

The Arms Budget and the European Capitalist Recovery
Lecture No. 0017 (February 27, 1974)

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Preliminary remarks

... and I had extravagant, very attractive dreams. And I can't really think, except that Lenin was in one of them [*laughter*]. I'm not at liberty to tell you what he said to me [*laughter*].

But then, anyway, I slept all day, and slept all day and was in a fog. And so when I got up, I switched the radio on to find out what time it was — what day it was, what time it was — and I got the president at a press conference [*laughter*]. And I turned it on just as he said that it was not a recession, it was a downturn [*laughter*]. So I wanted to relapse [*laughter*].

And I had then a very interesting thought, incidentally, which I throw out to you — just not so much kidding — which is that, it may very well be that you yourself lose in when you press that hard for impeachment or resignation. And it may very well be the safer course to have him to consent to the center. And I began to dream up a scenario of that all-American [Vice President Gerald] Ford and the president doing the Truman bit: telling the country how much we had to tighten our belts, you see, in the face of a national crisis and disaster, and suddenly again fronting the realities of a zero growth rate and of the social crises that are attendant upon it. Suddenly, you begin to mystify again. It may be that Nixon is the only chance not to be able to mystify, for what it's worth, because he certainly didn't sound confident.

Lecture

By any meaningful statistical measure that really one can derive, the strategy of American policymakers in Western Europe in that decade after the world war, that very crucial decade — strategy which aimed, after all, to restore a very fragile European capitalism and to insert that European capitalism within the schema of a world empire that the United States was designing for its eternal expansion — that strategy, by any statistical measure, really was a success. That is to say, that if you look, after all, at what American policymakers were able to do in a relatively short time in Western Europe, they saw what the problem was, and they defined it, and they resorted to their technological and their economic resources in order to solve the problem.

In three very crucial years, in the years between 1945 and 1948, they looked at Western Europe

and they said that the problem was chaos. And consequently, what they did was to send large scale economic aid in that period — even before the Marshall Plan — to the tune of about \$9.5 billion. Which, after all, accomplished three very important things: that at that critical moment, it did contain the European left; and at that critical moment, it did influence very important postwar elections; and that it did, after all, become responsible for restoring a conservative bourgeois social order in the countries of Western Europe.

And they progressed from that early stage to a second stage that ran, between 1948 and 1952, in which they put the entire reconstruction of European capitalism within the strategic framework of the Marshall Plan. And it took American aid to the tune of \$14 billion to West European countries between 1948 and '52 to accomplish what the American policymakers wanted: to make a Western Europe at that time an important market, after all, for the agricultural surpluses, for the raw materials, for the industrial goods that we wanted to sell. But, more than that, to give the money to those West European countries to enable them to rebuild their infrastructure, to enable them to modernize and expand their plant and, in other words, to restore what had been a very fragile European capitalism — and in those years, along a certain kind of strategic proposal to those West European countries which they had the political influence to impose. And the strategic proposal was that the recovery of West European capitalism should be anchored in a very orthodox economic schema: that it should be anchored, after all, in the balancing of budgets, in high prices and high profits, in fixed wages and frozen wages; in other words, that that recovery should be hacked out of the backs of the European working class and that the monies for that kind of recovery should come out of the savings, after all, that high profits would bring to the entrepreneur.

And they moved from that stage after 1952 to a third level, in which they used their diplomatic influence and their military assistance programs to insert Western Europe into that kind of permanent arms economy which became very characteristic of the entire Atlantic alliance. We are talking, after all, about the imposition of the North Atlantic Treaty Organization; we are talking about the very large arms budgets that American policymakers, more or less, imposed upon these European governments and with very great and good effect. Because it was precisely those arms budgets that guaranteed that there would not be overproduction in that recovering European capitalism — guaranteed that there would not be too much unemployment — and for the opening years of the strategic formulation provided a great market for American hardware, for American military supply, into those Western European markets.

And it's a point to underscore. Because, you see, if you know, in your wisdom, that American capitalism has recovered since the end of the Second World War on the basis of a permanent arms economy, if you know how important that was in the United States, do not underestimate

how an important a role that played in the recovery and the expansion of West European capitalism, of those countries that constitute the space and the area of the common market. Look, that in 1962, the United Nation issued a report in which they decreed that, in that year — which was before the great expansion of arms production as a result of the Vietnam War — that in 1962, the arms budgets of the world were costing \$120 billion. Now, if you can calculate that, and if you are sensitive to that, then you know what kind of utter madness that you really do live in. Because \$120 billion in 1962 constituted 9% of all of the goods and services produced in the world in that year, and that \$120 billion were equal to the gross national products of all of the underdeveloped countries of the world put together.

