

## Political Economy and the Canadian Working Class: Marxism or Nationalist Reformism?

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Volume 46, 2000

URI: <https://id.erudit.org/iderudit/ilt46art09>

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Publisher(s)

Canadian Committee on Labour History

ISSN

0700-3862 (print)

1911-4842 (digital)

[Explore this journal](#)

### Article abstract

The dominant, nationalist tradition of left-wing political economy in Canada has always stood as an obstacle to the articulation of a Marxist political economy of Canada capable of contributing to the development of a class struggle, socialist politics. The evolution of the "New Canadian Political Economy" that emerged in the 1960s is traced and its main schools of thought are delineated. Against the nationalist preoccupations of the NCPE, the argument is made that the economic troubles of Canada in the past quarter century are attributable to the "normal" crisis tendencies of an advanced capitalist economy (as analyzed by Marx) and should not be seen as the product of "foreign domination" of the Canadian economy.

### Cite this article

Smith, M. E. (2000). Political Economy and the Canadian Working Class: Marxism or Nationalist Reformism? *Labour/Le Travailleur*, 46, 343–368.

# THE NATIONAL QUESTION

## Political Economy and the Canadian Working Class: Marxism or Nationalist Reformism?

Murray E.G. Smith

In our epoch, which is the epoch of imperialism, i.e., of *world* economy and *world* politics under the hegemony of finance capital, not a single communist party can establish its program by proceeding solely or mainly from conditions and tendencies of development in its own country. – Leon Trotsky, 1928<sup>1</sup>

### *Introduction*

AS CANADIAN WORKING PEOPLE face the new millennium, anxiety about the future of the economy is pervasive, notwithstanding the economic buoyancy of the late 1990s. A counter-revolution of declining expectations amongst workers over the past two decades, in Canada as elsewhere, has coincided with a wide-ranging assault on working-class living standards and an erosion of economic security.<sup>2</sup> Since the mid-1970s, Canadian capitalism has weathered a malaise involving three severe recessions, historically slow growth rates, persistently high rates of unemployment, declining real wages, and wildly fluctuating rates of return on capital

<sup>1</sup> L. Trotsky, *The Third International After Lenin* (New York 1970), 3-4.

<sup>2</sup> The working class, on my definition, includes wage-labourers and some salary-earners who derive their income primarily through the sale of their labour-power either to private capital or the capitalist state. It includes skilled and unskilled as well as productive and unproductive wage earners. See M. Smith, *Invisible Leviathan: The Marxist Critique of Market Despotism beyond Postmodernism* (Toronto 1994), 195-200.

Murray E.G. Smith, "Political Economy and the Canadian Working Class: Marxism or Nationalist Reformism?," *Labour/Le Travail*, 46 (Fall 2000), 343-68.

investment. The response of Canadian big business and the state has been to demand that labour markets be made more "flexible," that social programs be sacrificed on the altar of deficit and debt reduction, that trade union rights be curtailed, that capital and trade be freed from "undue" regulation, and that the tax system be made more regressive. The upshot has been that the rate of exploitation of labour has been jacked up dramatically in order to restore the profitability and enhance the international competitive position of Canadian capital under the allegedly "new" conditions of economic and political "globalization."

Despite the palpable failure of Canadian capitalism to sustain the rising prosperity enjoyed by the working class in the 1950s and 1960s, and despite the recurring demands of capital and the state since the mid-1970s that workers tighten their belts in the interests of restoring economic stability, the "official" leadership of the Canadian working class — the trade union officialdom and the New Democratic Party — has maintained a steadfastly pro-capitalist outlook and policy. A decade after the demise of Soviet-bloc "actually existing socialism," the leadership of the Canadian labour movement, in both English Canada and Québec, is more remote than ever from advocating anti-capitalist social change. Indeed, its refusal to resist the capitalist ideological triumphalism of the last decade has contributed in no small measure to the popular perception that "there is no alternative" to actually existing capitalism or to the neo-liberal policies that have strengthened capital's hand against labour throughout the world. Debate within the mainstream of working-class politics has regressed to the question of how labour can preserve the gains of past struggles (many of which were inspired by an explicitly anti-capitalist world-view and strategic project) while at the same time submitting "responsibly" to the fundamental rules, values, and boundaries of liberal democratic capitalism.

The point of departure of this article is that a fundamental condition for the emergence in the next century of a labour movement capable of both defending and advancing the interests of the working class is the diffusion of an authentically Marxist account of the political economy and recurrent crisis tendencies of advanced capitalism.<sup>3</sup> Certainly, such a Marxist political economy must become a central part of the "conventional wisdom" of Canadian labour if its practice is to be fundamentally reoriented toward a struggle for workers' power and a socialist society. To be sure, the influence of an ostensibly socialist political economy, originating in left-academic circles in the 1960s, has long been felt within the organizations of Canadian labour. Its dominant form — associated with what has

<sup>3</sup>This article does not seek to provide an introduction to Marxist political economy or to elaborate at length on its applicability to Canada. A basic knowledge of Marxist economic theory on the part of the reader is assumed. My own interpretations of Marx's theories of value and capitalist crisis may be found in Smith, *Invisible Leviathan*, and M. Smith, "Productivity, Valorization and Crisis: Socially Necessary Unproductive Labor in Contemporary Capitalism," *Science & Society*, 57, 3 (Fall 1993), 262-93.

become known as the "New Canadian Political Economy" (NCPE) — is remote from the key ideas and concerns of Marx's *critique* of classical political economy and has served to divert attention from the class-struggle program of Marxist socialism in the direction of labour-reformism, "left-nationalism," and class-collaboration.<sup>4</sup> Far from arming labour with the theoretical tools required to advance the struggle for socialism and social justice, the NCPE has helped lead the labour movement into its current impasse.

My purpose here will not be to disparage the scholarly contributions of the NCPE or to deny that it has advanced our understanding of the historical development of capitalism in Canada; but it will be to suggest that the NCPE's major preoccupations constitute an obstacle to the elaboration of a class struggle socialist program for Canadian labour, and the need for a Marxist alternative to it. For just as there is an "internal" connection between the theoretical shibboleths of the NCPE and the "nationalist reformism" that has been its perennial programmatic upshot, so too is there an internal relationship between Marx's analysis of the fatal contradictions of capitalist production and the Marxist insistence upon working-class political independence, an internationalist perspective and a class-struggle program.

### *The Condition of the Working Class in Canada*

At the end of the 20th century, the Canadian working class still occupies, in many ways, an enviable position within the structure of the world capitalist economy. Indeed, compared to the rapidly growing army of wage labourers in the semi-colonial world, Canadian workers enjoy what many would consider to be a *privileged* position. In comparison to workers in the United States, Canadian working people are substantially better organized at the trade union level and better able to project their power into the political arena. They enjoy an array of social programs that are superior to those found in the United States and comparable to those won by better-organized and more-powerful labour movements in Western Europe. Moreover, in comparison to the working class of other "late-developing" industrial capitalist countries, the Canadian working class has a high standard of living and a relatively low official unemployment rate.

