CLASS CONFLICT, KEYNESIAN POLICIES, AND THE BUSINESS CYCLE

By Raford Boddy and James Crotty

With the economy on the brink of crisis and the administration's policies adrift, radicals justifiably feel vindicated in their long-run or secular analysis of the contradictions in modern American capitalism. But there is some confusion about the state and direction of economic activity and the government's probable policy response. We have explanations of the secular functions of Keynesianism and some understanding of its contradictions,* but, with the principal exception of the brilliant 30-year-old essay by Kalecki on "The Political Aspects of Full Employment,** radical theorists have done little to

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* See, for example, Paul Baran and Paul Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), and various issues of MONTHLY REVIEW.

** Michal Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy* (Cambridge: Cambridge University Press, 1971), pp. 138-145.

explain and interpret the political-economic function of short-run macro-policy, i.e., monetary and fiscal policy, and its class implications. ("Fiscal policy" refers to changes in government spending and taxation, "monetary policy" to measures taken by the government to affect the cost and availability of credit and the supply of money. Either or both can be used to influence the general level of economic activity.)

In this essay we formulate a class-conflict theory of short-run macro-policy which assumes that the maximization of corporate profits is the objective of government macro-policy and shows that pursuit of this objective requires the vicissitudes of the business cycle. We use the theory to interpret American postwar economic experience and to draw some initial conclusions concerning the direction of likely structural changes in American capitalism.

Marx and Macro-policy

Under the "old-fashioned" business cycle as analyzed by Marx, it was understood that capitalism was incapable of balanced, full-employment growth. The hallmark of the modern Keynesian has been the presumption that such growth is at least a technical possibility, given the appropriate macro-policy, and is assuredly a primary policy goal (albeit one that must occasionally be sacrificed to the pursuit of price stability). In spite of the monopolization of the American economy, the birth of Keynesianism, and the tremendous growth of the government sector, we believe that the key to understanding both macro-economic policy and business cycles in the postwar era is still to be found in Marx's theory of the dynamics of the cycle in competitive capitalism—particularly the behavior of wages and prices.*

* We do not intend to argue that there has been no essential change since Marx's day in the dynamics of the cycle. Rather we want to strongly emphasize that the state, through its monetary and fiscal operations, can and has significantly altered the pattern of economic activity. The business cycle of the postwar period has been determined by the interaction of both private sector and state activities. The postwar cycle is *political* as well as economic.

Marx argued that the reduction in the reserve army of the unemployed which accompanies economic expansions strengthens the bargaining position of the working class in its labor-market confrontation with capital. This allows workers to struggle successfully for higher real wages and a larger share of total income, thus squeezing profits toward the peak of the boom. Relaxation of this profit squeeze requires the termination of the expansionary phase of the cycle and a rebuilding of the reserve army. As Marx explained it:

> If the quantity of unpaid labor supplied by the working class, and accumulated by the capitalist class, increases so rapidly that its conversion into capital requires an extraordinary addition of paid labor, then wages rise, and, all other circumstances remaining equal, the unpaid labor diminishes in proportion. But as soon as the diminution touches the point at which the surplus labor that nourishes capital is no longer supplied in normal quantity, a reaction sets in: a smaller part of revenue is capitalized, accumulation lags, and the movement of rise in wages receives a check. The rise of wages therefore is confined within limits that not only leave intact the foundations of the capitalist system, but also secure its reproduction on a progressive scale.*

Keynesians have largely glossed over the importance of the full-employment profit squeeze. Born in the Great Depression, Keynesian theory has focused almost exclusively on the problem of chronically insufficient aggregate demand. Based on their pluralist theory of the state, Keynesians have assumed that the basic objective of macro-policy in the postwar era has in fact been the pursuit of full employment. And, using the enormous unemployment of the 1930s as a benchmark, they have judged the postwar level of demand to be generally adequate, with exceptions considered to be the result of inefficiencies in policy execution. Even radical critiques of the policy of this period have centered more on the social irrationality of the composition of demand and the dubious long-term viability of the Keynesian solution than on the size of the reserve army. Yet

* Karl Marx, *Capital,* vol. 1 (New York: International Publishers 1967), p. 620.

compared to other leading capitalist countries, the United States has experienced significant economic cycles with only brief episodes of relatively full employment.

