

# The ICFI's exposure of Ernest Mandel's "neo-capitalism" and the analysis of the global economic crisis: 1967–1971

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*The second lecture, "The Historical and Political Foundations of the Fourth International," was published on August 14.*

*The third lecture, "The Origins of Pabloite Revisionism, the Split Within the Fourth International and the Founding of the International Committee," was published on August 18.*

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*The fifth lecture, "The 'Great Betrayal' in Ceylon, the formation of the American Committee for the Fourth International, and the founding of the Workers League," was published on August 30.*

*The sixth lecture, "The continuing struggle against Pabloism, the centrism of the OCI and the emerging crisis within the ICFI," was published on September 6.*

*The WSWs will be publishing all of the lectures in the coming weeks.*

## Introduction

The period of 1967–1971 was one of immense social, political, and economic upheaval. Far from the promises of the liberal apologists or petty bourgeois revisionists that there would be decades of peace and stability, in which the question of socialist revolution was off the table, the late 1960s proved that the fundamental contradictions of capitalism had not been overcome. In rapid succession, all the economic props established to maintain capitalism in the boom following World War II came crashing down.

To understand the late 1960s, it is important to place the period within its historical context. Beginning in 1914, the world was beset by more than 30 years of bloody and brutal turmoil. This included the horrors of World War I, a worldwide pandemic, the great depression, the rise of

fascism and its physical liquidation of the most advanced sections of workers, the Stalinist purges, World War II and the Holocaust.

Europe emerged in 1945 in rack and ruin with much of the productive forces decimated and a vast proportion of the population liquidated in the imperialist slaughter and its consequences.

The United States came out of the war as the dominant imperialist power and sought to stabilise the world capitalist order. It was able to accomplish this as capitalism was given the necessary breathing room by the parties of social democracy and, above all, Stalinism. They worked in collaboration with bourgeois governments to suppress and strangle the massive revolutionary movements of workers following the barbarism of the Second World War.

The economic basis of this stabilisation was due to the extensive damage suffered by the European and Asian economies during the war, alongside the economic prowess of American industry resulting from advancements in productive methods.

But this economic revival, which on the surface gave the appearance of immense stability and did lead to an improvement in the social conditions of workers in certain countries, set in motion the very conditions for its collapse.

The post-war period exerted immense political pressures on the Fourth International. The British Trotskyists, the Socialist Labour League (SLL), played the essential role in preserving the lines of continuity of Trotskyism in the late 1950s and 1960s. The work conducted in this period laid the basis for the development of the International Committee worldwide, including the founding of new sections, in the face of opportunist degeneration.

In analysing the post-war boom, the late 1960s and the contradictions present below the surface level appearance, we will be dealing with the issues of political economy, the course of capitalist development and how the inner contradictions of capitalism lead to collapse.

## Ernest Mandel—leader of the Pabloite United Secretariat of the Fourth International

It is necessary to deal with these critical questions to work through the positions advanced by Ernest Mandel. Mandel sought to provide the economic justification of the rejection by Pabloism of the revolutionary role of the working class. He claimed capitalism had reached a new stage, in which the imperialist powers had resolved the inner contradictions that resulted in the barbarity of the early 20th century. He initially referred to this new period as "neo-capitalism."

To make the central point from the outset, Mandel's embrace of Pabloism did not flow from an incorrect economic theory, but the reverse. His economic analysis was based on his rejection of the revolutionary role of the working class as the gravedigger of capitalism.

Mandel was the long-time leader of the revisionist United Secretariat. Born in 1923 in Frankfurt, Germany, he joined the Trotskyist movement in Belgium after the outbreak of the Second World War. Following the war, and still in his early twenties, he, at that time, vehemently opposed any tendencies that suggested there was a progressive role to Stalinism. This shifted with the emergence of Pabloism in the late 1940s.

Mandel adapted to the restabilisation of bourgeois rule after the immediate post-war crisis. He put forward that the contradictions which led to the breakdown of world capitalism in 1914, and which propelled the working class into revolutionary struggles, had been overcome.

The central justification for this position was that the imperialist powers would never again allow a catastrophic crisis to emerge as it did in the 1930s. He rejected a central tenet of Marxism, that the inner contradictions of capitalism inevitably lead to its collapse. Therefore, flowing from Mandel's analysis, there no longer exists any objective necessity for Socialist revolution.

In an article published in 1964 for the annual *Socialist Register* Mandel wrote:

The necessity of avoiding at all costs a repetition of the 1929 type depression has become a life and death question for capitalism under the conditions of the Cold War and the rise of the anti-capitalist forces on a world scale. The techniques of anti-cyclical policies and the redistribution of purchasing power by each individual State are developed on an increasing scale. The State now guarantees, directly and indirectly, private profit in ways that range from concealed subsidies to the "nationalization of losses," and this aspect of contemporary capitalism now becomes one of its most notable features.<sup>[1]</sup>

In other words, the imperialist state is now able to overcome the contradictions of capitalism through a series of checks and balances. It was Keynesianism decked out in Marxist-sounding terminology—that through the intervention of the state, the ruling class was able to regulate the capitalist economy to prevent a breakdown on the scale of the 1930s. This was the economic justification for the liquidationism of Pabloism.

The position of Mandel was spelled out perhaps even more clearly in a pamphlet in 1965 entitled *A Socialist Strategy for Western Europe*, published by the Institute for Workers' Control in Britain. This was an organisation comprising various ex-Stalinists, Labour "lefts" and "left" sections of the trade union apparatuses.

It began as follows:

The debate over socialist strategy in western Europe must start from the prior assumption that, during the next decade, there will be neither a world war nor an economic crisis of comparable gravity with that of 1929–1933.<sup>[2]</sup>

Nothing could have more clearly set out the basic perspective of Mandel's revisionism and that it was directed at the very foundations of Marxism.

