wiped out when the loans are repaid; it is wagered against the high probability that the borrowers will be able to repay. The 'monetary mass' issued by the banks thus represents a '*pre-validation*' of productively invested values-in-process.[16] But the banks also require (at least to clear-off their balances) a form of currency which is unconditionally accepted and which has to be accepted when debts are repaid. In other words, they require a currency issued by a State-controlled central bank. Some of the currency issued by the central bank (the 'monetary base') may represent an international currency (such as gold or the currency issued by the central bank of a hegemonic country, like the dollar), but most of it represents the official pre-validation or '*pseudo-validation*' of certain debts (debts contracted by the state treasury, or privileged credits rediscounted by secondary banks). By establishing the level of pseudo-validation and by using a battery of rules to oblige secondary banks to hold back some of their credit in the form of central currency reserves, the central bank can influence their willingness to lend, or at least the rate of interest at which they do lend, thereby influencing other agents' willingness to borrow.

By using the weapon of monetary policy, the State can, then, attempt to stimulate or slow down the economy. It can do the same thing by juggling its spending and revenue. When the economy requires a boost it can cut taxes and increase spending, relying upon the revenue generated by the subsequent recovery to cut its deficit. It can also manipulate minimum wages and/or the budget of welfare expenditure. Together these various devices constitute the famous tool box of 'Keynesian policy'.

The working of this mode of regulation, together with the generalization of Fordism within the labour-process, meant that the two rules of the intensive accumulation of the Golden Age schema could be respected *a priori*. For a period of twenty years, the OECD countries enjoyed exceptionally high and regular long-term growth. There were of course conjunctural slow-downs ('recessions') and there were also major differences between the growth rates of different countries, but it can be said that each country experimented with Fordism and developed it to its advantage by expanding internal demand. Being the most advanced country from the outset, the USA obviously had a lower rate of growth than countries with a younger Fordism, but even so its economy still grew by almost 4 per cent per year. The one exception was Great Britain which, because of the strength of its craft unions and the industrial apathy of its financial bourgeoisie, departed considerably from the model of Fordist production and therefore had a lower rate of growth.



### *The 'Implicit Hegemony' of the USA*

As we have just seen, international trade was of secondary importance to the Fordist model of growth. The driving forces instead were the internal transformation of industrial production processes and the expansion of the *internal* market by increasing purchasing power. Foreign markets in dominated countries which, as we shall see in Chapter 3, were the traditional form of regulation under competitive capitalism lost much of their importance. The ratio of manufactured products exported to those sold on the home market reached a historical low in the sixties. Moreover, the main growth in international trade occurred within continental blocs and within the OECD, in other words inside and between Europe and North America.

The South was tendentially forced into the role of supplying labour and raw materials. The primary task of US political and military *domination* was to assure control over its raw material resources. Certain countries in Latin America and Asia did aspire to the Fordist model by sheltering behind high tariff barriers: this was the famous 'import-substitution policy', and we will look later at the problems it involved.

In the period 1945-65, then, international relations were primarily 'North-North' relations.[17] Can we describe them as constituting a world regime of accumulation or a world mode of regulation? What in fact was happening was that Europe and Japan were 'catching up' with the USA. Since they started out from unequal, differentiated positions, the combination of 'differentiation/catching up' was in itself a regime of accumulation and a mode of regulation providing the basis for what Arrighi terms 'the implicit hegemony of the

USA'.[18] The USA emerged victorious from the Second World War enjoying great productivity advantages and producing 63 per cent of the GDP of the five major countries (USA, UK, West Germany, France and Japan) and 57 per cent of all value-added in 1950. It forced its model of development on the rest of the world, first culturally, then financially with the Marshall and MacArthur Plans, and finally institutionally with the Bretton Woods agreements and the establishment of GATT, the IMF and the OECD.

Under these conditions, there was no need for an international form of regulation of wage relations; the same principles (contractualization, a welfare state, increased purchasing power) were universally adopted, even though they took different concrete forms in different countries. The dollar became the international currency. It was pledged against the unchallenged validity of American values-in-process; the productivity gap was such that American equipment goods, which incorporated the most efficient production norms, would always find buyers in Europe and Japan. America therefore had a systematic trade surplus. The only problem was the ability of Europe and Japan to buy American producer goods. At first, the problem was resolved by loans from the US government but increasingly it was solved by overseas investment on the part of US firms. As a result, the USA had a structural capital deficit. This deficit provided the 'base' for an international currency: 'xeno-dollars' (dollars held by non-residents). In theory, the xeno-dollar (née Eurodollar) was backed by US gold reserves; in reality it was backed by the undeniable validity of American capitalist production. And as we shall see, when its validity became problematic, the USA refused to exchange the dollar balances held by foreign residents for gold.

