Recovery From Economic Decline: Lessons For A Developing Economy

Eskor Toyo*

Introduction

In this paper we review the evidence on economic declines with special reference to capitalist history, the economic analysis of declines and proposed remedies. To do this in any great detail will require a thick volume; only a sketch can be attempted here. The concentration on capitalist experience is justified in this introduction. The rest of the work is divided into sections dealing with 'normal' cyclical crises, long waves, the general crisis of capitalism, the post-1980 crisis, a critique of remedies and the conclusion.

One must concentrate on capitalist experience for two reasons. The first is that the declines due to capitalist cyclical and existential (so-called "general") crises must be distinguished from other kinds of economic decline. There have been economic declines due to epidemics (such as the Black Death in fourteenth century Europe) and others due to war. After such declines due to the disruption of normal economy-related processes, rehabilitation consists in the restoration of normalcy in these processes. In the case of the Black Death, this included the resumption of normal population growth. Capitalist cyclical and existential crises, however, are quite a different matter, and to speak here of 'rehabilitation' as is done by the International Monetary Fund and allied circles is misleading. The capitalist economy is always going through one phase or other of its cycles and, therefore, there is no normalcy to return to.

Again in the construction of existing socialist economies, specific policy programmes have been launched in some countries that have led to economic crises and decline. We refer, for instance, to the Soviet collectivisation (1926-1932), the Chinese Great Leap Forward (1958-1963), and the Polish Special Road (1970-1975) campaigns that resulted in crises. Again, we know that the declines that accompanied these cases were occasioned by specific policy shifts. There is nothing systematic about such

* Department of Economics, University of Calabar, Calabar - Nigeria.

declines, and they have not occurred in all existing socialist countries. The remedies for these special occurrences were found in policy reforms which reversed the declines.

More systematic was the general slowing down of the East European socialist economies - the special case of Yugoslavia excluded. It is known that this decline in growth rates in the late 1970s was due to the unsuitability of the then existing planning and management methods for the complexity and the need for 'intensive development' which these economies had arrived at by the late 1960s. Remedies for this decline have been found in accelerated technological change; a change in the proportion between producer goods and consumer goods; price, investment and incentive reforms; new approaches in planning and management. In consequence, the socialist economies are resuming their rapid rates of growth[1].

The second reason why the review is one of capitalist experience is a practical one. Nigeria is a peripheral capitalist country sharing the global economic experience of the world's capitalist block of countries. The current crisis of her economy is neither abnormal nor due to any particular set of policies. Between 1980 and 1983 all capitalist economies without exception, whether or not they exported petroleum, were afflicted by a deep depression. Since 1983 there has occurred some partial, sluggish and uncertain up-turn.

We ought to try to know exactly what the world capitalist system is passing through. In fact, when we speak of recovery, it is pertinent to ask 'recovery from what'? A careful examination shows world capitalism as going through a period of great complexity. The 1970s 1980s are characterized by normal cyclical crises, the stagnation phase of a long wave, a moment in the general crisis of capitalism, and the specific collapse of the post-1945 'welfarist' thrust and Bretton Woods framework of policies for regulated finance capitalism.

What we shall attempt to do is describe these motions, examine the illusions of the so-called recovery policies with which the symptoms of the crisis are being met, relate all these to Nigeria's recent experience, and pose the question of stable development in the light of our analysis.

Normal Cycles: Facts and Explanation

It is known that a capitalist economy normally passes through cycles characterized by prosperity and depression (or expansion and decline). The expansion phase consists of two sub-phases, namely, the recovery and the boom; the decline consists of the down-turn (or recession) and the slump. Each contraction is a crisis because it involves a diminution in the production and realization of values and surplus value which is the *raison d'être* of capitalist enterprises.

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1 For the USSR, for instance, see N.A. Tikhonov, Soviet Economy: Achievements, Problems and Prospects, Novosti Press Agency Publishing House, Moscow, 1983, pp.29-31.

Since the end of the eighteenth century, cycles have been observed in the capitalist economies as in Table 1. Capitalism has always been a system based on international commerce. Therefore, cycles originating from leading capitalist countries assume an international character.

Table I shows the business cycles that have occurred from 1790. A cycle runs from one slump to another.

During the expansion, the national income, employment, aggregate demand, prices, profits, investment, interest rates and business optimism rise. During the contraction, these variables decline and business pessimism replaces optimism. Since the end of the Second World War, however, prices have kept rising even during contractions. Economists describe this phenomenon of rising prices in the contraction as 'stagflation' or 'slumpflation'.

Business cycle theories have had a long history. It is known that the alternations of prosperity and depression have to do with the rythm of capitalist investment. The theories differ only in the factors they hold largely responsible for variations in investment.

If we ignore the patently false 'sunspot' theory of W. S. Jevons[1], we can identify a number of theories. We cannot afford to review them here, interesting as this would be. Suffice it to record that R. G. Hawtry[2] (money), F. A. Hayek[3] (money), L. Spiethoff[4] (sectoral disproportion), J. A. Schumpeter[5], K. Wicksell[6] (technological innovation), J. A. Hobson[7] (underconsumption), J. M. Keynes[8] (underconsumption) and W. C. Mitchell[9] (cost changes) have all developed business cycle theories in which in various ways they have attributed cyclical behaviour in capitalism to variations in the supply of money, sectoral disproportions in production, technological innovation, underconsumption and cost changes as indicated in parenthesis.

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1 Reflecting the influence of harvest and the prices of agricultural products on capitalist instability in the nineteenth century., W. Stanley Jevons, a meteorologist and economist, put forward the thesis that periodic fluctuations in business activity were caused by sunspots which affected the weather periodically and thus harvests. The theory was discredited because no regular correspondence between sunspots and business fluctuations was, in fact, observed.

2 See a summary of Hawtrey's views in 'The Trade Cycle' reprinted in Readings in Business Cycle Theory, Blakiston, Philadelphia, 1944.

3 See F.A. Hayek, Prices and Production, George Routedge, London, 1955.

4 For Spiethoff's Theory, see 'Business Cycles' (translated and abridged from the original version entitled 'Krisen') International Economic Papers, N3, 1955, pp.75-171.

5 J. A. Schumpeter, The Theory of Economic Development, Havard University Press, Cambridge, Massachusettes, 1934.

6 K. Wicksell, Lectures on political Economy, Vol.II, Macmillan, London, 1935, pp. 190-214.

7 J. A. Hobson, The Industrial System, Longman, Green, London, 1910.

8 J. M. Keynes, The General Theory of Employment, Interest and Money, Macmillan and Cambridge University Press, London and Basingstoke, 1973.

9 W. C. Mitchell, Business Cycles and their Causes, University of California Press, 1941.

Because of what we shall later say, however, it is of interest to note that of these economists only Mitchell emphasises the key fact that capitalism is a system where entrepreneurs invest only in search of profits and that, therefore, to be valid, a business cycle theory must focus on the regulatory role of profit. This note is important because in doing dynamic analysis of a capitalist or capitalistic economy, many economists are absent-minded about

Table 1: Business cycles after 1790

1.	1790-1797	14.	1907-1913
2.	1797-1808	15.	1913-1921
3.	1808-1816	16.	1921-1929
4.	1816-1825	17.	1929-1937
5.	1825-1836	18.	1937-1949
6.	1836-1847	19.	1949-1953
7.	1847-1857	20.	1953-1958
8.	1857-1866	21.	1958-1961
9.	1866-1873	22.	1961-1967
10.	1873-1882	23.	1967-1971
11.	1882-1891	24.	1971-1975
12.	1891-1900	25.	1975-1980
13.	1900-1907	26.	1980-....

Notes: Cf. John Eaton, Political Economy, International Publishers, New York, 1966, p.158; World Development Report, The World Bank and Oxford University Press, 1983.

the fact that they are not dealing with just any economy but with a capitalist one. They ignore what makes a capitalist economy tick, and tick the way it does rather than otherwise.

Apart from the foregoing theories we now have mathematical models of the cycle. Because these models purport to be more 'developed', and because of the false belief that whatever model is mathematical and can be operationalized statistically is necessarily an 'advance', we shall say a few words about these models. They also happen to develop from the work of J. M. Keynes whose aggregate economic analysis became and remains orthodox in Western universities.

They are of two types: those of P. A. Samuelson[1], J. R. Hicks[2] and L. A. Metzler[3] that do not consider growth, and the so- called post-Keynesian models or theories that take account of growth. They all have the

1 P. A. Samuelson, 'Interaction between the Multiplier and the Accelerator'.

2 J. R. Hicks, A Contribution to the Theory of the Trade Cycle, Clarendon Press, London, 1950.

3 For an exposition of Metzler's models, see Michael E. Evans, Macroeconomic Activity, Harper and Row, New York, 1969, pp. 373-378.

distinguishing feature that they make use of the notion of interaction between the multiplier and the accelerator.

In the simplest terms, we can postulate consumption as a proportion of lagged income (which enables a multiplier to be calculated) and investment as a proportion of distributed-lagged consumption or income (which expresses the notion of induced investment or 'accelerator'). This exercise enables us to formulate a model reducible to a difference equation the path of whose dependent variable describes cycles in much the same way as a sine function does.

In the versions of N. Kaldor[1] R.M. Goodwin[2], again J. R. Hicks[3], and A. Smithies[4], the well-known growth notions of R. F. Harrod[5] and E. Domar[6] are introduced.

These multiplier-accelerator models all make excess capacity (that is, the accelerator) the cause of the down-turn. The weakness in these models is that they ignore prices and shifts in factor shares which they sometimes mention as after-thoughts. It must be said also that they generate cycles only thanks to their mathematical properties.

A model of a different type, usually but wrongly described as 'post-Keynesian', is that of M. Kalecki[7], whose work was inspired by Marx and who anticipated Keynes himself and the post-Keynesians in many ways and went beyond them in the recognition of the importance of income shares in any matter concerning capitalist dynamics. His investment function is made of a function of profits and accumulated capital stock rather than a function of income or consumption as in the general run of Keynes-inspired models. Even Kalecki's consumption function is a function of profits rather than a function of income. All this can be seen in the presentation of the models of Samuelson, Hicks, Smithies and Kalecki in Appendix 1.

In fact, Kalecki's model recognizes what Schumpeter did recognize, namely, that although K. Marx did not leave behind a complete theory of the business cycle, his work on capitalist dynamics contains all the elements that

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1 N. Kaldor, 'A Model of the Trade Cycle', Economic Journal, Vol. 50, March 1940, pp.78-92.

2 R. M. Goodwin, 'Secular and Cyclical Aspects of the Multiplier and the Accelerator' in Income, Employment and Public Policy: Essays in Honour of Alvin H. Hansen, Norton, New York, 1948, pp. 108-132.

3 J. R. Hicks, op. cit.

4 A. Smithies, "Economic Fluctuations and Growth', Econometrica, Vol. 22, N1, January 1957, pp.1-52.

5 R. F. Harrod, Toward a Dynamic Economics, Macmillan, London, 1948.

6 E. Domar, 'Capital Expansion, Rate of Growth and Employment', Econometrica, Vol. 14, No.2, April 1946, pp.137-147.

7 M. Kalecki, 'A Macrodynamic Theory of Business Cycles', Econometrica, Vol. 3, 1935, pp.327-344.

were subsequently embodied in developed cycle theories. Ernest Mandel has made the same observation[1].

Evans[2] has presented a synthesis of all that has emerged from the various cycle theories and models and this can be summarized as below - using US experience.

At the beginning of the up-turn, there occurs a rapid rise in inventories and the purchase of consumer durables. There is little change in fixed investment demand, which rises only when the up-turn is sustained. Residential construction may turn up at the early stage of the recovery, but it cannot compensate for the decline in fixed manufacturing investment which will still be declining at the beginning of the recovery. As residential construction has a counter-cyclical pattern, it is high during the contraction because of relatively low interest rates. The resumption of inventory stocking plus high residential construction raises incomes.