It was the seminal contribution of Kalecki to point out the contradiction between Keynesian "full employment" policies and the political and social requirements of liberal capitalism. Kalecki predicted that in order to maintain capitalist political and social control, which depends on the power of the "sack" and the role of capitalist as job provider, the state would have to refrain from attempts to maintain continuous full employment. But, unlike Marx, Kalecki saw no contradiction between full employment and high profits. Based on his own theory of monopoly pricing, which assumed that corporations could maintain their profit margins under full employment conditions, Kalecki argued that

> the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices and thus affects adversely only the rentier interests. But "discipline in the factories" and "political stability" are more appreciated by the business leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view.*

Several modern radicals have supported Kalecki's position.** But, as shown below, a close examination of the relevant data supports the proposition they deny, and reaffirms the crucial Marxian insight. Labor's share typically does rise in the latter half of an expansion. The profit squeeze does occur. Capitalists have more than their class instinct to tell them that sustained full employment is manifestly unsound. The Marxian economic effects of the business cycle mutually reinforce the socio-political aspects stressed by Kalecki. Together they have formed the basic context within which macro-policy has attempted to maximize long-run profits. Their interaction has ensured that the state, in pursuit of maximum profits, could

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* Kalecki, *op. cit.*, p. 141.

** See Josef Steindl, "Karl Marx and the Accumulation of Capital," in *Marx and Modern Economics*, edited by David Horowitz (New York: Monthly Review Press, 1968) p. 255; and Howard Sherman, *Radical Political Economy* (New York: Basic Books, 1972), pp. 89-90.

not even *attempt* to use macro-policy in pursuit of balanced, full-employment growth.

The Cyclical Behavior of Factor Shares

The class conflict inherent in macro-policy emanates from the boom-induced, full-employment profit squeeze. Because the movement of factor shares has been the subject of a great deal of confusion and contradictory claims, we have summarized some basic findings on the cyclical behavior of profits and related variables such as unit labor costs, productivity, and prices. ("Factor shares" is the economists' term for the proportion of total income received by the owners of different kinds of inputs to the production process, i.e., wages, profits, interest, and rent.)

Chart 1 (see page 6) depicts actual variations in factor shares over recent cycles.* The chart shows that halfway through the typical expansion, the economy experiences a pronounced decline in the ratio of profits to wages. The level of profits comes under severe pressure at the same cyclical juncture and typically falls thereafter as well. For the capitalists, it becomes increasingly preferable to accept the adverse but temporary profit decline of a recession. A prolongation of the boom would continuously erode their profit position, while a recession would create the foundation for a new period of expanding profits.

In Table 1 (see page 7) we present the data on wages, prices, and productivity that underlie the movements of the shares of capital and labor. To determine the impact of the stage of expansion upon the various series, each expansion is divided into two parts, (1) "through to mid-point" and (2) "mid-point to peak."