Now, we know what that meant for America. We know, after all, that the contention of [Paul] Sweezy and [Paul A.] Baran in *Monopoly Capital* has never really been properly undercut. Sweezy and Barron declare categorically that the difference between the deep stagnation of the United States in the 1930s and its relative prosperity in the 1950s is fully accounted for by the outlays for military supplies in the 1950s — in other words, that it was the arms economy. And we have the graphs and the charts to show that. It was the military outlay at the time of the Korean War that got the United States out of the recession into which it had plunged by 1949, that unemployment went down and the GNP went up; that in 1954, when there was a cutback in military expenditure, again there was a rise in unemployment and a stagnation of the GNP; that in the Kennedy years, when the military budget by 1962 went to \$51.5 billion; that, once again, the pump was being primed and there was an expansion of GNP and of employment patterns; and that all of that reached its culmination in those years of the Vietnam War after 1965, when the United States reached new heights in its gross national product and in its employment. All of that we know.

We are less aware of what it did in those West European countries. But let me point out to you that, by the time you come to the end of the 1950s, whole sectors of the industrial production of the West European countries are really dependent upon the arms budget. In an order of descent, to be sure, some industries very heavily depended, some much less so. If you take France, for example, in 1960, that, in that year, 75% of the aircraft industry was dependent upon the direct military budget, and you go down through several industries until you come to the bottom of that list, and that you find that even the photo industry, which was a minor one in France, depended 12% upon the arms budget. In Great Britain the same kinds of figures prevail. In 1960, 72% of the aircraft industry depended upon arms budgets, and then you go down in descent to industrial electronics (35%) to shipbuilding (23%) and so forth.

And consider what it means in countries that, after all, have not had the kind of research and development in industry that the United States has had. Think of what those arms budgets meant

in terms of programs for research and development. And think in your mind's eye of what the spin-off of that research and development is — how you develop technology and new processes and new products that then animate the civilian economy and, consequently, create a certain kind of buoyancy factor. So that, in Great Britain, by 1960, 45% of all research and development was directly connected to the arms budget. In France, it was of the order of 35%, in Western Germany of the order of 25%. Or consider, finally, what that kind of arms economy — creating as it did so much stability and growth in Western capitalism — think of what it meant in Western Europe in terms of a market for American military goods. There is a quite significant book by Seymour Melman called *Pentagon Capitalism* which underscores how much the Pentagon has been in the business of shoving off its hardware, of shoving off armaments proposals and armaments programs to West European and other countries in order to up and in order to inflame, as it were, the armament industry. Henry Kuss (who was, of course, the Assistant Secretary of State) was given, if you recall, a citation of highest civilian merit in 1967. Because in that year, Henry Kuss and his twenty-seven agents inside the Pentagon, who were the great hardware salesmen, managed to sell \$5.5 billion dollars through the Pentagon in armaments to other countries. And for that, Mr. Kuss was properly cited.

And then, of course, you get, in the late 60s, that turn about that begins to raise questions in your mind. Because by the late 60s, the European countries, rather much back on their capitalist feet, are beginning to go out to look for arms markets. It's the Labour government of Great Britain, Mr. [Harold] Wilson's Labour government, that creates in 1966 an Office of Arms Sales. And that Office of Arms Sales, under the headship of somebody from the private arms industry, was to look for markets. And the Foreign Secretary of Great Britain put it this way in explaining why: "Until we can get a widespread measure of disarmament, by international agreement, it is only reasonable that Great Britain should have a reasonable share of their arms market." A great thing for a socialist foreign secretary to say. But nonetheless, it indicates that there was a bit of competition creeping in. And the French played it dirty, of course, because they went to all the contraband markets. And they began to sell openly to South Africa and to Israel — to see that magnificent hardware that is so much a part of the pump-priming process of the arms budgets in those particular countries.

But that point is the one we want to make. And that is that capitalism recovered, and that the strategy worked. And you can use any statistical measure. You can say that the year 1955 is a watershed year because by 1955, all member countries of the OECD, of the Organization of Economic Cooperation and Development — all Marshall Plan countries, in other words — had surpassed their 1938 industrial production levels. By 1955, the average growth rate that year for the members of the OECD was 6.7%. That was a very significant rate of growth. In all of those countries together the exports were now something like four times as much as they had been in

1938; the imports three times as much as they had been in 1938.