We do not, then, have an international regime of accumulation in the true sense of the term, but rather a *world configuration* that temporarily guaranteed the compatibility of a juxtaposition of similar regimes of accumulation with different growth rates, and which were inserted into the international framework in different ways. Very schematically, the USA re-equipped Europe (and Japan) in exchange for rights over European labour-power. Multinational companies purchased labour-power in exchange for



the right to buy American producer-goods. The purchase of those producer-goods, together with the accelerated generalization of Fordism, allowed Europe[19] and Japan gradually to catch up with US levels of productivity.

As we shall see later, the world economy has not (yet?) developed beyond this implicit level of organization. No institutional form regulating world demand has been possible. No supra-national authority to control money supply has been created. The complementarities and antagonisms that exist between national economies remain unstable, constituting little more than partial and random *configurations*. We therefore cannot literally speak of a world regime of accumulation.[20]

## From Latent Erosion to Open Crisis (1967-1974)

If the crisis can be characterized in terms of a general downturn in accumulation, slower growth in manufacturing output,[21] a general and continuous rise in unemployment and, above all, an absence of regular growth, we have to conclude that the premonitory signs were already visible from the 1967 recession.[22]

From that point onwards, a slight downward slope began to appear in the curve linking the 'peaks' in minor fluctuations in world industrial growth (6.6 per cent per year between 1963 and 1967; 5.6 per cent per year between 1967 and 1973). More significantly, the curve linking the 'lows', which had until then been running almost parallel to the 'peaks', began to diverge, falling from 4.8 per cent between 1967 and 1971 to 2.5 per cent between 1971 and 1974.

### *The Roots of the General Crisis in Fordism*

Three different species of phenomena and events should be distinguished within the development of the present crisis: 1) those which relate to the general crisis in Fordism and which appear to some extent in all those countries which have adopted that mode of development; 2) the magnifying

effects of the interconnections between the various socio-economic national formations; and 3) phenomena specific to each of the social formations in question.

We will not discuss national specificities here, even though they provide a fertile field for research inspired by the same problematic as this book.[23] The distinction between the first two series of phenomena must, on the other hand, be made very clear as it has obvious political implications. If we restrict the argument to the second type, the crisis appears to be simply a crisis within *national* monopolistic regulation, which has come into contradiction with the internationalization of production. If that is in fact the case, a concerted recovery would provide an answer to the crisis. If we also take into account the first type, it becomes apparent that the crisis also affects the very basis of an intensive regime of accumulation based upon Taylorist work organization methods and Fordist mass consumption. We will try here to synthesize both aspects.

The most obvious factor in the crisis in the regime of accumulation is the general downturn in rate of productivity growth. This began in the late 1960s and affected all branches, including the car industry, which is the most typically Fordist branch.[24] But how does that downturn lead to a crisis?

We could answer that question by stressing the contradiction between the downturn and the continued tendency to increase purchasing power. Thus, it could be argued that increased purchasing power has led to increased unit wage-costs, to a profit squeeze and then to crisis. The statistics for the early 1970s do not, however, support this argument for all industrial countries (Germany and Japan are temporary exceptions). To be more specific, the rise in purchasing power does not seem to have accelerated autonomously. The few cases in which purchasing power did rise faster than productivity can be better explained in terms of a slowing down of productivity growth. Besides, if wage/profit distribution were the origin of the crisis, it could have been warded off by simply slowing down direct or indirect wage growth.

A more convincing explanation takes into account the other component in the profitability of capital. By the mid-



1960s, the downturn in productivity growth had led to an increase in per capita capital in *value* terms or, in Marxist terms, to a rise in the organic composition of capital. Since then, productivity rises have failed to compensate for the rise in the technical composition of capital, in, that is, the per capita volume of fixed capital.[25]

Initially, the mark-up procedures characteristic of monopolistic regulation (whereby firms add a marginal rate to prices) compensated for the fall in immediate profitability by producing a nominal rise in profits, but that had repercussions in that it led to a general increase in both prices and wages, and meant that a greater share of profits had to be ploughed into amortization. Increasingly, firms ran into debt and the cost of debt-servicing, together with the rise in the relative cost of investment, led to a latent investment crisis.[26] All this took place in an inflationary climate. The downturn in investment, together with the fact that each individual investment created fewer jobs, led to a rise in unemployment and therefore to increasing pressure on the welfare state.

