



# **Imperialism, the "Global Economy" and Labor Reformism**



Reuters, Business Week, Reuters

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# Introduction

With the destruction of the Soviet Union and proclaimed "death of communism," the bourgeoisie envisages a return to an idealized version of the pre-1914 capitalist imperialist order. This was an era in which the European powers, the United States and Japan exercised direct colonial rule over tens of millions of toilers throughout the globe. The now-fashionable term "globalization" is not simply descriptive of certain quantitative changes in the world economy over the past few decades—greater integration of financial markets, the growth of internationally competitive manufacturers in East Asia and parts of Latin America—but has become a new form of bourgeois *ideology*. It projects a world in which capitalist property "rights," whether in New York or New Delhi, are no longer threatened by social revolution, national liberation struggles or interimperialist war.

At the same time, the labor bureaucracy in North America, West Europe and Japan has embraced the doctrine of "globalization" to justify its betrayal of the workers' interests. We are now powerless, they contend, before the forces of the world capitalist market to prevent cuts in wages and benefits and the dismantling of the "welfare state."

The material in this pamphlet assesses the changes in the world economy, mislabeled "globalization," in a broad historical perspective from the origins of modern imperialism in the late 19th century through the capitalist counterrevolution in East Europe and the former USSR and its aftermath. In this context, it points to the *limits and reversibility* of the movement of capital from advanced imperialist states to backward neocolonial countries. So-called multinational or transnational firms do *not* operate above or independently of the nation-state system. Rather they are vitally dependent on their own bourgeois national states to *protect* their investments abroad from popular opposition and rival capitalist states. Hence, imperialist states must maintain strong military forces and a corresponding domestic industrial base.

The recent U.S.-led NATO war against Serbia and occupation of Kosovo amply confirm that imperialism retains its predatory nature. The war was designed to realize longstanding American plans to place a substantial U.S./NATO military presence in Serbia. Ostensibly allied with one another, the various NATO powers in the course of the war demonstrated their conflicting appetites and interests, which will only serve to accelerate the drive toward future bloody interimperialist conflict. Thus, one of the main consequences of the war has been the decision of the European members of NATO to create a European-

centered military force independent of the American-dominated NATO.

The reversibility of "globalization" was clearly demonstrated by the 1997-98 financial/economic crisis in East Asia and the resulting political turbulence, especially in Indonesia. There was a massive outflow of money capital from the East Asian "tigers" back to Wall Street, the City of London, Frankfurt and Tokyo. During the popular protests which toppled the right-wing, U.S.-backed dictator Suharto in Indonesia, Western and Japanese corporations and also the International Monetary Fund shut down their operations in Jakarta and evacuated their staffs to safer environs. Since then, the imperialists have tried to cobble together a new government by supervising elections intended to prevent an outbreak of revolutionary turmoil and have used the economic distress of the country and favorable trading terms to further chain the Indonesian bourgeoisie to the centers of finance capital.

"The 'Global Economy' and Labor Reformism" was written as a polemic against David North's International Committee of the Fourth International. Despite their Marxist and Trotskyist pretensions, the Northites view "globalization" in identical terms as the "neoliberal" bourgeois ideologues and the reformist labor bureaucrats. Their assertion that the structure of world capitalism has undergone a qualitative change serves to justify a thoroughly *defeatist* attitude toward all struggles of the exploited and oppressed, from trade-union struggles in North America and West Europe to national-liberation struggles in neocolonial countries like Mexico to the defense of the Chinese deformed workers state against looming capitalist counterrevolution.

"Imperialist Rivalries Heat Up" is an edited version of a presentation given by comrade Joseph Seymour at a 1998 conference of the International Communist League. Its conclusion emphasizes that the struggle for revolutionary Marxist leadership of the working class is hardly limited to opposing the neoliberal advocates of unrestricted global capital markets. We must also no less strenuously combat the rising tide of chauvinist reaction, from the growth of fascism in West Europe to ascendant religious fundamentalism in the Near East and much of Asia (e.g., India). The liberation of the workers, peasants and other toilers from exploitation, poverty and social degradation can be achieved only through proletarian revolutions in both the imperialist centers and neocolonial (Third World) countries, thereby laying the basis for an internationally planned socialist world economy.

—September 1999

# Imperialist Rivalries Heat Up



## U.S. Capitalism in the "New World Order"

Reuters

**U.S. war buildup against Iraq takes place as rival imperialist powers compete for control of oil and natural gas in region.**

In 1909, a group of New York and London banks were negotiating a loan to the Dominican Republic. The collateral for the loan was to be the customs duties collected by the Dominican government. Jacob Schiff, the principal Wall Street banker involved in this deal, asked his British colleague, Sir Ernest Cassel: "If they do not pay, who will collect these customs duties?" Cassel replied: "Your marines and ours."

This exchange illuminates a basic principle of capitalism, as well as every other social order based on the exploitation of labor by a distinct class of property owners. So-called property rights—whether in the form of loans, direct investments or trade agreements—are just pieces of paper unless they are backed by military force. And this is not some abstruse Marxist principle. Every Mafia loan shark understands that if he does not have at his command someone who can break the kneecaps of people who owe him money, he will experience a much lower rate of repayment.

In general, the amount of military force necessary to main-

tain property rights outside one's own country is substantially greater than within it. As a historical norm, the imperialist bourgeoisie does not face an immediate or short-term prospect of proletarian revolution within its own nation-state. But investments in foreign countries, especially in what are today called Third World countries, are far more vulnerable to popular unrest, at times to local bourgeois-nationalist forces and not least to rival imperialist states. The men who own and run General Motors do not now believe that they need a strong U.S. military to protect their auto plants in the American Midwest. But they do think they need a strong U.S. military to protect their auto plants in Mexico. And the top managers of Exxon know damn well that without the U.S. Army, Navy and Air Force their oil fields in the Persian Gulf would not be theirs for very long.

The world capitalist economy, from its very beginnings in the 16th century, was based on strong national states and shaped by the conflicts between them. As Lenin emphasized,

Stormont/Washington Post

AP

**Protests in South Korea (near right) and Indonesia against imperialist-imposed IMF austerity.**

**Rapid industrialization in Asia and elsewhere has created a young and militant proletariat.**

**The program of permanent revolution is the road to national and social emancipation in the colonial and semicolonial countries.**





Museum of the American China Trade



Burton Holmes

the development of modern imperialism beginning in the late 19th century went hand in hand with the enormous growth of militarism at both the material and ideological levels. This was not some unique, profound insight on Lenin's part. The imperialists themselves were saying as much loud and clear. Leo Amery, a right-wing British politician, declared in 1905: "Every year the competition for power among the great world states is getting keener, and unless we can continue to hold our own, unless we can keep our invincible Navy, and unless we can defend the Empire at every one of its frontiers, our Empire and our trade will be taken away from us by others." — quoted in Paul M. Kennedy, *The Rise of Anglo-German Antagonism, 1860-1914* (1987)

Likewise, Admiral Alfred von Tirpitz, the architect of the modern German navy, explained and justified the First World War in his memoirs as follows: "We had global commerce, which compelled us to world power." Imperialist politicians and military men of the pre-1914 era were far more honest and less hypocritical than their present-day counterparts.

## The Second Generation of Imperialist Powers

The best way of understanding those changes in the world economy over the past few decades which have been mislabeled "globalization" is to present a broad historical overview of world capitalism from the mid-19th century to the present, focusing on the interaction between international economic developments and the major imperialist states. The Industrial Revolution began in England and Scotland in the early 19th century and then spread to France and the Low Countries (Belgium and Holland). In the late 19th century, there emerged three new industrial capitalist powers: the United States, Germany and Japan. However, the way in which industrial capitalism developed in these three countries was very different, differences whose effects exist to this day.

What became the American bourgeois state originated in the era of mercantile capitalism as a settler colony of Britain, then the most socially and economically advanced country in the world. Consequently, the American rural economy was not burdened by the heritage of feudalism, unlike the backward peasant villages of 19th-century France and Germany, not to speak of Japan. Agriculture in the northern part of the U.S. was based on relatively large family farms which were highly commercialized and technologically dynamic. This, in turn, generated a large and growing internal market for manufactured goods, from clothing to farm machinery.

At the same time, 19th-century American capitalism bene-

fited from massive foreign investment from Britain as well as the immigration of well-to-do Englishmen and Scotsmen. In 1914, British investment in the United States was greater than in India and South Africa combined. The financial integration of the British and American capitalist classes was reinforced at a more basic level, as the daughters of the Yankee moneyed aristocracy married into English ruling circles. Two of J. P. Morgan's nieces, for example, married English aristocrats, and the mother of Winston Churchill—the personification of 20th-century British imperialism—was the daughter of a New York financier.

These favorable internal and external conditions generated in the U.S. a large and broad-based capitalist class operating with a relatively weak central government. In fact, the U.S. did not even have a central bank until 1913. Before then, the House of Morgan acted as a de facto central bank. Monopoly capitalism in the U.S. (as in Britain) developed in a gradual and organic way out of competition among a multiplicity of free-wheeling entrepreneurs. Many large American corporations—agricultural machinery firms like International Harvester and John Deere, Standard Oil (whose main successor is Exxon), Ford Motor—were wholly owned for decades by the founding entrepreneur and his heirs. They grew by plowing back profits and were already quite large when, to expand further, they had to tap into outside capital through the sale of stocks and bonds.

In Germany and even more so Japan, by contrast, industrial capitalism was from the beginning highly concentrated and centralized under the auspices of a strong and interventionist state. Individual German entrepreneurs simply lacked the capital to launch manufacturing enterprises of sufficient scale and advanced technology to compete with already established British firms. Hence the Prussian-German government encouraged the mobilization of capital through the banking system. Imperial Germany under Bismarck pioneered the investment bank—which not only provided the bulk of capital for industrial enterprises but arranged for mergers and acquisitions and generally guided managerial policy. This holds true today as well. German stockholders in Siemens and Volkswagen give their proxy votes not to the management of these firms but rather to their *hausbank*, which is regarded as the best guarantor of their interests.

Japan, which in the mid-1800s was much more economically backward than Germany, consequently required an even greater degree of monopolization and state intervention to become an imperialist power. Following the Meiji restoration in 1867, the new Japanese ruling group modeled its political



Turn of century saw rise of second generation of imperialist powers.

From far left: U.S. invasion of China during 1900 Boxer Rebellion, Japan's defeat of Russia at Port Arthur in 1905. At right: German officers train colonial troops in East Africa in 1915.



Der Spiegel

structure and economic policies in large measure on imperial Germany. Bismarck himself told a Japanese emissary to restrict direct foreign ownership so as to preserve his country's national independence. The core of Japan's heavy industry was directly established by the Meiji state and then toward the end of the 19th century sold off to politically favored, family-based capitalist groups. This was the origin of the *zaibatsu*—huge integrated complexes of industrial, financial and commercial capital closely tied to the state—like Mitsui, Mitsubishi and Sumitomo. The same system continues today under the name of *keiritsu*.

### The Buildup to World War I

The emergence of the three new industrial capitalist powers in the late 19th century underlay the two major inter-imperialist wars of the 20th century. The outbreak of World War I in August 1914 marked a fundamental divide in modern imperialist history. What is today called the globalization of capitalism is a *partial* return to the norms of the pre-1914 imperialist era. From the beginning of World War I to the counterrevolutionary destruction of the Soviet Union in 1991-92, the *political* conditions for the international movement of capital were far less favorable than in the pre-1914 era.

This can be seen from a few basic statistics. By 1914, total productive assets held by British capitalists outside Britain amounted to well over one-quarter of the capital stock within Britain itself! In the case of France, the second leading exporter of capital, the total value of long-term foreign investment came to 15 percent of the domestic productive wealth. In comparison, the market value of productive assets held by American capitalists outside the United States today is about 9 percent of the total capital stock in the U.S. The comparable figures for Japan are somewhat less and for Germany substantially less.

The two institutions key to the exceptional globalization of capitalism in the pre-1914 imperialist era were colonialism and the gold standard. Particularly Britain and France, but also other West European countries as well as the U.S. and Japan, exercised direct state power over millions of toilers throughout the world. British plantation owners in India had no fear that the Indian government would enact laws unfavorable to them because the Indian government was *their* government.

It was also standard practice for imperialist states to use military force on behalf of finance capital against backward countries which were nominally independent. For example, when the government of Venezuela said it could not repay its foreign loans—mostly from British banks, and a few German

banks—as scheduled in 1902, Britain and Germany momentarily overcame their own rivalry and dispatched their navies to jointly blockade Venezuela, demanding the Caracas regime pay up or they would starve the country into submission. Britain and Germany backed off only when the U.S. asserted its monopoly over gunboat diplomacy in the region and told them to stop poaching on its turf.

While colonialism and gunboat diplomacy were the political preconditions for the large-scale movement of capital from imperialist to backward countries, the gold standard was a precondition for the large-scale movement of capital among the imperialist states. The gold standard ensured that exchange rates were fixed, that there were few or no restrictions on the international movement of capital and that real interest rates were stable and closely linked in the major financial capitals—London, Paris, New York. British holders of American railway bonds did not have to worry that their assets would be devalued by hyperinflation or the depreciation of the dollar against the pound. And if they wanted to sell those bonds, exchange their dollar earnings into pounds and reinvest their money in Britain, they did not have to worry that the U.S. government would obstruct such a transaction.

By the beginning of the 20th century, a sharp and growing imbalance had emerged between Britain and France's vast colonial dominions and financial wealth on the one hand and on the other, their industrial capacity, which is the ultimate basis of military strength. When a unified German state was created under Bismarck in 1871, Britain accounted for *one-third* of the world's manufacturing capacity and Germany only 13 percent. Britain was producing seven million tons of iron and steel, Germany only one and a half million. Two generations later, Britain's share of world industrial capacity had been reduced to 15 percent, slightly *less* than that of Germany. By 1914, Germany was producing nearly twice as much iron and steel as Britain. German ruling circles therefore demanded a redivision of world markets and spheres of exploitation corresponding to its greater and growing industrial strength. In the words of German chancellor Bernard von Bülow: "We cannot allow any foreign power, any foreign Jupiter to tell us: 'What can be done? The world is already partitioned'."

There is today a strong tendency to conceive of imperialism in Third Worldist terms as the domination and exploitation of Asia, Africa and Latin America by the United States, West Europe and Japan. However, this conception is too narrow and overly simple. The primary targets of German imperial expansion leading up to World War I lay within Europe,

**October Revolution led by Lenin's Bolsheviks pointed way out of imperialist slaughter of World War I. Banner at December 1917 Russian workers demonstration includes call: "Long Live Soviet Power Which has Paved the Way for Peace Among Nations."**



VAAP

not outside it. Germany's main war aims in 1914 were the annexation of economically valuable regions in northern France, the reduction of Belgium and Holland to client states and the annexation of the Ukraine from tsarist Russia. This was a specific historical expression of a general pattern. Imperialist bourgeoisies which are growing relatively stronger internally demand and strive to obtain a larger share of the surplus value generated outside their own national states.

### **Economic Effects of the War and the Bolshevik Revolution**

The First World War killed off the gold standard. With the exception of the United States, all the major combatants financed their huge, unprecedented military expenditures by printing money while imposing tight controls over all international transactions. When the war ended in 1918, price levels in the major capitalist countries bore no relation whatever to either prewar foreign-exchange parities or real purchasing power. The attempt to resurrect the gold standard in the mid-1920s was buried under the wreckage of the Great Depression of the 1930s, as the major capitalist countries reacted with what

were called "beggar thy neighbor" trade policies: higher tariffs, trade quotas, currency depreciation, foreign-exchange controls (especially in Nazi Germany) and the establishment of regional economic blocs dominated by a single imperialist power, such as Japan's "Greater East Asia Co-Prosperty Sphere."

No less important than World War I in shaping the economic conditions of the 1920s and '30s was the 1917 Bolshevik Revolution. This resulted in, among other things, the repudiation of the Russian tsarist debt and the formation of the Communist International, which weakened the colonial system by enormously strengthening the forces of national liberation in Asia, Africa and Latin America. For the first time since the Revolutions of 1848 in Europe, the propertied classes were truly haunted by the spectre of communism.

In 1930, the British liberal economist John Maynard Keynes blamed the Depression on the fact that interest rates during the 1920s were far higher than in the pre-1914 era. This reflected the general climate of political insecurity—fear of a new major war, of civil wars and of "red revolution." Bankers and other financiers thus demanded a higher return and faster payback on money they loaned out.