And you say 1955 is a watershed. From that point on, from 1955 down to 1969, you get those green years of West European capitalism, those years when all of the great illusions built in. Think of those average growth rates in that period between 1955 and 1969 — oh, well, they're not like the Japanese. The Japanese are something very special; they're producing even when they're sleeping, and so their growth rate is 10% per annum. No, no. That's the Japanese. And it's better than the American, the American down in those years to about 3.5% per annum. But look, you take the average growth rate over those fourteen years, for France and for Italy, and it was of the order of 5.5%; for Germany and for the Netherlands, of the order of 5.1%; for Belgium, of the order of 4.5%. And only Great Britain was lagging behind at 2.8% per annum over that period as a mean average.

But, you see, go behind those aggregate statistics and look at the life itself. And then, you see, you get all of that illusion, all of that enthusiasm that somehow those terrible days of the 1930s and those terrible war years were gone forever. Think, for example, of the question of unemployment. Unemployment was a terrific drag in a country like Germany when the Federal Republic was first founded, the Federal Republic founded in September of 1949. A year later, in September of 1950, there were 1.5 million unemployed in Federal Germany out of a work force of about 14 million. But go eleven years later — go, then, to the period of 1961, in September, and the statistics are that there are only 95,000 unemployed in the whole Federal Republic of West Germany, and that out of a labor force of about 21 million. Or consider Great Britain, where unemployment had been such hell, where it had been the plague in the 1930s. And throughout the whole decade of the 1950s, the unemployment rate is of the order of 1.7% per annum.

You have really resolved that question, but it's even more than resolving it — it's that you really have a labor shortage, that you have to import people. Think, for example, of a country like France. Think of how it depopulated its countryside. Between 1954 and 1968, there are 4 million workers — four million people who work with their hands — who leave the countryside, who leave the farms and go into the cities. Now, in part, that's because the farmsteads begin to become capitalistic and there is less use for these miniscule farms or for farm labor. But when you think that, in 1954, one out of every four wage earners in France worked in the rural sector and that, in 1968, one out of eight worked in the rural sector, you can see what a draw the cities are because of this expansion of industry.

But it's more than that. It's that every industrial country, every country, really, on the capitalist make, in this period, was importing labor. It's that period when Third World labor, when labor of

Southern Europe, begins to flow everywhere: when in England all of the dirty work, all of the unskilled work, begins to be done by Pakistanis, by Indians, by Jamaicans; when in France you have the importation of Spaniards and Portuguese and Italians and North Africans and West Africans; when in a country like Germany you begin to get Turkish labor and Greek labor; when in Switzerland and Sweden, everywhere, there is that importation of labor because the economy is hot and because there is more work than you can accommodate, especially, at the unskilled level.

Or think of goods. And think of that marvelous consumer society beginning to come to Western Europe. And I lived all through that in France and saw that coming, and saw it, you know, the way I suppose birds look at bulldozers coming toward trees. And I saw all of that consumerism coming in France. And I remember the first time I went to the household of Jules Breville — he was a great friend of mine and worked at the National Archives — and he said he had something magnificent to show me. And I went, and he showed me this miserable, dingy, tiny little refrigerator, when nobody had refrigerators to speak of. And I said, "Hmm... *c'est formidable*." I didn't know what to say; I said, "That's a magnificent little refrigerator you've got there." And I opened it and I said, "But it's unplugged." And he said, "Well, who can afford the electricity?" [laughter]. So you see that you are beginning to love those goods, and they are beginning to come into your focus, and pretty soon they become a factor. So that if you use, for example, television as an index, that in the year 1959 in France, one out of every ten workers' families had a television set; 1964, there were six out of ten workers' families that had a television set. You look at Great Britain, that the British working class began to get its commodities. 75% by the end of the 1950s had things like refrigerators, television, and so forth. You begin to get the automobile, the automobile coming into the compass of the working-class budget. All of that is an index.

But the question, the real question, is: Did the American strategy work? Was this capitalism, then, client to American need? Was it adjusted to what American strategists thought was that new world economic empire they were building? And there were two possible indices for that. One is the index of foreign trade and the index of investment. And with foreign trade, quite obviously, in the opening years after the war — in the period down to, let us say, 1955 — in that period, Western Europe constitutes a very viable export market for the United States. It's the one period, you see, when there is a relationship of an advanced, industrial society, and one that is, for the sake of time, at that moment, rather backward. But then, you see, that changes, and that recovery by West European capitalism — and, consequently, the curve begins to change. And West Europe begins to send much more of its goods to America than it takes. And, finally, there comes to be a convergence, really, in which the United States is buying as much as it is selling from Western Europe, a convergence which comes by the end of the 1960s. So that it isn't the

foreign trade factor that you are talking about when you talk about success.