What is the strategy of the revolutionary party? It is based on the understanding of the nature of the epoch as one of wars and revolutions in which the fundamental task of the revolutionary party is to prepare the

working class for the struggle for political power.

Trotsky dealt with this all-important question in *The Third International After Lenin*, where he wrote:

The basic principles of revolutionary strategy were naturally formulated since the time when Marxism first put before revolutionary parties of the proletariat the task of the conquest of power on the basis of the class struggle.<sup>[3]</sup>

The First International was only able to formulate these principles theoretically as capitalism was still in its ascent.

"The epoch of the Second International," Trotsky continued, "led to methods and views according to which, in the notorious expression of Bernstein, "the movement is everything, the ultimate goal nothing." In other words, the strategic task disappeared, becoming dissolved in the day-to-day "movement" with its partial tactics devoted to the problems of the day.

Only the Third International re-established the rights of the revolutionary strategy of communism and completely subordinated the tactical methods to it.<sup>[4]</sup>

But according to Mandel, the revolutionary epoch which had opened with World War I had ended, and a new period of the peaceful organic development of capitalism had begun. Never again would the contradictions of capitalism reach such intensity that the question of political power would be placed on the agenda.

In reality, the decade of 1965–75 was marked by the most significant economic crisis since the Great Depression of the 1930s and the eruption of a series of class battles.

As for the question of nuclear war, Mandel's assertion that it was not a possibility came just two-and-a-half years after the Cuban missile crisis of October 1962, which had brought the world to the brink of a nuclear catastrophe.

It should also be recalled that the initial expression of Pabloite liquidationism was the thesis of war-revolution, in which a nuclear war between the US and the Soviet Union would be the basis of the socialist transformation giving rise to centuries of deformed workers' states. As Mandel passed on to the new realities he had discovered, there was, of course, no accounting for the perspective with which he had aligned himself little more than a decade before.

### ***The World Prospect of Socialism and the SLL's analysis of the post-war boom***

The essence of the work of Marxism on political economy, grounded in an understanding of the nature of the imperialist epoch, is to penetrate the appearance forms generated by capitalism to disclose the underlying contradictions, then on this basis prepare the vanguard of the working class for the tasks these contradictions will pose. Tactics must be developed to meet the immediate situation and the development of the class struggle, but they must be grounded in this foundation.

Moreover, any analysis of the objective situation is partial, incomplete, and therefore fundamentally flawed unless it includes the development of the class struggle. Most important within that is the struggle of the

revolutionary party to arm and prepare the working class with a revolutionary program and perspective.

Whilst all of Mandel's work is devoid of this essential component of Marxism, it was strikingly present in the analysis of the SLL and powerfully exemplified in a major document published in 1961 entitled *The World Prospect of Socialism*.

The document was prepared shortly after the founding of the SLL in 1959, which was grounded in struggle against Pabloism. One of the significant weaknesses of the Socialist Workers Party (SWP) in the late 1950s was its shift away from examining the crisis of capitalism itself. This shift was closely linked to the softening of their opposition to Pabloism and eventual moves towards reunification.

To make the fundamental point, the development of a scientific appraisal of the objective economic situation is only possible if the theoretical work is grounded in a struggle against revisionism. The content of the documents produced by the SLL in this period was derived from this essential point.

What the SLL presented was entirely unique. It sought to penetrate the appearance forms of the post-war boom and show the forces and contradictions that lay beneath these developments. They outlined how these underlying processes would lead to an economic crisis, bringing forward mass struggles that would again pose the question of the taking of political power by the working class.

In its analysis, the SLL was refuting the efforts of revisionists such as Mandel, and his attempt to construct an economic justification for the liquidationism of Pabloism. The document was also part of the fight against the SWP's moves toward reunification.

It begins with a concrete elaboration of the nature of the imperialist epoch as analysed by Lenin and Trotsky:

Capitalism long ago reached the end of its progressive contribution to the history of mankind. Already at the beginning of the 20th century it had been driven into its final stage of Imperialism—an epoch of wars and revolutions.<sup>[5]</sup>

The document continues to outline how the globe, which was divided up between rival capitalist states, came into "violent collision" in the form of the eruption of the World Wars. The ruling classes of these states faced the persistent challenge to their control from the working class both at home and abroad in the form of the national independence movements in the colonies.

Far from capitalism being able to assure conditions for a peaceful and stable development, "it manifested a permanent tendency towards decadence and violence, even in relatively peaceful periods."<sup>[6]</sup>

The SLL continued to explain the phenomena of state-isation and the dominance of finance capital witnessed in the years following 1914:

The manifestation of the new epoch in the history of capitalism, even in the most 'democratic' countries, was the growing power of finance-capital and monopoly, the synchronisation of social and economic life through the medium of the state machine, as an instrument of the ruling class, and the increasing importance to industry of military contracts.<sup>[7]</sup>

It made clear that while at particular times and within certain countries, developments appear to have overcome the inherent problems of capitalism, this was always temporary. What is more, all the temporary mechanisms put in place deepen the contradictions and raise the crisis to

new heights. As the document states, "The ultimate effect is to deepen social and economic contradictions and heighten the danger to mankind from the continued existence of capitalism."<sup>[8]</sup>

In dealing with the appearance forms which emerged following the Second World War, the World Prospect resolution makes the following critical point:

In appearance the methods of capitalism today, both through the policy of 'welfare statism' in the advanced countries and in the policy of 'colonial independence', are more peaceful than in the past. In fact such policies of so-called 'neo capitalism' have precisely the same end and arise from the same needs as the pre-war resort to fascism and strong-arm methods. The option of creating fascist movements, taking a desperate gamble on the plebeian elements in such movements, is a dangerous one which the bourgeoisie prefers to avoid. It chooses whenever possible to operate through parliament, the bureaucracy, the political parties, and the organised Labour movement.

