had been during the first shock, and Keynesianism had less room to manoeuvre. France and the UK were faced with the threat of a trade deficit, and the USA, West Germany and Japan had cumulative national debts.[30] Besides, financial flows between the industrial economies had led to an increased concentration of international capital. Most of these flows related to mergers and takeovers of competing firms, and represented what Madeuf, Michalet and Ominami call 'investments without accumulation'.[31] As the industrial economies became increasingly complementary, there was less room for autonomous Keynesian policies: the 'European stagnation configuration' had become more widespread and more serious.

Perhaps more important, was the fact that the world's elites, the business men and the politicians behind the Trilateral Commission had ceased to believe in international Keynesianism. The regime's shortcomings were obvious. While the safety net of monopolistic regulation prevented a depression in the North, it was also an obstacle to redeployment towards new norms of production and consumption because of the rigidity it imposed upon the labour force and upon the allocation of capital between branches. Moreover, international credit money, like any credit money, was based upon the assumption that the regime of accumulation would re-establish itself, that the country issuing that money (the USA) could supply unconditionally competitive goods to the value of the monetary signs it had issued, and that the debtor countries of peripheral Fordism would find enough markets in the North to be able to repay their debts.

Towards the end of the seventies, it became clear that these assumptions were not founded. Growth was still mediocre, productivity was still slowing down, and per capita capital was still increasing. The dollar was coming under increasing pressure and its international purchasing power was falling. Like so many admissions of defeat, governments came into power based upon monetarist, or simply 'less Keynesian', coalitions: the Conservative victory in Britain, Volcker's arrival at the Fed and then Reagan's arrival in the White House, the liberal hegemony in West Germany's centre-left coalition, and the full application of Barreism after the defeat of the French left in 1978. A recrudescence of neo-classical liberalism filled the vacuum in alternative policy. Market forces alone would ensure the survival of those firms which were using the techniques of the future, and would eliminate the relics of the past. Market force alone would ensure the compatability of economic behaviour.[32]

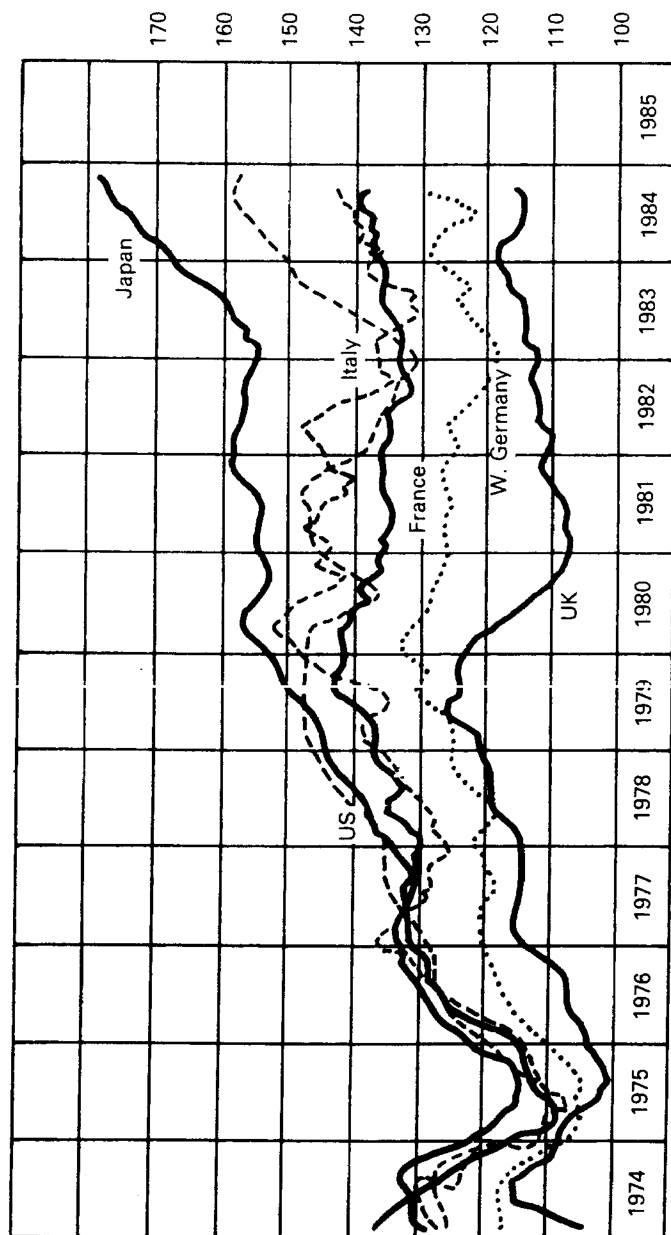
By 1980, the change was very clear. West Germany and France had forced their wage-earners to adjust to the oil shock by accepting lower wage settlements, which had reduced their industrial output by 5 per cent.[33] Britain had already opted for monetarism in 1979, a point to which we will return below. Volcker's Fed attempted to apply the same policies, with the same results (a fall of 7%).