The political-economic impact of the Bolshevik Revolution was especially great in the larger semicolonial countries, like Mexico and China. In the 1920s, following the Mexican Revolution of 1910-17, Mexico was ruled by bourgeois nationalists, predecessors of the current PRI regime. Encouraged by the Bolshevik example, the new Mexican rulers refused to pay the foreign debt of over one billion dollars—mainly to American investors—inherited from the old regime of Porfirio Diaz. Unlike the Bolsheviks, the Mexican bourgeois nationalists did not openly repudiate the foreign debt. Rather they prolonged negotiations with the House of Morgan on the terms of repayment for years and, in the end, paid next to nothing. The other side of this was that new investment in Mexico by the House of Morgan and other international financiers was also next to nothing.

In China, the impact of the Bolshevik Revolution was far greater and more direct than in Mexico. The Chinese Revolution of 1925-27 was defeated only because Stalin and Bukharin ordered the Communist Party (CCP), which stood at the head of the small but powerful proletariat, to liquidate into Chiang Kai-shek's bourgeois-nationalist Guomindang. However, Chiang's counterrevolutionary regime did not succeed in restoring political order. Peasant armies led by Mao



National Archives

**U.S. troops invaded Siberia during 1918-21 Civil War as part of imperialist effort to overthrow young Soviet republic.**

Zedong's CCP controlled some regions of the country, while various rival warlords controlled other regions. Consequently, Wall Street and London were not about to risk their money in Chiang's China. The only significant foreign investment in China in this period was undertaken by Japan in Manchuria *after* it conquered and occupied this region in 1931. Here again we see that military-political control is a precondition for the large-scale movement of capital from an imperialist to a backward country.

The struggle of the major capitalist powers to redivide markets and spheres of exploitation led in 1939-41, as it had in 1914, to an interimperialist world war. But there was, of course, a major difference: the existence of the Soviet Union, which remained a workers state despite its degeneration under the nationalist Stalinist bureaucracy. In its drive to dominate Europe, Germany invaded and sought to subjugate Soviet Russia. The defeat of the German Wehrmacht by the Soviet Red Army decisively affected the shape of the postwar world. The United States, with the defeat of its main imperialist rivals, Germany and Japan, became the hegemonic world capitalist power. But the global hegemony of American imperialism was blocked by the Soviet degenerated workers state, which had emerged from the war as the second-strongest state in the world. From West Europe to South America to East Asia, the course of economic developments between 1945 and 1991 was integrally connected with the Cold War.

### The Postwar Period

In West Europe and also Japan, the devastation of World War II combined with the leftward radicalization of the working class militated against a return to the "free trade" and "free market" policies of the pre-1914 era. In 1947, U.S. president Harry Truman told a group of American Congressmen, "We'll have to provide a program of interim aid relief until the Marshall program gets going, or the governments of France and Italy will fall, Austria too, and for all practical purposes Europe will be Communist" (quoted in Philip Armstrong et al., *Capitalism Since World War II* [1984]).

Except for the U.S., all the major advanced capitalist countries engaged in a high degree of state intervention in economic activity in the early postwar period. To prevent the massive flight of capital to the U.S., where the rate of return was far higher, all West European governments imposed tight restrictions on foreign-exchange transactions. This, in turn, discouraged the movement of capital from the U.S. to Europe, since American investors were uncertain as to whether and on what terms they could get their money out again.

Consider a wealthy American in the 1950s who had inherited some bonds of the big Italian automaker Fiat. If he wanted to sell those bonds and reinvest the money in an American corporation, he would have to bribe the top officials of 15 different Italian ministries. Under these conditions, wealthy Americans were not exactly breaking down the door to invest in Europe. It was not until the late 1950s that the pound, franc, deutschmark and lira became freely convertible into dollars as well as into one another. And it was only after this that big U.S. manufacturing firms like General Motors and Ford opened factories in West Europe.

I want to digress here on the relation between currency convertibility and the international movement of capital in its different forms, in part because this is a key element in the present financial crisis in East Asia. The single most valuable piece of foreign property American capitalism has are the oil fields in Saudi Arabia leased by a consortium of four U.S. oil companies. Yet nobody knows or cares about the exchange rate

of the Saudi riyal. That's because the oil extracted from Saudi Arabia is sold off the world market for dollars. However, the cars produced by General Motors factories in Germany are sold to Germans for deutschmarks; the cars produced by Honda factories in the U.S. are sold to Americans for dollars. This kind of foreign investment will be undertaken only if the deutschmark is convertible into dollars, and dollars into yen, at a stable rate. This same principle holds true for investment in the securities of foreign firms. American and Japanese financiers will purchase bonds issued by Hyundai and Samsung only if the South Korean *won* is convertible into dollars and yen at a stable rate.

A basic precondition for the economic boom in East Asia during the last decade was that the governments of this region not only pledged currency convertibility but pegged their currencies to the dollar. The present crisis began last summer when Thailand reneged and devalued its currency to increase exports and reduce imports. When other countries in the region followed suit, this triggered a massive and panicky capital flight.

### U.S. Imperialism and the Cold War

But let's return to our historical analysis which allows us to place recent economic developments in a broader perspective. The outcome of World War II had an even more profound effect on the economically backward regions of the world

Scherschel/Time Life

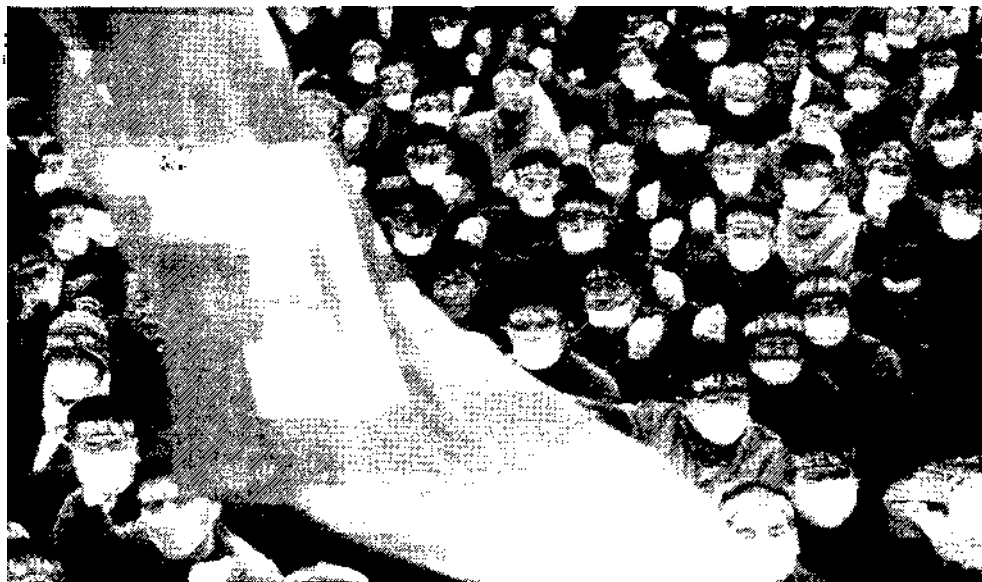


**U.S. general George Marshall (left) oversaw plan to reconsolidate West European capitalism as part of anti-Soviet Cold War. Coal shipments were airlifted behind Soviet lines to West Berlin, 1948.**

Sanders/Life



**General strike against anti-labor laws and threat of mass layoffs in winter of 1996-97 demonstrated combativity of South Korean proletariat.**



than on the advanced capitalist countries. To begin with, major regions were removed from the sphere of capitalist exploitation altogether. In East Europe in the late 1940s, the Soviet bureaucracy, under pressure from American imperialism, created deformed workers states structurally similar to the Stalinized Soviet Union, based on planned, collectivized economies, state monopoly of foreign trade, etc. Bureaucratically deformed workers states also emerged in China, North Korea and Vietnam as a result of indigenous peasant-based revolutions led by the Stalinists.

At the same time, significant political changes also took place in those economically backward countries which remained within the sphere of capitalist exploitation. The weakening of the West European imperialist states caused by World War II combined with the radicalization of the colonial masses led to the "decolonization" of Asia, the Near East and Africa. State power now passed into the hands of the indigenous bourgeoisies, who sought to pursue their own national interests within a global context dominated by international finance capital.

Despite some CIA-organized coups (such as that against the left-nationalist Mossadeq regime in Iran in 1953), the ability of U.S. imperialism to control governments of former colonial countries was limited by the countervailing power of the Soviet Union. Moscow's backing allowed bourgeois-nationalist regimes like Nasser's Egypt, Nehru and Indira Gandhi's India and Saddam Hussein's Iraq to exercise a certain degree of political and economic independence from the imperialist powers which they could not have attained on the basis of their own national economic resources. Western and Japanese corporations were discouraged from investing in countries like Egypt and India for fear of punitive taxation, restrictions on the repatriation of profits and the possibility of nationalization without adequate compensation. The 1960s and '70s marked the heyday of economic nationalism and statified capitalism in what was then called the "Afro-Asian bloc."

At the same time, the bourgeoisies of certain American client states also utilized the Cold War conditions to attain a semblance of economic independence. Here I want to talk a bit about South Korea because it is now the focus of a major economic crisis with global repercussions. The rapid industrial growth in South Korea over the past three decades was subsidized by U.S. and Japanese imperialism because it was a front-

line state in the Cold War. South Korea is conventionally described as a prime example of export-led growth. However until the mid-1980s South Korea normally ran balance-of-trade deficits, not surpluses. It was importing large amounts of high-tech machinery and equipment, mainly from Japan, to construct an industrial infrastructure and plant. These deficits were financed by American aid and Japanese loans on soft terms.

Beginning in the 1960s, under the military dictatorship of Park Chung Hee, the South Korean capitalist groups—the so-called *chaebol*—undertook an ambitious industrialization drive through a high level of state intervention and nationalistic economic policies. For example, in the 1970s the Seoul regime decreed that all oil shipped from the Persian Gulf to South Korea had to be carried in Korean-owned ships. This and similar measures were harmful to U.S. and Japanese economic interests. But Washington and Tokyo were constrained from putting economic pressure on South Korea—threatening to cut off aid or loans—for fear of destabilizing the right-wing dictatorship and strengthening the left and anti-American oppositional forces.

Today, Wall Street spokesmen and the American and British financial press are denouncing "crony capitalism" in South Korea, denouncing its unregulated and irresponsible banking practices. This has been going on for a quarter of a century. So what's different now? What's different now is that the Soviet Union no longer exists and North Korea is in dire straits. So the American and Japanese imperialists are ripping up their old agreements with the *chaebol* and dictating new terms: We used to let you have 50 percent of the surplus from South Korean workers; now you can only have 25 percent and then only if you do exactly what we tell you. That's called the "globalization" of capital, otherwise known as imperialism.

### **Historical Development and Dialectics**

In examining the development of a second generation of imperialist states—the U.S., Germany and Japan—one might ask why a third generation could not emerge today from the more industrially developed Third World countries like South Korea or Brazil. This raises the question of methodological approach. Historical development is dialectical, not cyclical. History does not consist of a continual repetition of set patterns without significant change. One has to comprehend imperialism in its historically concrete, complex and ever-changing



dimensions. What is possible and probable at any given time is determined and conditioned by the entire previous course of development. How people think and act is determined and influenced by their understanding of past experience. They seek to emulate activities and policies deemed to be successful and avoid those seen as a recipe for failure or disaster.

Let me give a few examples of what I mean by the dialectical nature of history in regard to modern imperialism. When Lenin wrote *Imperialism, the Highest Stage of Capitalism* in 1916, the imperialist bourgeoisies were not particularly worried about social revolution in their colonies and semi-colonies. There had been numerous revolts by the native peoples against colonial rule—the Sepoy mutiny in British India, the Philippine liberation struggle against U.S. imperialism, the uprising of the Herero people in southwest Africa against their new German colonial masters—but these had all been suppressed through overwhelmingly superior military force. In no case had such colonial revolts driven out the imperialists and expropriated their property. But, as we have seen, after the Bolshevik Revolution, American, British and French bankers were extremely cautious in lending money to colonial and especially semicolonial countries. In other words, the proletarian revolution led by Lenin in Russia *changed* in significant ways the behavior of the capitalists and their governments which Lenin had analyzed *before* that revolution.

Another example is that the German ruling class in the late 19th century could not build a great industrial power like Britain by adhering to the same economic policies that Britain had earlier—precisely because they were confronting Britain as the dominant world industrial-financial power. Thus industrial capitalism as it developed in late 19th-century Germany had to be—and was—quite different in its structure and character than that of the pioneer country of industrial capitalism. In fact, by 1900 some spokesmen for the British ruling class regretted that they had not opposed the unification of Germany in the 1860s, or that they had not formed an alliance with Russia and France to crush Germany in the 1880s when it was still relatively weak. They regretted that they had not put

up high tariffs against German imports, just as Germany put up high tariffs against British imports.

Or consider Japan in this respect. In the decades before the Second World War (called the Pacific War in Japan), the House of Morgan and major British banks like Barings and the Rothschilds lent large sums of money to Japan, therefore helping finance its industrial-military development. Wall Street and the City of London did not demand in return for these loans that American and British industrialists be able to buy up the productive resources of the *zaibatsu* on the cheap.

That is now exactly what is happening to South Korea. Over the past three decades, the South Korean ruling class consciously tried to emulate the economic program—such as massive government subsidization of and guarantees for loans for industrial investment—which had transformed Japan into a major capitalist power in the late 19th and early 20th centuries. However, as recent dramatic events have shown, the South Korean *chaebol* could not follow in the footsteps of the Japanese *zaibatsu* in large part because they were blocked from doing so by Japanese industrial-financial power. South Korea is not being allowed to borrow money to subsidize its own national bourgeoisie. The conditions of the recent International Monetary Fund (IMF) loans to South Korea are that the Americans and Japanese—and the Germans, too, if they are interested—can buy the most productive resources of the *chaebol* very cheaply. The American imperialists have no intention of allowing another country to surpass them by their own actions or inactions.

In short, the South Korean bourgeoisie is too reliant on imperialism to embark on the road of independent national development. However, the influx of capital into countries like Thailand, Indonesia and particularly South Korea—what is currently termed "globalization"—has created a combative, young proletariat. In such countries of belated capitalist development in the imperialist epoch, we advance the program of permanent revolution: only under the rule of the proletariat—standing at the head of the poor peasantry and other oppressed sectors and fighting to promote socialist revolution in the

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# SPARTACIST

## An Organ of Revolutionary Marxism

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Der Spiegel

**Counterrevolutionary destruction of USSR has intensified interimperialist rivalry, as capitalist powers compete for control of new pipeline routes in Central Asia.**



Economist map

more advanced capitalist powers—can the yoke of imperialism be overthrown.

The way economic development has proceeded in these countries in the past few decades—particularly in regard to the changed role of agriculture in the world economy—also has a programmatic implication in advancing the perspective of permanent revolution. Today, the classic agrarian slogan of the bourgeois-democratic revolution—"land to the tiller"—is no longer adequate. The way in which the agrarian revolution unfolded in Russia in 1917-21, with the peasants simply seizing and dividing up the land, is not likely to recur in many backward countries today. In the 19th and early 20th centuries, labor productivity developed much faster in industry than in agriculture. Tsarist Russia was a major exporter of grain, produced by labor-intensive methods by peasants using techniques which had scarcely changed in a century.

But since World War II, labor productivity has grown faster in agriculture than in industry. There is more capital per worker in American agriculture than in the American steel industry. Many Third World countries now export light manufactures, such as clothing and consumer electronics, to North America and import basic foodstuffs from North America. As a consequence, many backward countries have experienced massive deruralization. The mass of toilers no longer live in rural villages, but in the shantytowns around the major cities. Peasant smallholding is no longer economically viable without large amounts of capital investment and significant technical training. In countries like Mexico, the program of agricultural collectivism—supported by socialized industry and intensive technical education—is key to a genuine agrarian revolution.

### The Collapse of the Soviet Union

The economic roots of what is now called "globalization," especially the growth of manufacturing in East Asia, can be found in the declining profitability of American industry beginning in the late 1960s and in Japan during the following decade. With the devastation of Germany and Japan in World War II, the U.S. attained a degree of economic dominance in the early postwar years that could not be long sustained. In 1950, the U.S. accounted for 60 percent of industrial output and over half of the capital stock of all advanced capitalist countries and for one-third of world trade in manufactured goods.