The early stages of expansion witness the increase of both total sales and profit margins. Profits arise even faster than the fast rise in Gross National Product (GNP) and the ratio of profits to GNP rises. Wages do not rise quite as fast. The profit rise is due to the fact that the increase in sales lowers average fixed costs and that the elasticity of demand decreases as prices rise, so that prices continue to rise even though unit labour and other variable costs do not increase. Wages are likely to lag behind productivity increases at the beginning of the up-turn, being kept low by the previous years' rate of unemployment.

There will be a shift to profits as compared with wages which, at best, can grow at the same rate as the marginal productivity of labour. (In the U.S. profits increase at the average of 28 per cent in the first year of expansion and labour productivity by 7 or 8 per unit). Still, even with the income redistribution and the slight increase in prices, personal disposable income rises faster at the initial stage of recovery than on the average over the cycle.

This first rapid growth ends (in the post-1945 U.S. after one year), because of a decrease in the rate of inventory investment. This happens because of the accelerator mechanism and the backlog of orders. According to the accelerator mechanism, ordering to increase the inventory stock declines as the stock increases. The influence of the backlog of orders operates as follows. Shipments usually lag several months behind orders. Therefore, demand for stock increases fast at first and then declines while the backlog of orders is being supplied.

The decline in inventory investment (orders) is sufficient to bring about a decline in the rate of growth of GNP. However, the decline does not take place after a year of inventory boom because fixed investment now increases. Fixed investment is stimulated by increased capacity utilization and high

1 E. Mandel, Late Capitalism, NLC, London 1976, p. 438.
2 Michael E. Evans, op. cit., pp. 421-428.

profit rates in the first phase of the expansion. Besides, since fixed investment has been low, interest rates are low and there is easy money.

Two things are observable about the rise in fixed investment. Its magnitude will depend on the extent to which capacity was unused during the depression. Secondly, even if the expansion demand is small, the demand for purposes of modernization will be large. This makes the rate of obsolescence of fixed investment an important determinant of the duration of cycles. Molnar records that among individual sectors of industrial production in the U.S.A. "the most dynamic sector is undoubtedly the production of equipment", and that this sector is "at the same time the least stable", with annual changes in production varying between +38.8 per cent and -13 per cent[1]. There will be a small drop in residential construction, but on balance fixed investment will rise sharply.

The initial rapidity of growth in GNP has now temporized. The decline in inventory invéstment and in the demand for consumer durables is compensated by the rise in fixed investment, so that the growth curve flattens out. The demand for non-durable consumer goods runs at trend rate and there is no substantial change in the net foreign balance unless the growth and inflation rates in the given country are different from those of her trading partners.

After a year or two, the economy begins to turn down, unless exogenous forces intervene to keep incomes up. Evans notes tax cuts and "increased expenditures for government defence" as obvious instances of such exogeneous forces[2].

The down-turn is brought about by two influences. The first is the combined influences of the inventory and consumer durable accelerators which are now augmented by the fixed investment accelerator. That is, after the desired stocks of inventory, consumer durables and fixed investment goods commensurate with the requirements of competition which have been built, capital stock building decelerates. However, empirical data show that the down- turn due to accelerators, though certain, would be gradual but for two factors: money and excess capacity.

The sharpness of the down-turn is caused in part by monetary stringency. During the boom phase of the cycle, the idle cash balances, which exist throughout the first phase, disappear as a result of reduction in company cash flow. This reduction also affects credit creation by the bank as the central banks apply pressure to restrict money expansion to bring down the inflation rate.

The inflation with which the monetary authorities have to grapple occurs because as prices increase wages will eventually go up. Since the firms will resist a decline in their profit rates, prices will increase further. However,

1 F. Molnar, Economic Growth and Recessions in the USA, Akademiai Kiado, Budapest, 1970, p. 120.

2 Evans, op. cit., p. 424.

firms that are not in strong monopolistic positions cannot pass on rising costs to their customers. Therefore, their profits will fall, squeezing their cash flow (L), which is defined as:

$$L = \frac{(F + A) - D}{P}$$

where F is after-tax corporate profits, A is depreciation, D is dividends and P is the price of capital goods.

Even for the monopoly firms, as the rate of increase of demand slows down, the demand curve will not shift out as fast as price rises, and, if the elasticity of demand exceeds unity, these firms' total revenue will decline as they raise prices.

The cash flow situation also tightens because though profits are not rising, dividends will continue to increase because they are paid largely on lagged profits. Depreciation charges will rise but, since they are based on historical rather than replacement cost, their rise will not compensate for the sharp increase in the price of capital.

The inflation will cause the monetary authorities to tighten credit thus increasing interest rates. This coincides with the profit squeeze, complicating the liquidity problem of firms.

Another development during the boom is that the increase capacity reduces the level of unfilled orders for inventory. The decrease in this variable occasions a fall in the demand for inventory and, therefore, a sharp decline in inventory investment. Excess capacity develops or increases.

Thus it is the decline in unfilled orders and in inventory investment, resulting in excess capacity, that is largely responsible for the sharpness of the down-turn. Monetary stringency also does bring about a sharper decline in fixed investment, but the existence of excess capacity is the principal cause of the rapidity of the down-turn.

We may now make some observations on the theories we have reviewed so far.

First, the theories confirm the view of Marx that no single factor can explain the occurrence of cycles[1]. Cycles are products of a complex interaction of various factors which presuppose one another within capitalism as a totality.

Secondly, the stages of the business cycle follow one another with inexorable force. There is no force capable of preventing these stages from following one another. The capitalist system is a system of autonomous and competing firms, ever hunting for higher profit, ever revolutionizing the forces of production to this end, and ever oblivious of and driven to breach the conditions of social compatibility and equilibrium. It is a system which is based on social division of labour and mutual presupposition of its parts but at the same time promotes the uneven development and violates the social or aggregate compatibility of its parts.

1 K. Marx, <u>Theories of Surplus Values</u>, Vol II, London, 1972, p. 510.

Thirdly, those models are invalid which are blind to the aim of capitalist accumulation, which is the realization of the highest possible rate of profit. Only with a rising rate of profit is an economic up-turn possible. A down-turn is not possible unless a fall in the rate of profits is conceived as at least imminent. A simultaneous equation system which is true to capitalist reality must make profits the ultimate independent variable as in Kalecki's model. The position of Keynes on this matter is utterly wrong. Said he:

> *"If human nature felt no temptation to take a chance, no satisfaction (profit apart) in constructing a factory, a railway, a mine or a farm, there might not be much investment merely as a result of cold calculation"*[1]. *In capitalism we deal with capitalists, not with romantic individuals.*

Fourthly, the imbalances that can develop in capitalism, bringing about a crisis are many: between production and valorisation, between investment and consumption, between the growth of profits and wages, between the monetary and the real parts of the system, between external connections and internal connections.

The capitalist system has more sources of instability still, for it develops in a wavelike way as we shall see in the next section.

Long Waves in Capitalist Activity

Evidence shows that in the first two decades after the Second World War, the capitalist world - and Nigeria with it - was passing through the upward phase of one of its long waves and that from 1968 we entered the stagnation phase of a long wave. In table 2 we present the waves.

These waves are often called 'Kondratieffs' after the economist in the early Soviet state who paid a great deal of attention to them.

Economic historians are almost unanimous that in capitalist history there have occurred waves of expansion and contraction as shown in table 2. The statistical evidence on these waves which we present in this section is due to

Table 2: Long waves in capitalism

	Expansion	Contraction
1st Wave	1793-1823	1824-1847
2nd Wave	1848-1873	1874-1893
3rd Wave	1894-1913	1914-1939
4th Wave	1940-1967	1968-....

1 J. M. Keynes, The General Theory of Employment, Interest and Money, Macmillan and Cambridge University Press, London, 1936, p. 150.

sources cited by Ernest Mandel[1] who has made a valuable study of the long waves to which this section is indebted.

What is responsible for these long waves? They are best explained as due to major technological revolutions, which are not accidents but arise from

Table 3: Annual cumulative rates of growth of the industrial output of Great Britain (%)

1827-1847	3.2
1848-1875	4.6
1876-1893	1.2
1894-1913	2.2
1914-1938	2.0
1939-1967	3.0

Table 4: Annual cumulative rate of growth of the industrial output of Germany (after 1945 Fed. Rep. of Germany) (%)

1850-1874	4.5
1875-1892	2.5
1893-1913	4.3
1914-1938	2.2
1939-1967	3.9

Table 5: Annual cumulative rate of growth of the industrial output of the USA. (%)

1849-1873	5.4
1874-1893	4.9
1894-1913	5.9
1914-1938	2.0
1939-1967	5.2

1 E. Mandel, Late Capitalism, op. cit., pp. 141-142.

Table 6: Annual cumulative rate of growth of physical per capita output on a world scale (%)

1865-1882	2.58
1880-1894	0.89
1895-1913	1.75
1913-1938	0.66

Table 7: Annual cumulative rate of growth in the volume of world trade (%)

1820-1840	2.7
1840-1870	8.5
1870-1890	2.2
1891-1913	3.7
1913-1937	0.4
1938-1967	4.8

Table 8: Annual compound % growth of industrial output afterWorld War II

	1947-66	1966-75
U.S.A.	5.0	1.9
Original EEC 'Six'	8.9	4.6
Japan	9.6	7.9
U.K.	2.9	2.0

movements in the rate of profit. It is important to show that the long waves, like the 'normal' cycles, are not fortuitous but obey the logic of capitalist dynamics to which the rate of profit is central.

A long list of writers have commented on the problem of long waves, by way of sustained analysis, criticism of analysis, or historical demonstration[1]. As usual, however, it is Karl Marx that gives us the theoretical basis for convincingly explaining the phenomenon, even though these waves did not become clear in his time and were not studied by him.

Let us observe certain facts that will help us.

First, the industrial revolution, which consists in the process of industrializing agrarian economies, must be distinguished from further technological revolutions induced by capitalist competition.

Secondly, industries are linked in such a way that a technological revolution in a group of industries calls for a technological revolution in the industries that supply it and stimulates a technological revolution in those that buy from it. In particular, Department I in the Marxian theoretical system (that is, the production of producer goods) is linked with Department II (the production of consumer goods) in this way. Revolution in processing is linked with revolution in raw material production, and revolution in making machines is linked with revolutions in the machines that make machines in this way.

Thirdly, capitalism develops unevenly, since there is no social plan to control the use of new capital. The rate of profit provides the guidance for the movement of productive capital. It is thus a system of division of labour between more developed and less developed sectors of activity and regions. In particular, uneven development between Department I and II must bring about a reaction, since, in the final analysis, all production must be directed towards consumption.

Fourthly, by industrial 'development' under capitalism one means in the ultimate the development of machine production and the motive power for turning machines, since capitalist industry is essentially mechanized industry.

Fifthly, we have to distinguish the making of an invention and its installation at its first site from the adoption of the invention by other producers. We have also to distinguish between the centres of modern industries and the spread of the activities of these centres to less developed regions.

Sixthly, capital moves about in the capitalist system. If technological innovations take place in a sector, the rate of profit will rise in it. For this reason, there will be expansion through investment of new capital in it. This will raise the organic composition of capital (capital/wage ratio) in it. The effect of this is to lower the rate of profit. Still the sector will earn a larger mass of profit. The system tends to establish an average rate of profit

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1 These writers are cited by Mandel, Ibid., but they are too many to cite here. To Mandel's list, however, should be added W. W. Rostow who applies the thesis of the long waves. Lander, following Rostow, also applies this thesis. See W. W. Rostow, The British Economy of the Nineteenth Century, Oxford University Press, London, 1948, and J. E. Lander, International Economic History, Macdonald and Evans, London, 1969.

through competition - in the absence of monopoly. Consequently, processes that involve more capital investment earn a larger mass of profits.