Although minor, this first monetarist shock had serious effects. Not least in that it gave American voters, and especially workers, the impression that Carter had presided over a recession. This is not the case. Overall industrial growth was very strong under Carter, but during Reagan's first term of office it fell to zero.[34] Furthermore, this first monetarist shock led to a sudden rise in interest rates and set off a chain of bankruptcies in countries caught up in the logic of peripheral Fordism. The most obvious example is Poland, which had already been hit by a political crisis.

Japan was the only country to enjoy any growth in industrial output during the second oil shock. By gambling on protectionism and the efficiency of its export apparatus, it increased its output by 10 per cent. It allowed its currency to fall sharply, seized the dynamic markets of the OPEC countries and launched a new export drive aimed at conquering the rest of the world. But even Japanese growth was halted by the great monetarist shock of 1981.

The use of Keynesian policies at home and abroad in previous years had fuelled inflation and, by causing the dollar to fall in an increasingly worrying way, had ultimately destabilized the world economy. Obviously, this could not go on. Tighter controls over nominal prices and wages would of course have slowed down inflation, and an international agreement on the regulation of off-shore financial circuits would no doubt have prevented the banks from unconditionally prevalidating the most extravagant investment plans. Until such time as wage relations were restructured

Graph 3
Industrial Output Since 1974



Source: INSEE, *Tendances de la conjuncture.*

in the centre and industry was restructured in a controlled way, it seemed not unreasonable to at least maintain the level of wage-earners' purchasing power, even if it meant reducing the working week so as to put an end to rising unemployment, the assumption being that maintaining purchasing power would provide a way out of the crisis by facilitating the introduction of new social techniques of production. Nor was it unreasonable to assume that a selective renewal of the credits granted to the South would promote growth in peripheral Fordism and thus help the world market to stabilize and then improve.

Monetarism[35] is basically a refusal to subscribe to either of these assumptions, a decision to open up the crisis, to challenge the distribution of value-added between capital and wages, and to refuse credit to insolvent capitals and consumers. All this was done in the name of a mythical 'cure', as though destroying the safety nets which prevented the Fordist regime of growth from collapsing would set free a new regime, as though the 'invisible hand of the market' had already shaped a new model which needed only to be set free of Keynesianism. In a curious way, one is reminded of the vulgar Marxist dogma that the productive forces have only to 'break the outmoded fetters of the old relations of production.'[36]

The attack on wage income in the UK and then the USA (where the attack was concentrated on cutting the revenue distributed by the welfare state) was the first element of this policy. The second, which gave the offensive its name, meant putting an end to pseudovalidation by slowing down the rate at which the American Federal Reserve issued official money in the hope that the inevitable rise in interest rates would decrease the demand for prevalidation and therefore slow down the creation of private credit money. The regulation of international money creation depends simply, but crucially, upon its base (the xenodollars, or US currency held by non-residents) and upon interest rates on the US market. And that international credit-money (primarily petrodollars which had been lent, multiplied and re-lent) was the very thing that was financing both growth in the NICs and the rejection of austerity in central countries with a negative trade balance.

As cures go, it was certainly drastic. Within eighteen months, Thatcherism had wiped out all the industrial growth achieved under Callaghan's Labour government (−15 per cent), and within three quarter-years, Reaganism had wiped out the growth achieved under Carter (−10 per cent). The perverse mechanisms of 'competitive stagnation' wiped out what growth was left in the centre, even in social-democratic countries like Mitterrand's France[37] and even in the most competitive exporter (Japan).