Looking first at wage rates, we find that in both of the

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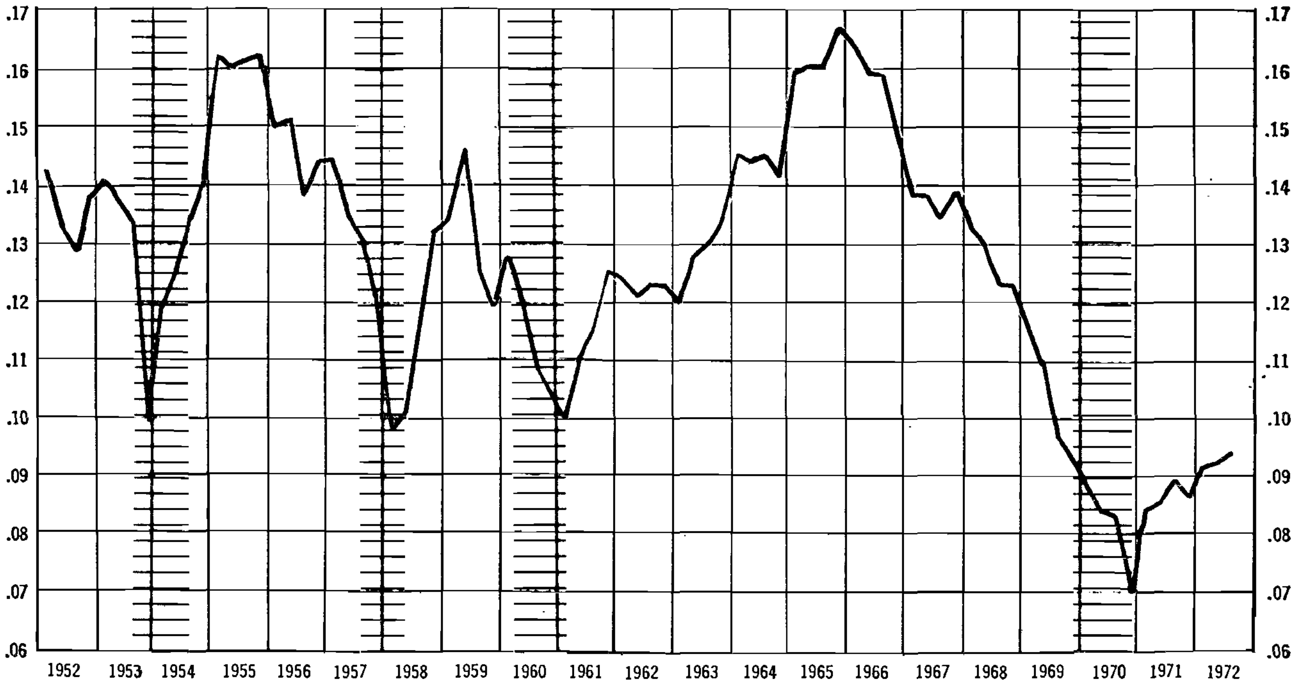
* Albert E. Burger, "Relative Movements in Wages and Profits," *Federal Reserve Bank of St. Louis Review* (February 1973). Burger's purpose was to prove that wage-price controls had worked against business and in favor of labor by depressing the ebullient profit rise which normally accompanies the early phase of an expansion. Burger shows that the use of after-tax profits and before-tax wages does not significantly bias the movement of relative shares. Calculations we have made (not shown here) demonstrate that the squeeze does not originate from either the government or the banking (interest payments) sector, though both have significantly expanded lately.

Chart 1

RATIO OF PROFITS TO WAGES



Shaded areas represent periods of business recession as defined by the National Bureau of Economic Research.

Profits are measured by profits after taxes for nonfinancial corporations. Wages are measured by total compensation in nonfinancial corporations.

Source: Albert E. Burger, *op. cit.*

TABLE I

Factors Influencing Profits/Wages Ratio
(annual rates of change)

As seen in three business cycle expansions from the third quarter of 1954 (III/54) to the fourtn quarter of 1969 (IV/69). The data are shown separately for two phases of each expansion:

A—The period from the trough to the mid-point of the expansion

B—The period from the mid-point to the peak of the expansion

Three Expansions	*Wage Rate*[1]	*Unit Labor Cost*[2]	*Wholesale Prices of Industrial Goods*	*Output Prices*[3]	*Output Per Person*	*Capacity Utilization*	*Output*	*Profits*[4]	*Compensation of Employees*[5]
A. III/54-I/56	4.6%	2.3%	3.5%	–0.2%	3.5%	5.6%	8.7%	21.6%	11.9%
B. I/56-III/57	6.8	4.1	3.1	2.8	1.4	–4.0	0.9	–4.2	5.7
A. II/58-II/59	4.9	–4.1	2.3	1.3	12.9	16.4	20.8	63.0	13.2
B. II/59-II/60	4.5	4.7	0.0	0.6	–1.7	–3.8	–0.9	–13.9	4.9
A. I/61-III/65	3.9	–1.4	0.4	0.7	6.5	4.5	10.1	25.6	7.8
B. III/65-IV/69	6.5	4.2	2.7	3.3	1.6	–1.3	4.2	–4.0	10.2

Note: Profits and compensation pertain to nonfinancial corporations. All other data pertain to total manufacturing.