However, as Germany and Japan rebuilt their industrial economies, they began to cut into ever larger shares of world

markets and even the U.S. domestic market. At the same time, the U.S. industrial plant, largely built during and immediately following World War II, was becoming increasingly obsolete. The competitive position of American capitalism was further eroded by the inflationary pressures of the Vietnam War. By 1970, the U.S. share of world trade in manufactured goods was only half what it had been 20 years earlier. The rate of profit fell from 19 percent in the early 1960s to 13 percent in the late '70s. Corporate America responded with an anti-labor offensive combined with a certain shift in operations to low-wage countries. Between 1977 and 1994, there was a fivefold increase in manufacturing plant and equipment directly owned by U.S. firms in Third World countries.

By the mid-1970s, the so-called Japanese "economic miracle" was clearly needing further divine assistance as profitability was sharply declining. There were a number of contributing factors: higher labor costs resulting from virtually full employment, the big jump in the price of oil, protectionist measures in the U.S. and West Europe. The basic cause, however, was that analyzed by Marx in Volume III of *Capital*: rapid accumulation drives down the rate of profit because the additional increment of capital does not generate a corresponding increase in surplus value. In the case of Japan, the rate of profit fell from 23 percent in the 1960s to 15 percent in the second half of the 1970s.

So the *keiretsu*, too, decided to go offshore. Japanese direct investment in East Asia skyrocketed from \$100 million a year in the early 1960s to \$2.7 billion a year in the late 1980s. Matsushita was now making many of its TV sets and air conditioners in Malaysia, Yamaha its sporting goods in Taiwan, Minebea its miniature ball bearings in Singapore and Thailand, TDK its magnetic tapes in Taiwan and South Korea, etc.

Nonetheless, during the 1980s Western and Japanese investment in neocolonial countries was still inhibited by the uncertainties of the Cold War. A popular revolution or even an election or military coup could bring about a left-nationalist regime backed by Moscow. A fundamental political condition for the present triumph of capitalist "globalization" was the retreat of Soviet power under Gorbachev in the late 1980s, followed by the counterrevolutionary destruction of the Soviet Union in 1991-92. It was no accident, for example, that the toppling of the radical-nationalist Sandinista regime in Nicaragua in 1990, capping the contra war organized by Washington,

coincided with the beginning of a massive investment boom by U.S. banks and corporations in Mexico. At the same time, capitalist counterrevolution in the Soviet bloc opened a huge, new sphere of exploitation, especially for German imperialism. Four or five years ago, a spokesman for German industry exulted: "Right on our own doorstep in Eastern Europe, we have for the first time a vast pool of cheap and highly trained labor."

### Multinationals and the Nation-State

I want to dispel some widespread misconceptions about what is now called the "globalization" of capitalism. The reason that they're widespread is because they're propagated from all points of the political spectrum—the "free market" right, left liberals and social democrats, especially the trade union bureaucracy, and self-proclaimed Marxists like the political bandits of David North's Socialist Equality Party.

One such misconception is that large industrial firms and banks no longer have any strong connection to a particular nation-state but rather operate above and between nation-states, indifferent as to their relative conditions. Thus American liberal economist Charles Kindleberger asserted: "The international corporation has no country to which it owes more loyalty than any other, nor any country where it feels completely at home" (quoted in *California Management Review*, Winter 1992).

This is profoundly false and can easily be demonstrated as such. If large corporations were genuinely multinational or transnational one would expect their owners and top managers to be drawn from many different countries. But that isn't the way it works. There are no non-Americans on the boards of directors of Exxon, General Motors and Ford; there are no non-Germans on the boards of directors of Siemens and the Deutschebank; there are no non-Japanese on the boards of directors of Toyota, Nissan and Honda. The difference between international operations and national ownership can be seen in the extreme in the case of the Swiss corporation Nestle. While 95 percent of its assets are located outside Switzerland, 97 percent of its stockholders are Swiss citizens. General Motors, Siemens and Toyota are *national* firms with international operations. They are no more multinational or transnational than was the British East India Company, which

organized and carried out the colonial conquest of India in the 18th century.

Secondly, not all operations of large corporations have the same strategic importance. The profitability of many major corporations depends on technological innovations. This is especially true of those firms involved in what one former Republican president, Dwight D. Eisenhower, called "the industrial-military complex." The big U.S. aircraft company Boeing has some parts for its planes made in China. But it does not *design* its planes in China, and if its management ever tried to do that the U.S. government would prevent it. The largest American chemical company, Du Pont, now has 35 percent of its assets outside the United States, but 90 percent of its research and development is conducted *within* its own national state. A survey in the 1980s of over 20 large German multinational corporations indicated that almost 90 percent of their research and development facilities were located in Germany. If the big German chemical companies are not willing to set up research laboratories in neighboring France or Holland, they're certainly not going to locate them in Turkey or Brazil.

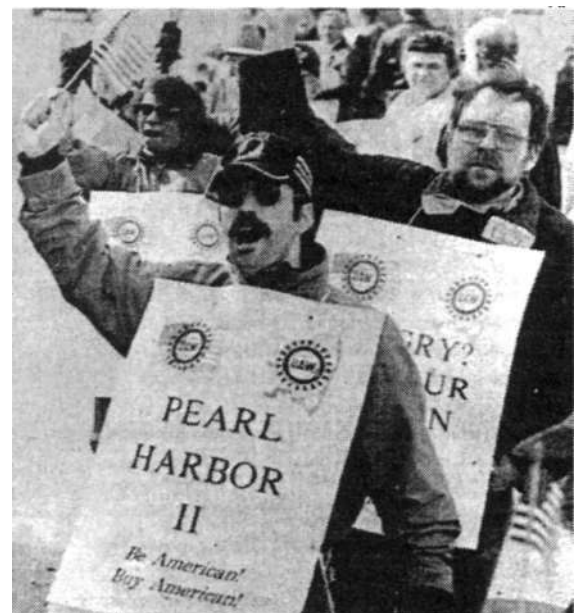
Another common misconception is that so-called multinational corporations have brought about the global integration of the process of industrial production. Thus Australian Northite leader Nick Beams informs us that "globalization refers to the internationalization of the circuit of productive capital." Unlike David North and Nick Beams, the men who run GM, Toyota and Volkswagen are not so stupid as to create a system in which a few thousand workers in unstable Third World countries can disrupt their entire production process internationally.

Imagine if GM and Toyota had ten plants in ten different countries, each producing a key component for their automobiles. A strike by 2,000 workers in Mexico or Indonesia could then shut down the entire global production of the world's two biggest automakers. There are a few auto plants in the U.S. which do have that kind of economic leverage on a continental scale. A year or so ago, 3,000 workers in a brake manufacturing plant in the American Midwest went on strike and in two weeks all of GM's North American production ground to a halt. The huge Volkswagen plant in Brazil, for example, does not produce crucial parts for the autos made in Wolfsburg,

Fujifotos



Japanese farmers protest imports of U.S. rice, American labor bureaucrats push Japan-bashing protectionism. As inter-imperialist rivalries intensify, capitalist rulers and labor lackeys promote chauvinist poison.



Germany and sold throughout Europe. It assembles cars, with some parts imported from Germany, which are sold in Brazil and the rest of Latin America.

### Reforge the Fourth International!

I want to conclude with the same point I started with. The security of foreign investments is only as strong as the state protecting those investments. And that puts definite limits on the willingness of the imperialist bourgeoisies to "globalize" industrial production. In the mid-19th century, when Britain dominated the world market in manufactured goods, British capitalists and their ideologues proclaimed the doctrine of "free trade" as if it were the eleventh commandment handed down from Jehovah to Moses on Mount Sinai.

However, by the early 1900s German industrialists were out-competing their British rivals even in Britain itself. So the British ruling class started singing a different tune, with significant sectors now agitating for import protectionism. One of its advocates, W. S. Hewins, argued:

"Suppose an industry which is threatened [by foreign competition] is one which lies at the very root of your system of National defence, where are you then? You could not get on without an iron industry, a great Engineering trade, because in modern warfare you would not have the means of producing, and maintaining in a state of efficiency, your fleets and armies.... It is conceivable that under conditions of strict and ruthless international competition the great industries of England would be reduced to a very few. Why should not we all become financiers of one kind and another, because we can do financially better than other people? But you cannot make a nation or an empire out of financiers."

— quoted in Paul M. Kennedy, *The Rise of Anglo-German Antagonism, 1860-1914* (1987)

Every issue of the *AFL-CIO News*, the official paper of the American labor bureaucracy, says pretty much the same thing. And this is true of other labor bureaucracies in imperialist countries, such as the French Communist Party. This is what Lenin called "social-chauvinism" or "social-imperialism," the doctrine that the working class has an interest in the strength of its "own" imperialist state, in the ability of its "own" imperialist state to maximize the extraction of surplus value from the rest of the world.

"Globalization," or "neoliberalism" as it's also called, is a superficial and transient ideological fashion espoused today by the official spokesmen of finance capital represented by the IMF and the World Bank. But this is *not* the only kind of bourgeois ideology we encounter and will encounter. Not at

all. It is important to keep in mind that the mass fascist party in France, Le Pen's National Front, is opposed to a common European currency as stipulated in the Maastricht Treaty. The foremost spokesman for the "respectable" far right in the U.S., Pat Buchanan—who would be quite at home in a clerical-fascist regime—is opposed to the North American Free Trade Agreement, which he denounces for impoverishing the American working people.

The mobilization of the working people of the United States, Germany and Japan for a new imperialist world war will not be made in the name of free trade, currency convertibility, the international mobility of capital or the globalization of production. It will be made in the name of nationalism, of racism, of "the right of power, the right of force." Working people will be told by their capitalist rulers that if they do not kill and rob other peoples, other peoples will kill and rob them. So we had better understand what we are going to be facing in order to combat it more effectively.

Particularly in the U.S., Germany and France, a major depression will make the program of the fascists and the far right more attractive to strata such as small proprietors, extremely backward workers, unemployed and lumpenized youth. It would not surprise me at all if in the next period one sees fascists and far rightists protesting and perhaps more than protesting the likes of the World Trade Organization and the IMF as agents of the "international Zionist conspiracy." As August Bebel, founding leader of the Marxist workers movement in 19th-century Germany, said, "Anti-Semitism is the socialism of fools."

So what are we to do about it? Obviously, we want to support and advocate, and where feasible engage in, labor-centered mobilizations to defeat the fascists in the streets and international action at the trade-union level. But our response cannot be primarily at the level of trade-union militancy. We have to answer the "socialism of fools" with the "socialism of wise men." This means pushing our *full program*—a Socialist United States of Europe, a world socialist order, international economic planning based on the highest level of science and technology. There are today in Europe alone millions of well-educated youth who are unemployed. In a depression, huge amounts of productive resources will stand idle. Add to this the increasing threat of a new imperialist world war. Our answer—and the only answer—to all this is new October Revolutions on a global scale. And that is why we fight to reforge Trotsky's Fourth International as the world party of socialist revolution. •

**Cops attack Detroit press strikers' picket line, 1995. Abetted by AFL-CIO tops, U.S. bourgeoisie has increased rate of exploitation through massive wage cuts, anti-labor repression.**





Business Week photos

"Multinationals" set up production in low-wage "Third World" countries: RCA factory in Mexican *maquiladora* (left), Nike plant in Indonesia.

# The "Global Economy" and Labor Reformism

Over the past couple of years, a flood of books and articles have announced or analyzed what a column in the *Washington Post* (16 February 1996) called "this structurally new and still imperfectly understood creature known as the global economy." Whether they hail it or condemn it, mainstream bourgeois economists and leftist ideologues alike argue that the transfer of production operations by "multinational" corporations from North America, West Europe and Japan to the so-called "Third World" in recent years represents a profound, structural change in the world capitalist system. The liberal *Nation* devoted a special issue to "globalization" last July. The labor reformists who publish

## How David North Embraces Karl Kautsky



Bulletin



Verlag Kurt Desch

Political bandit David North (left) pushes latter-day version of Karl Kautsky's "ultra-imperialism."

*Workers' World News* (January-February 1996) speak of "a fundamental change as deep as the industrial revolution of the last century." An essay on the "global economy" by sociologist Ulrich Beck in the principal German news weekly, *Der Spiegel* (13 May 1996), which reflects the skepticism of a section of the German bourgeoisie toward European "economic integration," warns that "we are racing toward a capitalism without labor," claiming, "What is at issue is political freedom and democracy in Europe."

Though not all of the more cataclysmic predictions associated with "globalization" are universally accepted, a common theme in this literature is that the possibility of successful defensive struggles by the working class against the attacks of a particular capitalist government or employer is becoming a thing of the past. In a remarkable intellectual convergence, spokesmen for Wall Street, liberal and radical ideologues,

labor bureaucrats in the U.S. and Europe and a group which claims to be a revolutionary Marxist (i.e., Trotskyist) international organization have all joined together to proclaim that "globalization" has rendered trade unions around the world powerless to affect wages, benefits and working conditions.

"Unions Threatened by Global Economy," crows the *Wall Street Journal* (25 March 1996). The editors of the *Wall Street Journal* also maintain that present-day capitalism has resolved the problem of the trade cycle. Meanwhile, union leaders have seized on "globalization" as the latest alibi for selling out or avoiding struggles that can, in fact, be won. From the American Midwest to the German

Ruhr, labor officials are telling their workers: "If you don't accept a freeze or even a cut in wages and benefits, the bosses will close down your plant and shift production to India or Mexico." Joining in this defeatist refrain is the so-called International Committee of the Fourth International (IC) led by one David North, which not only denies any possibility of successful trade-union struggle but rejects trade unions altogether—except nonexistent unions to be run by North & Co.—as workers organizations of any kind.

The idea that the capitalist market economy is "global," that banks and corporations seek out those (low wage) countries where they can get the highest return on their investments, that, indeed, the internationalization of finance capital is a dominant feature of the contemporary profit system, is hardly new. Writing just over 80 years ago, Russian Bolshevik leader V. I. Lenin noted in his 1916 work, *Imperialism, the*



*Highest Stage of Capitalism*, that "the twentieth century marks the turning-point from the old capitalism to the new, from the domination of capital in general to the domination of finance capital." In a summary definition, he explained:

"Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed."

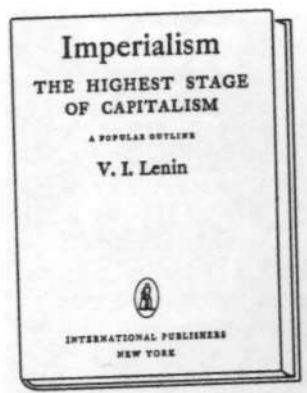
Lenin not only analyzed the economic workings of the imperialist system, he exposed the bourgeois economists who served as its apologists and the reformist and centrist pretenders to Marxism who sought to downplay the significance of this new stage of capitalist development in order to deny the urgent need for socialist revolution. Lenin took particular aim at the German Social Democrat Karl Kautsky, whose hypothesis of a unitary world "ultra-imperialism" sought to mask the growing contradictions of the capitalist system and Kautsky's own role as lawyer for the "social-chauvinist" and "social-imperialist" lieutenants of the German bourgeoisie.

For Lenin, imperialism signified the epoch of "wars and revolutions." Indeed, the pamphlet was written in the midst of the first interimperialist world war, as the major capitalist powers sent millions of young men to die in a bloody scramble to redivide markets, spheres of influence and colonial possessions. And little more than a year after his pamphlet was completed, Lenin's Bolsheviks led the workers of Russia to power in the first victorious proletarian revolution in history, smashing the capitalist state, sweeping out the bankers, bosses and landlords and setting an example to workers around the world.

What is striking in surveying the current literature on "globalization" is the extent to which all the liberal and reformist apologetics and nostrums currently being put forward were already taken up, exposed and *demolished* by Lenin eight decades ago. While certain quantitative changes have taken place in the world capitalist economy in the last decade or so, much of the current hoopla about "globalization" is a reflection not of any profound new economic transformation but rather of a profound *political* defeat, the counterrevolutionary destruction of the Soviet bureaucratically degenerated workers state. In its wake, the reformist and centrist left has bought into imperialist triumphalism over the supposed "death of communism."

