, toward stagnation, and toward inflation or deflation interact dialectically with

the systemic characteristics and with the other structural components in the political economy, creating different and new conditions—not in an evolutionary process that one can observe and extrapolate into the future but in a contradictory, zigzag development. The entire process is one of struggle and change—among individuals, classes, sectors, nations, interests, and the objective forces they create on all levels, micro and macro, of the political economy. One must focus primarily on the contradictions that develop. What emerges is a dialectic of permanence and change, but permanent *only* as long as the system endures. One can never say “never” or “forever” in regard to a given structural aspect of the political economy. The systemic features, on the other hand, remain constant and are always present as active agents. One can extrapolate only the systemic features. They alone determine whatever “laws” exist in the capitalist system.

Using a dialectic method—that is, looking for, and expecting, the antagonistic contradictions and interactions between all features in the economic, political, and social process, rather than extrapolating current structural conditions—is very important for prospective analysis, since there is a significant difference between seeing the status quo as fixed and seeing it as dynamic.

The interaction between the systemic and the structural, the objective and the subjective, is of prime importance. For this relationship is a dialectical one with the structural features in the process of perpetual change and the systemic features superseding and persisting, and it mocks the efforts of states to restructure, plan, reform, or manage a system that is intrinsically anarchic. The operations of capitalism are comprehensible but they are not controllable.

We must look for the weaknesses and contradictions behind the appearance of strength and, conversely, for the strengths behind the appearance of weakness, for the systemic that supersedes the structural, and for the dialectic between the subjective policies and the objective process.

## RESTRUCTURING

The idea of restructuring the world economy offers a rubric to examine both the objective restructuring of the political economy, as the systemic and structural features interact, and the subjective restructuring strategies of capital and the state in response to their perceptions of crisis. Every government and many important industries now speak of restructuring to adjust to the realities of an “interdependent” world economy in order to resolve the persistent crisis. These plans, reflecting

interests and ideologies, interact, in unintended ways, with the objective features in the economy.

The concept of restructuring lets us explore all the essentials of the crisis of accumulation, competition, the class struggle, the role of the state, the dialectic between objective anarchy of the market and subjective planning or strategy. It also captures the social reality of process, movement and change, that is a dynamic and dialectic interaction.

The notion of restructuring that became in the 1980s a leitmotif among men of power is relatively new. During the Great Depression, no one considered restructuring the world economy. Nor was there a concept of permanent planned reduction or redeployment of industry; there was only that of recovery. The same was true after World War II, when the goal was revival, although reconstruction was a direct antecedent of the process of capitalist planning now known as restructuring. After the war Europe did restructure much of its economy on the American model. The reasons why the term *restructuring* characterizes the response in the present period are important. I shall explore the emergence of the concept in the context of the objective developments in the economy in Part I.

It is also important to try to distinguish between ad hoc responses to immediate perceptions and formulations of strategy. Even among states, what appeared to be a strategy was usually an improvisation in the face of perceived immediate threats to interests. States operate in the real world, but the outcome of their policies is not as intended. Yet their acts and strategic plans, in turn, do play a role in the objective process of restructuring. The whole system prevails over the parts. Nevertheless, there is a consistent strategy of restructuring the world economy among all the capitalist states.

The restructuring strategies vary and reveal many of the boundaries and options within the system. They include orthodox policies, which seek to restore, reinstate, or alter the conditions of the economy and which range from the OECD, IMF, and traditional development strategies to the cruder monetarist experiments in the United States and Britain. The strategies span the traditional ideological spectrum, from full reliance on market forces alone to varying degrees of state intervention to guide the process.

There is also reformist restructuring of international Keynesianism, embodied in the proposals for a new international economic order and in those of the social democratic governments of France, Greece, and Spain. How did they differ, in practice, from their predecessors? What were the determining systemic and structural boundaries on the reform-



ist restructuring strategies? Moreover, the centrally planned economies are making great strides in integrating themselves into the dominant world capitalist market economy. What have been the motivation and the outcome?

The perceptions of those in power have decidedly influenced state policy over the past years, as one nation after the other has introduced measures to restructure its economy in order to resolve the economic crisis and better compete in the international market. How much room, objectively, is there for maneuver between the various advocates as their efforts lead to conflict?

What substance is there to the popular perception that the developed capitalist economies have entered a "postindustrial" era, one restructured to a service economy, or in the visions of a new international division of labor? Is restructuring a move toward greater reliance on market forces globally? Is it a readjustment of relations with labor or a development of the technological revolution? To what extent can debt and deficit *objectively* restructure the economy and political relations? Hence the overall theme of "restructuring" encompasses a number of crucial questions that may demonstrate the essential relations between capital, the state, and labor in various parts of the world at this time.

Finally, there is restructuring as class struggle. Has it altered fundamentally the objective gains labor achieved in earlier years vis-à-vis capital and the state? Both immediately and ultimately, the crisis crystallizes around the relations of production and between classes. As Marx wrote over a century ago, one must focus on that central social relationship, from which one can see the parts in relation to the whole. It is certainly the primary focus of capital and the state at this time. That relationship alone guarantees crisis. It determines the categories of this essay.

## CATEGORIES

The broadest categories—capital, state, labor—remain the most useful for a horizontal analysis of the political economy, since the relationship between them defines the social reality of our world. Each of the basic categories contains systemic and structural features.

This study will seek to underline the relationship of (1) the objective operations of the political economy in crisis, (2) the perceptions that shape the subjective response of those who wield power and rule within the system and of those who must resist or be victimized by the process and policies, and (3) the interaction of these responses in and with the political economy.

In Chapter 1, I shall explore chronologically the interaction of the