1. Employee compensation divided by manhours
2. Compensation divided by output
3. Consumer price index of commodities less food
4. Corporate profits after tax liability for nonfinancial corporations
5. Compensation of employees in nonfinancial corporations

Source: Albert E. Burger, *Ibid.*

longer expansions wage rates increased very significantly in the latter phase of the expansion. These variations in wage rates provide some information on the source of the noted profit squeeze, but labor cost per unit of output probably best shows the impact of the cycle on profits, as viewed from the capitalists' position. It is particularly instructive to compare unit labor cost to an index of the wholesale price of industrial commodities, a rough measure of non-labor input cost, and to output price. Output prices increased faster than wholesale prices in the last half of two of the three postwar expansions; unit labor cost increased much faster than both price indices in all three. It is only in the initial phase of the expansion that wholesale prices increase more rapidly than output prices. Thus, we can reject the idea that an increase in the price of non-labor inputs relative to output price is the basis of the profit squeeze. In contrast, we see that unit labor cost declines relative to the output price index in the first part of the expansion, but overtakes it after the midpoint of the expansion. The resultant decline in the profit rate is thus directly attributable to labor "problems" rather than rising non-labor input cost.

Let us now turn to productivity, the other determinant of unit labor cost. Productivity gains in the early expansion are tremendous. In the second part of the expansion there is a noticeable decline in the rate of increase, but generally not in productivity itself. The early increase in productivity is attributable partly to a return to optimal factor proportions which occurs as output rises toward "desired" levels. The later slowdown in productivity is attributable partly to subsequent technical bottlenecks which develop during the later part of the expansion.*

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* As stressed by Marx (*op. cit.*, vol. 1, pp. 630-633), cyclical variations are not free from the pressures of longer-run technological forces. The optimal factor proportions of the current expansion are not those of the previous one. Correspondingly the bottlenecks will have changed too. Investments in the early part of an expansion are concentrated preponderantly in equipment. Equipment typically substitutes directly for labor and therefore increases labor productivity and the reserve army of unemployed. In the later part of the expansion the depletion of building space requires that the composition of investment shift towards structures. Structures have a weaker impact than equipment on labor productivity.

Although technical reasons help to explain the noted slowdown in labor productivity, knowledgeable observers of the labor scene have pointed directly to an increasingly obstreperous labor force as an influence on the decline in productivity during the expansion. Full employment affects not only wage rates, but also quit rates and strikes. It has been a long-standing observation that such favorable conditions for labor imply less effort on the shop floor. For example, a plant superintendent testifying before the Commission on Labor in 1904 had the following to say:

> Five years ago men did not restrict their output, union or non-union men, because they wanted to hold their jobs and a man would do anything and all he was told to do. Now a man knows that all he has to do is to walk across the street and get another job at the same pay. During the hard times we took contracts at any price we could get, and in some places and cases men were driven at high speed to get this work out, so as to lose as little money on it as possible. Men will not keep up that speed rate in these days.*

After the 1970-1971 recession, the *Wall Street Journal* ran a front-page story under the title "Conciliatory Mood." The story reported that a very large company had just forced the union representing its employees to accept a pay cut of 25 cents an hour, the removal of two cost-of-living increases, and an agreement to forego any raises until 1974. It continued:

> Across the country at large and small companies, workers are frequently choosing to be more conciliatory when faced with the threat of losing their jobs. That is in sharp contrast to the labor scene of recent years [i.e., when unemployment was low], both union and corporate officials agree. Not long ago, they say, rank-and-filers . . . would probably have been angered by the thought of concessions. But these days . . . are bringing about a softer approach. . . . Many manufacturing executives have openly complained *in recent years that too much control had passed from management to labor.* With sales sagging and competition mount-

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* Quoted in Wesley Mitchell, *Business Cycles and Their Causes* (1913) (Berkeley: University of California Press, 1941), p. 33.

ing, they feel safer in attempting to restore what they call "balance."*

One direct measure of labor militancy is the incidence of strikes. Strike activity has generally receded after the beginning of a recession. Correspondingly after long expansions such as those of the Second World War and the Indochina War, strike activity has increased.**

We conclude on the basis of an examination of these data that the avoidance of sustained full employment is a necessary condition for both the maximization of long-run profits and the maintenance of capitalist-class hegemony.

Would Capitalists Like a Stable Reserve Army?

The assumption that the maximization of profits makes it necessary to avoid sustained full employment does not necessarily imply that *cycles* as such are profit-maximizing. Might a sustained *level* of less than full employment lead to higher long-run profits? Should the state, in the service of the capitalist class, aim for sizable yet steady rates of unemployment? We think not.