Likewise, in the colonies, the imperialists fight desperately enough to conserve positions which cannot be held by other means than force, but the world balance of forces makes retention of political control over colonies by repression a course which its intelligent representatives seek to avoid wherever possible. *These changes in method do not indicate any change in capitalism itself.* [emphasis added] Nor can it be assumed that the present course is a permanent one or that the bourgeoisie in the various countries will not, if need arises, resort once again to fascism or use force internationally to preserve or retain threatened positions.<sup>[9]</sup>

This paragraph is striking in its prescience. Unlike every other political tendency at the time, the SLL was able to deal with the appearance forms of the capitalist mode of operation whilst also delving deeper to deal with how these appearance forms reveal inherent contradictions.

The SLL also drew far-reaching conclusions from the December 1960 and January 1961 Belgium general strike, in which the Belgian government, reacting to the loss of its colony in the Congo, attempted to instigate a series of austerity measures to make Belgian capital competitive and foist upon the working class the costs of the loss of the colony. This resulted in some 700,000 workers entering into strike action, to which the Belgian government responded by using the police force, the Gendarmerie, and even recalled NATO troops.

In opposition to every bourgeois economist and revisionist formulations like those of Mandel, the SLL wrote the following: "The prospect for the 60s is not of steady continued expansion, but rather increasing difficulty: a struggle for markets between the main capitalist countries punctuated by recessions and crises. In such conditions those sections of the capitalist world economy which are least well prepared are certain to experience heavy pressures. Events in Belgium in December 1960 and January 1961 were a foretaste of the kind of problems likely to be experienced and the methods which the ruling class will employ to combat them."<sup>[10]</sup>

This analysis was closely connected to the struggle against revisionism. The most decisive preparation of the revolutionary party in the period where the socialist revolution is off the immediate agenda is the separation of the Marxist, that is, Trotskyist, tendency from all forms of opportunism. This is based on the understanding that the party is the key factor in transforming the mass struggles that will erupt into the conscious fight for political power.

The work of the SLL in this critical period laid the foundation for the understanding of the complex economic developments that would emerge in the later period of the 1960s, a period which gave way, not only to mass

revolutionary movements of the working class, as seen in the French general strike of 1968, but also the crisis of American capitalism.

### **The Bretton Woods Agreement and the Marshall Plan**

To deal with this we must look at the system set up in the post-war period. The two essential planks of US economic policy following the war were the Bretton Woods monetary system and the Marshall Plan. The former began in 1944 and was the basis of the rebuilding of the world economy. It established the US dollar as the global currency on the basis of the strength of the US economy. It guaranteed that US dollars were convertible to gold at a fixed exchange rate of \$35 an ounce. The International Monetary Fund (IMF) was created to oversee this new financial system.

However, it was not enough to establish a new financial system. The commodities produced in the United States needed a market for those commodities to be bought and sold. This question is bound up with the issue of realisation in the circuit of capital.

The aim of capitalist production is not the production of commodities, this is a means to an end. The circuit of capital is money. To explain, money capital is used in the purchase of commodities, including the commodity of labour power, raw materials, and the means of production. These are then used, in turn, for the production of commodities in order to extract surplus value from the working class. The realisation of this surplus value is through the sale of the commodities which have been produced, turning them into money, so the circuit of capital can resume.

This process gives rise to what is known as the realisation problem, that is, the turning of commodities back into money. It is in this sphere of circulation in which the problem of realisation appears, because if commodities cannot be sold, or are sold at a lower price, this means some of the surplus value in them is not realised.

However, it is necessary to go deeper, as production, that is the extraction of surplus value, is the driving force of the capitalism system and any problems of circulation are ultimately rooted there.

Marx noted that surplus value produced in one place must be realised in another. He observed that the realisation of surplus value is dependent on the existence of other capitalists who can purchase the commodities produced. For example, if capitalists in one industry produce goods without corresponding demand from other capitalists or consumers, the surplus value generated through production cannot be fully realised.

Here we come to the reason why American capitalism had to revive European capitalism after the war. US imperialism had not evolved into a new, kinder form, in which the inter-imperialist rivalries of the past had been overcome. For surplus value extracted in the US to be realised it also had to be extracted in Europe to ensure economic expansion and a market for US goods as well as profitable fields for US investment.

For this, the revival of European capitalism was essential, and this was behind the introduction of the Marshall Plan in 1947–48. It was recognised that if such a plan was not implemented, Europe would shift into recession, if not depression, leading to an eruption of working-class struggles and threatening to break apart the mechanisms of political stability. This included the role of the Stalinist Communist Parties, particularly in Italy and France, which had hoisted the discredited bourgeoisie back into the saddle.

Another aspect of the Marshall Plan was its all-European character. The productive capacity of European capitalism was lifted with the introduction of US industrial methods, which amplified the rate of exploitation of the working class and increased the mass of surplus value.

But this very process meant that the industrial dominance the US

enjoyed in the immediate post-war period was being eroded, a process analysed by the SLL in 1961. It noted that the revival of the European economy saw a relative growth in the political bargaining power of the European ruling class on the one hand and witnessed a series of new economic consequences unlike those of the past, on the other.