Like working people in other regions of the advanced capitalist world, Canadian workers have not been immune to important changes in the capitalist mode of production or to the deteriorating performance of the world capitalist economy over

<sup>4</sup>The best-known of Marx's "economic" works all bore the title or subtitle "critique of political economy." See K. Marx, *Capital: A Critique of Political Economy, Volume One* (New York 1977); *A Contribution to the Critique of Political Economy* (Moscow 1970); *Grundrisse: Foundations of the Critique of Political Economy (Rough Draft)* (Harmondsworth, Middlesex 1973). See also footnote 43.

the past thirty years.<sup>5</sup> Within the industrialized core of the world economy (Japan excepted), a general shift of waged employment from manufacturing to the service sectors has occurred, and this has contributed to a slowdown in productivity growth as well as to the rapid expansion of a secondary labour market characterized by low wages and meagre benefits. In North America, waged employment in manufacturing declined by 3.18 per cent from 1974 to 1984 and by a further 7.04 per cent from 1984-93, while in Western Europe it fell by 19.6 per cent in the former period and by 6.3 per cent in the latter.<sup>6</sup> In Canada, the service producing segment of the labour force increased from 62 per cent of the total in 1971 to 73 per cent in 1997.<sup>7</sup>

On average, the growth of the real (inflation-adjusted) hourly wage in Canadian manufacturing was about 1.0 per cent per year from 1973 to 1993, slightly higher than the near 0 per cent registered in the United States.<sup>8</sup> The overall shift in employment from full-time manufacturing jobs to service sector jobs (both full-time and part-time) cancelled out any gains for the labour force as a whole. Reliable disaggregated data for hourly wage-earners in Canada are not available, but the average real compensation of waged (as distinct from salaried) employees almost certainly declined over this twenty-year period. (In the United States, real hourly wages in the private business economy as a whole fell by at least 12 per cent between 1973 and 1990 and saw no growth between 1990 and 1997.<sup>9</sup>) When one takes into consideration the cumulative effects of the shift of the tax burden away from corporations and towards workers (through regressive changes to the income tax as well as the proliferation of sales taxes), it is clear that the average *after-tax real wage declined even more dramatically than did the nominal real wage.*

There are many other indicators that Canadian working people have been working harder in return for less compensation since the 1970s. Average inflation-adjusted incomes for families and unattached individuals have been virtually stagnant for the past twenty years, while most working-class households have been contributing more labour to the economy.<sup>10</sup> The labour-force participation rate of

<sup>5</sup>For general surveys, see R. Brenner, "Uneven Development and the Long Downturn: The Advanced Capitalist Economies from Boom to Stagnation, 1950-1998," *New Left Review*, 229 (1998), 1-264; and M. Webber and D. Rigby, *The Golden Age Illusion: Rethinking Postwar Capitalism* (New York 1996).

<sup>6</sup>Massimo De Angelis, "The Autonomy of the Economy and Globalization," unpublished manuscript, Winter 1996, 7, drawing on P. Knox and J. Agnew, *The Geography of the World Economy* (Harlow 1992).

<sup>7</sup>H. Dickinson, "Work and Unemployment as Social Issues," in B. Bolaria, ed., *Social Issues and Contradictions in Canadian Society* (Toronto 2000), 25.

<sup>8</sup>D. Gordon, *Fat and Mean: The Corporate Squeeze of Working Americans and the Myth of Managerial "Downsizing"* (New York 1996), 27-8.

<sup>9</sup>Brenner, "Uneven Development," 3.

<sup>10</sup>P. Urmetzer and N. Guppy, "Changing Income Inequality in Canada" in J. Curtis, E. Grabb and N. Guppy, eds., *Social Inequality in Canada*, 3rd Edition (Scarborough 1999), 58.

women has increased substantially at least partially in response to the loss by many men of "family-wage" manufacturing jobs. As the number of households with two or even three bread-winners has increased, so too has the number of individuals who have been obliged to work at two or more part-time jobs in order to make ends meet. Moreover, as average household income has stagnated, the share of before-tax income going to the bottom 80 per cent of families and unattached individuals has declined from 58.2 per cent in 1981 to 55.6 per cent in 1996.<sup>11</sup> This suggests that most working-class and even many "middle-class" families have actually seen a decline in their before-tax incomes over the same period in which they have been compelled to increase the total number of hours they work, to give up a greater share of their nominal income in taxes, and to accept cutbacks in social programs like health care, unemployment insurance, education and social assistance.

Unemployment and underemployment have also been persistent features of the economic malaise that has confronted the Canadian working class. In every decade since the end of World War II, the average annual (official) unemployment rate has tended to increase. From 1945 to 1954, it stood at 2.9 per cent; from 1955 to 1964 at 5.5 per cent; from 1965 to 1974 at 5.5 per cent; from 1975 to 1984 at 8.7 per cent; and from 1985 to 1994 at close to 10 per cent.<sup>12</sup> Even in the closing years of the 1990s, during a phase of relatively rapid expansion of the Canadian economy, the official unemployment rate remained persistently within the 7.2 per cent to 9 per cent range. Bleak as this picture is, it tells only part of the story. Official unemployment statistics mask the true unemployment rate by ignoring those "discouraged workers" who are no longer counted as part of the labour force, as well as many "self-employed" workers who have been driven into non-lucrative sales and consulting activities after being laid off from waged or salaried employment. Adjusting for the falling labour force participation rate in the 1990s, the Canadian Auto Workers union estimated that Canada's true unemployment rate exceeded 13 per cent in every year between 1992 and 1997. In the same study the CAW documented a decline in the employment rate (the per centage of working-age Canadians actually employed at any given time) from 62.4 per cent in 1989 to 58.5 per cent in 1997, with the *full-time* employment rate falling below 50 per cent in 1997.<sup>13</sup>

Underemployment refers to a situation in which a worker seeking a permanent or full-time job is forced to settle for temporary or part-time employment. In 1994 only 58 per cent of Canada's workers held permanent, full-time jobs, while 42 per cent worked part-time or on a seasonal or temporary basis. Not all of the latter were "underemployed" as defined above, since many wanted part-time or temporary employment. Still, the number of full-time jobs has declined relative to the number

<sup>11</sup> Urmetzer and Guppy, "Changing Income Inequality," 59.

<sup>12</sup> Averages calculated from data provided by Statistics Canada.

<sup>13</sup> CAW, "The Jobs Crisis Continues," *Economic & Social Action*, 3,1 (Sept. 1997), 2-3.

of people desiring full-time employment. Part time employment accounted for only 15 per cent of all jobs in the early 1980s, but increased to 20 per cent by 1997.

Self-employment is also an index of underemployment. Between 1991 and 1997 fully 60 per cent of all new jobs created in Canada were self-employed.<sup>14</sup> Not at all coincidentally, as the ranks of the self-employed were swelling, public-sector employment fell from 10.3 per cent of the labour force in 1989 to 8.8 per cent in 1997.