What you are really talking about is investment. And it's breathtaking. And it is where the problem is and where the success lay. And the American investment pattern in overseas markets was fantastic. It increased in a twenty-year period, from 1950 to 1970, by the order of \$6.7 billion in all overseas markets in direct investments in 1950 to something of the order of \$80 billion in 1970. And of that \$80 billion, some \$30 billion constituted Western Europe and Great Britain. And the mechanism for that, quite obviously, the multinational corporation: American affiliates of the great producing firm in the European country, that affiliate sometimes absorbing producers on the scene, fusing with or buying out important enterprises in the countries in which they were operating. You are talking, in France, for example, about the absorption of Simca by Chrysler, the absorption of Bull by General Electric, and then the one that made General de Gaulle weep: the absorption of Schneider by Westinghouse. And he said, "No, no, not Schneider, that old and ancient French firm; not Schneider, not that great conglomerate!" But it went.

And the result of all of that *défi américain* was fantastic. There is a book by Mr. [John Harry] Dunning, published in 1970, called *Studies in International Investment*. And I read you something from Mr. Dunning's book, a list for the year 1963 of certain sectors of industry in France and in Great Britain that were controlled by American producing firms in those countries. And so in France in 1963, American enterprises controlled 87% of the market in razor blades and razors, 95% in carbon black, 75% in office machines, 92% in computers, 70% in sewing machines, 45% in telephone and telegraph equipment, 30% in elevators, 25% in refrigerators. For Great Britain: carbon black 80%, refrigerators 50%, razors and razor blades 60%, and so the list goes. It's a three-page list in Mr. Dunning's book. With computers, incidentally, it was a phenomenon. IBM, you know, is one of the great phenomena of the world, and nobody has been able really to unseat it; it controlled over 80% of the world market in computers. And all of the defiance by European firms to try to cut into that immense IBM empire — by Philips of the Netherlands, for example, by Siemens of Germany, by Bull of France, by Olivetti of Italy — all of it has been unsuccessful. Because, you see, IBM is terrific. Because they have servicing, and they rent machines, and they have the software, and they replace things, and they come and they tell you how to work them, and they're everywhere.

And so, pretty soon, it's my idea that you really can't get rid of IBM. Because, after all, if they put a big computer in the French Communist Party — which they do — and they have to be there in order to tell the people how to work it, then they know really what goes into the thinking of those French Communist leaders. Then they go and they put those computers into the foreign office of the French state. And they go and they send their people there... well, they've got it on all sides, you see. And pretty soon nobody, really, can match IBM. Their machines know too

much.

What the impact of all that is is quite evident when you think of what it meant to American capitalism. In the year 1970, for example, all of American exports totaled \$40 billion, but the sales from all overseas affiliates totaled \$250 billion — six times as much. When you think of what that immense power of those multinational firms is —how, after all, they can call their own turn; how when Burroughs France, for example, in July of 1971, simply closed down its operation in Pantin, outside of Paris, sent all kinds of people into unemployment and moved to Italy, simply on the basis of better work conditions for them down in Italy — you can begin to see what kind of power and what kind of clout this is.

Now, all of this raises to us a certain number of questions. It raises the question, first of all, of whether there is something new in this European capitalism that developed in the West. Is there a neo-capitalism, as it has been called? Is there some kind of system, some kind of structure, which is a variant on what existed before the war, which knows — as its most favorable critics have said — which knows how to mute the class struggle; which knows how to subsume, for example, cultural tensions within the framework of consumerism; and which knows, primarily, how to keep stability and how to keep economic growth? Is there really such a thing as neo-capitalism? It is a primary question.

And secondly: Is this European capitalism perpetually a client of American capitalism? Or does it begin to develop delusions of its own? Does it begin, like Japanese capitalism, to become a rival? Is there, in other words, inter-imperialist rivalry that develops? And finally, the question with which we are plagued: the question of whether contemporary crises means that we were dealing, in the period of the 50s and 60s, with an interlude which is over and permanently over. And those big questions we forestall for a later time when we deal with the question of what that crisis was that exploded in May '68 in France, and what the crisis of '69 was in Italy — in other words, what the contradiction of European capitalism are. And when we speculate a little bit about whether there really is an inter-imperialist rivalry or whether American capitalism is very much in the driver's seat, and when we speculate as to what the ruling classes are doing and thinking now, as they confront the possibility of zero growth rate and the kind of social explosion that will entail... all of that we leave.