If the expansion of investment in a sector is large relative to the increase in productivity in it, this has two effects: profit will be transferred from other sectors to it to compensate it for the large increase in investment and the general rate of profit will fall. For this reason, and in order to cope with demand, if there is a major technological innovation in Department I, that will eventually induce technological innovation in Department II and vice versa.

We can now look at the history of capitalist industry since about 1825.

Apart from the classical industrial revolution (1750-1850), we have had three technological revolutions: 1847-1873, 1893-1914, 1940 or 1945-1968.

If we may present the matter summarily, the long period from the end of the eighteenth century up to 1847 was characterized basically by the gradual spread of the steam engine made by hand to all branches of industry in all countries that were industrializing. This was the long wave associated with the industrial revolution itself.

The long period from 1847 to the beginning of the 1890s was characterized by the generalization of the steam engine made by machines rather than by hand as the principal motive machine. This was the long wave associated with the first technological revolution.

The long period from the 1890s to the Second World War was characterized by the generalized application of electric and internal combustion engines in all branches of industry. This was the long wave of the second technological revolution.

The long period, beginning in North America in 1940 and in other imperialist countries in 1945-1948, was characterized by the generalized introduction of machines controlled by electronic apparatuses or nuclear energy. This is the long wave connected with the third technological revolution.

Marx distinguished three essential parts of a developed system of machinery - a system where all the processes are mechanized. We have motive machinery, transmission machinery and tool or labour machines. The development of the latter two, after a point, depends on the development of the first. Motive machines are the mechanical producers of energy. Thus revolutions in the technology of production of motive machines appear to be the determinant aspect of revolutions in technology as a whole.

The construction of plants for the new basic technology offers an opportunity for the investment of new capital. As the application of the new motors becomes more general, orders for the products of industries making the new motors decline more and more and thus the growth rate of the industry declines. This implies growing difficulty in the valorization of the capital sunk in it. Moreover, a general transformation of productive technology, consequent on the introduction of new motive machines, requires an enormous investment of capital, and leads to a rise in the organic composition of capital and a general decline, in the rate of profits. With the growing difficulty of valorization, there is a crisis.

At this stage there is a feverish look for new fields for the valorization of idle capital.

Each of the long periods falls into two parts. In the first part the new technology comes into existence and is generally adopted. This implies a rise in the rate of profits and an accelerated accumulation of capital, accelerated growth, accelerated self- expansion of previously idle capital and an accelerated devalorisation of capital previously sunk in Department I and now technically obsolescent. There follows a second phase. Now the new technology has already been installed and only improvement or further extension is possible. This phase is one of declining profits, gradually decreasing accumulation, deceleration of economic growth, gradually increasing difficulties in the valorization of the total accumulated capital, and a general increase in idle capital.

If we may apply this reasoning to the long wave that started in 1940, the expansion due to the introduction of electricity and oil machines ended in the prolonged contraction of the 1930s. The Second World War intervened. From 1940 in the United States and from 1945 in other parts of the capitalist world, a long expansion began, stimulated by the introduction of automated machines and - to some extent - nuclear energy. We also had along with this the rise of polymer chemistry (the manufacture of synthetic products). By the middle of the 1960s capitalist countries had massively installed these processes and the conversion was reduced.

Added to this development was the acceleration of industrial development which greatly reduced the peasantry and small farmers in the United States, France, Japan and Italy. After the Second World War also, a number of developments led to the acceleration of the synthetic production of raw materials. In short, the scope for 'extensive' development narrowed. (Extensive development is the process of development which draws people and resources from the non-mechanized into the mechanized sector rather than increasing labour productivity in the mechanized sector itself. The latter is 'intensive' development).

In order to encourage the installation of the equipment for 'intensive' development by their own monopolies, the governments of capitalist countries allowed accelerated depreciation. These transformations greatly raised the organic composition of capital (the capital/wage ratio). When they began to exhaust themselves, net investment began to show a long-term decline.

A rapid rise in the organic composition of capital means that even with increase in labour productivity, the rate of profit will tend to fall if the workers are strong enough to win some of the increase in value-added for themselves - and this was the position after World War II.

Table 9: Real rates of return on corporate capital, by country 1962-1976 (%)

Period	Canada	France	Germany (Fed.Rep.)	Italy	Japan	U.K.	U.S.
Average							
1962-64	7.9	9.7	19.3	10.4	26.2	11.9	12.0
1965-69	9.6	10.0	19.5	10.4	27.9	10.6	12.2
1970-73	9.0	11.6	15.0	10.3	21.9	8.3	8.6
1974-76	9.2	8.0	11.4	-	13.5	3.7	7.1

Source: Sactis, 1979, cited by World Development Report, 1984, p.17.

The declining trend in the rate of profit is obvious (as from 1965-1969) in Table 9.

Kondratieffs are not isolated from 'normal' (or conjunctural) cycles. How are the two related? During a Kondratieff expansion, the upswings in the conjunctural cycles tend to be longer and the downswings shorter. During a Kondratieff contraction, the upswings become shorter than previously and the downswings longer. This is confirmed by experience after World War II.

In the current epoch, both business cycles and Kondratieffs are complicated by phenomena that mark the general crisis of world capitalism.

The Crisis of World Capitalism

The capitalist economy as a global system has always been one in which a few capitalist countries exploit weaker ones. From 1750 to about 1875, Great Britain dominated this system. From then to 1945, capitalism became polycentric. Since 1945, it has been dominated by the United States of America.

The system of modern imperialism, characterized by the dominance of monopoly-finance capital and the export of capital, was necessary for the revitalization of capitalism after the depression of 1873 to 1893. It is this global system that is now disintegrating. The disintegration set in during the First World War (1914-1918).

The crisis of the world capitalist system manifests itself today in five forms.

The first is the emergence of the socialist world order: the falling off of more and more countries from the capitalist system.

The second is the disintegration of imperialism's colonial order and the development of new links between developing countries and the world socialist system.

The third is the development of deep contradictions of redivision of territories and spheres of influence among the imperialist countries themselves.

The fourth is the crisis of peripheral capitalism.

The fifth is the deepening crisis of monopoly capital within each of the leading capitalist countries.

The first breach in the system of world imperialism was made by the October socialist revolution in Russia. After the Second World War more countries joined the socialist community of countries. As of 1981, a tenth of the population of the world lived in socialist countries, but already these countries produced one third of the world's steel, one quarter of its oil, one quarter of its electricity and 40 per cent of its mineral fertilizer.

Table 10 shows the average growth rates of principal indicators in socialist, capitalist and developing countries.

We have not included in the above indicators for socialist countries the indicators for socialist-oriented states, such as Ethiopia, Angola, Algeria, Mozambique, Benin, Burkina Faso, Afghanistan, South Yemen and Congo.

Table10: Economic Development indices for Socialist, advanced Capitalist and Developing countries

	Average annual growth rates for 1951-1981 (%)		
	National Income	Industrial Output	Agricultural Output
Socialist countries including	7.2*	9.1	3.3*
C.M.E.A. countries	7.0	8.6	2.9*
U.S.S.R.	7.3	8.5	2.9
Advanced capitalist countries including	4.0	4.5	2.1
U.S.A.	3.4	4.0	1.6
Developing countries	5.4	6.7	3.1

* For 1951-1980.

Source: Socialism: Theory and Practice, N11, 1983, p.114.

The development of socialist countries both limits quantitatively the territory open to imperialist exploitation and also restricts the freedom of imperialist exploitative policy. Thus by 1982 the territories in the world available for imperialist exploitation had shrunk to 73.8 per cent from 100 per cent. The socialist share in world population grew from 7.8 per cent in 1919 to 32.8 per cent in 1982. Whereas the Soviet Union - the only socialist country then - produced about one per cent of the world's industrial output in 1922, in 1982 the socialist countries were producing 40 per cent.

The break-up of the colonial system of the world and the crisis of imperialist relations with less developed countries in general further limit the scope for imperialist manoeuvre. In some developing countries, some imperialist enterprises were nationalized; in others, they were restricted and compelled to make some concessions as in the case of the Organization of Petroleum Exporting Countries (OPEC) and the Nigerian Enterprises Promotion Decrees. Underdeveloped countries began to industrialize themselves and many of them turned to the growing socialist countries for help.

As regards their industrialization, the textile and other industrial exports of LDCs began to offer a sufficient competition in advanced capitalist markets for them to be restricted by tariff and other means.

As regards aid from socialist countries, by January 1, 1982, the USSR alone had helped to build in developing countries 310 industrial, 75 agricultural, 76 transport and communication, 45 geological prospecting and 190 science, education and health service projects[1]. By the beginning of 1983, the USSR had helped the developing countries build almost 1,800 industrial enterprises, electric power plants, hydroelectric complexes, and agricultural and other projects[2]. These projects are invariably large ones. Table 11 shows the export of Soviet complete plants to LDCs.

Table 11: Export of Soviet Complete Plants to Developing Countries (million roubles)

1956-1960	278.1
1961-1965	1,012.9
1966-1970	1,443.5
1971-1975	1,878.3
1976-1980	3,269.9

Source: Analoly Mikhailov, 'Equality and Mutual Benefit: Lenin's Ideas put into Practice' Socialism, N4, April, 1983, p. 15.

It is important to observe that such projects from socialist countries are constructed on terms much more favourable to the LDCs than similar projects built by firms in advanced capitalist countries and include the training of local personnel to take over the projects in record time. For instance, the USSR made a loan of eight million dollars to Turkey for a term of twenty years, interest free, whereas at about the same time the USA granted Turkey a loan of 10 million dollars at the annual rate of 6.5 per cent[3].

1 Fanaloly Mikhailov, 'Equality and Mutual Benefit: Lenin's Ideas put into Practice', Socialism, N4, April 1983, pp. 15-16.

2 E. Obminsky, 'Proponents and Opponents of Restructuring International Economic Relations', International Affairs, N7, Moscow, 1984, p. 86.

3 Ibid..

As regards the division of the world among imperialist powers, after the Second World War, U.S. capital rapidly penetrated the capitalist world. When West European and Japanese industries were rebuilt, however, an intense inter-imperialist rivalry developed.

Table 12 shows the shares of the major capitalist countries in world capitalist exports before the Second World War (1938) and their respective shares from 1947 to 1974.

The table shows that after World War II the United States increased her lead over Britain and others in exports. However, the position of the United States and Britain declined rapidly. By contrast, the shares of the European Economic Community (EEC) countries and Japan mounted rapidly. By 1974, the Common Market (EEC) countries had surpassed the U.S. position in 1947. The rapidity of growth in the Federal Republic of Germany and Japan, whose economies suffered heavy war damage but which did not carry the military burden of defending world capitalism, is to be specially noted.

The share of the US in the capitalist world's industrial output declined from 56 per cent in 1948 to 30 per cent in 1981, while that of Japan, which has moved to second place, increased from 3 per cent to 17 per cent between these dates. In 1982, twelve of the world's 100 leading banks were US-owned, whereas 24 were Japanese-owned. Even in Latin America, which US monopolies regard as their backyard, US direct investment rose 2.8-fold between 1966 and 1984, whereas Japanese direct investments leapt 63-fold.

Just as the emergence of monopolies marks the crisis of free-competition capitalism, so do the attempts at imperialist integration and the subordination of the other imperialist countries to US imperialism mark the crisis of monopolistic capitalist competition. However, the strains and fissures in collective imperialism show that imperialism cannot overcome its inherent crisis of uneven development and the contest to reshare the world by harmonious sharing.

