Reviews

CAPITALISM, CONFLICT AND INFLATION
Bob Rowthorn
Lawrence and Wishart 274 pp £8.50.

The essays collected in this volume form the basis of Bob Rowthorn's justly deserved reputation as the most original of the generation of Marxist economists which emerged in Britain in the sixties and early seventies. Bob Rowthorn says that the common thread to the theoretical and empirical papers is 'their emphasis on the importance of power and conflict in capitalist societies'. Perhaps more significantly they represent a major contribution to the attempt to develop Marxist economics as a way of understanding the present. This involves a critique both of the recent critics of Marxism (notably the Sraffans) and of the fundamentalist Marxists (for example, Ernest Mandel).

'Neo-classicism, neo-Ricardianism and Marxism' (which in fact was first published in the *Bulletin* of the Conference of Socialist Economists in 1972/3, not in the *New Left Review* in 1974) is a classic statement of the positive distinguishing features of Marxist economics. The fundamental point then is that the 'Neo-Ricardians' are guilty of precisely the same failure to analyse the social aspects of the production process as are the neo-classicals. What is rather tantalising is that Bob Rowthorn has not added a posts-cript stating his position on the neo-Ricardian critique of Marx, as exemplified by Ian Steedman's recent book *Marx after Sraffa.* All Bob Rowthorn says in the introduction is that 'some of Sraffa's followers, such as Ian Steedman, have since accepted this criticism and have extended their analysis to take these social aspects into account'! Now they certainly say they have done this, but the crucial question is the extent to which this can adequately be done while jettisoning a labour-based value theory as Ian Steedman does. Bob Rowthorn clearly still uses a value theory framework for at least some purposes. The Steedman critique has had a definite impact and it is a shame that Bob Rowthorn's position is not made clear.

Apart from a rather slight piece on Rosa Luxemburg and Militarism the other three theoretical essays are concerned with wages. 'Skilled Labour in the Marxist System' is a most original piece which shows how labour employed in the state educational sector contributes to the surplus value appropriated by the capitalists. It is no exaggeration to say that this approach opened up a whole new way of analysing much of the state sector, and one which is only just being exploited by Ian Gough and others.

A long, and previously unpublished essay on Marx's theory of wages is mainly aimed at clarifying Marx's own, sometimes contradic-tory, writing on the subject.

Three points which emerge from this piece are used in Rowthorn's own very important analysis of inflation presented in a technical way in 'Conflict, Inflation and Money' and non-technically in 'Inflation and Crisis'. These are that trade unions modify but do not abolish the influence of the reserve army of labour on wages (a point denied by the Cambridge neo-Keynesians like Godley); that even though Marx gave a simple and unambiguous definition of the value of labour power, his various attempts all embody the idea that at any time there is a minimum standard of life which capital must provide for workers and their families, and unless it does so there will be very serious economic and political consequences and that in a situation of unconvertible paper money Marx's argument (accepted by many of the orthodox) that money wage increases cannot be passed on in higher prices is incorrect since the state may respond to wage pressure by expanding the money supply. He develops a conflict theory of inflation, based on inconsistent aspirations of workers and capitalists for living standards and profit rates. A certain level of unemployment, which results when the state is forced to terminate its loose money policy for fear of the consequences of accelerating inflation, is actually necessary to the capitalist system as the discipline which reduces the workers' pretensions — the natural rate of unemployment beloved by the monetarists in reality means precisely this. Rowthorn says in his introduction that left-Keynesians objected to his suggestion that monetary policy may provide an effective instrument of demand management. Would they still object with Thatcherism seeking precisely to discipline the trade unions with monetary policy?

Bob Rowthorn's own analysis of the world economic crisis is presented in his review of Ernest Mandel's *Late Capitalism.* Rowthorn's analysis of the profits squeeze is of particular interest. The underlying factor he sees as the drying up of the reserve army which increased the strength of the working class in demanding both more social spending and higher wages, especially to compensate for taxes levied on them to pay for the social spending and the price increases when import costs rocketed in 1972-74. But faster money wage increases just bring inflation provided the state expands its spending and the money supply correspondingly. Rowthorn argues that the profits squeeze derives primarily from the fact that governments were forced, for fear of the consequences of hyperinflation, to put the brakes on demand, thus restricting capitalists' ability to pass on the wage increases. This is really a stagnation theory of the profit squeeze; stagnation deliberately induced for fear of inflation. Whilst this undoubtedly reflects what transpired *after* 1973 I personally doubt it was the main factor behind the generalised profits squeeze *before* 1973. It seems to me that labour shortage *itself* is the main explanation; competition between capitalists for labour forced up *real*, and not just money, wages, this increase in real wages being necessary to knock out the least productive capitals and allow labour to be transferred to the more productive.