A sharp reflection of this has been the weakening of the dollar as a result of the large and continuing balance of payment deficits of the past two years. The vulnerability of the dollar reflects, in part, the greater strength of other currencies, especially the mark, as well as the world commitments of American strategy involving higher military expenditures and aid to underdeveloped countries. High interest rates in European centres have also led to transfer of funds, and these speculative movements have become frenzied when dollar devaluation has seemed likely—as it happened between July and September 1960—further contributing to the difficulties of the dollar.<sup>[11]</sup>

The SLL made the point that at this early stage it would be incorrect to suggest the imminent decline of American capitalism as a world force. It nevertheless raised that, “the inability of the US economy to grow rapidly or to dispense with massive arms spending shows that even the strongest capitalism is in crisis.”<sup>[12]</sup>

Critical to the analysis in the 1961 document, was the identification of the role of revolutionary leadership. France had emerged from World War II as the “sick man of Europe.”<sup>[13]</sup> The placing of Charles de Gaulle in power, playing the part of a Bonapartist leader in the Fifth Republic, was the action of a regime in crisis.

In the United States, it identified signs of breaks in the “ice-block” in key layers of society, identifying the various trends that were emerging through petty-bourgeois bohemia and radicalisation of the youth, particularly in the universities, and also making particular note of the emerging civil rights movement.

Above all, it noted that the outstanding factor in the American situation is the role of the Marxist party. It pointed to the immense political responsibility placed on the shoulders of the SWP and that its responsibilities, “cannot be fulfilled without absolute clarity and a firm political line.”<sup>[14]</sup>

The revolutionaries in the SWP need periodically to check over their own political work against these dangers. In a position of relative political isolation, of constant battle against the current, a diversion from the true cause can creep up unexpectedly. A search for a shorter way, for alliances which may impose accommodation to alien trends, for regroupment without solid theoretical bases, for programmatic adaptations to suit what are assumed to be American peculiarities—these have constantly derailed American socialists in the period since 1917. The attention of the leaders of the SWP must be constantly directed to such dangers as they may affect their own policy and thinking.<sup>[15]</sup>

The political line of the SLL and the attention paid to these critical political and theoretical questions prevented the liquidation of the Trotskyist movement under the pressures of Pabloism. It was the training and reworking of these critical lessons, including an understanding of the contradictions present in the post-war boom, that formed the basis of the founding of the Workers League in 1966 and RCL [Revolutionary Communist League] in 1968.

## The rising contradictions of capitalism and the Marxist theory of breakdown

However, this in no way ended the question of the pressures of the post-war boom and the contradictions it presented. Mandel, having embraced Pabloism, and growing into one of its chief ideologues in the sphere of political economy, became one of the most prominently read and referred to revisionists on university campuses.

In this period the SLL would continually come under attack for catastrophe-mongering and exaggeration. Yet by the late 1960s the contradictions identified by the SLL had come to a head.

After the full implementation of the Bretton Woods system in 1958 and the full convertibility of the English pound to the dollar, the City of London was instrumental in creating what became known as the Euro dollar market, which formed the birthplace of the global financial system today.

In November 1967, due to a balance of payments deficit in which Britain was spending more on imports than exports, the government of Prime Minister Harold Wilson sought to devalue the pound to make British exports more attractive to the international market. This triggered a run against the dollar as investors sought to exchange their dollars for gold as they saw gold as a safer store of value, putting massive pressure on US gold reserves.

By March 1968 the Gold Pool Crisis emerged, in which the gold markets were closed for several weeks as the agreed-upon price of gold, the very centre of the new financial system of Bretton Woods, was threatened. Anticipating the 1971 removal of the gold-backing, the markets reopened with a new two-tier system allowing for greater flexibility in gold pricing.

In 1971 the gold-dollar link was broken. President Richard Nixon responded to the pressures of the ever decreasing balance of trade, which went into the negative, by removing the gold-backing on the dollar. The central plank of the Bretton Woods monetary system was ended.

This was done to avoid the development of a major crisis of US capitalism. The only way of maintaining Bretton Woods would have been to lift interest rates in the US, which would have induced a flow of dollars back into the US financial markets. However, this would have triggered a recession in both the US and Europe. Under conditions where the working class was coming forward in a series of increasingly militant struggles, this would have provoked a major political crisis.

In this short period all the claims that capitalism had entered a new period and the old contradictions had been overcome were blown apart. However, this was not the occasion for Mandel to reassess his economic analysis. On the contrary, he moved further to the right. This is because his analysis flowed, above all, from a rejection of the revolutionary role of the working class.

In a paper delivered to the 1968 Socialist Scholars Conference at Rutgers University, Mandel spelled out how the term “neo-capitalism” was not merely some terminological innovation but involved the development of an entirely new historical perspective.

Some European politicians and sociologists speak about ‘neo-capitalism’ in the sense that society has shed some of the basic characteristics of capitalism. I deny this most categorically, and therefore attach to the term ‘neo-capitalism’ the opposite connotation: a society which has all the basic elements of classical capitalism.

Nevertheless, I am quite convinced that starting either with the great depression of 1929–32 or with the second world war, capitalism entered a third stage in its development, which is as different from monopoly capitalism described by Lenin, Hilferding and others as monopoly capitalism was different from classical 19th century laissez-faire capitalism.<sup>[16]</sup>

We have here a complete rejection of the fundamental understanding of the nature of the imperialist epoch, as analysed by Lenin, and one of the foundational tenets of the Fourth International.

Lenin analysed that in its economic essence, imperialism is monopoly capitalism. This definition of imperialism was linked to the tasks facing the party. He drew out that underlying the development of monopoly capitalism was the socialisation of production, not merely the interlocking of firms, and that, “private economic and private property relations constitute a shell which no longer fits its contents, a shell which must inevitably decay if its removal is artificially delayed, a shell which may remain in a state of decay for a fairly long period (if, at the worst, the cure of the opportunist abscess is protracted, but which will inevitably be removed.)”<sup>[17]</sup>

The difference between imperialism and the competitive capitalism of Marx’s day was that previously it could have been said that, while socialism would have been more advantageous, capitalism still had a progressive role to play in the development of the productive forces. Now, the overthrow of capitalism had become a historical necessity. The material basis for socialism was established in the socialised production of monopoly capitalism, that is, imperialism, which constituted the transition to a higher socio-economic order.