The late Michael Harrington, a leading ideologue of American social democracy, defined his political program as "the left wing of the possible." With the collapse of the Soviet Union and intensifying interimperialist rivalries, the American, West European and Japanese bourgeoisies are engaging in an all-sided offensive against the working class and ethnic minorities. Consequently, the labor bureaucracies in these countries now maintain that the left wing of the possible has moved far to the right. This reformist outlook has been taken to its logical conclusion by the Northites: categorical *defeatism* toward all working-class struggles in this period.

Not coincidentally, North's obituary on the trade unions came in the same speech in which he proclaimed "The End of the USSR" (*Bulletin*, 10 January 1992). Though wont to denounce all its political opponents as "petty-bourgeois radicals," North's IC marches in ideological lockstep not only with the petty-bourgeois left and the labor bureaucracies but with bourgeois liberals and worse. Having for years joined with the "AFL-CIA" tops in promoting every counterrevolutionary force aimed at destroying the Soviet workers state, North's tendency seized on the death of the Soviet Union as a justification to apologize for outright scabbing. At the same time, they have



**Bolshevik leader V. I. Lenin analyzed workings of imperialist system in 1916 pamphlet.**

RA. Otsup

embraced a latter-day variant of Kautsky's "ultra-imperialism," using this as an excuse to spit on the struggles of oppressed nations and the colonial and semicolonial peoples enslaved by the imperialist bourgeoisies. Pointing to "vast changes in world economic and political relations," the IC today openly rejects the right of national self-determination.

### "Globalization" and Northite Defeatism

"Globalization" is but a new variation on an old theme. In the 1950s and early '60s, the term "automation" was invested with the same apocalyptic, earth-shaking consequences. Liberal intellectuals predicted that the industrial working class would in large part be replaced by robots and other machinery. One conclusion was that trade unions were becoming or would become obsolete. After all, you can't unionize industrial robots. At the same time, labor bureaucrats told their ranks that if they pushed the level of wages and benefits too high, they would lose their jobs through automation.

Today, it is intellectually fashionable to explain the sharp deterioration in the living standards of American working people over the past generation as a result of "globalization," especially the transfer of production by major U.S. corporations ("multinationals" or "transnationals") to low-wage countries in East Asia and Latin America. Speaking in Rome a few years ago, the dean of liberal American economists, Paul Samuelson, predicted: "As the billions of people who live in East Asia and Latin America qualify for good, modern jobs, the half billion Europeans and North Americans who used to tower over the rest of the world will find their upward progress in living standards encountering tough resistance." In his 1991 *The Work of Nations*, former Clinton labor secretary Robert Reich wrote that "Americans are becoming part of an international labor market, encompassing Asia, Africa, Latin America, and, increasingly, Eastern Europe and the Soviet Union." "Top U.S. Exports Continue to Be Jobs," moans the *AFL-CIO News* (5 August 1996), official organ of the American labor bureaucracy.

"Runaway shops," "outsourcing" and the transfer of production to low-wage areas like the U.S. South and Mexico and other semicolonial countries have indeed led to a sharp decline in unionized manufacturing jobs, particularly in the Northeast and Midwest. But instead of seeking to organize international class struggle against attacks on jobs and unions, the AFL-CIO bureaucracy polices the labor movement on behalf of the U.S. capitalist rulers while trying to shift the blame for layoffs here on workers abroad.

The views expressed above by Samuelson, Reich and the pro-capitalist AFL-CIO tops have become the central ideological theme of the Northite tendency. In a speech in Detroit in 1992, North stated:

"The collapse of the old organizations of the working class is, fundamentally, the product of specific historic and economic conditions. Understanding these conditions does not mean that we absolve the leaders of these organizations of responsibility for what has happened. Rather, it enables us to recognize that the rottenness of the leaders is itself only a subjective manifestation of an *objective* process...."

"The global integration of capitalist production under the aegis of massive transnational corporations and the terminal crisis of the nation-state system have shattered the basic geo-economic foundation upon which the activities of the old organizations of the working class have been based. Nationally-based labor organizations are simply *incapable* of seriously challenging internationally-organized corporations." [our emphasis]

—*Capital, Labor and the Nation-State* (1992)

Despite North's disclaimer, his notion of "globalization" and its effects *does absolve* the labor bureaucracy of responsibility for the decline of the trade-union movement and the degradation of the working class. It is no accident that North's views are also expressed, in almost identical language, by spokesmen for the union bureaucracy. Thus, the general secretary of the International Union of Food and Allied Workers' Associations, Dan Gallin, argues:

"Nation states are becoming irrelevant.... National governments no longer control the flow of financial capital. So they can no longer control their own economies. This in turn weakens the power of national democratic pressures from labour parties and trade unions."

—*Workers'World News* (January-February 1996)

Gallin, who is at least more intellectually honest than North, openly argues for a popular-frontist perspective of "building a broad-based people's movement" to counter the effects of "globalization."

But neither does North denounce the union misleaders for not mobilizing the economic power of the workers movement and popular political support against the capitalist offensive. Instead he asserts that the trade unions *as such* have been made *impotent* by objective changes in the world economy. This position is stated even more clearly and categorically by Nick

Beams, head of the Australian section of North's International Committee: "To the extent that the extraction of surplus value from the working class still took place within the confines of a given state, it was possible to apply pressure to capital via the national state for reforms and concessions to the working class. This was the program of the trade union and labor bureaucracies. That is no longer possible" (*International Workers Bulletin [IWB]*, 15 July 1996). In other words, the Northites maintain it is no longer possible for the working class to defend itself against the predations of capital through strikes or other actions, regardless of the tactics and policies pursued.

This position is radically false and, if accepted, can only foster demoralization and defeatism within the working class. In none of the major strikes which marked the decline and defeat of the American labor movement in the 1980s—the PATCO air traffic controllers, Greyhound bus drivers, Phelps-Dodge copper miners, Eastern Airlines machinists, Hormel meatpackers—did foreign competition or the operations of multinationals abroad play any significant role. Greyhound, Eastern Airlines and Hormel extract almost all of their surplus value from labor within the confines of the American state.

To be sure, there have also been major labor struggles recently against large corporations which are critically dependent on international trade and foreign outsourcing, notably the two-month-long strike at Boeing aircraft in late 1995. In this case, the strike was actually starting to hurt Boeing when the leaders of the Machinists union called it off for minimal gains while, at the same time, fomenting anti-Asian chauvinism and protectionism.

### For a Class-Struggle Perspective!

The decline of the American labor movement is not fundamentally caused by the objective effects of "globalization" but by the defeatist and treacherous policies of the AFL-CIO misleaders. As we wrote right after the defeat of the Greyhound strike:

"No decisive gain of labor was ever won in a courtroom or by an act of Congress. Everything the workers movement has won of value has been achieved by mobilizing the ranks of labor in hard-fought struggle, on the picket lines, in plant occupations. What counts is power. The strength of the unions lies in their numbers, their militancy, their organization and

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discipline and their relation to the decisive means of production in modern capitalist society. The bosses are winning because the power of labor, its strength to decisively cripple the enemy, has not been brought to bear."

— "Labor's Gotta Play Hardball to Win,"  
WV supplement (March 1984)

The AFL-CIO bureaucracy plays by the bosses' rules in all strikes, including in the service sector where foreign competition is nonexistent. Consider the strike by janitors and other building workers in New York City last winter. As usual the union tops insisted on porous picket lines. As a consequence an estimated 15,000 scabs replaced the striking workers and office buildings operated more or less as usual. But let us imagine what would have happened if the organized labor movement had sought to mobilize New York City's working people and appealed to the dispossessed population of the ghettos and barrios to actively support the heavily minority and immigrant building workers.

Dozens and hundreds of strikers and other workers—union and non-union—along with black and Hispanic youth could have surrounded every major office building in the city and prevented anyone from entering. David North to the contrary, the CEOs of American multinationals would not have responded by closing their New York headquarters and running their operations out of New Delhi or Mexico City. Rather the cops would have attacked and tried to break the picket lines, arresting militant workers and their supporters. The outcome would then have been determined by the ability of the New York City labor movement to organize effective actions backed by popular support especially in the black and Hispanic communities. A one-day transit strike, for example, might have convinced the powers that be in the world's financial capital to impose a deal on the real estate barons favorable to the building workers.

To take an international example, the defeat of the 1984-85 British miners strike by the Conservative government of Prime Minister Margaret Thatcher opened the way to a crippling assault on all trade unions in Britain. The year-long miners' struggle was far and away the most significant class battle in West Europe in the 1980s. While the importation of foreign coal did play a role in that strike, the key factor in its defeat was the refusal of the Labour Party and Trades Union Congress tops to countenance joint strike action by other sectors of the British working class, even as workers from France to South Africa expressed their solidarity with the British

miners by halting scab coal shipments and raising financial support.

Seeking to limit union struggle to what is acceptable to the capitalist rulers, the reformist labor misleaders generally eschew any possibility of real international proletarian solidarity. Typical of this is the leadership of the United Auto Workers (UAW), potentially still one of the most powerful industrial unions in the U.S. Instead of promoting organizing efforts in the American South and in the Mexican *maquiladora* industrial belt south of the U.S. border, the UAW tops respond to "outsourcing" and "runaway shops" by shoving one concession after another down their members' throats while appealing to Washington for protectionist measures. Far from seeking coordinated strike action with Canadian and Mexican workers during last fall's contract negotiations with the Big Three, whose operations throughout North America are now fully integrated, the UAW bureaucracy openly denounced a strike by GM workers in Canada, seeing that as counterposed to its efforts to get Democrat Clinton re-elected.

The existence of "multinationals" simply underscores the historic need for an internationalist *class-struggle perspective* that transcends parochial, nationally limited trade unionism. Indeed, one of the reasons for the establishment of the First International founded by Karl Marx was to organize trade-union solidarity between workers in Britain and continental Europe.

There are, of course, limits to what can be gained through trade-union struggle, however militant. As their labor costs rise beyond a certain point, capitalists will respond by retrenching (i.e., shutting down less-profitable operations), introducing new labor-saving technology as well as shifting some operations to low-wage countries. The labor bureaucracy points to the ability of the capitalists to counter union gains by such means in order to argue that the workers must accept existing, or even worse, conditions without a fight, while laying the blame on workers in other countries for "stealing American jobs." As revolutionary Marxists, we point to the limitations of trade unionism to argue for the need to overthrow the capitalist system of exploitation. As Marx wrote over a century ago:

"Trade Unions work well as centers of resistance against the encroachments of capital.... They fail generally from limiting themselves to a guerrilla war against the effects of the existing system, instead of simultaneously trying to change it, instead of using their organized forces as a lever for the final emancipation of the working class, that is to say, the ultimate abolition of the wages system."

—*Value, Price and Profit* (1867)

The Northites now openly repudiate this basic Marxist position. They maintain that trade unions can no longer function as centers of resistance to the predations of capital, and they *counterpose* a socialist transformation to the defense of the workers' interests within capitalism. According to the wisdom of Nick Beams: "In order to defend even the most minimal conditions—the simple and most ordinary demands—the working class is confronted with the necessity of overthrowing the social relations based on capital and wage labor determined by the capitalist market through which the appropriation of surplus value takes place" (*IWB*, 1 July 1996).

At first glance, this may seem like a terribly revolutionary position. In fact, it indicates a defeatist and abstentionist attitude toward the actual struggles of the working class, without which all talk of overthrowing the social relations based on capital and wage labor is empty rhetoric. As Leon Trotsky wrote: "The triumph of the proletarian revolution on a world scale is the end-product of multiple movements, campaigns and battles, and not at all a ready-made precondition for



Cohen/Public Employee Press

**AFL-CIO tops (from left) John Sweeney, Linda Chavez-Thompson and Richard Trumka. Northites echo liberal *Nation* and labor reformists on "globalization," amnestying bureaucracy's betrayals.**

18 December 1995

Who are the real scabs?

In the wake of the return to work, UAW officials have attempted to absolve themselves of blame for what has happened by diverting the anger of strikers towards the "scabs," i.e., those union members who decided to cross picket lines.

It's bureaucrats who never missed a pay

ill . . . m I

Northite International Workers Bulletin (18 December 1995) openly apologized for scabbing during Caterpillar strike.



Substance Gap

solving all questions automatically" ("Independence of the Ukraine and Sectarian Muddleheads," July 1939).

The mass of workers can achieve socialist consciousness only through the intervention of a revolutionary party in the proletariat's day-to-day struggles. This is a central theme of the 1938 Transitional Program, the founding program of Trotsky's Fourth International:

"The Bolshevik-Leninist stands in the front-line trenches of all kinds of struggles, even when they involve only the most modest material interests or democratic rights of the working class. He takes active part in the mass trade unions for the purpose of strengthening them and raising their spirit of militancy.... Only on the basis of such work within the trade unions is successful struggle possible against the reformists.... Sectarian attempts to build or preserve small 'revolutionary' unions, as a second edition of the party, signify in actuality the renouncing of the struggle for the leadership of the working class."

The Latest Posture of Political Bandits

For years, North's Workers League agitated for the racist, pro-imperialist, rabidly anti-Communist Meany/Kirkland bureaucracy of the AFL-CIO to form a "labor party." Now the North gang not only denounces the AFL-CIO tops as reactionary but likens the unions to a "company union or a scab organization." Having recently rechristened themselves the Socialist Equality Party (SEP), the Northites now declare:

"Workers must face the fact that the AFL-CIO is a failed organization that will not respond to the workers' demands. Workers need democratically-controlled unions, committed to defending their interests without compromise. Such unions can only be established as the industrial arms of a mass political party of the working class, and this party can only be built in ruthless struggle against the trade union bureaucracy. This is the perspective fought for by the Socialist Equality Party."

— IWB (15 July 1996)

The nonexistent "industrial arms" of a nonexistent mass workers party are here supposed to replace the actual mass economic organizations of the U.S. working class.

If North, Beams & Co. were honest and courageous politicians, however misguided, they would call on American workers to leave the AFL-CIO en masse, Australian workers to leave the Australian Council of Trade Unions, British workers to leave the Trades Union Congress, etc. According to the Northites, not only have the unions become reactionary but also strikes: "Even when the bureaucracy calls a strike, it does so for the purpose of more effectively demoralizing and

defeating the workers" (*The Globalization of Capitalist Production & the International Tasks of the Working Class* [September 1993]). If that is the case, then the Northites should tell the workers never to go out on strike and should give no support to strikes that do occur. Given its line, there is no reason for the Socialist Equality Party to oppose scabbing.

In fact, following the sellout of a 17-month-long UAW strike at Caterpillar in 1995 which saw widespread scabbing, North's *International Workers Bulletin* (18 December 1995) openly apologized for strikebreaking: putting the word "scabs" in quotation marks, sympathetically "explaining" that "the large majority of the 4,000 union members who returned to work were not right-wing or anti-union," and attacking the union tops from the right for "diverting the anger of strikers towards the 'scabs,' i.e., those union members who decided to cross picket lines." Around the same time, North's British acolytes made themselves notorious among striking Liverpool dockers by denouncing international labor solidarity with their struggle. A scurrilous article, "Dockers Must Reject Fake Internationalism" (*International Worker*, 2 December 1995), attacked as a "fraud" plans by international longshore unions, which were implemented that same month, to refuse to handle ships loaded by scabs in Liverpool (see "David North, 'Socialist' Apologist for Scabbing," *WV* No. 637, 19 January 1996).

Yet in their platform for a recent parliamentary by-election campaign, the British SEP had the gall to insist that "Workers in Britain must seek the support of workers overseas" (*International Worker*, 30 November 1996). These are political charlatans who always speak out of both sides of their mouths. On one side, they denounce the unions as "failed organizations," thereby seeking to appeal to workers fed up with the bureaucracy's endless sellouts and angry and frustrated over falling living standards. On the other side, they try to make themselves look good by posing as sympathetic to workers engaged in struggle.

Many years ago, we characterized the tendency led by the late Gerry Healy, North's mentor, as *political bandits* whose practices stood in flat contradiction to their professed principles, who say and do today the exact opposite of what they said and did yesterday and would say and do tomorrow. Having abjectly tailed the pro-capitalist union misleaders until a few short years ago, the Northites now turn around and repudiate the unions altogether. But the union bureaucracy was no less reactionary then than it is today—and the same can be said of David North & Co.