The over-all conclusion is unmistakable: *in the last quarter of the 20th century, the Canadian working class experienced a declining standard of living and an increasing measure of economic insecurity.* While this all too obvious fact is seldom acknowledged by "mainstream" economists, the declining fortunes of the Canadian working class is a fact of singular importance to the labour movement and to those broadly associated with the intellectual traditions of left-wing political economy. Yet in seeking to explain this erosion of "popular prosperity," both the labour officialdom and most Canadian political economists have tended to highlight issues that deflect attention away from the responsibility of *capitalism*, as a determinate economic system and "mode of production," for the declining fortunes of Canadian workers. Instead, they have drawn attention to a "corporate agenda," which has undermined Canadian economic sovereignty and compromised the capacity of the existing state apparatuses (both federal and provincial) to safeguard the interests of "Canadians." This way of understanding the economic problems facing the working class in advanced capitalist economies is characteristic of the nationalist and pro-capitalist bureaucratic leaderships of labour throughout the world, including the United States. What is perhaps unusual about the Canadian situation, however, is the degree to which many avowedly radical political economists speak the same language as the trade union bureaucracy: *the language of nationalist economic retrenchment.*

This has certainly been true for the NCPE, a school of thought that has rarely addressed the *crisis tendencies* of modern capitalism or the *class imperatives* animating Canadian capital's offensive against working-class living standards. The NCPE has rather concentrated its attention upon such issues as Canada's status within the world system, Canada-US relations, foreign ownership of Canadian industry, the "structure" of the Canadian capitalist class, "free trade," regional underdevelopment and inter-regional exchange imbalances, as well as other issues that lend themselves to a preoccupation with "national sovereignty," "state policy," or "corporate agendas." Even those political economists who have resisted the left nationalism that has characterized the NCPE have often felt obliged to address themselves to many of these same issues, with the result that the elaboration of a Marxist analysis of the real history of Canadian capitalism since World War II has been neglected.

<sup>14</sup>CAW, "The Jobs Crisis," 3.

In what follows, I shall review two very different ways of accounting for the erosion of popular prosperity that has occurred in Canada since the 1970s, one suggested by the proponents of the NCPE and another informed by Marx's law of the falling tendency of the average rate of profit. The NCPE, in keeping with its traditional theme of the victimization of Canada by stronger imperial powers, essentially views the economic malaise of the past twenty-five years as a product of US economic domination and the "continentalist" orientation of the leading fractions of the Canadian capitalist class. A Marxist analysis, to the contrary, sees this malaise as the result of an objective "law of motion" of capitalist production, one that is characteristic of advanced capitalism in general but which different national capitalist economies "manage" with different degrees of success. It is precisely the fact that tendencies toward capitalist crisis manifest themselves *unevenly* across the world economy that creates an opening for "nationalist" explanations of economic downturn. Viewed in this light, left-nationalist accounts of Canada's economic "victimization" by the United States are qualitatively no different than the arguments of the protectionist "Left" in the US (centred in the AFL-CIO bureaucracy), which depicts the American economy as a victim of the "unfair trading practices" of the Japanese and that deplores the relocation of manufacturing enterprises from "American soil" to low-wage regions in Mexico. Whether espoused by "America-first" demagogues or "socialist" political economists, however, such economic nationalism produces a substantially similar political agenda: one leading to class-collaboration and the erosion of international labour solidarity.

### *"Canadian" Political Economy versus Marxist Political Economy*

Despite its occasionally Marxist verbiage, the New Canadian Political Economy has always been more indebted to the Canadian political economy tradition associated with Harold Innis and to "dependency theory" than to Karl Marx, just as it has always been far more interested in debates surrounding imperialism and more recently "globalization" than to the debates over Marxist *crisis theory* that characterized the revival of political economy in other advanced capitalist countries after the onset of the New Left radicalization of the 1960s. It is symptomatic that the comprehensive bibliography for a 1989 collection of articles on the NCPE contained only two references to Marx and none to V.I. Lenin, Paul Sweezy, Ernest Mandel, Paul Mattick, Joseph Gillman, Shane Mage, David Yaffe, Ben Fine, John Weeks, Anwar Shaikh, Michel Aglietta, Alain Lipietz, Makoto Itoh, or many other influential Marxist political economists writing on the dynamics and crisis tendencies of advanced capitalist societies.<sup>15</sup> Moreover, the narrow national parochialism of the volume is evidenced by the fact that even the leading exponents of the dependency school, to which the NCPE was heavily indebted, received only occa-

<sup>15</sup>See W. Clement and G. Williams, eds., *The New Canadian Political Economy* (Kingston, Montréal, London 1989).



sional mention: the bibliography contains only one reference each to Samir Amin, Arghiri Emmanuel, and Andre Gunder Frank. While a later collection consisting largely of articles from the journal *Studies in Political Economy — A Socialist Review* displayed a wider theoretical purview and sought explicitly to offer “a new way of thinking about the long-standing concerns of the NCPE,” it is noteworthy that it too lacked a single contribution devoted to the crisis tendencies of capitalism in Canada from a Marxist perspective.<sup>16</sup> In view of this, it is hardly surprising that NCPE intellectuals have tended to attribute the erosion of popular prosperity in Canada over the past twenty-five years variously to foreign ownership of Canadian industry, to a “deindustrialization” process stemming from the weakness of indigenous Canadian industrial capital, to policies imposed by a Canadian state overly obeisant to American corporate power, or to plant closures occasioned by “free trade” with the United States and Mexico, but *not* to the “normal” dynamics, contradictions, and crisis tendencies of capital accumulation characteristic of a mature, advanced capitalist economy. The upshot has been that NCPE diagnoses have lent themselves not to Marxist-socialist programmatic conclusions, but to national-reformist ones.

As a distinct current within Canadian intellectual and political life the NCPE is most appropriately seen as the product of an historical intersection, beginning in the mid-1960s, of a rising tide of (English-Canadian) nationalism and an international radicalization inspired in large part by anti-imperialist struggles in the colonial and semi-colonial “Third World.” As Canada celebrated the centennial of its confederation in 1967, there was growing alarm, extending across the political spectrum, concerning the increasing level of foreign (primarily US) ownership of the Canadian economy. At the same time that Liberal politicians like Walter Gordon and social-democratic academics like Mel Watkins were calling attention to the US “take-over” of Canadian industry, a growing number of young people were identifying with an international New Left that saw the struggle for human emancipation as being spear-headed by national liberation movements and social revolutions in Asia, Africa, and Latin America. Throughout the Third World, the struggle for national self-determination and against imperialist domination was seen as inextricably bound up with the struggle for socialism. To many, the Chinese, Cuban, and Vietnamese revolutions were inspiring examples of how national-democratic goals could be — and indeed needed to be — combined with a communist program of eradicating class division. Yet even where national liberation struggles were being led by forces that eschewed “Marxist-Leninist” aims, socialism was almost always invoked as both the goal of the struggle and as the means to safeguarding and consolidating national sovereignty. Thus, an “Arab socialism” was espoused by Egypt’s Nasser, Algeria’s Ben-Bella, and Libya’s Qadhafi; a made-in-India social-

<sup>16</sup>J. Jenson, R. Mahon and M. Bienefeld, eds., *Production, Space, Identity: Political Economy Faces the 21st Century* (Toronto 1993). Quoted line is from Rianne Mahon’s introductory essay, 6.

ism was the avowed goal of Nehru's Congress government as its foreign policy tilted toward the Soviet Union; and in sub-Saharan Africa, Julius Nyerere and Kwame Nkrumah, as well as South Africa's African National Congress and the independence movements of Rhodesia/Zimbabwe, Angola, and Mozambique, all spoke the language of "African socialism."

Thirty to forty years on, we know that the term socialism had a great many different meanings in different national contexts, and that for many Third World nationalists "socialism" was at best a subordinate goal of the national liberation struggle and at worst an empty promise made to elicit working-class support (both domestically and internationally) for a "popular alliance" against foreign domination or, as in the case of Rhodesia and South Africa, white-settler colonialism. However, for most New Left activists of the 1960s and early 1970s, the *class* content of the various Third World "socialisms" was of little concern. Indeed, the prevailing assumption within the New Left was that the working class was no longer the most prominent agent of anti-capitalist social change, and that socialism was much more likely to be championed by peasants, intellectuals, students, oppressed nationalities or even the lumpenproletariat.