Except this. We really have to demystify ourselves a little bit. And we have to try to deal with this conception of neo-capitalism lest you get a wrong impression, it seems to me, from the kinds of data that I have given to you, and which explains something of the success of capitalist recovery. And I raise the question: Is it valid really to talk about neo-capitalism? Is there such a thing? And I give you a parenthetical answer before I try to make a demonstration, which is that

I think it is nonsense...

[audio cuts out]

... or read *Modern Capitalism* by Andrew Shonfield, or read *The New Industrial State* by John Kenneth Galbraith, and you will find in those works an argument that we are into a new and perpetually, problem resolving capitalism, one that's going to last. Now, I don't know what Mr. Galbraith is thinking right now, but it suffices to say that's what he thought in *The New Industrial State*. Well, the argument goes something like this: that there is, in the first place — and quite importantly — that there is the factor of the state, and that the state plays a new role in societies: something like an autonomous role, something like a stabilizing and animating role to make sure that the system really functions, really thrives, really grows. All of that really enters into this thinking.

And we want to examine that proposition. It rests, basically, on two arguments. It is that the state in West European capitalism after the Second World War, first of all, extended the public sector of ownership very extensively. In other words, it argues from the point that there is something different about a system in which you have nationalized a considerable amount of industry, as was done in Great Britain and France in the years right after the Second World War. And it is true that the public sector did expand, especially in those two countries. In Great Britain, for example, you got — after the Second World War, in the Labour government from 1945 to '51 — you got a nationalization, first of all, of certain enterprises that had almost quasi-public control over them in the period of the 1930s. So you nationalized the Bank of England, you nationalized cable and wireless, you nationalized the airlines. Then, in that Labour administration, you got the nationalization of two very deficit industries — two very sick industries that private enterprise no longer could run — one was the coal industry and the other one the railroads. Now, that nationalization all did take place within a relatively short period of time.

But the crucial question that we ask about that is: How was that nationalized industry run and for what purpose? And the answer is very categorical — that the nationalized sector in Great Britain was run exactly the same way, for example, that public broadcasting was run in that country by the establishment of public corporations that were completely autonomous. They had no impact upon the economy in terms of setting new labor-management relationships, in setting new wage standards. They operated simply as public owned corporations, functioning exactly the same way that private corporations might do. They did not cut costs, for example, so that there was a basic advantage to the public — so they did not reduce prices — but they all tried to operate in the black and to show a profit. In other words, what you have is a bailing out of the system. Certain things that could not operate very well simply were taken over by the state. All of which was

shown rather pithily by Michael Kidron in his excellent little book on western capitalism, when Michael Kidron says, "The state's growth, in the postwar capitalist economy, has been no more than a series of ad hoc responses to short term problems which could be dealt with by private enterprise or in any other way." You obviously had to have fuel production — you had to have coal — you had to have the transport system, and the state came in to bail out what were failing enterprises in that respect.

But the better model comes in France, because in France you really do nationalize a great deal and because it is said that you really are developing a different kind of capitalism — a certain kind of mixed system. And it's a story really that is interesting to talk about, essentially. Well, you see what happened in France. You nationalized, in the first place, those that absolutely were deficit industries, in which private enterprise could not operate any more. Now, that had been done in August of 1937 with the railroads. The railroads had been nationalized, under the Popular Front, in August of '37. There has been a public corporation set up, SNCF — the Société nationale des chemins de fer, the National Society of Railroads — set up in August of 1937 for one very good reason: that the competition of road transport had become too much for the railroad companies, and they couldn't show a profit anymore. And so the state bailed them out, indemnified them very heavily and, consequently, ran the railroads themselves — but ran the railroads, then and now, always consecutively and continuously with great advantages to capitalistic enterprise. So that industrial enterprises have always gotten much lower tariffs, for example, or much lower rates on the French railroads than private passengers have gotten.

Now, that was done in terms of one industry after the Second World War: it was done with coal. And coal was nationalized by the French because it was a sick industry. So that you had produced, for example, 50 million tons of coal in 1938; by the end of the war, you were producing 24 million tons. It was antiquated industry, the whole infrastructure was in ruins and, consequently, the state took it over and bailed it out. Secondly, there were certain industries that were taken over as punishment against collaborationist capitalists. This you get with Renault; Renault is nationalized because Louis Renault had produced for the Nazis. And Nord-Aviation, which was the big aircraft corporation, likewise nationalized for the same reason. And, in the third place, nationalization in those places where inefficiency was very conspicuous, where there was a lot of internal competition that meant inefficiency and very low profit rates. And so you brought together all the private airlines into one nationalized airline, which was Air France. You did the same thing with the electrical and the gas companies; all came together in the single electric and gas nationalized company of France. And the fourth thing was to restrict or restrain certain enterprises that really had a lot of capital at their disposal. And so four great commercial banking chains were nationalized, including the Crédit Lyonnais. And then, you get thirty-four insurance companies also nationalized.