According to Mandel, however, neo-capitalism was as different from imperialism as imperialism itself was different from competitive capitalism. In other words, the opportunists of Lenin’s day were correct, the Russian Revolution had been premature, there was no objective foundation for the program pursued by Lenin and the Bolsheviks.

This perspective also contains a rejection of the Marxist theory of breakdown, the theory that the inherent contradictions of the capitalist mode of production would inevitably reach such a point that a situation would arise which would place before the working class the possibility and necessity of the conquest of political power.

Let us deal with this question in more detail. Comrade David North, in Chapter 30 of *The Heritage We Defend*, makes the following point: “It is an axiom of Marxist political economy that the movement of the inner contradictions of the capitalist mode of production leads inexorably to its collapse. If that is denied, then there no longer exists any objective necessity for socialism.”<sup>[18]</sup>

Central to the analysis of the historic crisis of capitalism is the law of the tendency of the rate of profit to fall. Marx spent a great deal of time dealing with this central question, as he characterised it as the most important law of political economy from a historical point of view.

The inherent tendency for the rate of profit to decline over time as capitalism develops is bound up with the very process of wealth accumulation. The capitalist class seeks to accumulate more wealth and achieve higher profits, which are derived from the extraction of surplus value from the working class.

To increase productivity and profits, capitalists invest in new technologies and machinery. This leads to an increase in the organic composition of capital, which refers to the ratio between constant capital, that is, machinery, raw material etc., required for production, and variable capital, the cost of labour power.

As these new technologies are introduced, the proportion of constant capital in the total capital investment grows compared to variable capital. The sole source of surplus value, that is, profits, is the living labour of the

working class. But this living labour forms an increasingly smaller proportion of the total capital which it must expand.

Consequently, the rate of profit tends to decline, as there is more capital tied up in constant capital, which does not produce additional value, while the growth of surplus value cannot keep pace with the expanding capital.

This necessitates and compels the capitalist class to attempt a mass restructuring of production. This takes the form of profound crises, in which large-scale areas of production are smashed up. The 31 years between 1914 and 1945 were a graphic example of this process, as the productive forces of Europe and Asia were reduced to rubble.

We also witnessed this process from the end of the 1970s to the 1980s, in which you had the mass restructuring of production which produced globalisation. This was done through a series of shocks and the catastrophic tearing apart of old areas of industry, creating, for example, the American “Rust Belt.”

This is also a process we are witnessing today, as the ruling class seeks to use Artificial Intelligence to overcome this tendency of the rate of profit to decline, utilising new forms of technology, not for the benefit of mankind, but to find mechanisms to extract further profits.

Marx succinctly characterised this process when he wrote in *Grundrisse*, “These contradictions lead to explosions, cataclysms, crises, in which by the momentaneous suspension of labour and annihilation of a great portion of capital the latter is violently led back to the point where it is enabled to go on fully enjoying its productive power without committing suicide.”<sup>[19]</sup>

Working over this process inherent in capitalism enables an understanding of the complex developments happening below the surface, which saw the eruption of the class struggle in the late 1960s, something which took all the revisionists by surprise. Only the SLL had analysed and prepared for such a development, working over and outlining the complex contradictions present in the period following World War II.

The post-war boom was based on the growth of the productive forces. This meant that greater surplus value was extracted from the working class. This surplus value enabled the bourgeoisie to grant certain concessions to the working class in the form of social welfare and government spending on health, education, etc. But it also gave rise to the increase in constant capital in relation to variable capital and set in motion a falling rate of profit.

The downward trend in the profit rate began in the mid-to-late 1960s and accelerated thereafter. The initial reaction of capital was to seek to increase the rate of exploitation within the existing regime of production.

However, this led to increased militancy in the working class. The boom had seen the growth of large-scale concentrations of workers and a powerful growth in their organisation. This explains the explosion of the class struggle internationally in the late 1960s, as militant sections of workers rebelled against the attempts by the ruling class to impose speed-ups and introduce new state mechanisms to suppress the wage struggles and overcome the falling rates of profit.

To give one example in the United States, in addition to the removal of the gold-backing, the Nixon administration announced the formation of a Wages Board to set a limit on wage rises of 10 percent. Such was the rising militancy of the US working class that it was denounced by George Meany, the head of the AFL-CIO, as a move to fascism.

### **1968–1975: The global revolutionary crisis and the SLL pamphlet *The Dollar Crisis***

The period of 1968–1975 was one of immense class struggle, the highest expression of which was in France, the “sick man of Europe,” with the

May–June 1968 general strike. It brought the entire French economy to a halt and placed, front-and-centre, the question of revolution back on the table of Europe. It was the prelude to the largest working-class offensive since the Second World War.

In 1969, West Germany witnessed the September strikes, led by thousands of metal workers, which brought whole sections of industry to a standstill. Meanwhile, Italy experienced what came to be known as the “hot autumn,” characterised by a surge of labour strikes, protests, and social unrest. In Poland and Czechoslovakia, during the “Prague Spring,” workers rebelled against the Stalinist dictatorship.

In the United States this period witnessed immense strike action, with railway workers, miners and teachers on strike and wildcat strikes by postal workers, as well as large-scale urban riots across the country. The beginning of 1968 saw the Tet Offensive of the National Liberation Front in Vietnam, which not only caught the US and South Vietnamese off guard, but shattered the conception of the “almighty strength” of US imperialism.

This fuelled mass anti-war protests, which were only deepened by the revelations of the reprisals brutally enacted against the Vietnamese people by the US. This was sharply brought to light in the exposure of the My Lai massacre published by Seymour Hersh in 1969.

