

THE ECONOMICS OF FASCISM

WHAT THE WAGE-PRICE FREEZE MEANS

by Jim Shoch, Venceremos

"I am today ordering a freeze on all wages and prices throughout the United States..."
--Richard Nixon, August 15, 1971

"It has been the iron principle of the National Socialist [Nazi] leadership not to permit any rise in the hourly wage rates..."
--Adolf Hitler, 1941

What's the meaning of the steps taken recently by President Nixon to "save" the American economy? There's only one answer. Fascism (complete state control of every aspect of people's lives) is on the way.

After 2 1/2 years, Nixon's do-nothing "game plan" to stabilize the war-torn American economy has failed miserably. Now he's decided that the only way out of the current crisis of imperialism is through increased government control of the economy.

To check the war-created inflation, Nixon has ordered a wage-price freeze. But while wages will stay frozen, due in part to Nixon's union-busting no-strike order, prices will continue to rise. There are no controls whatsoever, not even formal ones, on profits, dividends, and bank interest rates.

To spur production and employment, Nixon has proposed a massive tax handout to the giant monopolies to be paid for by low-income Federal employees and welfare recipients. And the overall result of these measures will probably be fewer jobs.

To make U.S. goods more competitive in world markets and to stabilize the international monetary system, Nixon has ordered a 10% surcharge (tax) on most imports and has taken the U.S. off the gold standard. This could eventually involve the U.S. in an international trade war.

Faced with defeat in Indochina, a collapsing economy, and increasingly militant black, brown, and white resistance at home, the American ruling class is turning to fascism to defend its empire.

But American working people are not taking this lying down. Many unions, including the longshoremens, have already refused to abide by the no-strike order. In the months ahead, it will become clear that the only way to defeat fascism is by militantly fighting back.

In his August 15 speech, Nixon said, "Prosperity without war requires action on three fronts: We must create more and better jobs; we must stop the rise in the cost of living; we must protect the dollar from the attacks of international money speculators."

Let's take a look at the steps Nixon has taken to deal with each of these problems, beginning with the most important issue--inflation and the wage-price freeze.

INFLATION

Prices are still soaring. The overall rate of inflation is about 6% per year. Industrial wholesale prices increased .7% in July, the fastest monthly increase in almost six years. While productivity (output per man-hour) has increased about 3% per year because of labor-saving machinery, inflation has kept workers from sharing in this increase. Since 1968, the real weekly earnings of the American wage earner have inched up from an average \$90.67 to only \$91.96. In other words, the economic pie is getting bigger, but the worker's slice is still the same size.

The capitalists who run the country aren't too concerned about workers' problems, of course. But inflation does hurt them in the areas of foreign trade and investment. So businessmen have been pressuring Nixon recently to put the lid on inflation.

Nixon has clamped a 90-day freeze on wages and prices. Plans are already being made by the Cost of Living Council, the group set up to administer the controls, to extend the freeze. Under the Economic Stabilization Act of 1970, it can be extended until April 30, 1972.

The price freeze is supposed to include wholesale and retail prices of newly-produced goods, used goods, rents, insurance rates, lawyers' and doctors' fees, and common carrier and public utilities rates. The price freeze does not cover farm prices of "raw agricultural products," including raw products sold at retail stores. Or previously-announced college tuition hikes for the 1971-72 school year. Or state and local taxes. Or bank interest rates, corporate dividends, and stock and bond prices.

The wage freeze (actually a freeze on increases; wages can go down) applies to all contracts negotiated during the 90-day period, wage contracts negotiated before August 15 but due to take effect after that date, all deferred pay raises due to take effect during the 90-day period, and cost of living clauses in contracts that come due during the freeze. (The freeze does not apply to pensions.)

After the freeze is lifted (if it's lifted), pay raises will not be retroactive to the date they were originally due to take effect.

All of this means that several million workers in the steel, copper, telephone, railroad, and other industries who have already settled and whose raises have taken effect can keep them. (They don't get deferred raises or cost of living increases that come due in the 90-day period.) But another 500,000 workers in the coal, aerospace, airline, and longshoring industries who are either striking or due to negotiate contracts during the 90-day period will have their raises delayed for at least three months.