Now, what does all this mean? My contention is that there is nothing in this nationalized sector that does anything but rationalize capitalism — that, in effect, that when you are dealing with labor-capital relations, they are just as brutal and just as vicious inside Renault, for example, which is a nationalized plant, as in any private corporation. So far as the monopolies are concerned, like Air France or the railroads, they are always geared toward the needs and the advantages of private industry. And so the rates are always lower in this particular regard. It seems to me that, if you argue from the point of nationalization, you rather miss the point. All of the nationalizations ended, in all of the European countries, by 1949. There were no nationalizations after that. What happened was that something that had to be done to get the system going were done. Alright, that's obvious.

But the argument gets stronger, and we talk about the "plan," or we talk about planning. And that's supposed to differentiate neo-capitalism from its other variants. Now, obviously, as enterprises — as private enterprises — get larger, that is a tendency to plan. When your firm gets very big, you must have calculations that go three or four or five years. One cannot go on six-month calculations. And so you get a lot of planning that really is simply in the morphological nature of capitalist development — in other words, is rooted simply in the scale and the size of capitalist enterprise. And that's peculiarly true, for example, in western Germany — in West Germany, virtually no what is called state planning, or very little state planning, but a lot of private planning. And, parenthetically, that tells us a very interesting story.

Now, you know, that the United States was a primary occupier of West Germany. It couldn't do anything, obviously, about the zone in Germany that was being occupied by the Russians, but in the zone in which the Americans occupied — which was very, very heavily industrialized and which was perhaps the most significant zone, and also in the British zone in which American policy really was prevalent — in many instances, in those zones, American policymakers could remake Germany. And they went in, as you know, with a policy statement called Joint Chiefs of Staff 1067. In other words, with a policy formulation that had been drawn up in September of 1944 by the Joint Chiefs of Staff — a famous policy formulation with the number 1067. And 1067 talked about going in and really remaking Germany: meant that you were going to democratize Germany, you were going to de-Nazify her, you were going to decartelize her, and so forth. Well, of course, quite obviously, none of that was done. The American occupation got very exhausted when it saw the scale of that problem, and very frightened when it saw the implications of democratization or decartelization and the idea that you might create a vacuum in which something untoward might happen. And, consequently, it all sort of dwindled off.

Democratization of Germany was a little bit amusing. There was a commander in Berlin that the Americans sent named Brigadier General Frank Howley. And Frank Howley has written his

memoirs, which is really a book to be read from the point of view of what they were doing in Germany, called *Berlin Command*. And this is what he considered the prime factor in the democratization program that the Americans had in Germany: "I consider our football program the best thing we ever did in Berlin to sell young Germany on our ideal of democracy." Now, if the idea, for example, of a group of people going out to break each other's bones is the best example to give to Germany, who have just been through fascism, I don't know. It is very peculiar. But I suppose it has something to do with fair play.

It suffices to say that, in terms of the industrial structure that is in terms of decartelization, there really was, effectively, very little of it done. So that by an enquiry into the structure of German industry in 1960, that was made in the Federal Republic, it was declared that a hundred producing corporations in West Germany produced 40% of all industrial goods. In other words, you're dealing with a very highly centralized structure. And this means that you have agencies for internal private planning. In other words, planning within the structure of private industry. So the BDI, for example, which is the Federation of German Industrialists, which is this kind of peak association for German industrialists doing a certain amount of projection for various industries. So the three great investment banks — the Deutsche Bank, the Dresdner Bank, the Commerzbank — all of them involved, after all, in encouraging a certain amount of this kind of private planning or private projection.

But that, you see, isn't what the enthusiasts of neo-capitalism are talking about. What they are talking about is *le Plan*. And the plan is French. And *le Plan* means state planning. And suddenly capitalism has come into its own, and it is planning for the perpetual expansion of the economy and the good of everybody. Well, *le Plan* in France began in 1946. And the plan in France is associated with the name of Jean Monnet to begin with. Now, Monnet is somebody to calculate with, and somebody really to know about. Because Monnet is one of those people who really was an internationalist — an internationalist from the point of view that wherever there was enterprise, there was Monnet. And so, you find him in the 1920s as a vice-president of the Bank of America. You find him in 1929, making a fortune in Wall Street and losing it. You find him suddenly in 1930, in Sweden, liquidating the Kreuger match empire. You find him in 1931 running off from Sweden with the wife of an Italian diplomat and marrying her in Moscow. You find him doing all kinds of international things, ending up, finally, in China in 1934, where he is reorganizing the railroads. And so he is "Mr. International," and he comes then to the plan in 1946. And, obviously, Jean Monnet is not coming to the plan with the idea of any socialist — that a plan, after all, ought to be that the resources of a society are allocated for the needs of the people in that society.