The major reason for a negative answer to this question is that the *rate of change* of unemployment, as well as the *level and duration* of unemployment, is a fundamental determinant of labor confidence and militancy. Most workers, after all, will not actually suffer unemployment over the cycle. (The percent of the labor force experiencing unemployment as measured by the Labor Department at some time during the year varies according to economic conditions but is at least three times the average annual rate.) Still, there are reasons for workers to fear the possibility of unemployment, *particularly when the rate is rising*. Correspondingly, that fear must significantly diminish when the rate of unemployment is falling. Nixon, for example, seemed to get a good public rating for economic performance in 1972 because the unemployment rate was falling, even though it was still at a high level. Alternatively, if it

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* *Wall Street Journal* (January 26, 1972, emphasis added).

** See Table 154, "Work Stoppages in the United States," *Handbook of Labor Statistics* (Bureau of Labor Statistics, 1973).

were possible to maintain a steady unemployment level, the result would be effectively to segment the labor force into those working and those not only unemployed but, as time went on, increasingly unemployable because of deteriorating work skills and habits. The capitalists would once again be faced *de facto* with a militant, unfrightened work force and tight labor markets, even though measured unemployment remained high. The mechanism of the reserve army, in other words, requires not only the existence of unemployment but also a *threat* to those still employed.

It should also be remembered that a capitalist economy is inherently volatile. While one can visualize maintenance by the state of relatively tight markets at near-capacity levels, as in times of war, it appears less likely that the state could maintain a stable "relaxed" economy in the face of the capitalists' avaricious propensity "to truck and barter," and to reap the individual profits to be gained through increased production.

We conclude, therefore, that the political-economic function of macro-policy in the short run is not to pursue sustained full employment nor a steady, relaxed economy with a stable reserve army. Rather, its function is to ensure that the alternating pressures for expansion and contraction emanating from the private sector result in that cyclical pattern most conducive to long-run profit maximization. *The goal of macro-policy, in other words, is not to eliminate the cycle but to guide it in the interest of the capitalist class.*

Some Questions

In developing a class-conflict theory within which to interpret macro-policy, we have focused attention on tendencies in the movement of real wages and factor shares over the course of the typical postwar cycle. We have yet to discuss explicitly the role of inflation *per se* in the rhythm of the cycle and to analyze international influences on policy. To what extent does consideration of these phenomena, which have often been at the center of public debate over policy, necessitate modification of the conclusions we have drawn with respect to the function of macro-policy? Further, we have abstracted from them concrete problems and conflicts specific to each historical period, which are of necessity filtered out in an attempt to construct a model of the "typical" cycle. To what extent do problems specific to a given cycle modify the standard policy profile? This, in turn, is related to the question of how potential conflicts between the mandates of the domestic cycle and the pressures emanating from the international sector get resolved in the process of macro-policy making. Although the data presented above establish the importance of the cycle in its own right, attempts to answer these questions, though necessarily brief due to space limitations, help us to understand the historical relation of macro-policy and the business cycle and, more importantly, to make a judgment about the uses of the cycle in the near future.

The Role of Inflation

Inflation has often been interpreted by economists as an unmitigated evil which hurts us all (the increases in real production which often have accompanied inflationary periods notwithstanding). The lesson of the cyclical data presented above is that a differentiation among phases of the cycle is vital to an understanding of the role played by inflation.

The moderate inflation which accompanies the initial phase of an expansion is beneficial to the capitalist because it allows him to protect himself from the impact of the money wage-gains of that phase. Capitalists and their apologists generally accept this initial increase in prices as a natural concomitant of demand expansion. However, as relatively full employment is approached and maintained, wage increases accelerate. Prices also show a faster rate of increase, but they fall behind the tempo of wages. Profit share falls accordingly. Now inflation appears more virulent to the capitalist class and the state. Historically, the pressure to fight inflation has coincided with, and partially resulted from, a wage squeeze on profits.