Data like those in Table 12 which show the uneven development of monopoly capitalism as between the countries explain the crises in joint-exploitation arrangements such as the Bretton Woods agreements, the European Economic Community (EEC) and the Organization for Economic Co-operation and Development (OECD). Each industrially powerful capitalist country in order to grab the economic positions commensurate with its power steps on the toes of other capitalist economies.

The U.S.A. has no intention to reconcile itself to the erosion of the dominance which her monopolies had gained after World War II. Under pressure from the military-industrial complex, the transnational companies and the transnational banks, the Reagan administration is mobilising not only all possible internal resources but also all resources it can extract from abroad to change the situation. Its hostility to OPEC and its support for the economy of the racist regime in South Africa, for instance, arise from its strategic interest in world oil resources and strategic minerals. It has financed the astronomical growth of not simply unproductive but also anti-social expenditure, in terms of the arms race, her assumption of the role of world gendarme, and the export of counter-revolution. New techniques which would marshall world resources have been invented in pursuit of U.S. hegemonic ambitions: the Federal Reserve Bank raised the bank rate of interest to the record height of 17.3 per cent.

The crisis of peripheral capitalism consists in the different ways in which development has been frustrated. There are no better indicators of this than the inability of the peripheral states to free themselves from the grip of multinationals, the net export of investible resources, the chronic high rate of inflation, deteriorating terms of trade, and the debt crisis.

Let us illustrate. In the period 1966 to 1981 in Latin America, the gross domestic product grew roughly 2.5-fold, but the sales of US subsidiaries in the area grew more than 7-fold[1].

For Africa, for instance, investment by overseas private capital and the export of profits between 1968 and 1975 were as shown in Table 13.

1 'The General Crisis of Capitalism and Latin America's External Debt Problem', World Marxist Review, N4, April 1986, p. 59.

Table 12: Share of the main capitalist countries in World capitalist exports (in %)

Year	USA	Britain	France	Germany (Fed. Rep).	Italy	Japan	Common Markte (the ninet
1938	15.0	11.8	4.3	-	2.7	5.4	-
1947	33.0	10.0	4.1	0.5	1.4	0.4	-
1957	20.8	9.3	5.4	9.1	2.6	2.9	
1974	12.7	5.7	6.0	11.5	3.9	7.1	35.6

Source: G.A. Kozlov et.al., Political Economy: Capitalism, Progress Publishers, Moscow, 1977, p. 402.

Table 13: Exported profits on invested private capital and Inflow of overseas capital in African countries (hundred millions dollars)

	1968	1969	1970	1971	1972	1973	1974	975
Exported profits	12.8	13.7	12.7	13.3	16.2	23.1	23.0	17.9
Inflow of private capital	3.1	2.1	7.4	8.3	1.1	8.4	7.5	22.1

Note: Estimated from United nations and Economic Commission for Africa Sources.

Source: E. A. Tarabin et.al. USSR and Countries of Africa, Progress Publishers, Moscow, 1977, p. 144.

This reveals that in each year apart from 1975, expatriated profits greatly exceeded the inflow of private capital. The cumulative exported profits for the seven years was 13,252.6 million dollars and the cumulative inflow of private capital was 6,997.6 million dollars, making a cumulative net export of investible funds of 6,255.0 million dollars in seven years.

Concerning prices and terms of trade, in the period 1970 to 1980, the average annual price change of non-primary products was 9.1 per cent, whereas for manufactures it was 10.6 per cent. W. Klein estimates that in 1981 and 1982, the LDCs lost 79 billion dollars from the sagging of the prices of fuel and raw materials.

The outstanding debt of the developing countries[1] was 548.0 billion dollars in 1982 and rose to 900 billion dollars in 1984. The debt service as a percentage of all LDC exports was 20.7 per cent in 1982. In 1984, 50 per cent of the export revenues of debtor countries was spent on debt servicing as compared with 36 per cent in 1979. Developing countries spent 10.9 billion dollars in 1971, 91.2 billion dollars in 1980, 111.7 billion dollars in 1981 and 150 billion dollars in 1984 on debt servicing. By 1984 there was a net outflow of funds from the LDCs.

Let us turn to the difficulties of monopoly capital in the imperialist countries. Capital is compelled to be intensely parasitic in these countries, and monopoly capital faces the growing hostility of the population, led by workers. This is made clear above everything else by the increasing burden of the national debt, the growth of the non-productive sector, the growth of so-called 'state intervention', militarism, excess capacity, permanent inflation, the phenomenon of 'countervailing power', and the deepening of cyclical crises.

For the industrial capitalist countries as a whole[2], public spending rose from 29.3 per cent of GDP in 1961 to 40.9 per cent in 1981. To pay for the growth in public spending, taxes rose from 28.7 per cent of GDP in 1961 to 37.5 per cent in 1981. This increase was not sufficient to cover all the rise in spending. Therefore, there has been considerable public borrowing to cover the deficit.

The effect of deficit financing has been equivocal. On the one hand, it has sometimes had some counter-cyclical effects. It cannot be denied, however, that its inflationary character has brought in its train many difficulties. As regards large states like the U.S.A., deficits have had important global consequences. By contributing to the escalation of interest rates, they drive up the cost of borrowing and increase the difficulty of so-called 'structural adjustment' both within the country and outside.

The long-term nominal interest rates in the United States[3] rose from 4.5 per cent in 1965 to 13.5 per cent in 1980 and 12 per cent in 1984.

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1 World Development Report (1983), The World Bank and Oxford University Press, p.33.
2 World Development Report (1984), The World Bank, pp. 13-16.
3 World Development Report (1985), The World Bank, p. 5.

In the United States economy, employment in the non-productive sector grew from 33.1 per cent of total employment in 1937 to 38.2 per cent in 1947 and to 57.6 per cent in 1971. These statistics reflect two things. On the one hand there is the increasing difficulty of profit realization in capitalism (owing largely to excess capacity) which leads to high expenditure on sales by the monopolies. On the other, there is the increase of the public sector which arises from various government interventionist moves to save the system.

As to 'state intervention' itself, even in the US economy, which is less 'mixed', employment in the state sector, which is overwhelmingly non-productive, rose from 5.5 million (or 10.5 per cent of the whole) in 1947 to 12.9 million (or 17.3 per cent of the whole) in 1971.

As to military spending, let us take the USA. In 1930, military spending was only 0.9 per cent of Federal Government expenditure. In 1970, it was 9.6 per cent. In 1984, US military spending was 265 billion dollars and in 1985, 313 billion dollars. It is important to note who profits from military spending, since this spending is no longer much of a voluntary policy but has become basically a structural necessity for the survival of capitalism.

In the 1940-1945 period, the US monopolies earned 58.7 billion dollars in profits (after taxes)[1]. The average net profits of US corporations grew from 3 billion dollars in the pre-war period (1935-1939) to 9.5 billion from 1941 to 1945. Particularly enormous profits were made by major military-industrial corporations, including General Electric Company whose profits rose 8 times, United Aircraft (10 times), Douglas Aircraft (13 times), United States Steel Corporation (48 times) and Boeing Aircraft (110 times). Over the 1939-1945 war period the British monopolies' receipts from profits, interest payments and rent totalled 18 billion pounds. This was three times the sum of profits made over the six years preceding the war.

Military build-up in peace time is pursued by the military-industrial complex for three reasons: first, to enable the monopolies to make high profits to compensate for excess capacity; secondly, as a counter-cyclical measure; thirdly, in order to police the tottering world imperialist system, promote counter-revolution and slow down the rate of growth of socialist economies by compelling them to devote a large part of their smaller incomes to defence.

Excess capacity in the advanced capitalist economies is a notorious fact. In the U.S. economy, for instance[2], the index of capacity utilization in manufacturing industry declined steadily from 100 in 1947 to 65 in 1961. This means that even during periods of 'prosperity' capacity utilization did not rise sufficiently to overcome the downward trend in this indicator. As another indicator of secular stagnation, net investment as a percentage of gross investment declined (also fairly steadily) from 69.4 in 1947 to 38.0 in

1 Nicolai Voloshkin, 'Why are Wars Profitable for Imeprialists? Socialism, N12, December, 1983, pp. 30-32.

2 F. Molnar, op. cit., p. 62.

1968. It is interesting to observe that the years involved were the general expansion years from 1945 to 1968. Permanent inflation in late capitalism is caused by a number of factors: the growth of the non-productive sector, the monopolistic price-fixing power of the transnationals, excess capacity and the rapidity of turn-over of capital (high depreciation rates), the organized opposition to wage reduction by trade unions, military spending, and high liquidity arising from a huge idle mass of profits and serving as a basis for an enormous growth of credit. Recently experience in advanced capitalist countries has shown that by pursuing a deflationary policy, involving the perpetuation of a high unemployment rate, it is possible to reduce the rate of inflation. However, it is not possible to eliminate inflation, and the cost of deflation is a rate of unemployment 'acceptable' only to the most rabid anti-working class elements.

The fact of permanent inflation after World War II is too well known to need illustration. What is necessary is to settle the much-debated issue of the extent to which military expenditure or another factor is its main determinant. Table 14 is of help in this respect. It shows that in the post-war period, private debt has grown much faster than public debt and has also been more massive.

It is private indebtedness that links up inflation with such phenomena as the financing of rapid obsolescence and corporate profits.

In the case of the USA, the effect of accelerated obsolescence is seen in the fact that depreciation allowances as a ratio of corporate sales grew from 1.5 in 1947 to 3.2 in 1961. Moreover, when this indicator is calculated as a

Table 14: Proportions of public and private debts to gross national product

Year	Gross Nat. Product (N billion) A	Public debt (N billion) B	Private indebtedness (N billion) C	B as % of A	C as % of A
1946	208.5	269.4	153.4	129.4	73.6
1950	284.8	239.4	276.8	84.0	97.2
1955	398.0	269.8	392.2	67.8	98.5
1960	503.7	301.0	566.1	59.7	112.4
1965	684.9	367.6	870.4	53.7	127.1
1969	932.1	380.0	1,247.3	40.8	133.8
1973	1,294.9	600.0	1,700.0	46.3	131.2
1974	1,395.0	700.0	2,000.0	50.0	140.0

Source: Earnest Mandel, Late Capitalism, NLB, London, 1972, p.418.

percentage of the ratio of gross profits to sales[1], the resultant variable increases steadily from 17.6 in 1947 to 55.2 in 1961.

The foregoing data illustrate growing parasitism within the advanced capitalist countries. The long-term tendency of the rate of profit to fall is a permanent crisis condition in capitalism giving rise to intense class struggle, imperialistic ferocity, accentuation of concentration and feverish innovation. It is not difficult to present statistical indicators of these reactions to the falling rate of profit. We shall only illustrate the falling rate of profit itself.

In the United States corporate profits as a percentage of corporate sales declined on the whole steadily from 10.5 in 1943 to 5.8 in 1961.

Inflation is not caused by rising wages as the cost-push theory and the Phillips curve, which merely reflects co-variation, presume. Prices first rise for other reasons before workers agitate for wage increases. However, if the trade unions are strong and alert, as they are in advanced capitalist countries, they can push up wages more or less *pari passu* with productivity. That this has been broadly the case is shown in Table 15.

The data in the table reveal quite a close correlation between growth in real wages and growth in labour productivity in all the countries. Since, however, monopolies are strong enough to resist a fall in real profits, inflation has become a powerful weapon for limiting the rise in real wages.