During Cold War II, the anti-Soviet war hysteria of the 1980s, the Northites marched in ideological lockstep with the AFL-CIO tops in enthusiastically supporting every pro-imperialist, anti-Communist nationalist movement in and around the Soviet bloc—from the CIA-backed Afghan *mujahedin* to counter-revolutionary Polish Solidarnos'c to the Baltic "captive nations" types. In Britain, Healy/North's IC parlayed its support for Solidarnos'c into a provocative witchhunt, in league with the most right-wing forces inside and outside the labor movement, against the militant miners union and its leader, Arthur Scargill. In late 1983, the Healyites instigated an anti-Communist furor over Scargill's description of Solidarnos'c as "anti-socialist," with the aim of isolating the miners from the rest of the British trade-union movement as they prepared for battle against Thatcher and the Coal Board. And in 1991, North & Co. even condemned the Bush administration for not more aggressively backing the fascist-infested Lithuanian Sajudis, which called for secession from the Soviet Union as part of a drive for capitalist restoration.

When the demand for self-determination served as a "democratic" fig leaf for attacks on the Soviet degenerated workers state, the Northites waxed eloquent about their support to "national rights." Now they denounce the call for self-determination and claim that national independence has become impossible, indeed reactionary, in a "globalized" economy. Having supported the counterrevolutionary destruction of the Soviet Union—the greatest defeat for the international proletariat in decades—the Northites have adopted a position of defeatism toward all struggles by the working class and oppressed peoples in the post-Soviet world.

### Marx vs. the "Iron Law of Wages"

The Northite view of "globalization"—i.e., the large-scale shift in production by "multinational" corporations to the Third World—and its effect on the relation between labor and capital is a present-day version of what in the 19th century was called the "iron law of wages." This was a doctrine that wages could not be permanently raised above a fixed level regardless of the actions—economic and/or political—taken by the working class. While initially developed by British bourgeois economists, the "iron law" was adhered to by almost all of the early

socialist and anarchist tendencies—British Owenites, French Proudhonists, German Lassalleans.

It is readily understandable why the ideologists of the bourgeoisie maintained that the existing level of wages was determined by the immutable laws of the capitalist market. Why would leftists who opposed the capitalist system also uphold such a position? Because they believed that the workers could be won to the program of socialism (or, in Proudhon's case, to anarchism) only if they were convinced that it was *hopeless* to attempt to improve their conditions within capitalism.

There were different versions of how the "iron law" was supposed to operate. The originator of the doctrine, the Reverend Thomas Malthus, asserted that if wages rose above subsistence levels workers would have more children, more of whom would live to maturity. The increase in the supply of labor would therefore drive wages back to the subsistence level. The leftist adherents of the "iron law" generally argued that any increase in money wages would be quickly and fully offset by rising prices. Hence they regarded trade unionism as useless or even injurious to the working class.

Proudhon's last work, *The Political Capacity of the Working Class* (published posthumously in 1865), was a sustained attack on trade unionism, which had just emerged in France on a significant scale:

"While threatening to strike, some of them [trade unionists], indeed the majority, have demanded an increase in wages, others have demanded a reduction in working hours, and still others both at the same time. Surely they have always known that increased wages and reduced working hours can only lead to a general price increase."

In opposing strikes, Proudhon made the additional argument that the financial resources of the capitalists were so much greater that the workers could never win:

"Let us imagine that an industrial establishment has a capital of three million and that it employs one thousand workers who one day go on strike. The employer rejects their demands.... After a month the workers have exhausted their funds and will have to resort to the pawnshop. The capitalist will have lost merely a twelfth of his interest and his capital will not have been touched. The match is clearly unequal."

—Stewart Edwards, ed., *Selected Writings of Joseph-Pierre Proudhon* (1969)

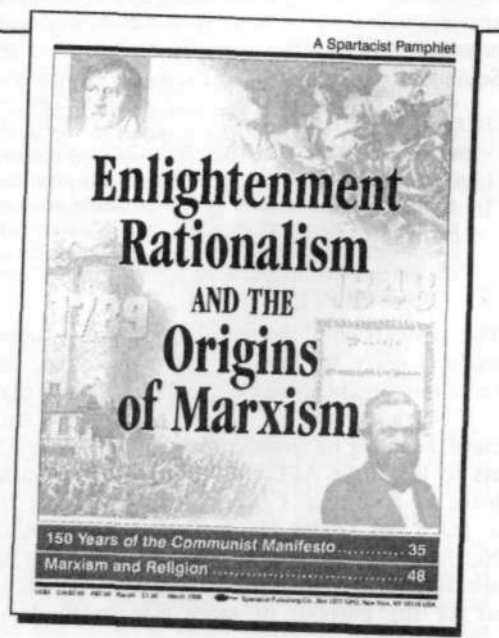
If one substitutes "transnational corporation" for "industrial

This pamphlet reprints presentations given by comrade Joseph Seymour on the origins of Marxism in the French Enlightenment and in left Hegelianism. Also included are "150 Years of the Communist Manifesto" and "Marxism and Religion."

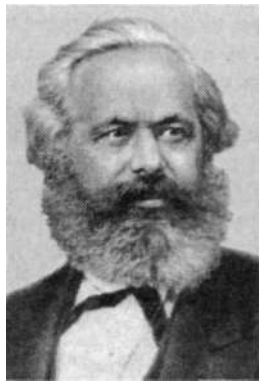
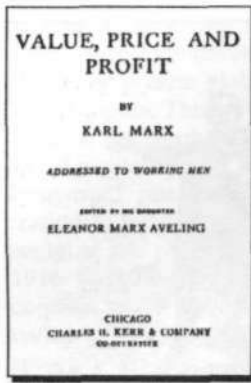
In the retrograde climate of post-Soviet reaction, the struggle to reassert the validity of the program and purpose of revolutionary Marxism is crucial for our fight for new October Revolutions.

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In *Value, Price and Profit*, Karl Marx polemicized against "iron law of wages," a theory upheld by French anarchist Proudhon (right) and later American socialist Daniel De Leon (far right) to deny possibility of successful trade-union struggle.



Pierre Petit



no credit

establishment" in the above passage, it accurately represents the current Northite line.

Throughout his life as a revolutionary workers leader, Marx opposed all exponents of the "iron law of wages." His most comprehensive treatment of this question is his 1865 pamphlet, *Value, Price and Profit*, a polemical response to an old Owenite socialist, George Weston, who was then a member of the General Council of the First International. Here Marx scientifically demonstrated that an "immense scale of variations is possible" in the rate of exploitation (the ratio of surplus value to the value of wages):

"The fixation of its actual degree is only settled by the continuous struggle between capital and labour, the capitalist constantly tending to reduce wages to their physical minimum... while the workingman constantly presses in the opposite direction.

"The matter resolves itself into a question of the respective powers of the combatants."

Marx's theoretical demolition of the "iron law of wages" was confirmed by the actual experience of the working class as mass trade unions developed in Europe and North America in the late 19th century. By the beginning of the 20th century, the "iron law" had been generally discredited within the workers movement and left. A notable exception was the American socialist Daniel De Leon, who counterposed the overthrow of the capitalist system to trade-union struggles for higher wages and shorter hours.

In line with pre-1914 Social Democratic orthodoxy, the De Leonists regarded the decisive event of the socialist revolution as the electoral victory of their party, the Socialist Labor Party (SLP), over the bourgeois parties. Attached to the SLP was an industrial arm called the Socialist Labor and Trade Alliance, which over time tended to shrink to an artificial, Potemkin village organization consisting entirely of the SLP's own supporters. Despite the name, the Socialist Labor and Trade Alliance was *not* a trade union in any sense. It did not advocate, much less engage in, struggles to improve the wages or conditions of the workers. What then was its purpose? Following the expected electoral victory of the SLP, the Socialist Labor and Trade Alliance would "seize and hold" the means of production from the capitalists and subsequently administer the socialist economy.

### Third World Wages Mean... Third World Economies

The present posture of the North group parallels the old De Leonist program except that the De Leonists were principled, albeit misguided, socialists. A primary activity of North's Socialist Equality Party (SEP, formerly the Workers League), and the other SEPs recently set up by IC sections in Britain and Australia, is running for office in bourgeois elections for vari-

ous levels of government. They have adopted an, at best, abstentionist position in relation to the struggles of the mass trade-union movement. And at least on paper the Northites now project building something akin to the Socialist Labor and Trade Alliance.

According to the 1993 Northite pamphlet, *The Globalization of Capitalist Production & the International Tasks of the Working Class*:

"Transnational corporations are systematically shifting the most labor intensive aspects of production to impoverished regions, where wages are a fraction of the existing levels in the advanced capitalist countries. Even high-tech and skilled labor can be purchased on the cheap in India, parts of Latin America, eastern Europe and the former Soviet Union. The inexorable result is a downward leveling of wages and living standards and a relentless assault on past social reforms and legal limitations on the exploitation of labor by capital in the imperialist centers."

As we have indicated earlier, the Northites are here advancing, with a thin veneer of Marxist rhetoric, an argument currently propounded by a wide range of bourgeois and petty-bourgeois liberals. Thus, a recent article in *Foreign Affairs* (May-June 1996) warns that "inequality, unemployment and endemic poverty" are the "handmaidens" of the "global economy." And in a special issue of the liberal *Nation* (15 July 1996), British "Green" spokesmen Colin Hines and Tim Lang assert:

"Globalization unquestionably leads to lower-wage economies. The British economist Adrian Wood has calculated a not insignificant shift of 9 million jobs from North to South [i.e., from the industrialized countries to the Third World] in recent years.... Meanwhile, Britain is advertising itself as a low-wage country to attract industry. The trend is clear."

The version of the "iron law of wages" pushed by North and others based on the supposed globalization of production is no more valid than the various 19th-century versions. Wages in the advanced capitalist countries are not going to be driven down to anything close to Third World levels for two fundamental reasons: one political, the other economic.

As we shall see, increased investment by Western/Japanese banks and corporations in backward countries, especially in the manufacturing sector, requires the maintenance of strong imperialist states to *protect* those investments. U.S. capitalists are not going to produce a large part of their steel output in South Korea and Brazil, because they need guaranteed access to this steel in case of war with their imperialist rivals—Germany and Japan—or for military intervention against popular revolutions in former colonial countries, like South Korea and Brazil.

The *Communist Manifesto*, written by Karl Marx and Friedrich Engels in 1848, defines the "executive of the modern State" as "a committee for managing the common affairs of the whole bourgeoisie." One of the tasks of that executive committee is to ensure that individual capitalists, seeking to



India Office Library and Records, London

Painting shows Indian Mogul emperor granting sovereign rights in Bengal to British general Robert Clive in mid-18th century. British domination in Africa was depicted in 1892 *Punch* cartoon of colonialist Cecil Rhodes.



Punch

maximize their own profits, do not harm the vital interests of the national bourgeoisie as a whole. Thus, a few years ago Washington prevented the management and stockholders of Continental Oil from investing in the modernization of Iranian oil fields, because building up the Iranian economy went against the currently perceived interests of U.S. imperialism. In the next few years, the U.S., Germany and Japan may well impose—against the immediate interests and desires of sections of their own capitalist classes—high levels of trade protectionism, controls of foreign-exchange transactions and strict limits on the inflow and outflow of capital.

There is in addition a fundamental economic limitation to the "globalization" of production. Manufacturing wages in East Asia and Latin America have been a small fraction of those in the advanced capitalist countries for decades. Why then does Siemens still produce most of its electrical machinery in Germany and General Motors most of its autos in North America? Because 15 unskilled workers in Indonesia (earning well under a dollar an hour) cannot replace a skilled machinist in the U.S. (earning \$15 an hour) or Germany (earning \$25 an hour) in the process of industrial production.

The technical-cultural level of the labor force in Europe, North America and Japan is *qualitatively* higher than in the Third World. Annual expenditure per student for primary and secondary education is over \$5,000 in the U.S., almost \$4,000 in Japan, \$600 in Latin America and the Caribbean, and \$70 in the Indian subcontinent! These vast differences cannot be appreciably narrowed within the framework of the capitalist-imperialist system.

The basic premise of Trotsky's theory of permanent revolution is that in the imperialist epoch countries of belated capitalist development cannot attain the overall level of economic productivity of the pioneer regions of the bourgeois revolution—West Europe, North America and, later, Japan. This is the geo-economic basis for the division of the world between imperialist countries and neocolonial countries exploited and oppressed by the former. If India's labor productivity approximated that of the United States and Japan, India itself would be a major imperialist power, since the numerical size of its industrial labor force (about 30 million workers) is the same as that of the U.S. and 50 percent greater than that of Japan.

The Northite notion of "globalization" is in its theoretical essence a repudiation of the Trotskyist understanding of permanent revolution, because it posits a tendency to equalize

economic conditions throughout the world by leveling up productivity in the backward capitalist countries and leveling down productivity in the advanced ones. The genuine globalization of production requires an internationally planned socialist economy, which alone can raise the peoples of Asia, Africa and Latin America to the technical-cultural level of what is now called the First World.

### Economic "Globalization": Myths and Realities

An article in the recent special issue of the *Nation* (15 July 1996) devoted to the question of "globalization" begins with the portentous statement: "Economic globalization involves arguably the most fundamental redesign and centralization of the planet's political and economic arrangements since the Industrial Revolution." Similarly, Australian Northite leader Nick Beams asserts that "globalization refers to the internationalization of the circuit of productive capital" and that this constitutes a "qualitative transformation" of the world capitalist system (*International Workers Bulletin*, 15 July 1996).

In fact, the history of industrial capitalism was marked by a previous shift, far more profound than the present one, in the geographical distribution of production. The Industrial Revolution began in England and Scotland in the early 19th century and then spread by mid-century to France and the Low Countries (Belgium and Holland). In the late 19th century, the "New Industrializing Countries" of the day were Germany, the United States and Japan.

Writing in the 1890s, Friedrich Engels noted that Germany, which at the time of the 1848 Revolution was economically dominated by peasant agriculture and small-scale artisan manufacturing, had become "an industrial country of the first rank." During the same period the United States, too, became an industrial country of the first rank. American industrial development was heavily dependent on investment by British capital, especially in the key sector of railway construction. Following the overthrow of the feudal order with the Meiji Restoration of the 1860s, Japan deliberately emulated the advanced capitalist countries of the West, beginning by exporting light manufactures produced by cheap unskilled labor. Tsarist Russia also experienced rapid industrial growth between the 1890s and World War I, largely financed by West European, especially French, capital.

By the beginning of the 20th century, however, the existing advanced capitalist (i.e., imperialist) countries had achieved

such dominance over more backward regions that they were able to arrest the development of new rival industrial powers. Hence the present global division between the so-called First World and the Third World.

Since the Northite International Committee maintains that world capitalism has recently undergone a "qualitative transformation," one would expect this ostensibly Marxist organization to substantiate their analysis with a comprehensive study of the relevant economic data. For example, Lenin's 1916 work, *Imperialism, the Highest Stage of Capitalism*, contains pages of statistical tables illuminating and substantiating its analysis on all aspects. By contrast, the writings and speeches on "globalization" by North and his henchmen are devoid of even cursory data on trends in global production, investment and trade. Their 1993 pamphlet, *The Globalization of Capitalist Production & the International Tasks of the Working Class*, contains not a single statistical table or graph.

A few basic and easily accessible statistics debunk the notion of a qualitative transformation of world capitalism. Western/Japanese investment in the so-called Newly Industrializing Countries totaled some \$100 billion in 1993, a peak year. Yet this record amount was only 3 percent of total capital investment in North America, West Europe and Japan. In other words, the imperialist bourgeoisies still invest more than 30 times as much in their own "First World" as in the Third World. American capitalists invest 9 cents in Canada and West Europe and just 5 cents in the *entire* rest of the world for every dollar they expend on productive assets in the United States.

Why, then, all the hullabaloo about economic "globalization"? For the past few decades, and especially since the destruction of the Soviet Union, the world capitalist economy has in certain respects been returning to the norms of the pre-1914 imperialist order. To maintain a sense of perspective, one should understand that only in the early 1970s did the ratio of world trade to global production once again reach the level it had attained in 1914, on the eve of the first imperialist world war. Yet the current theoreticians of "globalization" rarely if ever mention Lenin's seminal study of the rise of the imperialist system, to which they add little or nothing, save confusion. As we noted in an earlier article ("David North Abolishes' the Right to Self-Determination," Part One, *WV* No. 626, 28 July 1995):

"The idea of an 'era of global economic integration' which North presents as if it were yet another of his unique 'theoretical breakthroughs' has been known to the Marxist movement for over a century now. It's otherwise known as imperialism!"