The first plan was the plan of 1946, which ran until 1954 and was called the Plan of

Modernization and Equipment. And it was headed by Jean Monnet, who was the so-called commissar because the whole plan organization is called the *Commissariat du Plan*. And Jean Monnet simply had the idea of using public resources. In other words, of getting state funds and, largely through American help, to beef up what we would call heavy industry — in other words, was to beef up the iron and steel trade, cement, the transport trade, the fuel and power trades. And that was done in that first plan.

But, then, in 1954, you get the second plan. And that begins, really, to magnetize a lot of these writers like Shonfield about modern capitalism, because the second plan is called the *Plan d'orientation*, a plan of orientation. In other words, it is now the idea that the technocrats of the French state will come together and really will set down the projections for a rational economic development of a society. But, you see, this isn't what the French plan was or ever has been. This *Plan d'orientation* was basically a service to French capitalism. It was exactly what the most farsighted French capitalists of the 1930s wanted. They wanted data, they wanted statistics; they wanted to know where it was best to invest, where they could make the greatest profits, what kind of projections there were about conjunctural variables, about national income over a three- or five-year period. And what the plan did was to enable French capitalists to avoid risks. When I say that I'm simply repeating what Pierre Marsay, who was probably the greatest commissar of the Plan, in the late 50s and early 60s, said. And Marsay said, "The Plan is a service to enterprise." It's a way of their knowing where they can make the best profits.

There is nothing in this plan, you see, that deals with the social or cultural or, basically, the human effects of economic growth. Nowhere is there discussion of what will happen if you depopulate one region and overpopulate another. Nowhere is there discussion of what happens if you destroy the greenery of France, if you create blight in the cities. The whole idea is where can you invest in order, basically, to make profit. The Plan, in other words, is exactly what you have with the nationalization. It's a way of buttressing a kind of system, of establishing the hegemony of a kind of system with a certain sort of state service. Call it state capitalism, if you will. But it is closer, conceptually, to fascism than it is to socialism. It is the idea, after all, of coming in to bail out those who are the private entrepreneurs.

And that French plan, I should tell you parenthetically, really begins to become basically, a very unscrupulous operation from about 1965 on. With the death of De Gaulle, and with the passage of De Gaulle, and with the era of [Georges] Pompidou, you begin to get more and more of a feeling of the public sectors of the economy ought to be demobilized — that you ought to not invest in the coal mines anymore, but ought to put state capital behind certain kinds of enterprises that really bring very large return to private investors.

All of which leads to the second proposition. If it is not a question of the state, is it a question of social peace? Because that is the other great argument about neo-capitalism. And it is a fascinating theme. And it is that capitalism has known and learned how to keep the peace. It has known how to use trade unions. It has known how to use social democratic parties.

And in Europe, the enthusiasts talk about two models. They talk about the Swedish model and they talk about the German model. And both of those deserve your attention because both of those, really, have been part and parcel of a certain illusion about the last twenty years. You know what the Swedish model is. The Swedish model is eternal social peace — that capital and labor live side-by-side very happily and very effectively together. And the story runs something like this: that the Social Democratic Party has been in power in Sweden since 1932, and it came into power when the Social Democratic Party got something like 45% of the vote and Per Hansson became the prime minister of Sweden. And in the background to that, a very severe depression — about 185,000 Swedish workers out of work in 1932 — and, also, a famous clash between the police and burgers which shocked the working class. It came in March of 1931, in the city of Lund, and there was worker demonstration, and it was protesting against scab labor being used against strikers. And, consequently, the police came in, opened fire and five workers were killed, including one woman. And that shocked public opinion, and the Social Democrats were swept into office. From that time in 1932, down to the present, there has always been a Social Democratic or so-called socialist prime minister in Sweden. And what the Social Democrats did in the 1930s was to respond to certain needs for social security, for housing reform and so forth. But then they struck an agreement in 1938.

Now, the tactic was very different from a strategy of taking control. What the Swedish Social Democrats really said was the socialists control political power and the capitalists will control economic power, but we will strike a deal. And the accords of 1938 were accords struck between the central trade union federation called the LO, the Federation of Swedish Workers, and the Federation of Swedish Industrialists, the SAF. And this accord of 1938, in effect, decreed that the workers would not strike, and the employers would not use a lockout — that they would negotiate all of their labor disturbances. and that agreement was remade, many times over, for national wage agreements, for agreements on Taylorism, for agreements on a social security. And so you have in Sweden a record of very, very few strikes — a record of fewer days and hours lost than in almost any industrial country.