The proponents of the NCPE were undoubtedly influenced by this spirit of the times — and specifically by the association of national liberation and socialism as congruent and mutually reinforcing goals. The most important political movement associated with the NCPE was the left-nationalist Waffle current within the New Democratic Party, which later became the short-lived Movement for an Independent Socialist Canada after the Waffle's departure from the NDP in 1972. Following the demise of the MISC, the NCPE was kept alive by a diverse group of left-leaning academics, most of whom lacked any well-defined political affiliations or commitments but who associated themselves episodically with the NDP, the Council of Canadians, the Canadian Centre for Policy Alternatives, the Action Canada Network, and the Liberal Party.

Although the ultimate political destinations of most NCPE intellectuals suggests that the preponderant political thrust of the NCPE was nationalist rather than socialist, it should be stressed that many people associated with the Waffle and the MISC saw Canadian nationalism as simply a convenient *means* for making the case for a socialist transformation of Canadian society. They saw themselves as socialists first and foremost, and nationalism as a "strategy" for advancing the popular appeal of the socialist project. If capitalism meant growing ownership of the Canadian economy by US-based multinational corporations and a resulting cultural colonization of Canada by the United States, they reasoned, then perhaps those committed to an "independent Canada" could be persuaded of the need for "public ownership" of the commanding heights of the economy. Many Canadian leftists were also convinced that the struggle for socialism in Canada had to proceed through two distinct stages: a stage of repatriating Canadian industry (with the

assistance of "progressive," nationalist elements of the Canadian bourgeoisie) and a later stage in which the working-class would struggle for socialism.

The NCPE furnished what many saw as a compelling and rigorous theoretical rationale for linking the theme of national liberation to socialism in the Canadian context. Rehearsing the ideas of an earlier generation of Canadian political economists, while also drawing upon the analytical perspectives of dependency and world-systems theories, the NCPE depicted Canada as a case of arrested economic development that had evinced a colonial or semi-colonial relationship successively to France, Britain, and the United States.<sup>17</sup> The key to understanding Canada's perennial victimization by larger, imperial powers was to be found in Harold Innis' understanding of Canada as a "staples economy" — an extractor and exporter of primary resource products (like fish, timber, minerals, and grain) which had failed to make a full transition to industrialism. Canada's class structure reflected its status as a dependency within the world economy and as a victim of the "imperialism of trade." The indigenous Canadian bourgeoisie, it was argued, was located primarily in the commercial and financial sectors of the economy and displayed little interest in developing the country's manufacturing capacity; at the same time, industrial production was dominated by US-based multinational corporations and consequently by capital that also exhibited little long-term commitment to the industrialization of Canada and still less to "nation-building." Furthermore, the increasingly fragmented and decentralized character of the Canadian state/confederation was viewed as a product of the weakness of Canadian industrial capital. As foreign ownership of the Canadian economy reached an all-time high in the early 1970s, the proponents of the NCPE warned that Canada was falling ever deeper into a neo-colonial relationship with the United States and that, with the faltering of American economic dynamism, US-owned branch-plant operations in Canadian manufacturing were imperilled. In the absence of a concerted struggle by Canadians to win economic sovereignty, Canada was at risk of being "deindustrialized" and relegated to the role of a "hewer of wood and a drawer of water."

To be sure, the NCPE was far from homogeneous, and as the dire predictions of the imminent deindustrialization and colonization of Canada lost their lustre in the late 1970s and 1980s and a younger cohort of Marxist theorists committed to class analysis appeared on the scene, new post-"dependency school" currents began to assert themselves as "internal" critics of the NCPE. In a survey of the literature, Glen Williams identifies two influential "non-dependency" positions that nevertheless remained within the orbit of at least some of the nationalist themes of the NCPE: a position according to which Canada combines features of a dependent

<sup>17</sup>The key early texts of the NCPE were K. Levitt, *Silent Surrender: the Multinational Corporation in Canada* (Toronto 1970); I. Lumsden, ed., *Close the 49th Parallel etc.: The Americanization of Canada* (Toronto 1970); G. Teeple, ed., *Capitalism and the National Question in Canada* (Toronto 1972); R. Laxer, ed., *(Canada) Ltd.: The Political Economy of Dependency* (Toronto 1973).

socio-economic formation and an advanced imperialist country, and a position which holds that Canada constitutes "a lesser region within the centre of the international political economy."<sup>18</sup> The first position describes Canada as occupying an "intermediate" status within the global hierarchy — as a "sub-imperial" power, a "white-settler dominion capitalism," and/or a "semi-industrial" country. Proponents of this view insist that while Canada is in a position to victimize the truly "dependent" regions of the world economy (the real "periphery" of the world-system) and possesses an indigenous, albeit non-cohesive, capitalist class in control of the state apparatus, it remains in a subordinate position in relation to the most advanced industrialized imperialist states, particularly the United States. In the vernacular of "world-system theory," Canada is "rich but semi-peripheral" — a social formation in which the tasks of industrial modernization and nation-building remain incomplete, and where their achievement is impeded by the economic and political influence of the US behemoth.<sup>19</sup>

The position that treats Canada as a region within the centre (or "core") of the world capitalist system is similar but distinguished by its focus on "the decisive role played by cultural and political variables in determining the structure and content of Canada's socioeconomic formation," rather than on "Canada's place in the inter-imperialist struggle of national capitals."<sup>20</sup> Williams' own treatment of Canada as a "white-settler dominion," Leo Panitch's analysis of the historic impact of Canada's "high-wage proletariat" on Canadian economic development, and Gordon Laxer's exploration of the significance of the political weakness and disunity of the agrarian classes for the consolidation of a commercial capitalist ruling class in Canada are all variants of this approach.<sup>21</sup> While differing on what should be emphasized in defining the historical roots of the subsumption of the Canadian economy by the American, the proponents of this position are united in seeing Canada as fully integrated with the US economy ("as a geographically large zone" within it) and the Canadian bourgeoisie as a "junior partner" of its US counterpart. At the same time, however, they argue that the formal autonomy and democratic character of the Canadian state makes possible nationalist initiatives that pose a threat to the "continentalist *status quo*," even if nationalist programs are usually defeated by the "continentalist definitions" of the Canadian national interest that are hegemonic within civil society and Canada's "state élites."<sup>22</sup> The political

<sup>18</sup>G. Williams, "Canada in the International Political Economy," in W. Clement and G. Williams, eds., *The New Canadian Political Economy*, 130.

<sup>19</sup>See D. Glenday, "Rich But Semiperipheral: Canada's Ambiguous Position in the World-Economy," *Review of the Fernand Braudel Center*, 12 (Spring 1989), 209-61.

<sup>20</sup>Williams, "Canada," 130.

<sup>21</sup>See G. Williams, *Not for Export: Toward a Political Economy of Canada's Arrested Industrialization* (Toronto 1986); L. Panitch, "Dependency and Class in Canadian Political Economy," *Studies in Political Economy*, 6 (Autumn 1981), 7-33; G. Laxer, *Open for Business: The Roots of Foreign Ownership in Canada* (Toronto 1989).