Central Monetarism Strangles Peripheral Fordism

Within a few months, the general recession led to a fall in demand, both in volume and price terms, for raw materials, including oil. As a result, OPEC surpluses dried up, but the soaring dollar, doped up by the rise in interest rates, gave no price respite to oil-importers and at the same time deepened the recession in the USA.

A crisis in the NICs was now inevitable. On the one hand, their foreign markets (which were mainly in the North and OPEC) were contracting, and therefore depressing sales of manufactures and raw materials and even the price of raw materials. At the same time they had to reimburse the loans which had financed their investments at a time when oil prices were still rising (for those which were not oil-exporters). As we have seen, since 1980 all the NICs had been relying upon short-term credits to reimburse long-term debts. And it was at this very moment that OPEC surpluses dried up, that the USA began to show a trade surplus.[38] Interest rates were rising, and excess world liquidity was giving way to a shortage of capital: xenodollars were becoming scarce and expensive. Such was the new configuration imposed by American policy.

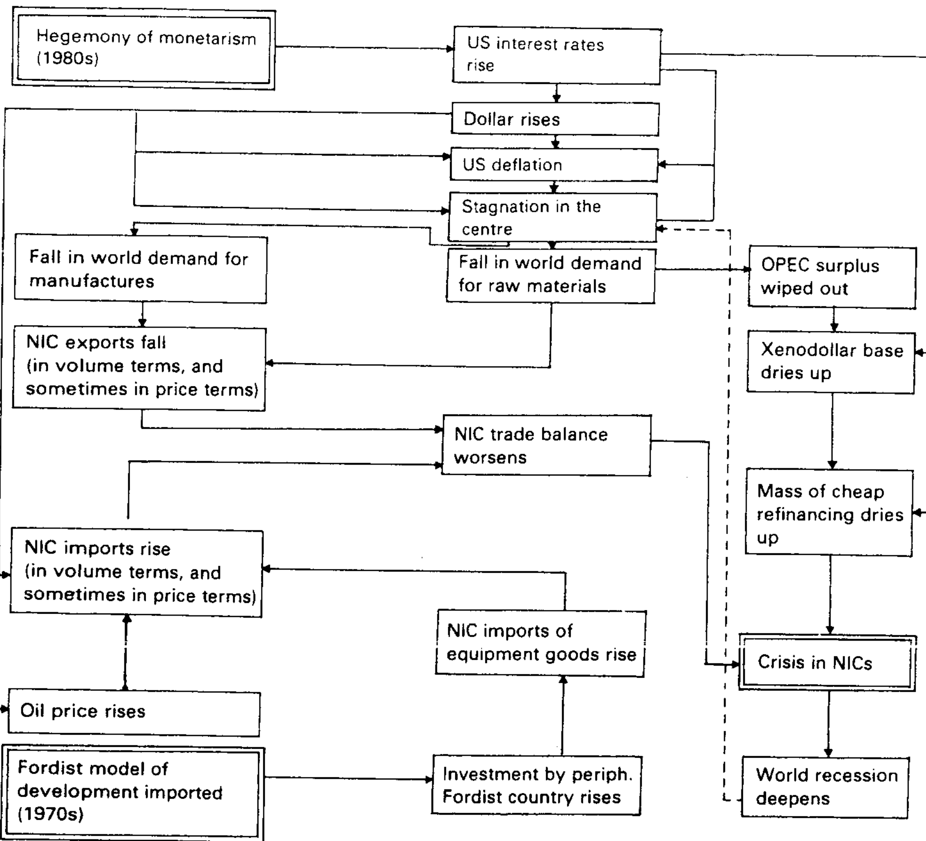
The crisis had reached dramatic proportions, and for the first time it began to resemble the depressive spiral of the 1930s, even though monopolistic regulation did not collapse under the impact of monetarism. For three successive years (1980-82), there was no growth in the North, and for the first time growth was halted also in the South, including the NICs. International trade, which had still been growing by 5 to 6 per cent at the end of the seventies, stagnated in 1980 and 1981, and actually fell by 2.5 per cent in 1982. In 1982, per capita income declined in the Middle East and Latin America – something which had previously been experienced only in Africa. World demand, both internal and external, was very sluggish, yet in 1982 Third World countries had to repay long-term loans worth $80 billion (most of it from industrial exporters). If short-term credits are also taken into account, the total was probably closer to $200 billion.