Nixon has also ordered an end to all strikes and lock-outs during the freeze. Unions that violate the order are subject to \$5,000 per day fines. This affects major strikes in progress, like the one being waged by 15,000 members of the International Longshoremens' and Warehousemen's Union (ILWU). Bargaining can continue during the 90-day period, but since no one knows when the freeze will be lifted or what additional controls might be imposed, it's hard to see how settlements can be reached.

Let's see how Nixon's moves to fight inflation will work.

The current inflation is primarily the result of the murderous U.S. aggression in Indochina (to defend American trade and investment in Southeast Asia) and the monopoly profit-taking it has led to.

In the mid-1960's, military spending (some \$80 billion per year) created a booming demand for all sorts of goods and services. The big monopolies in each industry responded to this rising demand by jacking up their prices. Workers had to demand wage increases just

to keep up with the rising cost of living.

Even during the recession Nixon has engineered to fight the inflation, prices have kept climbing. Faced with declining demand for goods and rising bank interest rates, the monopolies have continued to raise their prices in order to keep their profits up. So we have inflation and recession at the same time.

It's clear, then, that inflation is not mainly caused by workers' wage demands (as the capitalists would have us believe) but by the big monopolists who have the power to raise their prices almost whenever they feel like it. Yet Nixon's wage-price freeze will not control the monopolists' prices very effectively. Only wages, at best a secondary cause of inflation, will be solidly frozen. Here's why.

The agency enforcing the freeze is the Office of Emergency Preparedness (OEP). The OEP is a midget bureaucracy. Its Washington office has only 300 people, and each of its ten regional offices usually has only eight full-time staff members. To administer the freeze, the OEP has been expanded. 360 smaller offices have been set up across the country, including 40 in California. But most of these are Internal Revenue offices doing double duty, and they will not be well-staffed. The new San Francisco office, for example, with overall responsibility for California, Nevada, Arizona, Hawaii, Guam, and American Samoa, has only a 12-member staff. The OEP will never be able to deal with even a small proportion of the freeze violations that could occur.

Nixon made it clear in his August 15 speech that the controls will be essentially voluntary: "I am relying on the voluntary cooperation of all Americans--workers, employers, consumers--to make this freeze work." Nixon said the freeze "would not be accompanied by the establishment of a huge price control bureaucracy." He emphasized that he wants to check inflation "without mandatory wage and price controls."

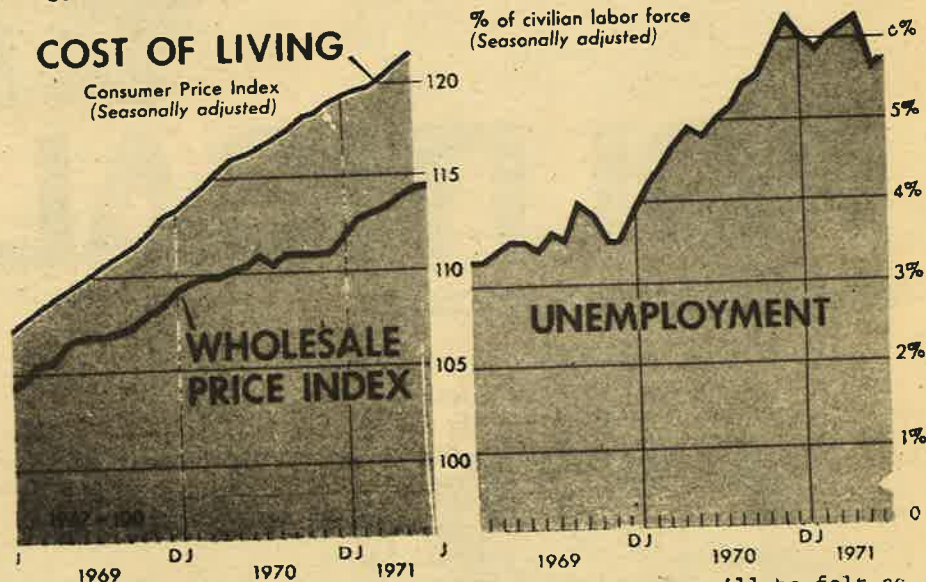
But "voluntary" controls will work better to freeze wages than prices. Employers will be only too happy to carry out their legal obligation not to grant wage increases. Big corporations will be diligent and forceful in their demands on the OEP for enforcement of the wage freeze. And of course, the no-strike order (which prevents strikes over non-wage issues like working conditions, too) is nothing but a union-busting tactic and will weaken workers' bargaining power.