Table 15: Rates of growth in labour productivity and real product wage, by country, 1962-1978 (per cent)

Sector & period	Canada	France	Fed.Rep. Germany	Italy	Japan	UK.	US.
Aggregate labour productivity							
1962-69	3.3	5.2	5.3	7.4	9.9	3.1	2.7
1969-73	3.2	5.7	5.2	6.6	9.1	3.9	2.6
1973-75	0.7	2.6	4.0	3.0	3.9	0.7	0.3
1975-78	2.0	5.0	4.5	1.3	4.1	2.0	2.1
Aggregate Economy Real Prod. wage							
1962-69	3.6	5.1	5.0	7.8	8.6	3.2	3.1
1969-73	2.0	5.5	6.3	7.9	12.2	3.7	2.6
1973-75	1.5	5.1	4.8	6.0	8.6	4.9	0.2
1975-78	1.8	5.2	2.7	1.2	2.7	1.5	2.3

Note: Real product wage is defined as the ratio of nominal wage to the price of commodities produced.

Source: Sachs, 1979, cited by World Dev. Report, 1984, p. 16.

1 Ibid., pp. 156-157.

This is the core issue between the keynesians and the 'supply-siders' in the International Monetary Fund, the World Bank, and the Reagan and Thatcher administrations. Should the state use a deliberate inflationary policy to reverse increases in real wages or should the firms be allowed to reduce real wages on their own both by retrenchment and automation (which swell the industrial reserve army and puts a 'natural' curb on wage increases) as well as by a smaller price inflation rate whose benefits will go to profit earners because of the 'natural' limit to real wage increases?

The question involves class struggle and an unsolvable dilemma of policy. It can be said, however, that the solution of the 'supply-siders' is more in keeping with the logic of capitalism.

The result of all the above influences is reflected in the growing depth of cyclical crises indicated in Table 16 by the percentage drop in industrial production in the USA.

The Post-1980 Crisis

In Nigeria, the post-1980 crisis is almost invariably described as a problem stemming from petroleum exports. The notion is that prior to 1978/79, the country was riding on the wave of a petroleum export boom. In the period 1978-80, earnings from petroleum export declined. The country happened to be a mono-cultural economy over 90 per cent of whose export revenue came from petroleum. The economy itself is very export-import dependent. Therefore it crashed.

Table 16: Percentage drop in industrial production from peak to trough in U.S.Post-war recessions

1948-1949	8
1953-1954	10
1957-1958	14
1960-1961	10
1969-1970	43

Note: Based on data from Federal Reserve Bulletin and Handbook of Basic Economic Statistics, Vol.xxvi, N1, June 1972, Economic Services Bureau of Washington D.C., p.73.

The burden of the previous sections of this paper was to show that this 'petroleum decline' story is a very superficial way of understanding the economic crisis in Nigeria. This country is very much a part of the capitalist world system. She is a peripheral capitalist or neocolonial country.

The crisis that the capitalist world has been passing through since 1980 involves a 'normal' (or conjunctural) economic crisis, the contraction phase of a Kondratieff decline and the financial and other woes associated with the general crisis of capitalism. Economic historians recall that capitalism entered a deep depression crisis in 1929. Some recovery came as from 1933 thanks to the general rearmament associated with the rise of Hitler. However, by 1939 when the Second World War erupted, the leading capitalist economies had not quite recovered and there was still a lot of unemployment. The same is true of the 'recovery' in the world capitalist economy since 1983. According to data published in 'Die Wahrheit' (Federal Republic of Germany), unemployment in OECD (i.e. principal capitalist) countries was 25.4 million in 1981, 30.0 million in 1982, 31.8 million in 1983 and 35.0 million in 1984. As a matter of fact, the depression of 1974-75 and that of 1980- 83 ought to be taken together, because it is the underlying long-term crises of capitalism that produced a 'recovery' in 1976 that turned out to be only ephemeral.

The GDP of industrial capitalist countries rose by 6.1 per cent in 1973, an impressive rate. Then in 1974 it rose by only 0.8 per cent and this fell again to 0.4 per cent in 1975. In 1976, however, it rose by 4.7 only to fall again sharply.

In 1979, the GDP of the industrial capitalist countries rose by 3.3 per cent, then by 1.7 per cent in 1980 and by 1.3. per cent in 1981. It fell by 0.5 per cent in 1982 and is estimated to have risen only about 2.3. per cent in 1983. Having risen 4.3. per cent in 1984, it fell again disastrously in 1985, rising only by 2.9 per cent.

The underdeveloped countries were also more severely affected in 1980-83 than in 1974-75. Their GDP grew by only 2.5 per cent in 1980, 2.4 per cent in 1983. They had fared better in the prior recession not only because it was shorter but also because their heavy borrowing enabled them to grow. In the second recession, however, the availability of credit declined abruptly after 1981.

The recent recession is attributed by the World Bank Report to two causes[1]. The first is the rise in oil prices in 1979, stemming from supply disruptions in Iran. The second is the disinflationary policies of governments in most major industrial countries after 1980. It must be observed, however, that the economies were already long in recession before 1980. After 1976, the industrial economies and the developing economies with them began to decline as the figure in Appendix two shows.

The above explanation gives the impression that the depression of 1980-83, was produced only by so-called external shocks, including supposedly wrong policies. However, from developments since 1968, it is

1 World Development Report (1984), p.11.

obvious that such a superficial explanation would be most unconvincing. The authors, therefore, add:

> *Both the need to reduce inflation and the severity of the resulting recession can be understood only as a manifestation of a long-term deterioration in the economic performance of industrial (capitalist - E. T.) countries. This deterioration may be explained in part by past policy choices as well as by the underlying economic and social conditions.*

Of course, a capitalist government must pursue one policy or other. Up to about 1980, these governments pursued predominantly Keynesian policies, but Keynes himself and the Keynesians, whose policy recommendations went up in flames with deepening crisis after 1965, had blamed the pre-1940 depressions on 'wrong policy choices'.

We can see, and we have shown, how long-term 'deterioration' in the economic performance of capitalist countries can be explained by underlying economic and social conditions. Since it is precisely the purpose of this essay to show that the 'deterioration' in question is a law-governed and predictable product of capitalist dynamics rather than an outcome of policy errors, we must dwell on the statements of the World Bank experts a little more carefully.

Their analysis runs on two parallel lines without being integrated. They keep mentioning 'policy' and 'underlying influences' and give the general impression that the latter could be neutralized by some policy choice. However, their data and even a part of their report confirm the operation of the three types of capitalist crises which we say are manifest in the current capitalist 'deterioration'.

The World Bank Report observes as follows. We are not dealing with mere ordinary cycles, but with certain underlying tendencies. There are the following signs of long-run stagnation. Since the mid-1960s the industrial cycles have been more marked, that is, deeper. The rate of unemployment has not shown any significant downturns but has had three upturns since 1969.

"The progressive deterioration from cycle to cycle is also evident"[1]. GDP growth in industrial countries has not matched its rate of 1973 in any subsequent year. The cyclical peaks and troughs in unemployment have risen from 2.9 to 2.7 per cent on the first of the cycles to 8 to 5 per cent in the most recent. In the case of inflation, the peaks and troughs have risen from 5.7 to 2.7 per cent in the first cycle to 12.2 to 7.1 per cent in the most recent. Although inflation has fallen below its previous cyclical trough, this should not be interpreted as a break in the "progressive deterioration", because to lower inflation to a level that is still well above the average for 1960s, unemployment rates have had to rise to three times the level of the 1960s.

1 Ibid..

The tendency toward slower growth, says the Report, can be explained in part by changes in underlying conditions. The Report then gives an explanation which agrees with our assertion that a Kondratieff phase is involved. By the late 1960s, says the Report, the opportunity for catching up with the technology of the United States had been largely exploited by both Japan and Western Europe, so that one source of exceptional growth declined in significance. Another source, the shift of workers from low productivity agriculture to high productivity manufacturing, had also been largely exhausted. A third source - trade liberalization and reintegration of the industrial economies after World War II - had boosted growth for at least two decades but was no longer providing the stimulus it did earlier. Finally, the increasing share of service industries in GDP may have slowed the growth of GDP, since the growth of productivity has traditionally been lower in the services.

Having made the foregoing correct analysis, the Report then embarks on an invalid speculation. It observes that although the fundamental factors played a part in slowing down GDP growth, they cannot entirely explain the "deterioration in economic performance". Here, the imprecise term 'deterioration' plays havoc.

To begin with, pursues the Report, some forces were working in favour of faster growth, namely rapid innovation in key industries, such as electronics. Additionally countries could have exploited the potential for shifting labour out of unemployment and declining 'smokestack' industries into new areas. They could also exploit the opportunity to expand trade with developing countries, especially by importing more labour-intensive goods in return for exports of machinery and other sophisticated products and services.

One must observe here that a capitalist economy is not run by the government; it is run by capitalists - by monopoly capitalists for that matter. In many cases it is more profitable for the monopolies to limit output, inflate prices and hold on to their existing markets than expand to new areas. Moreover, the existence of large unemployment is a necessary datum for 'supply-side' recovery.

The Report moves on to another claim namely, that the underlying changes in economic opportunities "have little to do with the stop-go pattern of cyclical disturbances combined with rising unemployment and inflation". That pattern, it claims, can be explained only by the economic policies followed in the industrial countries.

Our analysis shows that this statement is erroneous. Permanent inflation is rooted in the general crisis of world capitalism. The underlying causes of the current Kondralieff decline cannot be isolated from the 'normal' cycles. The cycle itself is a systematic feature of capitalist growth and is not produced by policies. So-called 'stop-go' policies are only official reactions to cycles. The 'stop-go' character of the policies reflects the dilemmas of the concept of a state-regulated capitalism.

The World Bank economists urge that the following developments require prior attention: first, the increasing 'rigidity' of the labour market and the resulting strong upward pressure on real wages; secondly, the growth and pattern of public spending, taxation and fiscal deficits. They claim that "the links between these are at the root of the problems of inflation, unemployment and slow growth"[1] They refer to 'rigidity' of the labour market and the growth and pattern of public spending, etc. as 'policy induced development'.

This is a strange mix-up. Having correctly identified the real causes of slow growth, the Report now holds other factors responsible for it. Further, it pretends that these allegedly responsible factors are policy matters. Both views are erroneous. The four 'underlying' factors earlier identified by the Report are responsible for the Kondratieff element of the post-1965 decline. Wage 'rigidities' arise from the objective realities of the labour market. The particular patterns of fiscal policy adopted in advanced capitalist countries arise from the very character of the crisis of monopoly capitalism. The notions that we can make anything we wish happen to a capitalist economy and that every capitalist crisis is simply the result of some error are widely held, but they are erroneous.

Since it is not clear what policies may or may not do as regards a cyclical crisis, let us observe that policy may affect to some extent the depth of a recession, the sharpness of the down-turn or the exact month in which the recession starts, but no set of policies has been found - and none can be - to stop conjunctural crises in capitalism.

As regards developing economies, since peripheral capitalist economies have very close links in production, finance and commerce with the industrial capitalist economies, the crises of the latter are reproduced in them. Besides, so long as they remain peripheral capitalist, they cannot recover on their own.

In this regard, the World Bank report under reference observes:

> *The links between the industrialized world and the developing countries are close and pervasive. Growth has been faster in the developing countries during most of the past ten years (1973-83 - E.T.); yet they have not been able to escape the cyclical pull of industrialized economies. The pull is exerted principally through international trade and capital flows.*

Having made this correct and acute observation, the report slips into ambivalence:

> *In an interdependent economy, growth in developing countries is significantly affected by what happens in industrial countries. To assess the prospects of developing countries, it is*

1 Ibid., pp. 13-14.

> *therefore important to consider the extent to which poor policies in industrial worlds were to blame for their difficulties.*

The question raised by the present essay is precisely whether any capitalist country, let alone a neocolonial one, can by any set of policies, while remaining capitalist-oriented and in the world imperialist orbit, "escape the cyclical pull of industrialized capitalist economies".