In September 1970 in Chile, you had the election of Allende’s Popular Unity coalition, which was brought to power by an increasingly militant working class. Even before the election, workers were occupying factories and establishing workers’ committees, while peasants had taken over large estates. The prospect of socialist revolution was on the table in South America, considered the “backyard” of the United States.

A critical document produced by the SLL entitled the *The Dollar Crisis* provides a detailed summation of the analysis of the British Trotskyists in this period. In the Draft Resolution presented to the Central Committee and published in 1973, entitled *The Development of the Post-war Economic and Financial Crisis*, the SLL made clear that what was taking place was an insoluble crisis of capitalism.

It was a vindication of the struggle waged by the International Committee against all the brands of anti-Marxist revisionism. “Throughout the last 20 years and more” the SLL writes, “it has been the revisionists, led by the so-called United Secretariat, who have preached the theory of “neo-capitalism.” According to this spurious, anti-Marxist theory, capitalism in the post-war period has changed fundamentally.”<sup>[20]</sup>

The document goes on to analyse the Bretton Woods monetary system and how the crisis arose out of its contradictions. As the SLL writes, “the eruption of the present crisis has proved once more the soundness of Trotsky’s judgement that no matter how strong American capitalism appeared, the contradictions of imperialism were even stronger.”<sup>[21]</sup>

The crisis in the early 1970s was the result of the accumulated value of outstanding credit, which reached as high as double the US gold hoard. The SLL writes, “no matter how much the revisionists sneered at the analysis of the monetary crisis made by the SLL, gold and commodities are tied together inseparably. This was the whole purpose of Marx’s analysis in *Capital*, a work which all these gentlemen said was now “out of date.”

Now the correctness of its analysis haunts every capitalist financial centre and banking house throughout the world.<sup>[22]</sup>

The SLL insisted that this was not a conjunctural downturn but represented a fundamental crisis of the capitalism system. This lay in the over-production of capital in the form of mountains of parasitic paper claims on an ever-diminishing profit rate of the US economy. That is, under conditions of the tendency of the rate of profit to fall.

All the institutions of Bretton Woods have for the last 25 years and more been employed to build up a huge superstructure of credit. The vast majority of trade has not been carried out with either gold or dollars but through credits arranged against the dollar. These credit institutions have in turn been used to invest in machinery and equipment on a huge scale through the capitalist world. In this process, share values have been inflated beyond their remotest connection with their real value.

Now this hugely inflated volume of capital must seek to earn its rate of profit through the exploitation of labour power. But not even the most brutal increase in the rate of exploitation of the working class of Europe and America can solve this crisis for the capitalists, although of course, they must be driven to attempt a solution in this direction.

Only the violent elimination of capital values on a vast scale can now restore the “correct” proportions between the pool of constant capital and the available surplus extracted from the working class.<sup>[23]</sup>

This was precisely what was being prepared. It took some time for the bourgeoisie to stabilise its rule in the crisis period of the 1960s and 1970s, relying directly on the Stalinists, social democracy, and the trade union bureaucracy, all chiefly aided by Pabloism.

Having done so, it launched an international offensive against the working class, the ferocity of which was driven by the need of global capital to overcome the downturn in the rate of profit, not only by defeating the working class, but by the restructuring of the economy.

Finally, the document warned that what was being witnessed was the operation of the law of value:

As an objective law which asserts itself against both classes, it is, in a sense, seeking its violent revenge for the last 25 years in which the capitalist class and its revisionist and reformist hangers-on have tried to ignore it or wished it away. And, like all laws of social development, it does not operate in a smooth manner, nor in one which can be anticipated beforehand, but only in the most convulsive way.<sup>[24]</sup>

The recognition of the objective nature of this crisis gave way to an analysis of the revolutionary nature of the period. Herein lies the enduring significance of the work of the SLL on political economy. Against all the nostrums of the Pabloites, such as Mandel, that a new era of capitalism had dawned, it told a new generation of workers and youth that the contradictions of this system leading to its breakdown had not been overcome. By drawing this out it summoned them to fight for the program of world socialist revolution.

### **The Frankfurt School and Mandel’s “Late Capitalism”**

The reaction of the petty-bourgeois intelligentsia to this period was to move to the right. At the very moment when the working class demonstrated its revolutionary capacity in the French general strike of 1968, a section of middle-class academics reacted in horror, a process traced out by David North in *The Frankfurt School, Postmodernism and the Politics of the Pseudo-Left*.

In May-June 1968 the petty-bourgeois intelligentsia looked over the abyss, and they were terrified. Their brush with revolution set in motion a sharp movement to the right.<sup>[25]</sup>

The various “new” philosophers who emerged embraced anti-communism under the banner of “human rights.” Other sections who had previously identified themselves as left repudiated classical Marxism. In its place was the embrace of the irrational subjective idealism of post-modernism and the obsession with individual identity.

Mandel’s work in this period reflects this shift. This can be seen in his book *Late Capitalism*, in essence his new term for neo-capitalism, published first in 1972, where he wrote the following:

The growing contradiction between objectively socialized labour and private appropriation is determined not only by the third technological revolution, the increasing necessity of highly qualified labour and the widening cultural and political horizon of the working-class, but also by the gulf between potential abundance on the one hand, and actual alienation and reification on the other. Whereas in the age of classical capitalism the main impulse for workers’ struggles came from the tension between the present and the past, today it lies in the tension between the actual and the possible.<sup>[26]</sup>

This passage makes clear the further shift in class orientation and perspective underlying Mandel’s never-ending attempts to counterpose the post-war period to “classical capitalism” or “classical imperialism.” Now, the issue of socialist transformation of society arose from a comparison between the actual situation and what would be possible if the productive forces were developed in a rational manner.