<sup>22</sup>Williams, "Canada," 132.

upshot of this analysis is to see English Canadian nationalism as a thorn in the side of a continentalist project to which the Canadian capitalist class is unequivocally committed; and to this extent left nationalism remains an important weapon in the arsenal of those who would seek to disrupt the capitalist *status quo*. In arguing for the "Canada within the centre" approach, Williams suggests that its great virtue is that it permits the incorporation of perspectives derived from both the "dependency and neo-Marxist approaches." It is crucial to note that it does so on a programmatic basis, which sanctifies the "progressive" potential of English Canadian nationalism — which is precisely the unifying political theme of the New Canadian Political Economy taken as a whole.

Writing in 1993, Rianne Mahon provided the following retrospective on the NCPE, in which she reaffirmed the fundamental soundness of its analysis:

While the NCPE was certainly enlivened by internal debate, most practitioners accepted the core problematic — Canada as a "rich dependency" — and the politico-strategic horizons which followed therefrom — struggle for an independent, socialist Canada.

In many respects, the serious challenges that Canada faces today seem to bear out the Waffle-NCPE analysis of the accelerating tendency toward the subordinate integration of Canada into a structure of continental corporate power and the balkanization of the Canadian state. The Canada-US Free Trade Agreement (FTA) and its successor, the North American Free Trade Agreement (NAFTA), can thus be seen as merely hastening the deindustrialization process that had already begun in the seventies ....

NCPE thus still seems to make sense of contemporary reality: the web of dependency and uneven development, woven by a continental bourgeoisie, is becoming more visible as the various parts of Canada are differentially incorporated into the North American economic bloc, while the Canadian state fragments as a result of centrifugal forces ....<sup>23</sup>

In the same article, Mahon argued that three concepts — dependency, class, and state — were "central to the NCPE's problematic." But, curiously, her characterization neglected the overarching significance of the concept of "Canadian nationhood" to the NCPE project. Indeed, the concepts of dependency, class, and state acquired their significance within the NCPE by virtue of their relationship to NCPE's central commitment to identifying the principal obstacles to an "independent Canada" and to informing the struggle for Canadian sovereignty with an *appropriate theory* (one centred on the weakness of the Canadian capitalist class and Canada's victimization by imperial powers) and an adequate program (one centred on rolling back foreign ownership, strengthening the Canadian state as a bulwark against "Americanization," and promoting "public ownership" of key industries as a means to achieving these goals). Certainly, in arguing for "an independent socialist Canada" the NCPE avoided defining socialism in terms of the

<sup>23</sup>R. Mahon, "The 'New' Canadian Political Economy Revisited: Production, Space, Identity," in J. Jenson, R. Mahon and M. Bienefeld, eds., *Production, Space, Identity: Political Economy Faces the 21st Century*, 2-3.

transcendence of capitalism, the elimination of class exploitation, or workers' power. Rather socialism was usually understood in left-social-democratic terms: as an expansion of "public ownership" and a strengthening and democratizing of the role of *the existing state* in the allocation of economic resources and the regulation of markets. From a Marxist standpoint, however, such a "socialism" amounted to little more than "nationalist reformism" — an attempt to achieve a capitalism with a "progressive," and distinctly Canadian, face. It is a "socialism" in the service of "nation-building" — but in a political context where English Canada (an entity with at best a weak claim to distinct nationhood) had long played an oppressive role in relation to the Québécois and aboriginal peoples.

A consequence of this made-in-Canada nationalist "socialism" was that it became a factor of some importance in the fragmentation of the North American labour movement along national lines. Although the Waffle and most proponents of the NCPE formally supported the right of Québec to self-determination, the political logic of their analysis and program was to resist the decentralization of the Canadian state and to promote the existing (capitalist) federal state as the principal vehicle of economic repatriation and social progress. As "socialists" in both English Canada and Québec identified themselves with the rising nationalist tides in their respective societies, they were to become increasingly estranged from one another, and less and less able to define a common program of struggle for the labour movement on a pan-Canadian scale. At the same time, English-Canadian left-nationalism sanctioned and encouraged the movement toward the disaffiliation of Canadian unions from their "international" (US-based) parent organizations. Persuaded that the international unions were an obstacle to the development of the fighting capacity of Canadian workers in the struggle for their "national" as well as their class interests, the left-nationalists rejected the task of campaigning for a class-struggle, socialist program within the North American labour movement as a whole. US labour was largely "written off," and the notion was promulgated that Canadian working people could and even should go it alone in the struggle for progressive social change and "socialism."

From a Marxist perspective, the idea that either English Canada or Québec could achieve a socialism worthy of the name in the absence of a struggle for workers power on a continental scale is simply absurd. Moreover, many English-Canadian and Québec leftists who saw socialism as a qualitative transcendence of the capitalist mode of production — as a rationally planned and democratically administered economy and society in which political and economic power is wrested from the bourgeoisie by the working class and in which the means of production, distribution, and exchange are collectively owned — were rightly skeptical of left-nationalist calls for an independent socialist Canada (or Québec). The rejection of social-democratic conceptions of the socialist project found a theoretical expression in a variety of challenges to the NCPE. By the mid-1970s, most Canadian Trotskyist groups (the League for Socialist Action, the Revolution-

ary Marxist Group and the Trotskyist League) as well as the Canadian Party of Labour and the left-Maoist In Struggle/En Lutte group were firmly opposed to English-Canadian left-nationalism, and this "far-left" political milieu provided the soil for the germination of an *anti-nationalist* political economy.<sup>24</sup>

One of the earliest and most influential of the "far-left" challenges to the NCPE was made by Steve Moore and Debi Wells in their book *Imperialism and the National Question in Canada*, published in 1975. Moore and Wells empirically disputed the "deindustrialization" thesis promulgated by the proponents of the NCPE and made the case that Canada was a minor imperialist country in which the major tasks associated with "national-democratic revolution" had been completed. In the years to come, the idea that Canada was a full member of the club of advanced imperialist countries, albeit one exhibiting some distinctive features, was taken up by a number of academic leftists, most notably William Carroll, Michael Ornstein, and John Fox.<sup>25</sup> At the same time, labour historians associated with this journal, *Labour/Le Travail*, were also making contributions to a Marxist analysis of Canadian social and economic development that were in many respects at odds with the nationalist tropes of the NCPE.<sup>26</sup>

The emergence of a strongly anti-nationalist Marxist political economy was a salutary development, one that provided a much-needed "reality check" to an analysis of Canadian history and society that had been skewed by the nationalist programmatic appetites of the NCPE. Although inconclusive, the ensuing debates

<sup>24</sup>The Canadian "far left" also included a number of "Marxist-Leninist" and Trotskyist organizations that adapted themselves politically to left-nationalism to varying degrees. The most consistently "patriotic" were the Communist Party of Canada (Marxist-Leninist), the Canadian Liberation Movement, and the Communist Party. The support of the Canadian Communist League (Marxist-Leninist) for an "independent Canada" — including a strong Canadian military — was in line with their support for the Maoist position of promoting "unity against the superpowers." Amongst ostensible Trotskyists, the Socialist League argued that English Canadian nationalism expressed an elementary "anti-imperialist sentiment." The early International Socialists equivocated by declaring themselves opposed to "American imperialism in Canada and Canadian imperialism in the Third World" before moving toward an anti-nationalist stance in late 1976.