All those countries which had banked upon reexporting to repay their debts – and they ranged from Poland to Mexico – and those which, like Pinochet's Chile (the country with the largest per capita debt) were buying a middle-class consensus on credit, suspended payment. As we can see from Graph 4 (overleaf), the trap had closed on peripheral Fordism. Perhaps the gamble had been too risky, but it was also true that the rules of the game had been changed. And as is usual in an international regime of accumulation, a crisis affecting one partner (in this case the NICs) had repercussions for the other (the North). The recession in the North deepened, particularly in countries which exported a lot to OPEC and the NICs.[39] Those involved in major projects fared even worse.[40]

'What of the second oil shock?', one might ask. Was it not that rather than the monetarist shock which ruined the 'new industrialization'? It certainly had an effect, particularly in inducing the central governments to turn toward monetarism. But it should be noted that the first oil shock had been a powerful stimulus to the generalization of new industrialization, and that Mexico and Venezuela ought to have benefited from the second shock. As it happens, they did not.

What exactly happened? According to Cline's famous report,[41] the increase in non-oil countries' debts between 1973 and 1982 breaks down as follows: 1) oil prices rising faster than US inflation: 260 billion; 2) real interest rates in 1981 and 1982 rising faster than the average for 1961-80: 40 billion; 3) deteriorating terms of trade and loss of exports (volume) because of the 1981-82 world recession: 100 billion; 4) 'others': 80 billion. External factors account for four fifths of the increase in debt. More than half that figure

Diagram 1
Financial Strangulation of Peripheral Fordism



can be seen as a result of the monetarist crisis. Everything else was 'the Arabs' fault'.

This is of course an accountant's way of breaking down the figures, and the results are open to debate. The increase in oil rents simply meant that part of the South had asserted its rights over world production.[42] Most of the increase was recycled to non-oil exporting NICs, and it gave them the right to buy capital goods, provided that they repaid their debts by selling. They did not always use this right to their best advantage, but without it they could have done virtually nothing. They were only too willing to repay their debts by selling to the oil countries (and on other markets).

The *OECD Observer* (January 1983) also blames the breakdown on the second oil shock, but the figures it gives suggest that this interpretation must be qualified (Table 9 overleaf). It was in fact in the years *before* the shock that the debts of the non-oil developing countries increased most rapidly. It was in 1980 that interest charges shot up (the first monetarist offensive). It was in 1981 that the price of their exports collapsed, and it was in 1982 that the volume growth of their exports came to an end.

According to the World Bank's 1983 *Report*, the terms of trade of middle-income oil-importers (unit export values divided by unit import values) deteriorated by 10.7 per cent between 1979 and 1982 and by 9.7 per cent during the first oil shock period of 1973-76. The variation is similar in both periods. But the purchasing power of exports (the above figure multiplied by the growth in export volume) rose by only 2.5 per cent, as against 4.5 per cent during the first shock. The difference between the two shocks is that the second was 'managed' in such a way as to produce a contraction, and not merely a shift, in effective world demand.

The remarkable thing is that the purchasing power of exports rose at all. The strangulation of these countries took place at the level of the current balance of payments rather than at the level of trade itself. According to the same report, variations in relative prices were much greater at this level. The 'real' Eurodollar interest rate (i.e. the three-month rate deflated by the export prices of all exporting countries, including OPEC) – which expresses relative nominal changes in the cost of the capital borrowed and the export prices used to pay for it – was zero in 1970-72. It fell to −30 per cent in 1974 (because of the rising price of oil), hovered around zero again in 1975-78, fell to −10 per cent in 1979,[43] and then climbed back to +20 per cent in 1981 and 1982.

Finally, it will be recalled that the price of oil rose to $34 a barrel at a time when the dollar was highly depreciated, and that the price rise was largely a reaction to that depreciation. The rise of the dollar increased unit oil rents considerably, but the fact that the dollar rose was the result of the Fed's monetarist policies.

Whatever the responsibility of the second oil shock for the disruption of world trade, and whatever hypotheses can