Mandel’s standpoint was not that the proletariat was the revolutionary force in society, but that sections of the petty bourgeoisie would be the agency of social transformation, due to their outrage over the excesses and irrationalities of the capitalist system. In Mandel’s world view, even sections of the bourgeoisie itself would come to see the necessity for the rational reorganisation of society.

Set against potential abundance and possible development of the creative powers of the individual, the growing fatigue with senseless production of inferior goods, the widespread sentiments of anxiety among workers and capitalists alike, resulting from the suppression of spontaneous self-activity and the spread of generalized insecurity, with the compulsion to ‘conform’ and to ‘succeed’ characteristic of bourgeois society, the increasing solitude of social life and frustration with advertising and product differentiation, the deteriorating state of mass transport, the decay of housing conditions and the strangulation of large cities are becoming increasingly unbearable. At the very moment when the self-development of the social individual would be incomparably easier to achieve than ever before, its realization seems to be receding ever further away.<sup>[27]</sup>

In this paragraph one can see the shift toward the theoreticians of post-modernism, identity politics and the Marcusean emphasis on psychological factors. Everything becomes filtered through the lens of the individual, of self-development, of personal frustrations with life under capitalism. The working class, having already been deemed no longer a revolutionary

force, is pushed aside for the whims of a layer of the middle class moving further to the right. This is under conditions of and in reaction to, the greatest revolutionary movement of workers since the crisis following the Second World War.

### **Banda's letter to Wohlforth and the 1974 British Miners' Strike**

In contrast, the International Committee sought to trace out a path for the working class and prepare the struggle for power. The British Trotskyists paid particular attention to the perspective and analysis being developed by the Workers League (WL) in this period.

In a letter sent by Mike Banda to Tim Wohlforth, national secretary of the WL at the time, dated February 1973, Banda sought to draw out an understanding of the unfolding liquidity crisis in the United States. This was written at the same time *The Dollar Crisis* was being worked on and published.

In Banda's note, he pointed out that the deficit accumulated by the US was "considered indispensable for the functioning of the Bretton Woods system," and was required for European nations to transform "their export surpluses into liquid dollar holding."<sup>[28]</sup>

However, the international source of this liquidity was the dollar, which became the "Achilles Heel" of the IMF. In the late 1950s, the deficit reached mammoth proportions, near the \$3 billion mark.

This investment was directly related to the fall in profit rates in the USA and the huge growth of parasitic paper claims on an ever diminishing profit rate in US economy.

But the crunch began when, simultaneously with the increase in U.S. investment, the European central banks began to change their inflationary dollars into gold. This was the direct result of the deficit which in turn was supposed to be the sine qua non [indispensable requirement] of monetary stability. Consequently the U.S. stock of gold fell from \$25 billion in 1950 to \$10.5 billion in 1968.<sup>[29]</sup>

Banda pointed out two important conclusions from this process:

- That the accumulated dollar liabilities were twice the US gold hoard, which had led to a crisis of confidence causing more conversions to gold, in turn exacerbating the crisis.

- This coincided with an insufficient gold supply to meet the requirements of the IMF. The only way to overcome this was for countries to increase dollar holdings, further increasing the US deficit in the balance of payments.

It was these two intersecting processes that the US sought to overcome through the ending of gold backing for the dollar and the introduction of a series of new economic measures under the Nixon administration. This would have a profound impact on trade and economic conditions in countries throughout the world.

Banda warned at the end of his letter of any conception that developments in the US would only proceed on the basis of a series of "leaps" and that central to the orientation to the working class was the difficult, and sometimes protracted, struggle against opportunism.

"To conceive of the developments in the US as proceeding only by "leaps" is wrong and dangerously so. There will not only be "leaps" but also plenty of hard, unspectacular slogging against the

Stalinists and revisionists which will require great theoretical firmness and tactical skill."<sup>[30]</sup>

Just one year after the letter to Wohlforth and the publication of *The Dollar Crisis*, the explosion the SLL had predicted erupted in Britain with the British miner's strike in 1974. It was the culmination of a series of increasingly militant struggles of workers in the earlier 1970s, in opposition to rising inflation and the attempt to reverse the wages and conditions of workers by the conservative Tory government of Prime Minister Edward Heath.

The strike began on February 9 that year, in opposition to the attempt to impose a wage freeze by the Heath government. There were mass pickets, clashes with police and blackouts as a result of the disruption of coal. The Heath government responded by calling a snap general election, in the hope it could win support to use state violence to smash up the strike.

Instead, the strike continued through the election, garnering further support, which then led to the coming to power of a minority Labour government. So profound were the tensions that sections of the ruling class considered declaring a state of emergency and overthrowing the government after Heath's defeat.

This revolutionary period had been anticipated by the SLL. However, at this stage the SLL leaders had begun to step back from the "unspectacular slogging" against revisionism. This was seen in the founding of the Workers Revolutionary Party (WRP) in November 1973, which proceeded without a discussion in the International Committee or a thorough review of the lessons of the struggle against Pabloism.

Its program adapted to the growing anti-Tory sentiment, focusing almost entirely on the ousting of the Heath government and the bringing in of Labour. The realisation of this perspective, just four months after its founding, produced profound problems for the WRP leadership.

The point must be stressed, however, that the opportunist degeneration of the SLL/WRP did not proceed in a straight line. The essential political clarification of the post-war period was fundamental in the training of the cadre of the International Committee.

### **The Workers League deepens the analysis of the SLL**

Reviewing the economic and political analysis of the SLL after 1971, it became almost exclusively focused on the monetary system, the removal of the gold backing from the US dollar, rather than tracing out how the dollar-gold crisis was resolved and how this resolution itself gave rise to the development of new contradictions.

However, the Workers League sought to deepen and extend the analysis of the SLL on the significance of the collapse of the Bretton Woods Agreement. It sought to trace out the relationship between the developments in the economic base of capitalist society and the class struggle as it developed in the US and internationally.