The term "globalization" refers to certain significant *quantitative* changes in the contemporary structure of world production and trade. In 1970, 85 percent of all exports (in value terms) from Africa, Latin America and Asian countries other than Japan consisted of agricultural produce, oil, mineral ores and other primary products. Since then exports of manufactured goods from Third World countries have increased by an average rate of 15 percent a year in real terms and now make up well over half the value of their total exports. Much of this industrial output is financed and organized by Western/Japanese corporations either directly or through local subcontractors, licensees, etc. However, the growth of internationally competitive manufactures in East Asia and Latin America is reversible and cannot continue at anything close to the rate of increase of the past few decades. That is a political, economic and, indeed, mathematical certainty.

There's a saying in American business circles: there are liars, damn liars and statisticians. One can always select and present statistics to be deliberately misleading. One of the

most common ways of doing this is to show dramatic percentage increases from a *low initial base* and then to project similar percentage increases into the future. For example, a worker making \$5 an hour who gets a dollar raise has received a 20 percent increase while a worker making \$13 an hour who gets a dollar raise has received an 8 percent increase. But the second worker is still vastly better off than the first. And the low-wage worker well knows he is not going to keep getting a 20 percent raise every year for the next ten years.

However, much writing and discussion on the world economy—by both bourgeois ideologues and leftist intellectuals—is based on this kind of fallacious methodology. For example, between 1950 and the mid-1970s Japan's national output grew at an average annual rate two to three times greater than that of the U.S. In the 1970s, big-name American intellectuals wrote well-publicized books—e.g., Herman Kahn's *The Emerging Japanese Superstate*, Ezra Vogel's *Japan as Number One*—predicting that Japan would overtake the United States as the world's leading capitalist economic power by the end of the century. Not long after these books came out, the Japanese growth rate sharply decelerated and during the past decade Japan's economy has been stagnant. Today, Japan's national output is still less than half that of the U.S.

The current apocalyptic vision of economic "globalization" is based on the same faulty premises as the "Japan will be number one" literature of the 1970s. For example, between 1985 and 1994 China's share of world exports of footwear went from 1.5 percent to 15.5 percent, an increase of 1,000 percent. If one projects the same increase for the next ten years, China will account for 150 percent of world trade in footwear, a mathematical impossibility. In another example, investment in plant and equipment by Western/Japanese corporations in backward countries, now including East Europe and the ex-USSR, increased last year by 13 percent. But it is wrong to assume this trend will continue indefinitely into the future.

## The Development of Modern Imperialism

To understand the actual significance and limits of the recent changes in the world economy, it is necessary to view these changes in a broad historical perspective. In his 1916 pamphlet, *Imperialism, the Highest Stage of Capitalism*, Lenin described modern imperialism as that epoch of capitalism marked by the export of capital and the division of the world into "spheres of influence" by a few major advanced capitalist states. The two key institutions of the pre-1914 imperialist order were colonialism and the gold standard.

Particularly Britain and France, but also other West European countries, the United States and Japan exercised direct state power over hundreds of millions of toilers throughout the world. British plantation owners in India did not have to worry that the Indian government would impose high taxes on their property or enact laws favorable to labor since the government in India was *their* government. Compared to British India, foreign investment in China in the pre-1914 era was relatively slight, because the country was beset by political disorder and was an arena of conflict among a number of rival imperialist powers.

At the same time, the gold standard assured a degree of financial integration among the advanced capitalist countries which has never been matched since. Exchange rates between currencies were fixed, there were few or no restrictions on the international movement of capital, and real interest rates were stable and closely linked in the major financial capitals—London, Paris, New York. British holders of American railway bonds did not have to worry that their assets would be

devalued by hyperinflation or by the depreciation of the dollar against the pound.

Under these conditions the globalization of capital flourished as never before or since, as can be shown with the following few statistics for Britain and France (taken from Herbert Feis, *Europe—The World's Banker 1870-1914* [1964]). The income derived by British capitalists from their foreign assets increased from 4 percent of total British national income in the 1880s to 7 percent by 1903 to almost 10 percent on the eve of World War I in 1914. Foreign investments were concentrated in Britain's own colonies (especially India, South Africa, Canada and Australia) as well as in the United States and, to a lesser extent, Argentina. By 1914, total productive assets held by British capitalists outside Britain amounted to well *over one quarter* of the capital stock within Britain itself!

While the globalization of pre-1914 British capitalism was historically unique, the role of foreign investment for French capitalism in this period likewise *greatly exceeded* that of any present-day imperialist country. Between 1909 and 1913, almost 5 percent of French national income was derived from French investments abroad (mainly in Russia, Turkey, the Balkans and France's own African and Asian colonies). By 1914, the total value of French long-term foreign investment (45 billion francs) amounted to 15 percent of the productive wealth within France (295 billion francs).

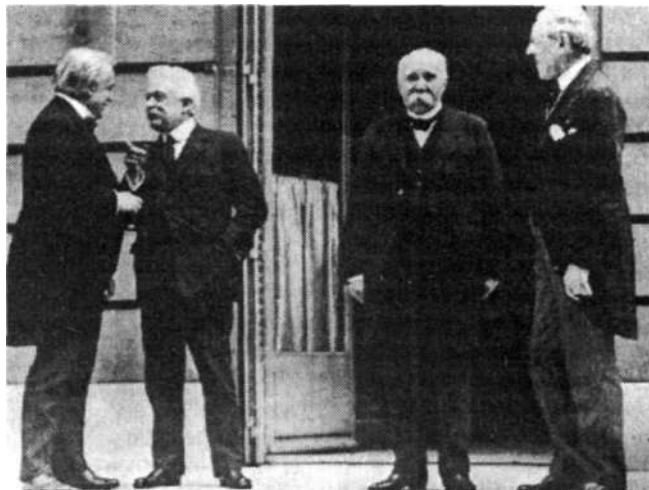
Now let us look at comparable figures for the United States at present. In 1994, total income derived from the foreign assets of American capitalists, both direct investment and stock and bond holdings, was \$167 billion. That amounted to slightly *less than 2 percent* of the U.S. gross domestic product of \$6.7 trillion. The current total value of American direct foreign investment is about one trillion dollars, slightly less than 10 percent of the \$10.5 trillion in privately owned industrial assets (plant and equipment) within the United States. In the case of Japan, the relative weight of foreign investment is even less than it is in the U.S., and in the case of Germany it is substantially less.

## World War I and the Russian Revolution

As the above figures indicate, World War I and the 1917 Bolshevik Revolution in Russia brought about a profound and long-lasting disruption of the world capitalist economy. To begin with, the war killed off the gold standard. All combatants financed their huge, unprecedented military expenditures by printing money while imposing tight controls over all international transactions. When the war ended in 1918, price levels in the major capitalist countries bore no relation whatsoever to either prewar foreign-exchange parities or real purchasing power.

An attempt to resurrect the gold standard in the mid-1920s was buried under the wreckage of the Great Depression of the 1930s. That decade saw the collapse of world trade, the rise of "beggar thy neighbor" trade protectionism, the widespread use of foreign-exchange controls (especially in Nazi Germany) and the establishment of regional economic blocs dominated by a single imperialist power (e.g., Japan's "Greater East Asian Co-Prospérité Sphere").

Added to the effects of the Great Depression and intensifying interimperialist conflict were the consequences of the Russian Revolution. Not only had a major country been ripped out of the sphere of capitalist exploitation, but the imperialist bourgeoisies were now imbued with a fear of "red revolution" elsewhere, especially in backward countries where social and political conditions were manifestly unstable. The huge losses suffered by French financiers and other holders of



Brown Brothers  
**Leaders of victorious Western powers in World War I at 1919 "peace" conference in France. War was fought for redivision of colonies, spheres of influence.**

Russian tsarist bonds cast a long shadow over world capital markets in the 1920s and '30s. Lending to semicolonial countries like China and Mexico was inhibited by the perceived danger of revolutionary turmoil and left-wing governments which would repudiate the country's foreign debt. The only significant foreign investment in China during the interwar period was undertaken by the Japanese in Manchuria—after they had conquered and occupied this region in 1931.

## From World War II to the Cold War

The struggle of the major capitalist powers to redivide markets and spheres of exploitation led in 1939-41, as it had in 1914, to an interimperialist world war, though this time one in which a chief combatant was a (degenerated) workers state, the Soviet Union. (Thus, while taking a defeatist position toward all the imperialist powers in World War II, as in the previous world war, revolutionary Marxists called for unconditional military defense of the USSR.) The outcome of the Second World War perpetuated and deepened the disruption and segmentation of the world economy. By defeating its main imperialist rivals, Germany and Japan, the United States became the hegemonic capitalist power. But the global hegemony of American imperialism was blocked by the Soviet Union, which had emerged from the war as the second-strongest state in the world. From East Asia to West Europe to South America, the course of economic developments between 1945 and 1991 was integrally connected with the Cold War.

In West Europe and also Japan, the devastation of the war combined with the leftward radicalization of the working class militated against a return to the "free trade" and "free market" policies of the pre-1914 era. Except for the U.S., all major advanced capitalist countries engaged in a high degree of state intervention in economic activity during the first phase of the postwar period. Almost all foreign-exchange transactions in West Europe were subject to strict government regulation and bureaucratic approval. The pound, franc and deutschmark did not become "freely" convertible until the late 1950s.

Currency convertibility is a basic economic precondition for large-scale foreign investment in manufacturing and services, since the revenue generated from these activities is usually denominated in the currency of the country in which the investments take place. The oil extracted by Exxon in Saudi Arabia is sold on the world market for dollars. But the

automobiles produced by General Motors in Germany are sold to Germans for deutschmarks. Thus, it was only in the 1960s—after the introduction of convertibility gave them the option of repatriating their profits—that American corporations bought out or built industrial plants in West Europe on a significant scale. The total value of U.S. direct investment in manufacturing in West Europe went from \$3.8 billion in 1960 to \$12.3 billion (discounting for inflation) by the end of the decade.

It was, however, in the economically backward regions of the world that the postwar period saw the most radical political changes affecting the international movement of capital. In the course of defeating the Nazi Wehrmacht, the Soviet Red Army occupied East Europe. Over the next few years, under the hostile pressure of American imperialism, these countries were transformed, bureaucratically from above, into "people's democracies"—i.e., deformed workers states structurally similar to the Stalinized Soviet Union, based on planned, collectivized economies, the state monopoly of foreign trade, etc.

Bureaucratically deformed workers states also emerged in China, North Korea and Vietnam, as a result of indigenous, peasant-based social revolutions led by Stalinists. It was above all fear of war with the Soviet Union which prevented Washington from using its nuclear weapons against Mao's China during the Korean War in the early 1950s and a few years later against the Viet Minh forces which were defeating the French colonial army in Indochina. A large part of the world was thus removed from the sphere of capitalist exploitation, although still subject to the powerful political, economic and military pressures of imperialism.

At the same time, radical political changes also took place in those economically backward countries which remained within the sphere of capitalist exploitation. The weakening of the West European imperialist states caused by World War II combined with the radicalization of the colonial masses led to the "decolonization" of much of Asia, the Near East and Africa. State power in these regions now passed into the hands of indigenous bourgeoisies, who sought to pursue their own national interests within a global context dominated by international finance capital.

Despite some CIA-organized coups (e.g., against Mossadeq in Iran in 1953), the ability of U.S. imperialism to control the governments of the former colonial and semicolonial countries was limited by the countervailing power of the Soviet Union. Moscow's backing allowed bourgeois-nationalist regimes like Nasser's Egypt, Nehru and Indira Gandhi's India and Saddam Hussein's Iraq to exercise a degree of political and economic independence of the imperialist powers which they could not have attained on the basis of their own national economic resources.

During the 1960s, Soviet funds and engineers helped build the Aswan High Dam—one of the largest in the world—in Nasser's Egypt. By the early '70s, the USSR had become the largest market for India's exports, while Moscow provided the New Delhi regime with over 60 percent of its imports of military hardware. At the same time, Western and Japanese corporations were discouraged from investing in countries like Egypt and India for fear of punitive taxation, restrictions on the repatriation of profits and the possibility of nationalization without adequate compensation. The 1960s and '70s thus marked the heyday of economic nationalism and statified capitalism in what was then called the "Afro-Asian bloc."

But with the collapse of the Soviet Union, there was no longer even a partial counterweight to Western/Japanese imperialist domination in the Third World. The 1991 Gulf War sig-

naled that, without the protection of the USSR, those bourgeois-nationalist regimes which flouted the dictates of Washington would be subjected to the devastating power of the Pentagon war machine.

However, even with the relatively greater room for maneuver they had when the Soviet Union still existed, the bourgeois-nationalist regimes in the Third World did not and could not chart a course truly independent of imperialism, nor could they bring about the economic and social modernization of their countries. Despite their "non-aligned" posture and even "socialist" rhetoric, the semicolonial bourgeoisies remained tied to the imperialist bourgeoisies by a thousand strings, subordinated and subservient to the power of the imperialist world market. Thus, India's exports remained concentrated, as in the colonial era, in light manufactures produced by unskilled labor. Egypt remained economically dependent on the export of cotton (as well as tolls from the Suez Canal), Ba'athist Iraq and Qaddafi's Libya on the vicissitudes of the world oil market controlled by the "Seven Sisters" monopolies. And Algeria under the radical-nationalist FLN regime relied heavily on money sent back by Algerians working in France. Only through the revolutionary overthrow of the local bourgeoisies, as part of a perspective of world socialist revolution reaching into the imperialist centers, can these countries achieve true independence from imperialism.

## The End of the "American Century"

What is now termed economic "globalization" was rooted in the recovery of German and Japanese capitalism from their devastation and defeat in World War II. By the 1960s, German and Japanese manufactured goods were making huge inroads into world markets, including the American market. The competitive position of U.S. imperialism was further weakened in this period by the inflationary pressures generated by its long, losing colonial war in Vietnam. America's large, permanent balance-of-trade deficits, especially with Japan, fatally undermined the use of the dollar as the global medium of exchange and store of value—the international monetary system originally set up at the 1944 conference in Bretton Woods, New Hampshire. Nixon's August 1971 devaluation of the dollar in terms of gold, and the subsequent recourse to fluctuating exchange rates, signaled the end of the short-lived "American Century" of U.S. imperialist hegemony in the capitalist world.

The weakened competitive position of U.S. capitalism was further exposed by the large losses experienced by corporate America during the 1974-75 world economic downturn. The American bourgeoisie responded with a concerted drive to increase the rate of exploitation. An anti-labor offensive was marked by "giveback" contracts, two-tier wage systems for younger workers and outright union-busting. Unionized plants in the Midwest and North, which paid relatively high wages, were shut down as production was shifted to the "open shop" South and Southwest.

At the same time, American industrial capital undertook a major expansion in East Asia and Latin America. Between 1977 and 1994, there was a *fivefold increase* in manufacturing plant and equipment owned directly by U.S. corporations in Third World countries, from \$11 billion to \$52 billion (in real terms, discounted for inflation). Japanese industrialists soon followed their American competitors in going offshore. By the mid-1980s, Matsushita was producing many of its TV sets and air conditioners in Malaysia, Yamaha its sporting goods in Taiwan, Minebea its miniature ball bearings in Singapore and Thailand, TDK its magnetic tapes in Taiwan and South Korea, etc.





Russian Orthodox priest on Yeltsin's barricades, Moscow, August 1991. International Communist League leaflet declared, "Soviet Workers: Defeat Yeltsin-Bush Counterrevolution!"



Nonetheless, investment by Western and Japanese corporations in neocolonial countries was still inhibited by the uncertainties of the Cold War. A popular uprising or even an election or military coup could suddenly bring about a left-nationalist regime backed by Moscow. For example, in 1979 a revolution in Nicaragua toppled Washington's puppet dictator Somoza and brought to power the radical petty-bourgeois nationalist Sandinistas. At the same time, a major leftist insurgency was raging in neighboring El Salvador. Thus, even Yankee imperialism's own "backyard" was not secure for Wall Street banks and the Fortune 500 corporations.

### Economic "Globalization" and Capitalist Counterrevolution

A *fundamental political condition* for the present triumph of capitalist "globalization" was the retreat of Soviet global power under Gorbachev, the disintegration of the Moscow Stalinist bureaucracy and the counterrevolutionary destruction of the Soviet Union in 1991-92. It was no accident that the electoral overthrow of the Sandinista regime in 1990, capping a contra war armed and organized by Washington, coincided with the beginning of a massive investment boom by U.S. banks and corporations in Mexico. At the same time, capitalist counterrevolution in the former Soviet sphere has opened up a new, huge sphere for exploitation, especially for German imperialism. A few years ago, a spokesman for German industry exulted: "Right on our own doorstep in Eastern Europe, we have for the first time a vast pool of cheap and highly trained labor."