There are only individual consumers and the overworked OEP to keep tabs on prices, and individuals can't bring suit against a price violator; only the OEP can do that.

While wage control will be very effectively enforced, then, price control will be almost completely voluntary and hence difficult to achieve. One OEP spokesman confirmed this when he said, "We're relying on the private sector to act in good faith." Secretary of the Treasury John B. Connally has observed that effective price control depends on business's fear of public disfavor. American corporations, however, have never cared very much about the people--just money.

Many firms will violate the freeze just to raise their profits (which aren't controlled). Others, faced with higher costs, will be strongly pressured to raise their prices and will be able to do it without effective price controls.

As bank interest rates continue to rise (they aren't controlled, either, and banks don't have much social conscience), borrowers will raise their prices to keep their profits up. Prices of raw agricultural products are also uncontrolled (probably a concession to Nixon's California agribusiness friends who were hard-hit by the recent railroad strike). Initial processors, wholesalers, and retailers, rather than absorb the price increases themselves, will pass them along, in violation of the freeze, until they reach the consumer.



A price rise in any major sector of the economy will be felt as increased costs in other industries, forcing prices up in those industries, as well. Other firms will raise their prices just to "keep up with the Joneses."

For those violators who are caught and successfully prosecuted, the maximum fine is only \$5,000. (Unions, of course, pay \$5,000 a day for striking in violation of the President's order.) Many firms may simply choose to raise their prices and pay the fine if they are caught; it won't hurt them much.

It may seem strange that the monopolists, who as a class are in favor of checking inflation, will violate the freeze by raising their prices. But this really isn't so strange at all. Under monopoly capitalism, it's still every corporation for itself. Each firm wants all other businesses to hold their prices down, while it continues to raise its own. A good example of this kind of behavior is General Motors which, according to Ralph Nader, had advance notice of the wage-price freeze and instructed its dealers throughout the country to start selling new cars immediately at the 1972 prices. The instructions got out too late, and GM had to rescind the increases, but the giant company gave it a good try.

Some corporations will make an extra bundle off their workers without raising their prices, thanks to the wage-price freeze itself. These are the firms that have already raised their prices anticipating wage increases due later. Now that wages are frozen, these companies will pocket the difference.

All the while, big stockholders will continue to collect rising dividends, which aren't controlled.

While the nation's big corporations, banks, and stockholders continue to make fat profits, the country's poor and working people will be badly hurt by the wage-price freeze and the no-strike order. Wages will stay frozen, while prices (especially food prices) will keep on climbing. In addition, small homeowners who take out mortgages and anyone who borrows money will be squeezed between fixed wages and rising interest rates. Landlords, often heavily mortgaged themselves, will undoubtedly keep raising their rents. State and local taxes will continue to rise and previously-announced college tuition hikes will be allowed to take effect, further denting the American public's pocketbook. All this means a serious decline in the standard of living of the American people.

And whenever the freeze is finally lifted, the big corporations will jack their prices up even further, as they've done in the past.

Wage freezes and union busting have occurred in other capitalist nations in this century. The first thing Hitler did after taking power in Germany was to smash the unions and fix wages. It can and is happening here.

UNEMPLOYMENT

Although Nixon's forced recession didn't do much to curb inflation, it definitely did slow the economy down. Last year, for the first time since 1938, the American Gross National Product (expressed in real, noninflated terms) actually declined from the preceding year.

The slump is still continuing. Production in July dropped more sharply than at any time since last November's General Motors strike; the industrial production index fell .8%. The official nation-wide unemployment rate in July rose from 5.6% to 5.8% (7.2% in California). And this doesn't include people who have given up looking for work, those who are underemployed, and people who weren't counted in the last census.

To spur production and employment, Nixon has proposed a series of tax cuts and credits.

He asked Congress to repeal the 7% excise tax on new automobiles. This will mean, according to James Roche, president of General Motors, that the price of a new car will be lowered by \$190-200. It is Nixon's hope that that repeal of the excise tax will encourage purchases and raise production in a seriously-depressed automobile industry.