This is not a question that can be answered by any wishful thinking. To come to grips with such wishful thinking is the *raison d'être* of this essay. Therefore, the second statement deserves more than passing attention.

It is to some extent a distortion to describe the relationship between countries such as Nigeria and advanced capitalist countries simply as one of 'interdependence', a word with which economics textbooks are in love. What is crucial in this relationship is dependence or subordination.

The term 'significantly affected' is an understatement and, therefore, a distortion. In the case of a conjunctural crisis, especially of the severity involved, happenings in developing countries are, in fact, determined by happenings in advanced capitalist countries. It is a powerful determination.

Again with regard to the alleged 'poor policies' of imperialist countries, imperialism is a systemic fact. So is conjunctural crisis. It is misleading to speak of them as if they were fortuitous products of some mistaken policies.

The so-called underlying 'social and economic conditions' mentioned in the report can be specified in the following way. One is dealing with the world capitalist economy. This economy is going through three interrelated crises as explained in the present paper. The developing country involved in our discussion is not Vietnam or Cuba but a peripheral capitalist country, such as Nigeria.

No two crises of capitalism are exactly identical, because these crises occur in changing historical situations. However, in terms of a Kondratieff wave, what has happened is that capitalism has exhausted certain sources of growth that became available, thanks largely to scientific and technological advances, after World War II. As in the period 1929 to 1939, neither the statesmen of the advanced capitalist countries nor the capitalist-oriented leaders of the peripheral capitalist ones can conceptualize policies that can make a developing country escape the stagnation pull of imperialist metropolises.

Critiques of Remedies

The foregoing sections make it clear that it is a misunderstanding to think that the crisis of 1980 to 1983 for Nigeria was a simple affair of a drop in oil revenue or even a 'normal' cyclical depression. Nevertheless we ought to examine outstanding and currently urged recommendations for recovery.

We can classify the familiar recovery remedies and those currently being drummed up by supply-siders and others in Western Europe and North America as Keynesian, anti-Keynesian and eclectic.

The Keynesian remedy is well-known. In a nutshell, it is that the government should borrow idle funds and spend them on anything in order to give support to faltering private investment. In the last analysis, since the government will not invest in the production of ordinary goods, in order not to compete with private producers, it is military expenditure that comes up handy.

Government deficit budgets and huge expenditures on non-productive branches, however, are inflationary. Inflation leads to balance of payments problems as well as to a redistribution of income that is in conflict with what the Keynesians seek to achieve. In so far as it redistributes income in favour of profit earners, it may encourage investment, but by that very process, it raises the marginal propensity to save.

Keynesian policy may, in fact, not lead to much employment, which is what the Keynesians set out to achieve in the first place. It has been found in practice that the arms monopolies may make very high profits from arms contracts, but these profits enter the financial system and the funds may not be invested because military expenditure does not necessarily brighten profit prospects in other spheres.

In the USA, for instance, in the industries most concerned with weaponry (aerospace, chemical and atomic industries), 40 to 60 per cent of those employed are of the skilled category. There is labour scarcity here while there is vast unemployment elsewhere. The system cannot train all the skilled workers needed, and the workers cannot afford all the money needed for training. This explains why massive unemployment continues in spite of staggering military expenditure year after year.

Besides, on practical grounds, the Keynesian remedy may worsen a depression or an inflation. It takes time to gather data to formulate a counter-cyclical policy towards a developing or anticipated position. It takes additional time to get the policy adopted. It takes still additional time to get it executed. By the time a particular policy is applied the economy would have shifted to another phase of the cycle in which the policy will produce results opposite to those intended. Then there is a sharp application of the opposite policy. This explains the 'stop-go' phenomenon.

Finally, Keynes' policies were formulated for recovery in a static framework. Competition, profits, prices and growth are not considered. The question Roy Harrod and Evsey Domar addressed themselves to has not been answered: if investment creates not only demand but also capacity, how do we avoid excess capacity, the fall in the rate of profits consequent on it and the panic that causes the down-turn? The multiplier is at best a tool for recovery analysis when the economy is depressed. How do we prevent it from being depressed?

There are a host of other problems. The Keynesians have not yet answered the main objection of neoclassical economists. If prices are free to vary in the course of competition, then structural parameters such as 'multiplier' and 'accelerator', especially for the whole economy, are unreliable.

Of late, and especially since 1970, Keynesians have been addressing themselves to these questions, borrowing now from Sraffa's neo-Ricardian analysis and now from Kalecki or even from Marx[1]. This probing, however, has not gone far, it is only tentative[2], and has not saved Keynesian theory from its essentially eclectic and ad-hoc character[3]. Moreover, while they tried to face up to the weaknesses of Keynesianism, a deep and prolonged depression of the kind that Keynesian theory was designed to prevent - and which Keynesians believed had been prevented - developed.

Then there is a whole range of questions that Marxian economists deal with: the capital-labour relationship which determines income distribution and the rate of saving, technology, competition, depreciation and turn-over of capital, inter-sectoral disproportions, concentration, problems of the world market, and many contradictions that ought to be considered in capitalist dynamics[4]. There is the whole question of monopoly capitalism and imperialism which Keynesians consider only marginally and inadequately[5].

Then there is the economics of development and under-development for which Keynesian analysis and conclusions are of limited relevance.

Finally, there is a fundamental flaw in Keynesian reasoning: it conceives of the state as a *deus ex machina*[6]. Embarrassing to the whole Keynesian concept of stability through state regulation of capitalism is permanent

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1 See Alfred S. Eichner, (editors), A Guide to Post-Keynesian Economics, Macmillan, London, 1979.

2 Ibid. This is clear from Eichner's preface to and a number of the articles collected in this work.

3 The eclectic and ad-hoc character of Keynes' work has been much commented on. For instance, Vargo observes that "he does not pay the slightest attention to the basic categories of capitalist economy" and that "keynes has not created an economic theory of his own: he is a typical eclectic". See Y. Varga, Politico-economic Problems of Capitalism, Progress Publishers, Moscow, 1968, pp. 305-306.

4 These are discussed in K. Marx, Capital (3 Vols.) and K. Marx, Theories of Surplus Value, as well as in E. Mandel, Marxist Economic Theory, The Merlin Press, London, 1962; Y. Varga, op.cit.; E. Mandel, Late Capitalism, op. cit.; G. A. Kozlov et. al., Political Economy: Capitalism, Progress Publishers, Moscow, 1977; and Arun Bose, Marxian and Post-Marxian Political Economy, Penguin Books, Harmondsworth, Middlesex, England, 1975; and Ian Steedman et. al., The Value Controversy, Verso Editions and NLB, London, 1981.

5 See V. I. Lenin, Imperialism: The Highest Stage of Capitalism, Progress Publishers, Moscow, 1978, and more recent works on monopoly capitalism and imperialism by Marxists: P. Baran and P. M. Sweezy, Monopoly Capital, Penguin, London, 1966, M. Barrat Brown, The Economics of Imperialism, Penguin London, 1974 and Dan Nabudere, The Political Economy of Imperialism, Tanzania Publishing House, Dar-es-Salaam, and Zed Press, London, 1977.

6 Cf. P. M. Sweezy, 'What has Keynes contributed to the analysis of capitalism?' Keynes and the Classics, edited by R. Lukachman, D. C. Heath and Co., Boston, 1965, p. 34.

inflation, or stagflation, a new development in capitalist crisis which 'Keynesian measures' can only aggravate.

Let us pass on to the anti-Keynesians, the new neoclassical economists.

Among the neoclassical economists there are the monetarists. As far as the government supplies neither too much money nor too little during the expansion, they hold, there will be neither inflation nor cyclical crises. The correct answer to this school is that of Evans[1]:

> *Since monetary policy has historically been tightened whenever inflation occurs, and this pattern seems unlikely to change in the near future, easy monetary policy throughout the cycle would require stable prices. This would mean that firms would not raise their prices when their demand curves shifted out, and wage earners would not bargain more vigorously when demand for labour was higher. This would be a most interesting situation, but in the absence of tightly controlled and enforced wage-price guidelines probably belongs in a book of fables.*

It is known from experience that interest rate policy - which must be the major way of controlling the money supply in economies where transactions are largely intermediated by commercial banks - is more effective in checking expansion than in initiating a recovery[2].

Next we have the 'supply siders' whose remedy for recovery is a deep deflation. This is calculated to force real wages down, lower production costs, raise the rate of profit, and thus induce investors to invest. This is the policy that was applied by the first Reagan administration in the United States and by the Thatcher administration in Great Britain. It is not considered a suitable policy by anyone to whom large-scale unemployment is anything to worry about.

The policy being advocated by the International Monetary Fund and the World Bank is to some extent eclectic but akin to this. According to the World Development Report:

> *Pressures in the labour market and on public finance in industrial countries have contributed to four major problems since the late 1960s: inflation, unemployment, declining profitability, and a broadly defined protectionism.*

Thus 'rigid wages', deficit budgets and government spending, and trade protectionism are held responsible for the economic problems of the capitalist world.

The recovery measures usually advocated by the International Monetary Fund, the so-called conditionality, fall into six categories. They are:

- reduction of government expenditure and subsidy
- tax reform

1 M. K. Evans, op. cit.
2 Ibid.

- trade liberalization
- currency adjustment (devaluation)
- more disciplined management of foreign exchange
- privatisation.

It can be shown easily that each of these works in the interest of imperialist firms. They may also to a limited extent work in the interest of the national economy but neither any combination of them nor all of them together will bring about the recovery of any developing country from a depression.

Reduction in government expenditure is designed to curb inflation. This works to the advantage of foreign firms, in so far as the foreign exchange they bring in or earn can then have greater local real value.

Reduction in government subsidy to consumption is inflationary. It can help the national economy if it leads to the curtailment of non-essential imports.

Tax reforms designed to make citizens pay more tax are favourable to imperialist firms if they save them from the burden of higher taxation and enable the government to do more by way of building the infrastructure to facilitate expatriate economic activity.

Trade liberalization is designed for the advantage of foreign exporters and of foreign subsidiaries within the country.

Devaluation, by whatever method, helps foreign investors. They can earn local currency for every unit of foreign currency they bring in. It can help the national economy by halting capital flight. To the extent that it is inflationary, however, it imposes hardship and prepares the stage for further devaluations.

A more disciplined management of the foreign exchange will make more foreign exchange available for the operation of the expatriate business.

Privatisation is meant to create a more completely capitalist atmosphere for capitalist firms as well as to transfer some state investments to private foreign investors.

It can be seen that the advocacy of these measures by the IMF is not disinterested. Besides, the measures are demanded as conditions for a loan. The lender has a stake in the recovery of the borrower, of course, but what is really implied here is a recovery of the activities of subsidiaries of foreign firms.

The conditionality reforms are sometimes self-contradictory. So, for instance, is prevailing on Nigerian authorities to raise interest rates, which clearly militates against pioneer enterprises and small-scale 'progressive' farmers and industrialists that reformers and privateers are often champions of. So is the dogma of privatisation which is at odds with state development initiative in most developing countries. So is the free trade overtone of trade and foreign exchange liberalization which, at bottom, jars with foreign exchange budgeting and development-oriented import structuring which the foreign financiers claim they are not opposed to. So is the inflationary effect of devaluation which raises labour and imported input costs and is compatible with the export promotion part of the recovery package only if a rigid wage freeze operates, which is itself contrary to the 'reduction in inequality' or the 'broad spreading of the fruits of development' that the foreign financiers often put forward as desirable. Moreover, it is the pioneering small-scale and medium-scale commodity producing sectors owned by indigenes that need to be stimulated most and it is here that wage freeze will make heavy weather.