Under wage-price controls, of course, the state restricts the gains of labor *directly*. The historical relation among factor shares, the reserve army, and the phase of the cycle is broken by the direct intervention of the state in the distributive process. Obviously, the behavior of wages, prices, and profits in the past three years has not followed the classical cycle pattern. The same cyclical pressures developed, but they could not surface as long as the control mechanism had sufficient political legitimacy in the eyes of the working class. These pressures have become apparent since the removal of controls, as wages have begun a rapid rise and strike activity has dramatically increased.

Cycle and the Empire

Prior to the 1970s, the domestic requirements of the cycle roughly corresponded with the "normal" exigencies of U.S. international economic interests. By "normal" we refer to the month-to-month and year-to-year dynamics of international trade, investment, and financial capital flows, as well as to the financial institutions which support them, but not to the imperialist wars and lesser military skirmishes which inevitably occur. Extended economic expansions not only squeeze domestic profits, they also create balance-of-payments problems. Boom-induced inflation retards export growth, while rising domestic incomes lead to increased demand for imports. The resulting deterioration in the balance of payments can cause serious strains in the international payments mechanism. Thus, the pressure to relax the economy generally develops simultaneously in the domestic and international sectors.

The restrictive macro-policies used in the second Eisenhower administration to protect the international position of the dollar may be counted as a minor exception to the general rule. But these policies, though costly in the short run, set the stage for the long expansion which commenced under Kennedy. Following the prolonged period of serious unemployment in the late 1950s and early 1960s the working class was debilitated by either extended joblessness or its threat.

The Kennedy administration substantially increased military spending immediately upon taking office. Shortly thereafter it enacted investment tax credits, liberalized depreciation allowances, and personal tax cuts. The conjunction of such stimulatory macro-policy with a badly weakened labor force led to the economic growth, the super profits, and the falling labor share of income of the early to mid 1960s. The Johnson administration, in turn, by programs to consolidate capitalism at home and protect it abroad, added to these expansionary forces.

By late 1965, as profit margins peaked and the trade surplus declined, capital clearly required a recession, and the Council of Economic Advisers proposed recessionary policies. But there was a war going on and this time, unlike the case with the Second World War or the Korean War, the needs of the war did not mesh with domestic macro-policy requirements. Unable to reduce military expenditures and unwilling to stir up incipient opposition to an increasingly unpopular war through tax increases, the Johnson administration chose instead a sharp squeeze on money markets. It came very close to causing a financial collapse in the process. Thereafter, except for the ineffective tax surcharge of 1968, Johnson let inflationary war finance run its course.

Others have pointed out the adverse consequences for the U.S. capitalist class that have arisen as a result of its defeat in the continuing war in Indochina. We would only add that a substantial part of recent international and domestic complications is directly or indirectly attributable to the inability of American capital to pursue its standard cyclical relaxation policies during the main war period.

In 1969 the incoming administration began to deal with its problems by means of a classic recessionary macro-policy. Certainly it must have appeared that an unusually long recession lasting three or four years would be required to curb the pressures and end the dislocations generated by eight years of continuous expansion and five years of continuous tight labor markets. Yet the actual recession was relatively short-lived, beginning in the last quarter of 1969 and continuing for five or six quarters thereafter.

What caused the administration to pull back from its cycle-relaxation policy and substitute the NEP, with its wage-price controls? Restrictive policy was eased in 1970 because its continuation would have led to a rate of unemployment so high that it could not have been reduced to a politically acceptable level in time for the 1972 presidential election; because corporation profits, squeezed first by five years of tight labor markets and then by the initial impact of the recession, were in need of immediate relief; and because the credit structure was under dangerous pressure. As a result of recessed business conditions and less restrictive monetary policy, U.S. interest rates dropped precipitously, leading to massive liquid capital outflows. Large capital inflows had camouflaged the developing balance-of-payments crisis in 1968 and 1969. But the capital outflows of 1970 and especially 1971, combined with a trade balance which was being progressively eroded by demand-induced import growth, inflation, and newly implemented Common Market tariff policies to restrict U.S. agricultural sales, led to a veritable explosion in the U.S. balance of-payments deficit. By 1971, the international monetary system was drowning in a flood of U.S. dollars.