He has also proposed that the \$50 increase in personal income tax exemptions that was scheduled to become effective on January 1, 1973, instead go into effect a year earlier, on January 1, 1972. Nixon also urged the acceleration of a small scheduled increase in the standard deduction for individuals who do not itemize their deductions on the Federal income tax returns. These tax cuts are designed to give consumers more money to spend. Nixon hopes this will hype the economy up, creating more jobs.

Under what he calls the Job Development Act of 1971, Nixon is also proposing an investment tax credit of 10% for one year to be followed by a permanent credit on investments in new American-made machinery and equipment of 5%. This is designed to make corporate investment more attractive, leading to more production and employment in the capital goods industries (steel, machinery, construction, etc.)

Nixon also plans to ask Congress next year for further tax incentives. (All of these proposals require Congressional approval.)

To keep the budget balanced, Nixon has ordered Federal spending reduced by \$4.7 billion this year. This includes a 5% cut in Federal employment, a six-month freeze on a Federal pay raise scheduled for January 1, 1972, deferral for three months of the effective date of his revenue-sharing proposal and one year for his welfare reform proposal (neither of which has passed Congress), and a 10% cutback in foreign aid. As Nixon sees it, "Tax cuts to stimulate employment must be matched by spending cuts to restrain inflation."

Contrary to what Nixon claims, all of these measures will result in fewer jobs and a transfer of income from poor and working people to the big corporations and banks.

The repeal of the 7% excise tax on new cars will increase the purchase of automobiles. But this will benefit those in middle and upper income groups who buy new cars frequently, not poor people.

The personal income tax cuts will increase consumer spending and increase employment to some extent. But the real tax benefits are reserved for Big Business. The investment tax credit is nothing but a handout to the big monopolies. While many of them will probably take advantage of the credit to invest in new buildings and machinery, creating some employment, much of the savings will not be spent but will be kept in the form of retained profits. Profits that are hoarded don't create jobs. In addition, much of the investment will go to buy labor-saving machinery. Faced with glutted markets, corporations tend to invest in cost-reducing rather than output-expanding technology. This means that workers will eventually be automated out of jobs in the industries that invest because of the tax credit. Many other monopolies won't even use the 10% credit at all. Most big firms make expansion plans far in advance. Companies like Fairchild, Hewlett-Packard, and Varian have no plans to make major investments in the near future.

Whatever jobs are created by the tax cuts and credits will be more than offset by the cutbacks in Federal expenditures. Cuts in the wasteful military and space sector would eliminate fewer jobs, but that would cut into the profits of the military-industrialists. Instead, 130,000 poorly-paid Federal employees will lose their jobs, others will have their pay frozen for six months, and many people who need welfare will not get their checks. These people with low incomes usually spend all of their money, creating further demand for goods and thus more employment. With the government cuts, this money won't be spent. In effect, the money saved by these cuts will be used to subsidize corporate investment by means of the 10% tax credit.

Since over 90% of all U.S. foreign aid is spent on American goods, the 10% cutback, or \$340 million, will reduce exports and thus employment.

The net results of Nixon's attempts to increase employment, then, will be to create more unemployment and to take money from the poor and give it to the rich.

TRADE AND MONEY CRISIS

The last major economic problem facing the country is the international trade and monetary crisis.

As American prices have soared in recent year, U.S. goods have become increasingly unable to compete in foreign countries. In addition, European and Japanese producers of goods like steel, automobiles, textiles, and electronics are taking over a larger share of the U.S. market. The U.S., which used to sell more abroad than it imported (\$6 billion more in 1964), now imports more than it exports.

The U.S. usually spends about \$9 billion overseas each year in military expenditures (to defend the empire), foreign "aid" and investment, and tourists' expenses. The American trade surplus has largely offset these expenditures and has kept the overall U.S. balance of payments deficit (outflow of dollars from this country minus inflow) down to about \$3 billion per year.

With the disappearance of the trade surplus, however, last year's payments deficit reached \$10 billion, and will be even greater this year. (The deficit for April, May, and June alone totaled \$5.8 billion.)

Foreign bankers have found themselves flooded with dollars and have lost confidence in the ability of the U.S. to back its dollars with gold. (Under an international monetary agreement signed in 1944, the U.S. was obligated to pay \$35 an ounce for gold, while the dollar became an official reserve currency, "as good as gold" for settling international debts.) In July, 1971, there were 50 billion U.S. dollars in foreign banks, while U.S. gold reserves stood at only \$11 billion. Foreign bankers, as they have done before (in early 1968, for example), began to madly exchange dollars for gold, fearing that the U.S. would devalue the dollar (lower its value relative to gold), leaving them with dollars that were worth less. This "gold panic" could have led to the collapse of world trade and investment.