On the final count, the IMF conditionality cannot pull any developing country out of the current depression or provide the basis for such an escape. Everything else apart, the measures cannot create the overseas market for the one leading commodity that the mono-cultural economies of most developing countries export, thanks to the imperialist international division of labour by which they are still bound and will remain more tightly bound the more liberal is trade liberalization. This is even more true of a period of depression in the world capitalist economy and a tide of protectionism in Western Europe, Japan and North America in which Nigeria, for instance, did 86 per cent of her export selling in 1984. Before this protectionism the authors of conditionality for developing countries are entirely impotent. Even non-tariff barriers against imports from developing countries are not negligible[1].

We must not forget the debt crisis which, in addition to conjunctural and Kondratieff crises, has emerged as a specific feature of the general crisis of capitalism, namely, a crisis of its currency and credit systems. 'Structural adjustment' as prescribed by the IMF and its associates had such a little chance of dragging the leading capitalist countries out of their recurrent and deepening crises that they smashed up the tenuous Bretton Woods constraints and went their own individual ways. 'Structural adjustment' is envisaged more as a design to get debts repaid than as anything else.

In 1982, the outstanding external medium and long-term debts of developing countries amounted to 548 billion dollars. They were paying 49.5 billion dollars a year as interest on this debt. In 1981 the current account deficit stood at about 80 billion dollars. The proportion of the medium and long-term debts to exports stood as 104 per cent. With short-term debts included the ratio exceeded 150 per cent. In 1985, as we have seen, the external debt of developing countries was already 900 billion dollars. This is the situation that has to be considered in the light of high interest rates.

By 1973, the solution offered the problems of development by pundits in the West, namely, importation of foreign capital, import substitution, aid and

1 In 1984 the proportion of industrial capitalist countries'imports from developing countries covered by non-Tariff barriers varied from 5.4 per cent in Japan to 48.8 per cent in Switzerland. In most cases, it was more than 8 per cent.

trade - unequal trade on the basis of colonial or semi-colonial division of labour - had collapsed. In 1973/74 the developing countries themselves started agitating for a New International Economic Order (NIEO)[1]. Such an advocacy, of course, amounted to asking finance capitalists to dissolve imperialism. It was bound to be ignored or resisted and it was. In its stead, the imperialists thought up their own way of leading the developing countries by the hand to 'save' their semi-colonial economies from perpetual stagnation and ultimate revolution. This is the work assigned to 'structural adjustment'.

Short of repudiating the debts, a sensible compromise would be a moratorium on debt servicing for a number of years. The multi- millionaires who own these loans can afford to wait. However, their interest is not really in getting any country developed; it is in profits and interest.

This brings us to the 'structural adjustment' package on which the Nigerian Government has embarked. This is nothing other than the IMF conditionality which, it is hoped, will throw open the gateway to the credit expected to finance raw material imports.

It is also hoped that devaluation of the Naira, especially - that is what the Second Foreign Exchange Market aims at - will facilitate the production of non-petroleum commodities for export in order to ease the country's foreign exchange situation.

There are, however, two reservations that may be made. Devaluation will bring no special help to the development of the basic industries - iron and steel, petrochemicals, liquified natural gas - which the government is pioneering. It will not help pioneering local industrial entrepreneurs because it is bound to raise local labour costs and other costs. Along with the partial floating of the Naira in the Second Foreign Exchange Market and trade liberalization, it will help the established expatriate monopolies who have already saved up a lot of Naira profits in the banking system so that there is considerable excess liquidity. Because of the rise in labour cost in the small-scale sector, it will not, as expected, stimulate agricultural exports, especially as the fruits of enhanced agricultural prices will likely go to middlemen.

In short, the so-called 'structural adjustment' will not do much to stimulate local production of basic commodities. It will stimulate the production of commodities that depend on imported raw materials, provided that the firms that produce them are financially strong enough to buy foreign exchange, but there is the problem of even a local market for commodities sold at astronomical prices. We have Ghana's experience to go by.

One essential device for recovery in Nigeria must consist of the restriction of non-productive imports and the use of the foreign exchange

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1 For a review of this advocacy as against the positions of the Transnational Corporations and governments in advanced capitalist countries, see E. Obminsky, op. cit., pp. 81-88.

resources thus saved to import producer goods. If the producer goods are those that will merely promote a fuller use of existing consumer-good plants, however, then the recovery will basically depend on the resurgence of petroleum revenue. All forms of financial manipulations will otherwise be sooner or later frustrated by the absence of the basic ingredients for sustained industrialization.

Table 17: Major industrial countries: Real fixed investment (1981-1984)

Countries	Percent change from previous year			
	1981	1982	1983	1984
Canada	6.4	-9.7	5.7	0.7
United States	3.1	-6.8	9.7	18.0
Japan	3.6	1.9	0.7	5.7
France	-1.8	-0.6	-1.9	-1.9
Germany(Fed.Rep)	-4.3	-4.6	3.0	1.2
United Kingdom	-0.6	-5.2	-3.8	4.1
Italy	-8.4	6.6	4.2	0.6
All Seven	0.9	-3.5	4.3	10.2

Source: International Monetary Fund, Annual Report, 1985, p.7.

There is, as already noted, some evidence of recovery in the world capitalist economy. The pattern of recovery can be seen from movement in fixed investment. This is presented in Table 17. It can be seen that the recovery in 1983 and 1984 was led by the U.S.A. By late 1984, and early 1985, however, economic growth in the U.S.A. had receded. For all the seven countries, real GNP declined in 1985.

What lesson can we learn from the recovery in the U.S.A., uncertain as it is?

First, as is obvious from 'normal' cycles and the expending phase of a Kondratieff, the fact that a capitalist economy is passing through a period of prolonged stagnation and decay does not mean that it is incapable of some growth. The capitalist economy is a profit seekers' competitive economy. It will always be capable of some growth. Equally, as we have seen from all the indicators of long period stagnation, the fact that a capitalist economy is experiencing some up-turn or expansion does not mean that it is not decaying.

The second lesson we lear is that Nigeria will be ill advised to look forward to any long upward swing in the capitalist world economy. The fact that since 1965 there have been three pronounced recessions, the deepening character of the 1975 and 1985 recoveries all show that the advanced capitalist economy does not have within it now the stimulus for a prolonged upward swing. That will have to await another great technological revolution.

Thirdly, the recovery in the United States is to some extent artificial being induced by President Reagan's arms build-up policy. In his second term in office, President Reagan decided to launch a huge military programme and finance it by borrowing from abroad rather than raise taxes at home. Over three years, military spending in the U.S. surpassed 640,000 million dollars. 280,000 million dollars was allocated for 1984 alone, and 2,000 billion was planned in 1985-89[1].

To attract funds massively, the Federal Reserve Bank, as noted earlier, raised the bank interest rate to the record high of 17.3 per cent. That jacked up the interest rate all over the capitalist world, caused an enormous capital flight to the United States, sent up the value of the dollar which had been in deep trouble since 1967, escalated the debt obligations of the developing countries, made it extremely difficult for countries to borrow to finance development, and severely checked economic recovery in other capitalist countries and to some extent in the U.S. herself.

This particular kind of half Keynesian and half monetarist invention by a President who won election by pledging a drastic reduction of government expenditure and professed faith in supply-sidism, and which is designed to enable the United States beat back the Japanese and West European challenge to her supremacy no matter what happens to any one else's economy, is not available to every President and every country. Therefore, Nigeria has no lesson to learn from it, except to take to heart the caprice of capitalist policy.

One may observe as the World Development Report does, being wise after the event: "It was wrong to assume that low interest rates would continue"[2]. Yet it is the same World Development Report that kept prompting developing countries to look up for salvation to imperialist direct and portfolio investors.

Another lesson we can learn is that if, in spite of their structural advantages, the advanced capitalist countries have still not convincingly come out of depression, they have no positive lessons to teach others. Moreover, since profit repatriation, debt servicing, etc., are resulting in a net outflow of funds from developing countries, one ought to ask seriously who is financing the recovery of the other? If debt servicing and profit repatriation were withheld for some years by a negotiated moratorium, the developing countries would be able to solve their problems with the foreign exchange they earn but which they now repatriate. Therefore, 'structural adjustment' designed to please multi-millionaire creditors who can afford to wait is simply an influctment of frustration.

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1 Cf. V. Ovsyannikov, 'U.S. MIlitary Bridgehead in Europe', International Affairs (Moscow), N7, 1984, pp. 154-155.

2 World Development Report, (1985), p.6

The final lesson we can learn is that recoveries have been happening since the 18th century. No matter the government in power, cycles have kept their rythm. As for Kondratieffs, few even among the economists are conscious of their existence. No one knows how to prevent a capitalist cyclical crisis, a Kondratieff contraction or the development of the decay, general crisis and disintegration of capitalism from taking place.

It is evident from theory and empirical cases since 1917, however, that a socialist revolution can effect an escape from these three scorges and from the frustrations and miseries they bring to millions of people the world over.

Conclusions

The prolonged depression in capitalist economies and the sluggish recovery from it from 1980 to now is not a simple recession. Neither is it simply a debt crisis. It is, in fact, a complicated crisis of three components: a cyclical crisis, a Kondratieff contraction and a phase in the general crisis of capitalism.

It is a gross misunderstanding to treat it as a recession or a debt crisis and to apply conventional concepts and methods of recession and debt management to it. In the light of our analysis, the recommendations usually called 'conditionality' or 'structural adjustment' turn out to be very superficial and misguided.

The traditional Keynesian and neoclassical remedies are also neither here nor there. They are pills that often worsen the disease: Keynesianism will worsen inflation and neoclassicism unemployment.

No capitalist or capitalist-oriented country, while remaining or going capitalist, can solve the problems of periodic cycles, Kondratieff stagnation or the general crisis of capitalism. These crises are products of capitalism as such. Furthermore, no neocolonial underdeveloped country, while going capitalist and remaining linked with imperialism, can solve even the problem of a cyclical crisis alone on its own.

This does not mean, however, that underdeveloped countries are doomed. It only means that they should not rely on superficial and incorrect analysis and misguided advice. If a leadership in an underdeveloped country really wishes to make its country escape from the current crisis and - what is just as important - make sure that it does not return to a crisis similar to this or something worse, it will have to start thinking in certain directions and pose certain questions pertaining to basic goals.

As we have hinted one of the key policy directions should be the curtailment of imports by some method and the ploughing of the foreign exchange thus saved into importation of essential producer goods - machinery especially. However, this is only part of the story. If the so-called turn-about is to be achieved by making the economy more capitalist, then recovery in a developing economy must depend more on recovery in the centres of world capitalism which, as we have seen, is problematic.

Another key policy direction is a drastic curtailment of middle-class consumption and the use of the Naira so saved to stimulate production which does not require foreign exchange input or even to finance the local complement of the latter. If however, recovery is to proceed by way of privatisation, then there is no strategic way of going about this. The Naira not spent officially on imports will end up either in the hands of smugglers or in those of the joint imperialist-comprador monopoly enterprises which will continue to make astronomical profits through price inflation. The essence of privatisation is to be seen in the advocacy of a leading Nigerian transporter who urged that the roads should be handed over to private entrepreneurs to maintain by charging tolls. He did not advocate that private entrepreneurs should build roads and charge tolls on the roads they build.

A third policy drive is to envisage sustained recovery in the context of sustained autonomous development thereafter. This depends on a strategic distinction between industries. In this matter the Nigerian government has shown the right instinct when it insists on continuing with the establishment of the 'prime- mover' industrial branches of iron and steel and petrochemical industries. However, if the government is to depend on private enterprise in agriculture, then this policy is compromised, for a very rapid transformation is then not possible. One must consider agricultural inputs into the light of industrial branches that will serve as the market for the basic industries, if the country's recovery is to be fast, sustained and autonomous.