On the one hand, the capitalists needed expansionary macro-policy to stimulate short-run profits and investment and to keep unemployment from rising too high. On the other hand, they needed restrictive policy to kick interest rates back up, to improve the trade balance, and to get labor fully under control. By August 1971 there was simply no combination of standard macro-policy tools which could cope with all these contradictory pressures. Nor could macro-policy effectively deal with Europe's intransigence on the agricultural export question. The emergency in the international monetary system—a cornerstone of U.S. international hegemony—would tolerate no delay in action. The administration's response was the NEP.

Pressures and Prospects

Was the emergence of wage-price controls in this period only a temporary expedient occasioned by a temporary conjunction of contradictions? We believe not. Rather, it signifies a deeper, more secular dilemma for U.S. capital.

Reliance on the business cycle to discipline labor has been a costly policy for American capitalism. The erosion of the traditional trade surplus, the collapse of the U.S. dollar-based international monetary system, and the emergence of other capitalist states, particularly Germany and Japan, as challengers to U.S. hegemony in capitalist world affairs, have made business-cycle-as-usual a dangerous policy for U.S. capital. The cycle has, of necessity, involved U.S. corporations in bouts of sluggish growth, a lack of planning efficiency, and the need for excessive stockpiling of labor and materials. It is one manifestation of the relative anarchy of American capitalism—the lack of any effective market or administrative institutions capable of successfully and efficiently co-ordinating and integrating the activities of different industries and different sectors of the economy. This lack of coordination puts U.S. capitalists at a disadvantage relative to their competitors in spite of the rich U.S. resource base. The giant U.S. multinational corporations must engage in long-term planning, particularly with respect to investment programs, if they are to maintain economic supremacy. But in the absence of alternative methods for disciplining labor, recession planning cannot be discarded without endangering capitalist-class dominance. It follows that U.S. capital needs a new way to control workers.

Capitalists have experimented with several new mechanisms in the last few years. These include Phases I through IV and companion devices such as no-strike legislation, removal of antitrust restraints, no-strike contracts, and attacks on welfare programs. Many powerful corporate interests are infatuated with the Japanese model of close industry-banking-government collaboration on investment, zaibatsu or cartel arrangements, and "paternalistic" personnel policies. They would like to create an American version of it.* The task of American capital is not only to modify these methods to fit American conditions, but more importantly to wage the major power struggle *within* the capitalist class, as well as between capital and labor, required for the implementation of such arrangements. Since the Japanese model requires that all segments of capital submit to administratively organized class discipline, it involves the augmentation of the power and autonomy of some segments of the class at the expense of others. Those segments jeopardized by reorganization can be expected to fight tenaciously for the status quo.

* For a description of the Japanese model by an important corporate leader and presidential adviser in terms that literally drip with envy, see Peter G. Peterson, *The United States in the Changing World Economy*, volume 1 (Government Printing Office, December 1971).

Some of the conflict surrounding Watergate and the Nixon administration's détente policy may be related to this struggle. Nixon's landslide victory in the 1972 election presented him with a very strong "mandate." He appeared to have gained the political power which a successful attempt at the reorganization of American capitalism would require. The unmasking of Nixon through the Watergate affair stripped him of the legitimacy and power needed for the job and has thus probably postponed serious attempts at reorganization.

To sum up the argument, we have seen that there are contradictions in the application of macro-economic policy, but that they are not the ones cited most frequently by economists. To the capitalist class the unemployment generated by the fight against inflation in the latter phase of an expansion is a benefit, not a cost. Further, the need for domestic discipline has not, in general, been in significant conflict with the "normal" requirements of the international sector. Rather, the real conflicts have been of two different kinds. First, as evidenced by the Indochina War, domestic cycle relaxation needs can conflict with the requirements of imperialist war. The latter obviously takes precedence, but only at the cost of severe future economic dislocations. Second, the internal need to discipline labor through the cycle conflicts with the long-term planning which is crucial if the U.S. is to regain undisputed international capitalist hegemony.

As a result of these real conflicts, American workers are likely to remain under dual attack. They will have to cope with attempts to introduce new methods of control and, at the same time, continue to face the ravages of the business cycle.

The problem in America is not that the top 100 corporation presidents are violating the laws, though God knows they are, the problem is they're writing the laws.

—Nicholas Johnson, member of the Federal Communications Commission, quoted in the *New York Times*, March 5, 1972

Whenever the legislature attempts to regulate the differences between masters and their workmen, its counsellors are always the masters.

—Adam Smith