To make U.S. goods more competitive, rebuild the U.S. trade surplus, reduce the balance of payments deficit, and stabilize the dollar, Nixon has taken two major steps.

First, he has ordered a 10% surcharge on all imports except those, such as coffee, that are not subject to duties, and those, such as sugar, that are limited by quotas. With foreign goods 10% more expensive, American manufacturers will be able to reclaim a part of their home market.

Nixon has also taken the U.S. off the gold standard. This means that foreign bankers will no longer be able to exchange their dollars for gold. Nixon wants Europe and Japan to "revalue" their currencies upward, that is, raise their values relative to the dollar. For example, at one point last week, while the British pound was "floating" upward, its value had risen from \$2.40 to \$2.80. If other nations revalue their currencies relative to the dollar, then foreign goods will become more expensive relative to U.S. goods. This will also help restore the U.S. trade surplus.

How will Nixon's international economic policies work? In the short run, the 10% import surcharge will definitely reduce sales in this country of some foreign goods, like Datsuns and Sony T.V.'s. This will lead to increased production and employment in certain industries like steel and cars. Most major foreign nations, hoping that the surcharge will be lifted, are complying with Nixon's wishes and are letting their currencies float upwards in value. This will make U.S. goods more competitive all over the world. On the other hand, it's possible that the jobs that are created in the export sector be offset by those lost in the import sector. And inflation during and after the freeze will erode some of the advantage gained by U.S. goods by the surcharge and revaluations.

In the long run, big problems could develop. France has only partially revalued the franc, and Japan has said it won't revalue the yen at all. This may mean that the Japanese in particular plan to fight it out with the U.S. for control of world markets.

Although European Common Market countries and Japan have no immediate plans to retaliate against the surcharge with tariffs or duties of their own, if the U.S. keeps the surcharge for any length of time (as it probably will while inflation continues), these nations may well decide to impose restrictions on imported U.S. goods. American economic protectionism, then, could lead to a world-wide trade war and a resulting breakdown in international trade and investment. And trade wars often lead to shooting wars.

One thing is certain; with U.S. imperialism declining in strength, a giant power struggle for control of the world economy is brewing.

Here, then, are the key aspects of Nixon's new "game plan":

A wage-price freeze that freezes wages but not prices, plus a union-busting no-strike order. Tax cuts and credits to increase employment that will in fact reduce employment while making the rich rich and the poor poorer. And an import surcharge coupled with steps on the international monetary front that could lead to a world trade war. This is the real meaning of Nixon's program--economic fascism. The state is seizing control of the battered American economy to defend the power and profits of the ruling class at the expense of the American people.

FIGHT BACK!!

American working people are not going to let the capitalists beat them down. The Alameda County Labor Council has advised its 140 affiliated locals to continue strikes now underway (in violation of Nixon's order), demand that pay raises won be made retroactive to the expiration date of previous contracts (payable after the freeze) and demand that pay raises due during the freeze be placed in individual, interest-bearing accounts.

The ILWU (longshoremen) has denounced Nixon's policies and has made it clear that the dock strike will continue. The strike by 45,000 Teamsters against Northern California contractors will continue. The United Auto Workers will consider their contracts with the auto companies null and void if the wage-price freeze lasts longer than 90 days. And even AFL-CIO head George Meany, hardly a notorious labor radical, has said, "We won't cooperate" with Nixon's moves, and plans to take the wage-freeze order to court.

Political fascism has been developing for some time in this country. The genocidal war against the Indochinese peoples continues. Police terror in the Black and Brown communities grows each year. The FBI, CIA, Army intelligence, police "Red Squads", and the like make up the largest secret police apparatus ever assembled in world history.

Now economic fascism has come into being, striking at the living standards of all poor and working people.

If we're to prevent the consolidation of all-around fascism in this country, we'll have to get together and fight--fight in the streets, in the factories, in the armed forces, and in the schools.

As Chairman Mao has said, "Everything reactionary is the same; if you don't hit it, it won't fall."