During Cold War II in the 1980s, North's IC joined in the imperialist anti-Soviet chorus along with other pseudo-Trotskyists like the United Secretariat of the late Ernest Mandel, as well as mainstream social democrats and Eurocommunists. Having done all within their means to promote counterrevolution in the Soviet Union and East Europe, the Northites now proclaim that the restoration of capitalism there—a historic defeat for the international proletariat—was objectively determined. Their 1993 pamphlet, *The Globalization of Capitalist Production & the International Tasks of the Working Class*, informs us: "The collapse of the Soviet Union was only the first major political convulsion produced by the transformation of the forms of production. The qualitative advances in the integration of world economy dealt the final blow to the autarchic national policies of the Stalinist regime."

By their own terms, for the Northites the Soviet working

class simply did not exist as even a potential factor in deciding the fate of the Soviet Union. The IC has effectively *repudiated* the Trotskyist program of *proletarian political revolution* against the Stalinist bureaucracy as even a historical possibility in this supposedly new era of "globalized" capitalism. The 1938 Transitional Program, written when the Soviet Union was relatively far more economically backward and geographically isolated than in the 1980s, stated, "either the bureaucracy, becoming ever more the organ of the world bourgeoisie in the workers' state, will overthrow the new form of property and plunge the country back into capitalism; or the working class will crush the bureaucracy and open the way to socialism."

What did Trotsky mean here about opening "the way to socialism"? Wouldn't a Russian-centered Soviet workers state, even if administered on the basis of proletarian democracy and governed by a genuinely communist vanguard party, still be surrounded by hostile and economically more advanced capitalist states? Yes, of course. However, the overthrow of the Stalinist bureaucracy by the Soviet working class, under the banner of proletarian internationalism, would have reawakened and inspired revolutionary fervor among the workers, rural toilers and oppressed peoples throughout the capitalist world. And a communist government of the USSR would have provided invaluable political, economic and, if necessary, military support for proletarian revolutions in capitalist states, including the imperialist powers.

### For Proletarian Political Revolution in China!

As against *all* the various pretenders to Trotskyism, not least North's IC, our tendency unambiguously and consistently called for unconditional military defense of the Soviet Union and the deformed workers states against imperialism and internal counterrevolution, as we do today in regard to the remaining deformed workers states—Cuba, China, North Korea and Vietnam. The International Communist League mobilized all the limited resources at our command during the political turmoil in the East German (DDR) deformed workers state in 1989-90, fighting for proletarian political revolution to oust the Stalinist bureaucracy which, in league with West German imperialism and its Social Democratic lackeys, pushed for a capitalist reunification of Germany. Uniquely, the ICL opposed capitalist *Anschluss* (annexation) down the line, calling instead for a "Red Germany of Workers Councils" as part of a Socialist United States of Europe.

And during the terminal crisis of Stalinist rule in the USSR, our tendency actively intervened in the Soviet Union with the program and perspective of proletarian political revolution to "open the way to socialism." The counterrevolutionary destruction of the Soviet Union was no more objectively inevitable in 1991-92 than in 1941, when the USSR was invaded by Nazi Germany. The direction taken by Russia, the Ukraine and other Soviet republics when the Kremlin bureaucracy disintegrated under Gorbachev, while conditioned by the pressures of the world capitalist market, was determined by the struggle of living social and political forces. A decisive factor in the outcome was a retrogression in the political consciousness of the Soviet working class brought about by three generations of Stalinism in power. Widespread apathy and cynicism as well as, to a certain degree, illusions in Western-type bourgeois democracy among the masses allowed the ascendancy of the counterrevolutionary forces centered around Boris Yeltsin in Russia and around anti-Soviet nationalists in the non-Russian republics.

In the case of the USSR, the Northites maintain that the capitalist counterrevolution which actually did take place was inevitable. In the case of China, they maintain that a capitalist counterrevolution has already taken place when it has *not yet* occurred. A major article in their *Fourth International* (Winter-Spring 1994), titled "The Political Background of the Restoration of Capitalism in China," asserts:

"The state which issued from the Chinese Revolution no longer defends or maintains the limited gains won by the workers and peasants in 1949....

"The Chinese state is not, even in the most distorted sense, an instrument for the defense of the working class.... The state defends the interests of the bureaucracy as a privileged social layer increasingly linked to the rising capitalist class and, through them, the interests of imperialism itself."

Despite the significant inroads made by capital, both domestic and foreign, over the past several years, the People's Republic of China remains a *bureaucratically deformed workers state*. The author of the article quoted above, one Martin McLaughlin, is here plagiarizing without attribution the Maoist doctrine of "capitalist roadism" and applying it to Mao's one-time chief rival within the Beijing Stalinist regime, Deng Xiaoping. Significantly but predictably, not once is the Trotskyist program of proletarian political revolution mentioned in this lengthy article, which purports to cover the entire history of China in the 20th century.

In contrast, a "Perspectives and Tasks Memorandum" adopted by our international tendency in January 1996 states:

"The next period is likely to see the breakdown and terminal crisis of Stalinist rule in China as powerful elements in the bureaucracy, directly tied to offshore Chinese capital and actively supported by Western and Japanese imperialism, continue to drive toward capitalist restoration. The Chinese working class, although heretofore limited by police repression to actions at individual workplaces, has in recent years exhibited massive discontent with the social degradation, insecurities and blatant inequalities generated by Deng's 'market socialist' program. The rural economy has experienced the rise of a class of relatively wealthy peasant smallholders while an estimated 100 million landless peasants have flooded into the cities. We can thus foresee monumental class battles leading either to proletarian political revolution or capitalist counterrevolution in the most populous nation on earth."

### "Transnational" Corporations and Imperialist States: Antagonists or Partners?

A central element in the theory of a new "globalized" capitalist economy is that transnational corporations have supplanted nation-states as the dominant institutions in world power politics. In his latest book, *Global Dreams: Imperial*



THE NY TIMES

**Workers in state-owned auto factory in China. Drive of Beijing Stalinist bureaucracy toward capitalist restoration can be defeated only through proletarian political revolution.**

*Corporations and the New World Order* (1994), leading American left-liberal intellectual Richard J. Barnett maintains:

"The architects and managers of these space-age business enterprises understand that the balance of power in world politics has shifted in recent years from territorially bound governments to companies that can roam the world. As the hopes and pretensions of government shrink almost everywhere, these imperial corporations are occupying public space and exerting a more profound influence over the lives of ever larger numbers of people."

A more extreme version of the same thesis is presented by another American rad-lib intellectual, David Korten, in his 1995 book, *When Corporations Rule the World*.

The current view of the International Committee is essentially similar, as North stated in a 1992 speech:

"Under the aegis of imperialism, the globalization of production collides against the nation-state form within which capitalist rule is rooted....

"The web of alliances being formed by various transnational corporations, such as Toshiba, IBM and Siemens, expresses the organic drive of the productive forces to organize themselves on a world scale. But the other side of the same process is the growing antagonism among nation-states and the eruption of various forms of national and communal conflict."

—*Capital, Labor and the Nation-State* (1992)

Transnational corporations are here counterposed to imperialist nation-states. Moreover, the former are presented as (relatively) progressive, since they serve as agents of global economic integration, while the latter are viewed as reactionary and obsolete. North's statement is diametrically counterposed to what Lenin argues in his *Imperialism*. In particular, North's view of the capitalists as an international class flies in the face of the Marxist understanding that the bourgeoisie cannot transcend national interests (for further discussion, see "On Bourgeois Class Consciousness," *Spartacist* No. 24, Autumn 1977).

In the Barnett/Korten/North view, corporations like IBM, Siemens and Toshiba are devoted solely to maximizing their profits on a global scale; their directors and stockholders supposedly don't care whether their actions strengthen or weaken the American, German and Japanese bourgeois states. This view expresses a *liberal idealist outlook* since it implicitly assumes that capitalists do not need state power—i.e., armed bodies of men—to protect their property against challenges from both the exploited classes and rival capitalists in other countries. Wall Street bankers and the CEOs of the Fortune 500

corporations understand (as Richard Barnett and David North apparently do not) that Mexican and South Korean workers are not devout believers in the sanctity of private property. Replying to similar arguments at the time, notably by German Social Democrat Karl Kautsky, Lenin in his 1916 study of imperialism quoted the German economist Schulze-Gaevernitz:

"Great Britain grants loans to Egypt, Japan, China and South America. Her navy plays here the part of bailiff in case of necessity. Great Britain's political power protects her from the indignation of her debtors."

The same applies to the U.S., Germany and Japan, whose armed forces are prepared to act as "bailiff in case of necessity." Whether undertaken by corporations, banks or other financial institutions, foreign investment depends on the political, economic and military power of the states controlled by the owners of these capitalist enterprises.

North & Co. have not yet revised or repudiated the position that the Republican and Democratic parties represent the interests of the American bourgeoisie. Why then do the political leaders of these parties continue to expend hundreds of billions of dollars a year on the U.S. armed forces? Even an old-fashioned liberal like Russell Baker has observed: "The era of big government is over except for the Pentagon" (*New York Times*, 24 September 1996). That's because the Pentagon provides and organizes the security guards, so to speak, to protect the property of American capitalists in other countries. Citibank and Exxon are no more independent of, much less antagonistic to, the American imperialist state than Barings Bank and Royal Dutch Shell were independent of the British imperialist state in the pre-1914 era.

Indeed, if the recent merger announcement by Boeing and McDonnell Douglas demonstrates anything, it is that "multinational" corporations—especially so in strategic industries like electronics and aerospace—are very much rooted in their own nation-states. This monopolistic merger is aimed not only at reinforcing the U.S. aerospace and weapons industry but at increasing its competitive edge against rivals like the West European Airbus conglomerate.

### The IMF and World Bank - Brutal Imperialist Debt Collectors

The view that "transnational" corporations transcend the nation-state system leads to the notion that certain international economic agencies, like the World Bank and the International Monetary Fund (IMF), have now become a kind of world capitalist government. In a 1992 speech IC leader David North contends:

"Not even at the height of its glory did the British Empire possess even a fraction of the power over its colonial subjects that the modern institutions of world imperialism—such as the World Bank, the IMF GATT and the EC—routinely exercise over the supposedly independent states of Latin America, Asia, Africa and the Middle East."

— *Capital, Labor and the Nation-State* (1992)

The idea that the World Bank and IMF exercise greater power over the workers and peasants of India and Pakistan than did the British colonial army and police is pacifistic nonsense.

No less absurd is the idea that these institutions are powers unto themselves, independent of the imperialist nation-states. The IMF and World Bank act in the Third World (and now in the former Soviet bloc) as brutal debt collection agencies, using blackmail to force through the imposition of draconian austerity policies on the working masses and peasants of the semicolonial countries. But these international agencies act at the behest and in the interests of the major capitalist powers, not autonomously of them and certainly not above them.

The policies and, indeed, very existence of the IMF, World Bank, World Trade Organization, European Union (formerly the European Community) et al. are based on *compromises* among rival imperialist bourgeoisies represented by their national capitalist states. Both the IMF and World Bank were conceived at the 1944 Bretton Woods conference and, as an article in *Monthly Review* (September 1995) noted, "ultimately reflected the interests of the world's overwhelmingly dominant power at that time—the United States." But that has changed with the waning of U.S. imperialism's hegemonic position.

For example, last year the U.S. proposed that the IMF and World Bank write off a large part of the money owed them by especially poor countries like Uganda. Washington officials argue that this is necessary to free up government funds for spending on infrastructure, for tax breaks to encourage new private investment, etc. However, Germany and Japan for months blocked the U.S. plan and succeeded in watering down any substantial debt reduction by the IMF/World Bank. As the growing conflicts between the major imperialist powers reach a certain point, institutions like the IMF and World Bank will be reduced to empty shells, stripped of their present financial resources and political influence. A glimpse of this came in 1995, when Tokyo and Berlin openly challenged Washington's demand that \$30 billion in IMF funds be used to bail out (U.S. banks in) Mexico.

### "Ultra-Imperialism," from Kautsky to North

The current authority exercised by the IMF, World Bank, World Trade Organization et al. derives from the power of the imperialist states for which they function as agents. Let us imagine that a left-nationalist government comes to power in Mexico and repudiates that country's foreign debt. Will the IMF's army invade Mexico and install a puppet regime? Will the IMF's navy blockade Mexico's ports? Will IMF agents confiscate the assets of the Mexican government held in other countries? No, since the IMF has no army, no navy and no agents empowered to confiscate any property anywhere. A Mexican government which repudiated its foreign debt would face economic sanctions and potential military action by the U.S. and other imperialist states.

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**Imperialist chief Clinton with Mexican president Zedillo. Impoverished peasants in Chiapas led by Zapatista guerrillas rose up against 1994 imposition of NAFTA "free trade" rape of Mexico.**

AP



Mendoza/Imagenlatina

Basically, the Northites have reinvented the doctrine of "ultra-imperialism" expounded by Karl Kautsky before and during World War I. The core of Kautsky's theory, quoted by Lenin in his 1916 pamphlet *Imperialism, the Highest Stage of Capitalism*, went as follows:

"Cannot the present imperialist policy be supplanted by a new, ultra-imperialist policy, which will introduce the common exploitation of the world by internationally united finance capital in place of the mutual rivalries of national finance capital? Such a phase of capitalism is at any rate conceivable."

For the International Committee, such a new phase of capitalism is not merely conceivable but is now here. To be sure, North & Co. do not deny a tendency toward imperialist war. But they do so by counterposing "transnational" corporations to reactionary nation-states. Corporations like IBM, Siemens and Toshiba are supposedly striving for a transnational capitalist order but are obstructed by the bad, old, obsolete nation-state system. On the contrary, the root cause of imperialist wars does not lie in the nation-state system as such, much less in nationalist and chauvinist ideology and demagoguery. The imperialist nation-state is the fundamental political instrument by which transnational corporations, to use the Northites' favored term, struggle to expand their markets and spheres of exploitation.

As Lenin wrote in opposition to Kautsky's theory of "ultra-imperialism":

"The only conceivable basis under capitalism for the division of spheres of influence, interests, colonies, etc., is a calculation of the *strength* of those participating, their general economic, financial, military strength, etc. And the strength of these participants in the division does not change to an equal degree, for the *even* development of different undertakings, trusts, branches of industry, or countries is impossible under capitalism....

"Therefore, in the realities of the capitalist system, and not in the banal philistine fantasies of English parsons, or of the German 'Marxist' Kautsky, 'inter-imperialist' or 'ultra-imperialist' alliances, no matter what form they may assume, whether of one imperialist coalition against another, or of a general alliance embracing *all* the imperialist powers, are *inevitably* nothing more than a 'truce' in periods between wars. Peaceful alliances prepare the ground for wars, and in their turn grow out of wars." [emphasis in original]

Spelling out the reformist implications of Kautsky's theory, Lenin added: "It is a most reactionary method of consoling the masses with hopes of permanent peace being possible under capitalism." Not surprisingly, Kautsky was to be a vehement opponent of the 1917 Bolshevik Revolution and the dictatorship of the proletariat which was erected by it to replace the rule of capital.

No less inherently reformist and anti-revolutionary is the contemporary Northite version of "ultra-imperialism." If, to believe North, the competition among different imperialist powers has been subsumed by supra-national agencies, then the traditional Marxist position in inter-imperialist conflicts—that the main enemy is at home—is clearly "outmoded." When it comes to the national and colonial questions, as we will see, North & Co. rival the worst social-chauvinists of Lenin's day.

### **The U.S. Imperialist State and the Exploitation of Mexico**

The central role of the imperialist state in what is currently termed the "globalization" of world capitalism is especially clear in the case of Mexico, U.S. imperialism's most important neocolony. One-fifth of all industrial plant and equipment owned by U.S. corporations in Third World countries is now located in Mexico. Over the past 15 years, the actions of the U.S. government have been crucial in promoting and protecting American investment in that country. Among other things, this has meant an increasingly open role by U.S. imperialism in aiding and arming the Mexican government's bloody repression against combative worker and peasant struggles (see "U.S. Hands Off Mexico!" WV No. 658, 27 December 1996).

