No Way Out for Ailing U.S. Economy

The "new economic policy" announced by U.S. President Nixon on August 15 is an emergency measure which U.S. imperialism has been compelled to take due to its tremendous domestic and overseas difficulties. It reflects the daily decline of U.S. imperialism. The following article shows that U.S. ruling circles are bogged down in an economic mire and how they are desperately trying to get out of it. — Ed.

THE United States is in a critical period in which it has to deal with the simultaneous financial-monetary and economic crises. This is a rare phenomenon in U.S. history. It is suffering, as the U.S. press says, "simultaneously [from] both recession and inflation." The main symptoms are: Production declines, a slack market, a sharp rise in unemployment, soaring prices, a huge budgetary deficit, heavy internal and external debts, continuous foreign trade deficits, a rapidly deteriorating international payments situation, increasing drains on gold reserves and the speedy deterioration of the dollar's position. The decline of the U.S. position today is the inevitable result of the malignant development of U.S. monopoly capitalism; it also stems from the U.S. Government's policies of aggression and war which it has been pursuing for a long time.

Vicious Circle: "Expansion" — "Retrenchment" — "Expansion"

There have been five economic crises in the United States since the end of World War II. Whenever one breaks out, the U.S. ruling group, to tide over its difficulties, artificially boosts the economy by increasing government expenditures, especially military spending.

The Kennedy-Johnson administration, which came to power during the fourth economic crisis (1960-61), greatly increased its military spending year by year, especially when the Johnson government brazenly expanded the war of aggression against Viet Nam in 1965. This "expansion" policy, however, failed to resolve the inherent contradictions in the U.S. economy; instead it aggravated the financial and monetary crisis.

The Nixon government came up against this tough situation when it came to office in 1969. To control inflation and defend the dollar it had to adopt a "retrenchment" policy, which instead of achieving the hoped for result, hastened the approach of a new economic crisis.

Two-Year Economic Crisis

The fifth postwar economic crisis erupted in the United States in August 1969. It has continued up till now. No postwar economic crisis has lasted as long as this one. As a result, industrial production keeps falling. By November 1970, it had dropped 7.6 per cent since August 1969.

Beginning from last December, industrial production actually has been stagnating, with ups and downs by small margins. Key industrial production again showed a sharp drop in July this year. This was 5.3 per cent below the 1969 peak in July of that year, prior to the outbreak of the current crisis. It was even lower than the level in December 1968, before the Nixon government took over. July's retail sales were 352 million dollars less than the previous month.

As a result of the drop in industrial production, many industrial and commercial enterprises have gone bankrupt and the number of unemployed has increased sharply. In the first quarter of this year, 2,807 industrial and commercial firms went bankrupt, 335 more than in the corresponding period last year. According to greatly minimized official U.S. figures, the number of unemployed in December 1968 was 2.6 million, with the unemployment rate standing at 3.3 per cent, while the number of unemployed throughout the first half of this year exceeded 5 million, about 6 per cent of the working population. The unemployment rate reached 6.1 per cent in August this year, nearing the peak unemployment rate in the past nine years.

Faced with this situation, the Nixon government had to give up step by step its "retrenchment" policy last year and switched to a policy of "expansion," which was manifested in deficit financing, easy credits and an increase in the money supply in an effort to stimulate economic recovery. Instead of helping to get out of the economic crisis, these measures have greatly aggravated the financial and monetary crisis.

Financial-Monetary Crisis

The U.S. Government's policy of "expansion" has brought a big increase in its budgetary deficit. U.S.

Treasury Secretary Connally recently estimated that the fiscal 1972 deficit will hit 27,000 million to 28,000 million dollars, breaking all postwar records. Thus the total deficit in the three fiscal years under the Nixon government will reach 54,000 million dollars, greater than the deficit in any postwar U.S. President's term of office. To make up for the huge financial deficit, the Nixon government has floated bonds and issued money on a colossal scale. The national debt, according to U.S. press reports, totals 405,000 million dollars, or an average of about 2,000 dollars for each American. The interest on this debt is 21,000 million dollars a year, about 10 per cent of total government expenditures for the current fiscal year.

The money supply during the first half of this year rose steeply at an annual rate of 10.4 per cent in the United States, which is greater than the rate of increase in any half year throughout the postwar period. By mid July, the total amount of money supply had reached 226,700 million dollars. Soaring inflation has led to a steady price increase. In the more than two years since Nixon took over, prices of consumer goods climbed 15 per cent, and the May-June cost of living this year showed an increase by a wide margin. The consumer goods price index in June rose to 121.5 (taking 1967 as 100). In August, wholesale prices increased at an annual rate of 8.4 per cent, bigger than in any single month since February.

Mounting prices have pushed up the cost of U.S. commodities, thereby greatly weakening their competitive ability on domestic and foreign markets. Beginning from April, U.S. foreign trade deficits have lasted for four months running, although the United States used to have a huge favourable balance of trade. U.S. Commerce Secretary Maurice Stans said apprehensively that the United States will show a foreign trade deficit this year, the first time since 1893. Foreign trade deficits in the first seven months, coupled with the massive outflow of capital resulting from the successive lowering of the interest rate, brought the balance of payments deficit to 11,300 million dollars in the first half of 1971.

As a result of this growing deficit, dollar holdings by foreigners in June reached 51,900 million dollars, including about 32,000 million dollars in the hands of foreign central banks which could have exchanged their dollar holdings for gold from the United States. On the other hand, U.S. gold reserves backing the dollar have dropped steadily, down to 9,700 million dollars in early August. Confidence in the dollar has fallen sharply. Since May when the capitalist world monetary crisis broke out, there have been several runs on gold and Western currencies and big dollar sales on the Western money markets. Between late July and early August there were three rushes to dump the dollar which resulted in a sharp drop in its price. The dollar can no longer maintain its dominant position in the capitalist world monetary system which was established at Bretton Woods 27 years ago. The once almighty "dollar empire" is sinking fast and nearing its doom.

Sharpening Internal and External Contradictions

It is in this critical situation that Nixon came up with his "new economic policy." The purpose is to fleece the working people at home and shift the trouble on to other countries, prevent the financial-economic crises from deteriorating still further, defend the privileged position of the dollar and maintain U.S. imperialism's economic domination in the capitalist world. But this can only lead to heightened class contradictions in the United States and ever sharper conflicts in the whole capitalist world. The U.S. working class will not accept the Nixon government's wage freeze and bans on new strikes even though these measures, which are aimed at serving U.S. monopoly capital, are only temporary. The west coast longshoremen's strike despite the bans and threats by the authorities is a recent example.

In the international sphere, Japan, Canada, West European countries, as well as Asian, African and Latin American countries, have denounced Washington for its selfish action. U.S. efforts to force other countries to revalue their currencies have met resistance, while the demand for abolishing the U.S. import surcharge is growing ever stronger. Some West European countries even proposed that the U.S. dollar should cease to enjoy the privileged position as the capitalist world reserve currency. A fiercer struggle is obviously developing between the United States which wants to preserve its hegemony in the capitalist world and the other capitalist countries in their fight against U.S. domination. This struggle will last a long time.

Whatever "new policy" the Nixon government concocts to serve the interests of U.S. monopoly capital will fail to rescue the ailing U.S. economy. Neither will it help solve the fundamental contradictions in the capitalist system. On the contrary, it will only be a futile gamble, bringing bigger chaos to the capitalist world and enabling the struggle of the people of the world, including the American people, against U.S. imperialism to forge ahead with great momentum.