<sup>25</sup>See in particular: W. Carroll, J. Fox, and M. Ornstein, "The Network of Directorate Interlocks among the Largest Canadian Corporations," *Canadian Review of Sociology and Anthropology* 19 (1982), 44-69; W. Carroll, *Corporate Power and Canadian Capitalism* (Vancouver 1986); M. Ornstein, "The Social Organization of the Canadian Capitalist Class in Comparative Perspective," *CRSA*, 26 (1989), 151-77; and W. Carroll, "Neoliberalism and the Recomposition of Finance Capital in Canada," *Capital & Class*, 38 (1989), 81-112.

<sup>26</sup>See in particular: B. Palmer, *A Culture in Conflict: Skilled Workers and Industrial Capitalism in Hamilton, Ontario, 1860-1914* (Montréal 1979); Gregory S. Kealey, *Toronto Workers Respond to Industrial Capitalism, 1867-1892* (Toronto 1980); B. Palmer, *Working Class-Experience: The Rise and Reconstitution of Canadian Labour, 1800-1980* (Toronto 1983).

on the precise status of Canada within the world economy and the structure and peculiarities of the Canadian capitalist class enriched and extended left-wing scholarship on these issues in significant ways. Yet in certain respects many anti-nationalist Marxist political economists seemed tacitly to accept a key presupposition of the NCPE: the notion that *if* Canada's capitalist class could be shown to be "dependent" on the US bourgeoisie or that *if* Canada's deteriorating economic performance could be linked to its subordinate status within the North American political economy, then a nationalist orientation on the part of the socialist left in Canada could be warranted.

Moore and Wells had set the tone for the anti-nationalist challenge to the NCPE by observing that:

left-nationalism leads to alliances with the bourgeoisie and the dropping of the socialist program in the first stage of the two-stage revolution. Even the Waffle leadership has fallen into line on this point. Nationalism in an imperialist country, like Canada, is the root cause of this reformism. Clearly, the fight against reformism (two-stage revolution; alliances with the bourgeoisie) is linked to the struggle against Canadian nationalism.<sup>27</sup>

Yet, Moore and Wells also implied that a "two-stage revolution" involving collaboration and alliances between the working class and "progressive" elements of the national bourgeoisie might be an appropriate strategy for socialists in colonial or semi-colonial countries. Key to their polemic was an appeal to the authority of the program adopted by the Sixth Congress of the Third (Communist) International in 1928, a program which *inter alia* committed the International to the anti-Marxist doctrine of building "socialism in one country" in the USSR. Moore and Wells noted that the program called for "two-stage revolution" only in clearly colonial or semi-colonial countries (like China), while advocating "one-stage revolution" in "highly developed capitalist countries, with powerful productive forces, a high degree of centralization of production, relatively insignificant small-scale enterprise, and an old and well-established bourgeois-democratic political regime."<sup>28</sup> Moore and Wells made a compelling case that Canada conformed to this latter description, and therefore that a "left-nationalist strategy" was out of place in the Canadian context. By lending credence to the idea of two-stage revolution in more backward countries (an idea rejected by Leon Trotsky in his "The Draft Program of the Communist International — A Criticism of Fundamentals"), they appeared to make their programmatic position *contingent* on the accuracy of their analysis of Canada's status as a secondary imperialist power. The political stakes in the debate surrounding Canadian political economy were thereby raised, but at the expense of a clear understanding that "two-stage revolution" was a non-viable

<sup>27</sup>S. Moore and D. Wells, *Imperialism and the National Question in Canada* (Toronto 1975), 116.

<sup>28</sup>Cited by Moore and Wells from J. Degras, ed., *The Communist International 1919-1943* (documents) Volume 2, (London 1960), 505-7.



strategy for the working class in *all* countries in what Lenin and Trotsky had called "the imperialist epoch."

In his critique of the Stalin/Bukharin draft program for the Sixth Comintern congress Trotsky wrote: "On August 4, 1914, the death knell sounded for national programs for all time. The revolutionary party of the proletariat can base itself only upon an international program corresponding to the character of the present epoch, the epoch of the highest development and collapse of capitalism."<sup>29</sup> Trotsky was not suggesting that working-class socialists should no longer champion the right of oppressed nations to self-determination (that is, the right to formal political independence); but he was arguing that the task of the working class in all countries was to seek power in its own name with the aim of over-turning the global rule of capital. A "progressive" national capitalist development was no longer possible anywhere in an era marked by the consolidation of a capitalist *world* market, an exacerbation of capitalism's structural crisis tendencies, and a consequent intensification of imperialist rivalries between the most developed capitalist countries. Trotsky's theory and strategic perspective of *permanent revolution* flowed inexorably from these considerations:

Marxism takes its point of departure from world economy, not as a sum of national parts but as a mighty and independent reality which has been created by the international division of labour and the world market, and which in our epoch imperiously dominates the national markets ....

[In backward countries] the proletariat which has risen to power as the leader of the democratic revolution is inevitably and very quickly confronted with tasks, the fulfilment of which is bound up with deep inroads into the rights of bourgeois property. The democratic revolution grows over directly into the socialist revolution and thereby becomes a *permanent* revolution ....

The completion of the socialist revolution within national limits is unthinkable. One of the basic reasons for the crisis in bourgeois society is the fact that the productive forces created by it can no longer be reconciled with the framework of the national state ....

The socialist revolution begins on the national arena, it unfolds on the international arena, and is completed on the world arena. Thus, the socialist revolution becomes a permanent revolution in a newer and broader sense of the word; it attains completion only in the final victory of the new society on our entire planet ....

Insofar as capitalism has created a world market, a world division of labour and world productive forces, it has also prepared world economy as a whole for socialist transformation. Different countries will go through this process at different tempos. Backward countries may, under certain conditions, arrive at the dictatorship of the proletariat sooner than advanced countries, but they will come later than the latter to socialism.<sup>30</sup>

<sup>29</sup>Trotsky, 4.

<sup>30</sup>L. Trotsky, *The Permanent Revolution* (New York 1969), 146, 278-9.

Proceeding from these general theoretical considerations, Canadian Trotskyists, as already noted, have usually been opposed to left-nationalism politically, and skeptical of the NCPE theoretically. For them, the starting-point for both analysis and program is *the world economy*, "not as a sum of national parts but as a mighty and independent reality which has been created by the international division of labour and the world market, and which in our epoch imperiously dominates the national markets."

Methodologically, such an approach is anathema to those primarily interested in achieving "socialism" — or even "capitalism with a human face" — within the borders of their "own" country. For such national reformists the truly important question is not whether capitalism has exhausted its potential to promote human progress on a global scale, but whether any "wiggle room" can be found that might permit an improvement in the relative status of their country within the existing world system. Such an outlook fundamentally aligns Canadian left-nationalism with the interests of the bourgeoisie — even if the left nationalists are inclined to use different measures than the capitalists in determining what constitutes "progress" on the national terrain. This points to the *operational* significance of many of the otherwise arid debates on Canada's precise status within the international political economy. What does it *matter* if Canada is considered a member of the imperialist "core" or a "rich but semi-peripheral" country? Clearly, it matters only insofar as the latter characterization may brain-trust and justify a *nationalist* perspective, while the former characterization serves to undermine the "progressive" claims of Canadian left-nationalism.