No matter whether we emphasize the profit squeeze or the rise in the organic composition of capital, the present crisis in intensive accumulation is a crisis in *profitability*, whereas the crisis of the 1930s was a crisis of *overproduction*. The institutional forms of monopolistic regulation do in fact inhibit the 'depressive spiral'. The increase in indirect wages offsets a fall in purchasing power (despite the numerical rise in unemployment). The soundness of credit-money allows values-in-process to survive. Firms which would have been reduced to bankruptcy in a gold-based banking system therefore survive too. The crisis therefore takes the form of simultaneous stagnation and inflation, but neither prices nor production collapse.

But why does productivity slow down? It is here that the difference between the analysis we have been discussing and the theory of 'long waves of innovation' can be seen most clearly. It is very difficult to see any downturn in technological innovation during the 1960s, indeed the emergence of microelectronics would seem to imply the opposite. On the other hand, the limitations of Taylorist and Fordist work-organization principles, which had been so

successful in the 1950s and the 1960s, were gradually becoming obvious in purely organizational terms (not to mention their social costs).[27] At a deeper level, this form of work organization means that the majority of producers have no control over their own work and that the activities of engineers and technicians become the only sources of productivity. The only way in which they can increase overall productivity is to invent ever more complex machines. We can thus see why the downturn in productivity goes hand in hand with a rising coefficient of per capita fixed capital.[28] Which leaves us with the problem of why the latent crisis in Fordism, which was being undermined by minor but cumulative changes, degenerated into an obvious recession. In order to understand that, we have to take into account both the international dimension and the reactions of governments and employers.

### *From the Erosion of US Hegemony to the First Oil Shock*

From 1967 onwards, a qualitative change radically altered the international configuration. Productivity in Japan and Europe (notably in West Germany and France) was now so close to US levels that, given the prevailing exchange rate, unit wage costs were beginning to have an unfavourable impact on US competitiveness.[29] The growth of multinational companies in Europe and the extension of Fordist methods in both Europe and Japan had allowed them to catch up. Investment levels were still much higher there than in the USA.

America now had a trade deficit. Fort Knox's gold reserves could no longer cover xenodollars. As American production became less and less competitive, xenodollars could no longer be regarded as representing a money currency (gold) or as representing values-in-process that would be unquestioningly validated at the international level. The dollar was therefore thought to be over-valued.

As a result the dollar gradually lost its role as an absolute standard and began to fall against all other currencies.[30] A trade war then broke out between the three poles of the capitalist world economy, which were roughly equally competitive. The differentiated configuration of the 1950s and the 1960s gave way to a configuration in which three poles were synchronized in accumulation. Phases of expansion and recession in any one pole were directly echoed in the others, and their effects were cumulative.



The worldwide boom of 1973 strongly suggested that there would be a general recession in 1974, but its main effect was extreme tension in the raw materials market. At the same time there was a nationalist upsurge in the Third World as explicit American hegemony came under direct threat in Indochina. It was in this objective and subjective conjuncture that the Arab-Israeli War of October 1973 gave the ruling classes of the oil-exporting countries an opportunity to take control of oil rents.

In theory, the increase in oil rents simply reflected a change in the ownership of a tiny fraction of world surplus-value.[31] But in the developed countries, which were already threatened with recession and where the latent crisis in Fordism was exacerbating tensions over the allocation of value-added, the sudden rise in oil prices added an inflationary dimension to the struggle over its distribution. Employers and governments used inflation as an excuse to try to reduce wage-earners' purchasing power by cutting wages and restricting credit. Their initial successes in that direction led to depressed demand in the developed countries and that, combined with a panic off-loading of stock, provoked the first great recession of the crisis.

In 1975, however, this austerity offensive was halted by worldwide resistance from workers and trade unions. The automatic stabilizers of the welfare state, which had been strengthened by the precipitate extension of unemployment benefits (the ruling classes had been all the more 'generous' in that they did not believe that the crisis was serious), helped halt the spiral of depression, ensuring that consumption remained more or less stable despite the rise in unemployment. The 'safety net' thus prevented a depression and by 1975 a general recovery was under way, particularly as the oil levy, which had been financed by credit, was recycled into a major increase in effective world demand. Such is the strange configuration which we will examine later.