And the three factors that, after all, enabled that Swedish model to work have to be underscored, because they're almost unique factors. [First,] that you get both in the labor and in the industrial part, organizations that represent almost the totality of their particular groups; so that the LO, the Federation of Swedish Workers, really organizes or unionizes 90-95% of Swedish workers; so

that SAF, in a country where capitalism is very, very highly centralized and very highly cartelized, really does represent the real bulk of Swedish employers. In the second place, you have an incredible rate of growth: after the Second World War, a rate of growth that really is even greatest in the period of the mid-1960s on, when it begins to be of the order of 7.5%; in other words, that there is, out of that growth, the possibility of meeting the demands of workers. And third, that you have a Social Democratic government which puts pressure upon the employers to institute this kind of agreement at every crucial turn. So you talk about social peace, you talk about the Swedish model.

Or you talk about the German model. Because in Federal Germany, likewise, there has been a very low level of days lost in strikes or of strike hours. And you're talking, basically, about the accord of 1951 — the law, actually — of May 1951, which is a law between the Federation of German Workers and the Federation of German Industrialists, crystallized in a law after long talks between [postwar West German chancellor Konrad] Adenauer and the head of the German trade unions. And it is the law on co-management. Your law on co-management is very crucial because you set up, presumably, the institutions of co-management in the German factory. It worked first in steel and coal, and it involved two organisms. It involved a so-called Committee of Surveillance of eleven people in each plant — five of them of management, five of them of labor, and an eleventh person chosen by the other ten — and then an Administrative Committee, in which one member was chosen by labor. Now, this kind of co-management became the basis for all other agreements, so that you negotiated the hour agreements and you avoided the strikes. Now, something should be pointed out and that is that the worker representatives in these co-management agencies were not selected out of the plant. They were not really selected out of the working-class mass; they were appointed by the unions. What it is is co-management by the unions and the corporations, and that's an extremely important distinction to make.

Now, both of these models became, after all, the great kind of talking point in thinking about neo-capitalism, and it seems to me that it really is illusory. It's illusory if you think that in Sweden and in Germany, from 1969 on, you have had what you are not supposed to have: a rash of wild cat strikes. If you think, for example, of that great Kiruna strike in Sweden, in December in 1969, in which the miners went out on strike, some 5,000 of them — stayed out over fifty days, they elected their own strike committee — then you think, after all, that they are breaking that agreement of 1938 and going their own way. If you think about those wild cat strikes in Germany, you see what the point is. The point is that social peace arrangements of this kind operate only in terms of being able to encapsulate the problems that, really, workers face and suffer. Basically, they don't have very many powers. And if they are, finally, undercut by inflation or by speed-up or by some kind of slowing down of the growth rate — if they suffer unemployment, if they suffer immobility — what happens then to the whole social peace

arrangement? What happens to determination of the trade unions to impose this? What happens is that the workers go outside the trade union structure and strike by themselves.

The reality, you see, is much greater, it always has been much greater, in a country like France. Because in a country like France, where the managers and the owners of the modern sector of the economy, the sector that really does employ the latest techniques, that management sector always says it is a "new" management: that it is enlightened, that it is concerned with the worker. But not so. In Renault, they made an agreement in 1955 that said, alright, workers and management together will watch the cost of living and try to adjust French wages to that cost of living — never! It is always management that decides whether there will be an increase or not. You see, there is that immobility. A marvelous, marvelous insight by a French worker — a machinist talking to an old friend of mine, Jean-Marie Rainville, who led a survey of French workers in a metals plant — and he says this is late in 1969: "All of my life, you see, is organized, and I am a prisoner. I can never get out. I have nothing to hope for but little wage increases until my retirement forty years hence. I am 23 and my wife is 21. You know, we aren't old, but we certainly feel old." And that's the reality, you see, around which all of this nonsense about neo-capitalism winds itself and which it never really, basically, can answer. The point is that there is nothing new about the kind of capitalist structure that developed except the peculiarity of circumstances that enabled it to function as long as it did, as well as it did.

Now, who knows? And who knows what they're thinking, and who knows how they're going to resolve this particular time? I tell you one thing, and that is that management (and the states that, after all, represent management) will go a very long way down the road toward fascism before they think of any other solution, or are forced to think of any other solution. Before they reach the end of that road, for Christ's sake, think of a solution! *[applause]*