Following the frenzied over-borrowing during the oil-price boom of the 1970s, in 1982 the Mexican government announced that it could not meet the scheduled interest payment on its foreign debt. The U.S. Treasury and Federal Reserve Bank immediately took over the "rescheduling" of Mexico's debts and those of other Latin American countries. This entailed the *subsidization* by the U.S. government, via Mexico, of the major Wall Street banks. Harvard economist Jeffrey Sachs, an arch-"free marketeer," wrote at the time:

"In the past five years the commercial banks have received large net transfers from the debtor countries, while the official creditors, including the creditor governments and the multilateral institutions, have made large net transfers to the debtor. Operationally, it can be argued that the official creditors are indeed 'bailing out the banks'."

— *Brookings Papers on Economic Activity* 4 (1986)

In the early and mid-1980s, American corporate investment in Mexico was effectively zero. In fact, the movement of capital across the Rio Grande (Rio Bravo) was in the other direction. Wealthy Mexicans were smuggling out billions and parking their money in Wall Street banks, U.S. corporate stocks and bonds, and Texas and California real estate. The turnaround in the Mexican and, more generally, Latin American debt crisis came with the 1989 Brady Plan, named after then U.S. treasury secretary Nicholas Brady. This plan transformed



Workers Vanguard

**Spartacist contingent at January 1994 protest against murderous repression of Zapatista revolt, held outside Mexican consulate in San Francisco.**

the short-term bank debt of Latin American countries into long-term bonds *guaranteed* by the U.S. Treasury. In return, Washington levered open the Latin American economies to unimpeded exploitation by U.S. finance and industrial capital.

The Brady Plan opened the way for a massive American investment boom in Mexico. U.S. banks, mutual funds, insurance companies and corporations which engaged in manufacturing and services assumed that any money they placed south of the border would be fully protected by the fiscal resources and, ultimately, the political/military might of the U.S. capitalist state. The increasing weight of American capital in Mexico laid the basis for and was, in turn, reinforced by the North American Free Trade Agreement (NAFTA), which came into effect on New Year's Day 1994.

Among its other disastrous consequences, NAFTA meant the economic destruction of millions of Mexican peasant smallholders who could not compete with the much cheaper and better-quality produce, centrally corn, imported from the highly mechanized farms of the American Midwest. Thus, the day that NAFTA came into effect saw a major peasant uprising led by the nationalist-populist Zapatista Army of National Liberation in the impoverished southern Mexican state of Chiapas. The bloody suppression of this uprising by the Mexican army was actively aided by Washington. In the first months of 1994, the Pentagon provided the Mexican army with an additional 3,000 military vehicles, including armored personnel carriers with water cannon, jeeps, trucks and tanks. At the same time, hundreds of U.S. troops were sent to Guatemala in the region bordering Chiapas (see "Pentagon Beefs Up Mexican Repression," *WV* No. 604, 5 August 1994).

The sudden and unexpected Zapatista uprising exposed the fragility of the bourgeois order in Mexico, not least to the ever-wary eyes of foreign investors. Furthermore, the Mexican investment boom had reached a point of speculative frenzy. Prices on the *Bolsa* (stock exchange) bore no relation to actual or prospective profits. The Mexican government could not service its massively expanded foreign debt without devaluing the peso, which it did in December 1994, thereby precipitating a full-fledged financial panic. By year's end, foreign, mainly U.S., investors had liquidated and withdrawn \$23 billion in Mexican assets, more than twice the total value of U.S. direct

manufacturing investment in Mexico at the beginning of 1994.

The financial panic was halted only when the U.S. government came up with a \$50 billion "rescue package"—\$20 billion directly from the U.S. Treasury, the balance from the IMF and the Bank for International Settlements (known as the central bankers' central bank). Mexican finance minister Guillermo Ortiz later told American journalist Thomas Friedman that if Washington had not acted when and on the scale it did, "We would have had to declare a moratorium on debt repayments." German and Japanese capitalists were displeased, to say the least, that no small amount of their money was being used to bail out U.S. banks, mutual funds and insurance companies. The German (and also the British) representative in the IMF took the unprecedented step of abstaining on the vote for the Mexican loan package, while Japan only grudgingly voted in favor. And the next time around, the German and Japanese representatives might vote against.

The Mexican financial crisis totally disproves the Northite theory of a new era of globally integrated capitalist production transcending the nation-state system. At the first sign of political unrest and financial overextension, American "transnationals" dumped every Mexican asset they could and repatriated their money back to their own nation-state, the U.S. of A. The flood of pesos into dollars was stanchd only when the U.S. government, acting both directly and indirectly, vastly augmented the short-term financial resources available to the Mexican government. And the Mexican financial crisis both exposed and intensified the conflicts of interest among the major imperialist powers: the U.S., Germany and Japan.

### **Against Capitalist Imperialism — For Permanent Revolution!**

From its inception, capitalism has been a global system marked by conflicts among competing nation-states. The rise of the bourgeoisies in West Europe to wealth and power was directly linked to the conquest and colonization of more backward regions of the world—the Spaniards and Portuguese in Central and South America, the French in North America and the Caribbean, the British in North America, the Caribbean and the Indian subcontinent. A central characteristic of mercantile imperialism in the 16th-18th centuries was the attempt by the leading colonial powers to insulate their colonies and themselves from the world market by legal prohibitions and sanctions against trade other than between colony and "mother country."

Economic development during the era of mercantile capitalism laid the basis for the industrial revolution pioneered by Britain in the early 19th century. Marx and Engels initially believed that industrial capitalism would be extended more or less uniformly on a worldwide basis. The founders of scientific socialism were by no means blind or indifferent to the monumental crimes committed by the Western powers against the indigenous peoples of Asia, Africa and the Americas. But they viewed such crimes as a historical overhead cost for the modernization of these backward regions. In an 1853 article, "The Future Results of British Rule in India," Marx wrote:

"England has to fulfill a double mission in India: one destructive, the other regenerating—the annihilation of the old Asiatic society, and the laying of the material foundations of Western society in Asia...."

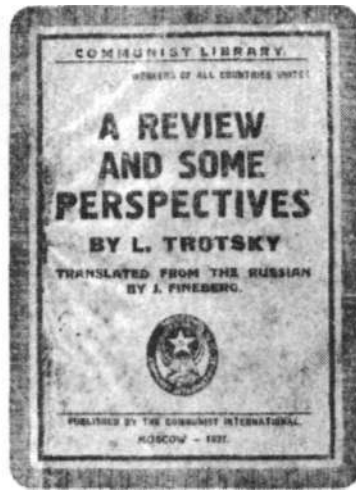
"Modern industry, resulting from the railway system, will dissolve the hereditary division of labor, upon which rest the Indian castes, those decisive impediments to Indian progress and Indian power."

This projection was not borne out by the actual course of development. While the Western bourgeoisies introduced





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1921 Moscow edition of Trotsky's 1906 Results and Prospects, seminal exposition of theory of permanent revolution, borne out by 1917 Bolshevik Revolution. Northites renounce permanent revolution, while embracing latter-day version of "ultra-imperialism" advocated by revisionist Karl Kautsky around time of World War I.

certain elements of modern industrial technology (e.g., railroads) into their colonies and semi-colonies, the overall effect of capitalist imperialism was to arrest the social and economic development of backward countries. Thus, British colonial rule deliberately perpetuated and utilized traditional reactionary institutions such as the caste system in India and tribalism in sub-Saharan Africa.

Moreover, the economic development which was introduced under European colonial rule had a deformed character. Thus, the British built the railways in India only from the hinterland to the ports to facilitate trade with the imperialist metropolis. The rail lines did not connect the different regions of the Indian subcontinent. By contrast, railway construction in the United States during the same period was a prime factor in the economic and social integration of the American nation-state.

By the late 19th century, Marx and Engels had become champions of colonial independence and recognized that the modernization of Asia, Africa and Latin America could take place only within the context of a world socialist order. Thus, Engels wrote to Karl Kautsky in 1882:

"India will perhaps, indeed very probably, make a revolution and as a proletariat in process of self-emancipation cannot conduct any colonial wars, it would have to be allowed to run its course; it would not pass off without all sorts of destruction, of course, but that sort of thing is inseparable from all revolutions. The same might also take place elsewhere, e.g., in Algeria and Egypt, and would certainly be the best thing for us. We shall have enough to do at home. Once Europe is reorganized, and North America, that will furnish such colossal power and such an example that the semi-civilized countries will of themselves follow in their wake; economic needs, if anything, will see to that. But as to what social and political phases these countries will then have to pass through before they likewise arrive at socialist organization, I think we today can advance only rather idle hypotheses." [emphasis in original]

In the 1880s, at the beginning of the era of modern capitalist imperialism, it was understandable that Marx and Engels assumed that proletarian socialist revolution would first take place in the advanced capitalist countries and that the socialist transformation of the more backward regions would gradually follow in consequence. However, imperialist domination and

exploitation strengthened the bourgeois order in West Europe and North America, not least by infecting the working class in these countries with the ideology of national chauvinism and racism. As Lenin pointed out in his 1916 pamphlet, imperialist super-profits derived from the colonial world made it "economically possible to bribe the upper strata of the proletariat" in the advanced countries, providing a material basis for opportunism and social-chauvinism.

At the same time, imperialism tended to destabilize the traditional social order in backward countries, generating contradictions which Trotsky termed "combined and uneven development." A sizable industrial proletariat, working with modern technology, emerged alongside the mass of impoverished peasants still subject to feudal-derived forms of exploitation. The day-to-day struggle against capitalist and pre-capitalist forms of exploitation was organically intertwined with, and reinforced by, the struggle for national independence.

Recognizing the international contradictions brought about by the era of modern imperialism, Leon Trotsky challenged the hitherto accepted sequencing of the world socialist revolution from the advanced to the backward countries. It was now possible that the

proletariat of a backward country, leading the peasant masses in the struggle against feudal-derived exploitation and foreign imperialist domination, could come to power in advance of the workers of West Europe and North America. Such revolutions would severely weaken the bourgeois order in the imperialist centers while giving a powerful impetus to the revolutionary consciousness of the workers in the advanced capitalist countries.

Trotsky first developed this concept of "permanent revolution" at the beginning of the century specifically with regard to tsarist Russia, and it was validated by life itself in the Bolshevik October Revolution of 1917. In the late 1920s, in light of the experience of the defeated Chinese Revolution of 1925-27, Trotsky generalized the theory and program of permanent revolution to what is now called the Third World. Thus the section on "Backward Countries and the Program of Transitional Demands" in the 1938 Transitional Program states:

"The central tasks of the colonial and semicolonial countries are the agrarian revolution, i.e., liquidation of feudal heritages, and national independence, i.e., the overthrow of the imperialist yoke. Both tasks are closely linked with each other..."

"The general trend of revolutionary development in all backward countries can be determined by the formula of the permanent revolution in the sense definitely imparted to it by the three revolutions in Russia (1905, February 1917, October 1917)." [emphasis in original]

### David North vs. Permanent Revolution

As clearly stated in the Transitional Program, Trotsky and the Fourth International he founded regarded the struggle for national independence in backward countries as an integral and important component of the world socialist revolution. The Northites now maintain that in the supposedly new era of "globalized" capitalist production, national independence has become impossible and, indeed, reactionary. In a 1992 lecture, "Permanent Revolution and the National Question Today," North pontificated:

"To the extent that Marxists attributed a progressive content to national liberation movements, it was because they were in some way identified with overcoming of imperialist domination

and the legacy of backwardness, tribal and caste distinctions.... "That content is hardly to be found in any of the movements which presently claim to champion 'national liberation.' At any rate, whatever the subjective aims of different movements, the liberation of mankind cannot be advanced in this era of global economic integration by establishing new national states."

—*Fourth International* (Winter-Spring 1994)

We have previously discussed at some length the Northites' opposition to the democratic right of national self-determination (see "David North 'Abolishes' the Right to Self-Determination," *WV* Nos. 626 and 627, 28 July and 25 August 1995). What we want to emphasize here is that their position amounts to *passive acceptance of imperialist oppression and exploitation of backward countries*.

This can be seen very clearly in the case of Mexico. NAFTA represents a qualitative extension and institutionalization of the exploitation of Mexico by Wall Street. When NAFTA was first proposed in 1991, the Mexican, U.S. and Canadian sections of the International Communist League issued a joint declaration headlined, "Stop U.S. 'Free Trade' Rape of Mexico!" The fight against NAFTA, we maintained, "is a battle against American imperialist domination of Mexico" (*WV*No. 530, 5 July 1991).

What of the Northites' attitude toward NAFTA? From a superficial reading of their press, one might assume they are implacably hostile to it. In their *International Workers Bulletin* (11 April 1994), they stated, quite accurately, that NAFTA "effectively puts the entire Mexican economy at the service of the needs of US transnationals and the Wall Street financial institutions, providing low-wage labor, inexpensive natural resources and vast tracts of land for them to exploit and a huge market for American manufactured goods." Some months later, they wrote that "NAFTA means nothing more than the economic recolonization of Mexico" (*IWB*, 16 January 1995). This is actually an overstatement, since Mexico had already been an economic neocolony of U.S. imperialism for decades before NAFTA.

Yet the Northites have *never opposed* what they themselves call the "economic recolonization" of Mexico, either before NAFTA was implemented or even when its bloody conse-

quences could be seen in the corpses of hundreds of impoverished Indian peasants in Chiapas. A few months before NAFTA came into effect, a political line statement in *IWB* (20 September 1993) declared: "American workers must not line up behind either side in the capitalist debate over NAFTA, but must adopt an independent class standpoint which is based on the genuine, i.e., international, interests of the working class."

What the Northites meant by "an independent class standpoint" was "neutrality" toward the intensified exploitation and domination of Mexico by U.S. imperialism. In fact, there was no debate within the American capitalist class, aside from a few maverick bourgeois pseudo-populists like Ross Perot and Pat Buchanan who opposed NAFTA from a chauvinist standpoint, as did the AFL-CIO bureaucracy. The large majority of the American imperialist bourgeoisie supported and still supports NAFTA wholeheartedly. More fundamentally, the Northites treat imperialist subjugation of backward countries as simply a matter of "debate" within the capitalist class. By this logic they should in retrospect not have opposed the Vietnam War, since this generated a real debate—indeed, a sharp division—within the U.S. ruling class. In short, North & Co. did not and do not support the actual struggles of the Mexican working people against NAFTA and its effects.

One has only to look at the Northites' attitude toward the Chiapas peasant uprising of early 1994. This unexpected leftist-led revolt gripped the world's attention. But not the Northites'. The self-described "weekly socialist newsjournal" of the American Northites ran *one* article on the Chiapas uprising during the period when it was convulsing Mexico and causing no small concern to U.S. "transnational" corporations and banks. This article, "Mexican Government Massacres Hundreds" (*IWB*, 10 January 1994), was simply a piece of descriptive journalism which raised *no programmatic demands* whatsoever. The Northites did *not* call for the defense of the peasant uprising against the Mexican neocolonial bourgeois state. They did *not* call for the withdrawal of the Mexican army from Chiapas. They did *not* call for the release of Zapatista militants and peasant supporters imprisoned and often tortured by the Mexican army and police. They did *not* call for a halt to U.S. arms shipments and other aid to the Mexican military. And, of course, they did *not* call for the abrogation of NAFTA, one of the key demands of the uprising.

In sharpest contrast, our international tendency actively mobilized in defense of the Chiapas uprising from a proletarian socialist standpoint. In the U.S., the Spartacist League joined in solidarity rallies outside the Mexican consulates in New York City and San Francisco. Our comrades of the Grupo Espartaquista de Mexico (GEM) participated in a mammoth anti-government protest in Mexico City. A statement issued by the GEM, and published in the Mexico City daily *El Dta*, declared:

"As a Marxist revolutionary organization, the GEM emphasizes to those who seek to fight against capitalism and imperialism, that it is the *power of the working class*, and not rural guerrilla warfare, which if organized behind the program of international socialist revolution can defeat NAFTA and mobilize the dispossessed peasants and all the oppressed against the misery and barbarity of the capitalist system. In the face of repression in Chiapas, it is an urgent duty for the working class to defend the courageous Indian insurgents and all the victims of bourgeois repression."

— translated in *WV*No. 592 (21 January 1994)

The very different responses of the ICL and North's IC toward the Chiapas uprising reflected our adherence and their opposition to the perspective of permanent revolution. By the

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