This was present in its 1978 perspectives resolution, which makes the fundamental point that "the product of the Bretton Woods Agreement of 1944 was not the 'planned,' 'managed' and 'organised' capitalism as claimed ad nauseum by Keynesian economists and revisionists, but rather a financial Frankenstein now totally out of control."<sup>[31]</sup>

This financial monster has grown in leaps and bounds since the 1970s and has reared its head in a series of crises in the recent period.

Turning to the development of the class struggle, the WL perspective pointed to the significance of the 111-day miners' strike in 1978 and their defiance of the Taft-Hartley Act. It was the result of this confrontation which, as the resolution states, "exposed the desperate weakness of the



ruling class.”<sup>[32]</sup> The response by US President Carter was to appoint Paul Volcker as Fed chairman, where he was to play a central role in the class war launched under the Reagan administration.

The resolution drew attention to the connection between the dollar crisis and the fall in the rate of profit which marked the end of the post-war boom.

The dollar crisis has greatly exacerbated the falling rate of profit in basic industry, which, in turn makes US imperialism less able to satisfy the huge claim of a mountain of paper credit being made on a relatively diminishing amount of surplus value in industry.<sup>[33]</sup>

The development of what the resolution called “the great dollar printing machine” led to inflation of around 12 percent and fuelled the development of the class struggle, sounding alarms bells in ruling circles. This is evident in a quote in the resolution from *Business Week*:

The US is still a long way from open class warfare, but many people worry about what happens if inflation remains at anything approaching recent levels... Now the economic outlook is clouded, inflation is no longer waning, and this country could be heading for the worst period of economic and social dislocation since the Civil War.<sup>[34]</sup>

What confronted US capitalism was that its most basic problems, notably the decline in the rate of profit, could not be resolved within the post-war industrial framework. What was required was a fundamental restructuring of economic and class relations. That was the significance of the measures initiated under Reagan.

The Volcker measures, driving up interest rates to as high as 20 percent brought on the deepest recession since the Great Depression—a battering ram against the working class. Whole sections of US industry were forced to close that had developed since the industrialisation of the latter part of the 19th century and for the first three quarters of the 20th, expanding during the postwar boom.

This restructuring involved the development of computerised methods of production and the development of globalised production to take advantage of cheap labour. However, none of this would have been achieved but for the collaboration of the trade union bureaucracy.

The Workers League analysis deepened what was identified by the SLL, that the question of value had not been overcome. Rather it continues to raise its head in all the increasing storms that erupt in the financial system up to and including today.

## Conclusion

We are now in a period in which the breakdown of capitalism has reached a point where once again the struggle for power is being placed on the agenda. As the New Year’s perspective document published on the *World Socialist Web Site* detailed, the accumulated pressure of the “intersecting elements of the world capitalist crisis attained the equivalent of critical mass: that is, they have reached the point where the dynamic of crisis has passed beyond the ability of governments to control the movement toward a social cataclysm.”<sup>[35]</sup>

The issue is not whether revolutionary struggles will develop but

whether a revolutionary leadership is built. That involves the assimilation of the lessons of the history of the Fourth International and above all, of the critical struggle conducted by the ICFI against the crucial ideological prop of the bourgeois order, that is, Pabloism.

[1] Ernest Mandel, *The Late Capitalism of Neo-Capitalism, The Socialist Mandel for Western Europe*, 1965, p.1.

[2] Leon Trotsky, *The Third International After Lenin*, Pathfinder Press, United States of America, 2010, p.99.

[3] *ibid.*, p. 100.

[4] *The World Prospect of Socialism*, Resolution adopted by the Socialist Labour League, London, 1961, p. 84.

[5] *ibid.*, p. 84.

[6] *ibid.*, p. 84.

[7] *ibid.*, p. 84.

[8] *ibid.*, p. 84.

[9] *ibid.*, p. 109.

[10] *ibid.*, p. 109.

[11] *ibid.*, p. 94.

[12] *ibid.*, p. 109.

[13] *ibid.*, p. 110.

[14] Ernest Mandel, *Neo-capitalism*, A paper originally delivered at the Socialist Scholars Conference, 1968.

[15] *Marx in the Highest Stage of Capitalism*, Chapter X. The Place of Imperialism in History.

[16] David North, *The Heritage We Defend: A Contribution to the History of the Fourth International*, Mehring Books, Strawberry Hills, Australia, 2018, p. 410.

[17] Karl Marx, *Grundrisse*, Transformation of Surplus Value into Profit.

[18] *Die Welt als Laboratorium der Revisionsisten* and the Crisis.

[19] *ibid.*, 3. The Growth of the American Balance-of-Payments Crisis.

[20] *ibid.*, 8. Not Merely Trade War.

[21] *ibid.*, 8. Not Merely Trade War.

[22] *ibid.*, 8. Not Merely Trade War.

[23] David North, *The Frankfurt School, Postmodernism and the Politics of the Pseudo-left*, Mehring Books, Oak Park, Michigan, 2015, p. 214.

[24] Ernest Mandel, *Crisis of Capitalist Relations of Production*, First published as *Der Spätkapitalismus*, Suhrkamp Verlag, Berlin 1972.

[25] *ibid.*

[26] From Mike Banda to Tim Wohlforth in *Trotskyism versus Revisionism*, Vol. 7, Labor Publications, Grand River, Detroit, 1984, p. 234.

[27] *ibid.*, p. 234.

[28] *ibid.*, p. 236.

[29] *The World Economic-Political Crisis and the Death Agony of U.S. Imperialism*, November 7, 1978, p. 1.

[30] *ibid.*, p. 2.

[31] *ibid.*, p. 9.

[32] *ibid.*, p. 9.

[33] <https://www.wsws.org/en/articles/2023/01/03/pers-j03.html>



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