A very fundamental economic instrument for sustained and stable development is planning. Already economic planning has not been successful in any capitalistic economy because such an economy is essentially unplanable. However, the more privatised the economy is, the less it is possible to plan its motion. No capitalistic economy, that is, no basically unplanable economy, can be saved from capitalist conjunctural crisis. In this regard the fact that conjunctural crises are getting more and more severe in intensity is of interest for decision makers in developing countries. Its mere perpetuity, is of course, a matter for sober thought.

A non-bogus consideration of recovery must pose the question this paper is particularly designed to focus on: recovery from what? From conjunctural cycles, from Kondratieff contractions or from the general crisis of world capitalism in which the developing neocolonial countries are very much engulfed? As we have seen, recovery from conjunctural depressions and Kondratieff contractions is not *sui generis* a matter of policies, clever or foolish. While differing from one another in the specific historical circumstances and some of the details of their occurrence, such crises occur from the very nature of the self- reproduction processes of capitalism. Under capitalism recoveries from those crises are just as objectively determined by capitalist dynamics as the crises themselves. This was the reason for us to look at how these crises actually happen.

As for the general crisis of capitalism, many capitalists will prefer to sustain capitalism even by arms, but mankind or the developing world is not committed to perpetuating a system that is historically doomed by its own injustices, contradictions and absurdities.

Finally, we ought to ask: recovery of what for whom? Are we to be concerned with the cyclical or Kondratieff recovery of imperialist enterprises while Nigerians are under-dogs in the neocolonial system? The rulers of the United States, Britain or France and local comprador millionaires are interested in seeing precisely such a recovery, but is this the kind of recovery that will really serve the interest of ninety-nine per cent of Nigerians? Or to broaden the question, are we concerned to recover along the capitalist road of development which must continue to be unstable as well as to concentrate the nation's wealth in fewer and fewer hands because capitalist concentration is a basic law of capitalist development? Must we sentence the vast majority to the unjust inequalities, perpetual poverty, inflationary spirals, unemployment, crises and insecurity characteristic of capitalist growth or development?

In short, are we to revamp a system which develops the private monopolies to the detriment of the people? Even today 27 per cent of Americans live below the official U.S. poverty line - to say nothing of unemployment. Should we not take advantage of our underdevelopment, the current capitalist crisis, our suffering in this crisis, and a deeper understanding of it to build an economy that will serve the Nigerian people rather than exploit them to promote private financial, industrial and commercial empires for a few?

The foregoing are more basic questions for an economic recovery programme than, say, how to carry out an exchange rate adjustment and other narrow and short-term questions which some consider the only economic issues worthy of attention.

APPENDIX 1

Note that the symbols used for parameters are not necessarily the original ones.

Samuelson's Model

$C = a\, Y_{t-1}$

$I = b(C_{t-1} - C_{t-2})$

$Y = C + I + G$

Where

C: consumption

I: private (induced) investment

Y: (national) income

G: government expenditure

a and b are parameters: consumption and acceleration coefficients respectively.

Hicks' Model

$C = cY_{t-1}$

$I = v(Y_{t-1} - Y_{t-2})$

$Y = C + I + G$

Where

C, I, Y and G have the same meanings as in Samuelson's model and c and v replace a and b respectively. The above system of equations reduces by substitution to

$CY_{t-1} + v(Y_{t-1} - Y_{t-2}) + G_t = Y$

A similar equation can be derived for Samuelson's model.

Smithies' Model

$C = (1-a_1)\, Y + a_2\, \hat{Y}$

$I = b_1\, Y_{t-1} + b_2\, \hat{Y} - b_3\, (Y_{f-1} - \hat{Y}) + K^t$

$Y = C + I$

$Y_f = Y_{f-1} = g^{I}_{t-1} - D_1 - D_2 + h^t$

$D_1 = d_1\, Y_{f-1}$

$D_2 = d_2\, (Y_{f-1} - Y_{t-1})$

Where

$\hat{Y}$: peak previous level of GNP

Y_f : full capacity GNP

D_1 : ordinary (physical) depreciation - secular component

D_2 : additional obsolescence - cyclical component

k : autonomous investment

h : increase due to technology

a1, a2, b2, b3, g, d1 and d2 are parameters.

Barely to find out if the model can generate a cyclical pattern with the endogenous variables alone, we ignore the trend terms, K^t and h^t, and simplify the model thus:

$Y = a\,Y_{t-1} + b\,Y_{f-1}$

$Y_f = C\,Y_{t-1} + d\,Y_{f-1}$

If we make the substitution $Y_{f-1} = (1/b)(Y - a\,Y_{t-1})$, we can obtain

$(a + d)\,Y_{t-1} - (ad - bc)\,Y_{t-2} = Y.$

<u>Kalecki's Model</u>

$C_1 = mP + a$

$I_o = b^P - gK$

Where

C_1 = purchases of consumer goods by capitalist

P = gross profits (that is, including depreciation)

I_o = orders of investment goods

K = capital stock

m, a, b, g, are parameters.

This model already has dynamic properties since I is defined as dK/dt.

However, the cyclical nature of the model is determined by the lag between investment orders and actual <u>production</u>. This can be introduced thus.

Let θ be the average gestation period of all investment. Then production at time t. that is, $I_p^{(t)}$ is given by

$$I_p^{(t)} = \frac{1}{\theta}\int_{t-\theta}^{t} I_o^{(t)}dt$$

The system can be closed by adding the equation

$P = C_1 + I_p$

$C_1 + I_p + C_2 = Y$

The first means that gross products are either consumed or invested. In the second, C_2 is the consumption of employees and is equal to total wages.

In equilibrium $I_p = I_o = I$, so that

$Y = a + m^P + I + C_2 = a + (1 - m)\,C_2 + mY + I$

Therefore,

$$Y = \frac{a + (1 + m)\,C_2 + I}{1 - m}$$

If the time path of I can be found, the value of Y at any time can easily be determined by the above equation. The problem is thus reduced to solving the equations for investment orders, which are

$$Io(t) = a\,P(t) - mK\,(t - \theta)$$

$$Io(t) = a\,C1 + aIp(t) - gK(t - \theta)$$

$$Io(t) = a\,C1 + \frac{a}{\theta} \int_{t-o}^{t} Io(t)\,dt - gK(t - \theta)$$

Differentiating this expression, we have

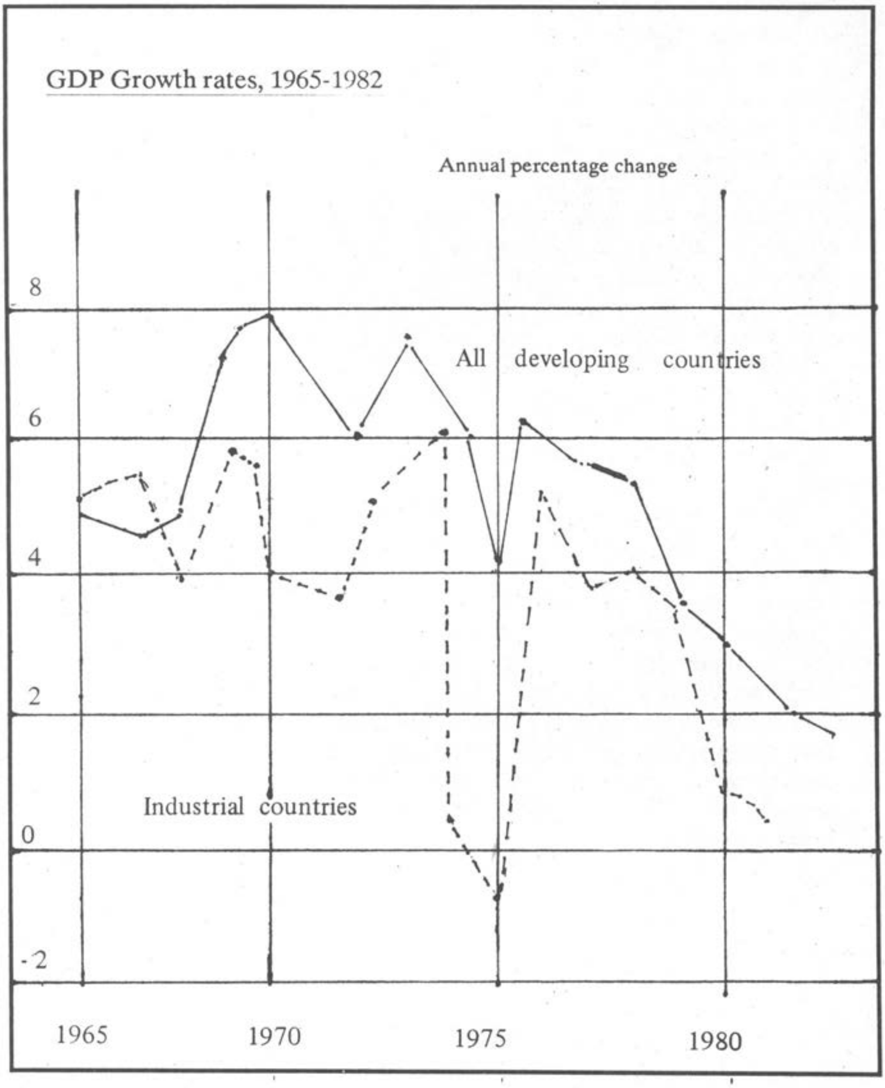
$$d\,\frac{Io(t)}{dt} = \frac{a}{\theta}\,[Io(t) - Io(t - \theta)] - gIo(t - \theta)$$

or

$$d\,\frac{Io(t)}{dt} = \frac{a}{\theta}\,Io(t) - \left(\frac{a}{\theta} + g\right) Io(t - \theta)$$

This is the equation to be solved to get the time path of I_o and thus of Y. This equation is of the trouble some difference-differential type.

APPENDIX 2



Source: World Development Report, 1983, p.2

Résume

L'article passe en revue les manifestations des déclins économiques en se référant spécialement à l'histoire du capitalisme, et fait une analyse économique des crises et des remèdes proposés. A la lumière de l'expérience capitaliste, l'auteur divise l'étude en différentes parties portant sur les crises conjoncturelles normales, les vagues de longue durée, la crise générale du capitalisme, la crise postérieure à 1980 et fait une critique des solutions préconisées.

L'auteur affirme que la récession prolongée des économies capitalistes et la lente reprise de 1980 à ce jour n'est pas une simple récession, ni une simple crise de l'endettement.

C'est en fait une crise complexe à trois facettes: une crise conjoncturelle, une contraction de Kondratieff et une phase de la crise générale du capitalisme. Compte-tenu de ce qui précède, c'est une erreur grossière que de prétendre juguler la crise par des méthodes classiques généralement utilisées pour gérer la récession ou l'endettement.

Les thérapeutiques keynesiennes et néo-classiques traditionnelles compliquent souvent le mal: le modèle keynesien aggrave l'inflation et les remèdes néo-classiques augmentent le chômage. De même l'ajustement structurel et les "conditionnalités" sont des efforts très superficiels et hors de propos.

Un pays en développement comme le Nigéria qui cherche à sortir de la crise actuelle et qui plus est, veut éviter de retomber dans une situation semblable, devrait prendre certaines orientations politiques et poser certaines questions par rapport aux objectifs de base.

L'une des orientations politiques majeures devrait consister à réduire les importations et à consacrer les ressources ainsi épargnées à l'importation de biens essentiels à la production tels que des machines.

La restriction sévère de la consommation de la classe moyenne serait une autre politique importante, tandis qu'une troisième politique consisterait à envisager une reprise soutenue dans le contexte du développement autonome soutenu dont un instrument économique clé est la planification.