Given these political stakes, such debates can lead to a focus on truly "marginal" differences between Canada and other advanced capitalist countries. A telling example is provided by Daniel Glenday, who, in defending the characterization of Canada as "rich but semi-peripheral," has made much of Canada's balance of trade in machinery and transportation equipment over the period from 1976-86. Comparing Canada's export/import ratio in this area with eight other countries, Glenday argues that this economic indicator "places Canada somewhere near the developed capitalist core, but still not a member of that select group." In other words, on this criterion of dependency/independence, Canada ranks somewhere between "the profile of Australia or Greece" (a fellow "white settler dominion" and a clearly "semi-peripheral" member of the European community, respectively) and that of the USA, Japan, France, West Germany, the United Kingdom, and Italy (that is, Canada's fellow members of the "G7" group of countries).<sup>31</sup> But Glenday neglects to comment on the fact that his data also show that, with respect to this same export/import index ratio, the United States and Britain lag behind Italy to almost the same extent that Canada falls behind the US and Britain. Moreover, over the same period that the export/import ratio rose for

<sup>31</sup>Glenday, "Rich But Semiperipheral," 250, 251, 255-6.

Canada, it fell rather dramatically for the United States.<sup>32</sup> Does this suggest that while Canada was moving closer to the core, the United States was moving toward the semi-periphery? The absurdity of this question underlines the problems with making too much of the marginal differences that exist between advanced capitalist countries in relation to a single economic indicator.

Even so, the implication and political upshot of Glenday's comparative analysis is that, so long as Canada lags behind its partners in the G7 club of nations with respect to indicators like the balance of trade in machinery, it remains semi-peripheral and in dire need of "economic nationalist" policies. Indeed Glenday suggests that the Trudeau government's pursuit of just such policies may have enabled Canada to "move from the semiperiphery into the 'perimeter of the core' during the 1970s and the first half of the 1980s."<sup>33</sup> A further implication of his analysis, however, is that Canada's rising status may be imperilled by the reversal of such nationalist policies resulting from "free trade" with the United States, and that organized labour is right to be worried about a possible "hemorrhaging" of "our national economic and cultural identity." Thus, Glenday's discourse reflects a concern that is actually quite common, yet often understated, within the NCPE and Canadian "left-nationalism" in general: a preoccupation with "protecting" Canada's momentum toward full membership in the "capitalist core," that is, toward a fully *imperialist* status in the world economy. Such a concern is obviously very remote from Marxism both theoretically and politically. In fairness to Glenday, however, it should be acknowledged that, unlike many of his co-thinkers on the nationalist left, he at least refrains from associating the national-capitalist one-upmanship implicit in his analysis with rhetoric about an "independent socialist Canada."

The left-nationalists' preoccupation with the "free trade" agreements of 1989 and 1994 is also indicative of their continuing attachment to the notion that Canada as a "nation" — and not working people as a class — is the proper "unit of analysis" for understanding the depredations produced by the economic malaise of the 1980s and 1990s. The deep and long-lasting recession of the early 1990s was almost universally depicted by the left nationalists as the bitter fruit of the Canada-US Free Trade Agreement (as well as the related "high-interest rate policies" of the federal government and the Bank of Canada). The fact that the recession in Canada was more severe than that in the United States bolstered their argument that Canada's weak economic performance was attributable, once again, to Canada's "victimization" by its trade-bloc partner to the south. Yet there are substantial grounds for doubting that the Canadian recession of the early 1990s would have been less severe had the FTA not been in place. Increased access to the US market was, after all, critical to the strategy of Canadian corporations trying to expand their global market share and with it their output. While it is true that many Canadian businesses

<sup>32</sup>Glenday, "Rich But Semiperipheral," 251-2.

<sup>33</sup>Glenday, "Rich But Semiperipheral," 255.

historically dependent upon protectionist trade policies fell victim to the heightened competition unleashed by the FTA, it is possible that many more Canadian firms would have been adversely affected by a renewed American protectionism that was the most likely alternative to the FTA. Either way workers would have lost ground, and for this reason Canadian workers, arguably, had no clear stake in the "great Canadian debate" over the Canada-US Free Trade Agreement.<sup>34</sup> What is clear, however, is that the fundamental cause of the recession of the early 1990s was not "free trade" but the normal *cyclical operations* and *maturing crisis tendencies* of an advanced capitalist economy. By laying the blame for the recession on "free trade," the left-nationalists were true to form in absolving *capitalism* of the responsibility for the hardships that the recession visited upon Canadian working people.

*The Global Capitalist Malaise: Outline of A Marxist View*

As previously indicated, a Marxist analysis of the economic malaise and declining living standards that have characterized Canada over the past quarter century must begin with an appreciation of what is transpiring across the world economy. Viewed from this angle, the "crisis tendencies" exhibited by the Canadian economy in recent decades may be seen to be *qualitatively* similar to those experienced by other advanced capitalist countries.

For the G-7 core of the advanced capitalist world, a systematic comparison of key economic indicators for the periods 1950-73 and 1973-93 respectively suggest that, beginning in the early 1970s, the United States, Britain, France, West Germany, Italy, Japan, and Canada entered collectively into a period of protracted economic downturn. Output in the private business sectors of the G-7 countries declined from an average annual growth rate of 4.5 per cent in the former period to 2.2 per cent in the latter. Over the same periods, the growth of labour productivity fell from an annual average rate of 3.6 per cent to 1.3 per cent, and the average annual unemployment rate rose from 3.1 per cent to 6.2 per cent. In the United States, still the undisputed leader of the advanced capitalist world, the growth of GDP per hour worked averaged 0.9 per cent annually over the period from 1973 to 1996 — *well under half the average for the preceding century*; and from 1990 to 1996 it fell to just 0.7 per cent. By the mid-1990s, unemployment levels throughout most of the advanced capitalist countries of the OECD (the United States and Japan excepted) had reached heights comparable to the Great Depression of the 1930s. In 1996, the unemployment rate in the 11 countries of the European Union averaged 11.3 per cent; for the 28 OECD countries including the US and Japan, 7.3 per cent; and in the US, just 5 per cent. These figures compare to an average annual rate of

<sup>34</sup>From a Marxist standpoint, the Canadian working class had an internationalist responsibility to oppose the North American Free Trade Agreement of 1994, however, since the latter agreement further entrenched Mexico in a clearly semi-colonial relationship with American and Canadian imperialism.

unemployment of 10.3 per cent for the sixteen leading capitalist economies for the years 1930-38.<sup>35</sup>

The downturn that beset the world capitalist economy beginning in the early 1970s was the result of a long-term decline in the average rate of profit, and in particular a crisis of profitability in the manufacturing sectors of the leading capitalist economies.<sup>36</sup> Comparing official data sets on G-7 profitability for the periods 1950-70 and 1970-90, Robert Brenner reports that the net profit rate in manufacturing declined from an average annual rate of 26.2 per cent to 15.7 per cent over the two periods, while the average annual net profit rate for private business as a whole declined from 17.6 per cent to 13.3 per cent.<sup>37</sup> Following Duménil and Lévy's analysis of the centrality of the average rate of profit to capitalist economic performance,<sup>38</sup> Brenner argues convincingly that falling profitability was the root cause of the global economic downturn rather than simply a consequence of it. He writes:

The radical decline in the profit rate has been the basic cause of the parallel, major decline in the rate of growth of investment, and with it the growth of output, especially in manufacturing, over the same period. The sharp decline in the rate of growth of investment — along with that of output itself — is ... the primary source of the decline in the rate of growth of productivity, as well as a major determinant of the increase of unemployment. The reductions in the rate of profit and of the growth of productivity are at the root of the sharp slowdown in the growth of real wages.<sup>39</sup>

Although particular economic crises may be triggered by a variety of unpredictable events, the average rate of return on invested capital is the central regulator of capital accumulation and growth, and its decline therefore "sets the stage" for capitalist stagnation and slump.