In considering Mandel's argument about the third technological revolution, Rowthorn quite correctly stresses that the possibilities for continued technical progress are by no means exhausted, given the right restructuring of capital; it is interesting that a major problem he does identify — the difficulty of increasing service sector productivity — is itself more problematic in the era of microchips.

It is disappointing that the book contains no detailed analysis of the crisis of the UK economy. One strange argument he does advance is that it was the working class's lack of militancy in the fifties and sixties which allowed the ruling class to get away with its suicidal policy of imperial pretensions and low investment. He says that a more militant approach by hastening the crisis would have led to a much more positive state policy of intervention. This seems an extraordinary argument. Undoubtedly working class power was already a major factor *inhibiting* the capitalists in the fifties and early sixties; Japanese capitalists did not require pressure from militant workers to accumulate and modernise; indeed their great boom was based on a work force whose organisations were smashed in the late forties. Surely an even more militant trade union movement would have provoked an even earlier turn to all-out Thatcherism.

Bob Rowthorn quite correctly stresses that economic militancy is not enough, and must be sustained by a political programme. But is the alternative economic strategy (AES) really capable of bringing 'certain material benefits to the working class' since by 'challenging the undisputed authority of capital (it) would destabilise the political situation and lead to demands for further change' (p. 145)? Again, it is a shame that there is no thorough discussion of the AES. It is interesting that in an earlier (1974) pamphlet to which he contributed a section (reprinted here) on the UK's international role he says that 'in order to exercise effective control over the economy and because of foreign pressure for liquidation, a left government would be compelled to nationalise wide sections of the city and industry' (p. 84). Surely this is closer to a demand to nationalise the 200 major monopolies than the AES's modest 20-25! The same pamphlet argues that foreign capitalist opposition to a socialist Britain could be divided by an intelligent policy of offering tangible benefits to co-operation: 'if Britain offered compensation for property taken over and proposed reasonable trade deals, most capitalist countries would have strong reasons for co-operating.' This seems highly optimistic. The fear that the contagion of socialism would spread would surely dictate outright hostility from foreign capitalists which could only be counteracted by working-class solidarity. This would hardly be helped by selling off UK assets overseas to their bosses.

Two final points. Whilst his range of interests in the seventies makes an excellent collection of essays, I hope Bob Rowthorn's output in the eighties will include more sustained work on the UK and world crisis and socialist strategies. Lastly, if Milton Friedman's latest book is published simultaneously in paperback and hardback so should Bob Rowthorn's. £8-50 is a lot to pay for a book, especially such an important one.

Andrew Glyn

The attempt to cover over continued unemployment, increasing inflation, and the intensified impoverishment and oppression of the people is the desperate effort of a dying system to restore confidence in itself. This being an election year, a host of politicians have also come out for â€œfighting back,â€ demagogically trying to profit from the discontent of the people.Â Overproduction is the basic feature of capitalist crisis. It reflects the contradiction that lies at the root of capitalismâ€"between social production and private accumulation (or between the majority of people who work and the handful who make the profits). The handful of capitalists at the top are constantly trying to produce more goods, and produce them faster, in order to make greater profits. Key words: Business Cycle, Instability of capitalism, Conflict on income share, Profit inflation, Unemployment, Planning and competitive sectors, Power, Innova-tion, Surplus value. JEL classification: E31, E32. 1. Introduction.Â Logically, any problem of economic instability such as inflation and the business cycle must be initially investigated in the planning sector. The inflationary phenom-enon is initiated in this sector when its prices are raised for achieving more profits, or what Keynes [1930] termed, profit inflation. These increases in prices will be spread-ing throughout the economy, leading eventually to a general rise in price level. The increased price level, inflation, erodes the purchasing power of workers and other so-cial groupsâ€"a redistributive mechanism. In other words, the capitalists killed inflation. In the decades after World War II, Polish economist Michal Kalecki depicted inflation as a product of the struggle between business and labor. If workers manage to extract big wage increases, their employers recoup the costs by putting through price increases, forcing workers to seek even more, and so on in a wage-price spiral.Â His implicit argument is that business could give labor a solid raise without raising prices of goods and services, as long as it was willing to give back some of its increase in the share of national income. With inflation dead or dormant, central banks are taking hits from the left and the right for not doing more to juice growth. Capitalism, Conflict and Inflation: Essays in Political Economy. January 1980. Bob Rowthorn.Â A Culture in Conflict: Skilled Workers and Industrial Capitalism in Hamilton, Ontario, 1860â€"1914. By PalmerBryan D.. Montreal, McGill-Queen's University Press, 1979. Pp. xviii + 331.