Brenner argues that the profitability crisis was the result of "overcapacity and over-production" stemming from "intensified, horizontal inter-capitalist competi-

<sup>35</sup>Brenner, "Uneven Development," 3, note 5, citing OECD, *Economic Outlook*, 62, (December 1997), A24, Table 21, and A. Maddison, *Dynamic Forces in Capitalist Development* (Oxford 1991), 170-1, Table 6.2. All other data in this paragraph are cited from Brenner, "Uneven Development," 5, Table 1. Of course, the absolute levels of hardship associated with high unemployment were greater during the 1930s depression owing to the absence or weakness of unemployment insurance and other social welfare programs in many of these countries.

<sup>36</sup>The following discussion borrows heavily from my article "The Necessity of Value Theory: Brenner's Analysis of the Long Downturn and Marx's Theory of Crisis," *Historical Materialism*, 4 (Summer 1999), 149-69.

<sup>37</sup>Brenner, "Uneven Development," 5, Table 1.

<sup>38</sup>G. Duménil and D. Lévy, *The Economics of the Profit Rate. Competition, Crises and Historical Tendencies of Capitalism* (Aldershot 1993).

<sup>39</sup>Brenner, "Uneven Development," 7-8.

tion." This competition is itself a manifestation of "the introduction of lower-cost, lower price goods into the world market, especially in manufacturing, at the expense of already existing higher cost, higher price producers, and their profitability and their productive capacity."<sup>40</sup> As suggestive as his account of inter-capitalist competition is in explaining the longevity of high-cost fixed capital assets and the debilitating effect of the resulting "over-capacity" and "over-production" on prices, Brenner fails to explain why the sale of manufactured commodities at unprofitable prices would fail to free up demand for other commodities enjoying higher than average profit margins, and why productive capital would not move massively enough into the production of such commodities to prevent a fall in the economy-wide rate of profit. To pose the question slightly differently, Brenner is unable to account for the *aggregate* fall in "purchasing power" (in relation to the total capital invested) that prevents *aggregate prices* from remaining at levels compatible with a stable average rate of profit.

In contrast to Brenner's analysis, Marx's theories of value and of the falling rate of profit allow for the resolution of just this problem — a problem that must be addressed in any account of the long downturn which, like Brenner's, traces its source and intractability to a *generalized crisis* of profitability across the advanced capitalist world, and not simply to a particular *distribution* of profits amongst competing capitals and capitalist economies. At the same time, Marx's theories also provide an indispensable foundation for an analysis of capitalist crisis on a *world* scale and a compelling framework for resisting the efforts of economic nationalists everywhere to seek the source of capitalist crisis in the sphere of commodity exchange and trade rather than in *the sphere of production*.

Marx's theory of labour-value involves the defence of two fundamental propositions. The first is that living labour is the sole source of all *new value*, including the value embodied in profits and in the wages of productive workers. The second, is that total value ("previously-existing" as well as "new") constitutes a definite quantitative magnitude at the level of the capitalist macro-economy — a parametric determinant that *limits* profits, wages, and prices.<sup>41</sup> Marx's theory of the falling rate of profit is crucially predicated on the truth of these propositions. Indeed, they can be regarded as necessary, if not entirely sufficient, presuppositions of his argument that capital's displacement of living labour from production will produce a crisis of valorization (surplus-value production) and a downward pressure on the average rate of profit, whether or not this displacement involves an elevated level of labour productivity.<sup>42</sup>

<sup>40</sup>Brenner, "Uneven Development," 8-9.

<sup>41</sup>Smith, *Invisible Leviathan*; M. Smith, "Alienation, Exploitation and Abstract Labour: A Humanist Defense of Marx's Theory of Value," *Review of Radical Political Economics*, 26 (March 1994), 110-33.

<sup>42</sup>See Smith, *Invisible Leviathan*, Ch. 7, for a discussion of the falling tendency of the average rate of profit and its relationship to productivity growth.

If the two propositions central to Marx's theory of value are true, then the contradiction between capital's continuous success in increasing productivity at the *micro-level* of the individual firm and the tendency of the capitalist macro-economy to descend into periodic crises of profitability and "deficient effective demand" can be adequately specified. For contrary to conventional economic theories that assume a monotonic relationship between rising labour productivity and economic prosperity, Marx's value-theoretic analysis of capitalism recognizes that the "life-blood" of the capitalist economy is not physical output but rather *surplus-value*, that is, the value newly created by living labour in excess of the value embodied in the wages of productive workers.

Productivity growth is, of course, a matter of central concern to capitalists, for it is precisely by enhancing productivity that individual capitalist firms try to reduce their costs per unit of output and thereby enlarge their market share and mass of profits. But it is only because individual firms can "capture" and "realize" the surplus-value produced by workers employed elsewhere in the economy (as a result of competitive processes of surplus-value redistribution in circulation) that labour-displacing productivity enhancements are an effective "micro-level" profit-maximizing tactic of individual capitals. What is "rational" from the point of view of the individual firm in the short term, however, is *inimical to the interests of "capital-in-general"* in the medium to long term. For the labour-displacing innovations used by firms to enhance labour productivity diminish the role played by living labour in production, increase the "organic composition of capital," and thereby depress the average rate of profit. In other words, the unintended and unanticipated consequence of efforts by individual capitals to reduce their reliance on living labour in production, in order to increase their share of social surplus value, is a proportionally reduced role in total production for the living labour that is the sole "input" capable of producing surplus value. Capitalists compete to increase their share (profit of enterprise) of a pie (social surplus value) that is expanding at a rate slower than the expansion of their combined investments — and this is the necessary consequence of a shift away from the employment of variable capital (the productive living labour that directly produces surplus value) toward ever-greater investments in constant capital (the elements of the process of capitalist production and reproduction that play only an *indirect* role in the production of surplus value).

The logic of capitalist development, defined by the exploitative and antagonistic relation between capital and labour as well as by the competitive relations between capitals, is to reduce continuously the socially necessary labour time required to produce a given quantity of material output. This means that as the magnitude of physical or material output expands, the quantity of value it represents may well decrease. Accordingly, it is quite possible for material productivity to grow as the production of surplus value declines. Indeed, the ever-sharpening contradiction between humanity's command over nature in production (expressed

in the growth of productive forces embodying *labour-saving* technology) and the social-structural imperatives of capitalism to exploit wage-labour and therefore to measure "wealth" and economic performance in terms of *abstract labour time* (the phenomenal form of which is money) is central to Marx's understanding of the historical limits of the capitalist mode of production.

For Marx, an *unresolvable contradiction* exists under capitalism between progress in overcoming the (technical-natural) obstacles to increased material productivity and the (class-appropriative) requirements of valorization — that is, between the "natural" and the "social" dimensions of capitalist production.<sup>43</sup> Accordingly, the labour-saving technological innovation that enhances productivity must also, at the macro level, reduce the magnitude of aggregate values that are the basis of aggregate prices. This phenomenon is at the root of the problem that Brenner, among many others, emphasises, but fails to theorize: the problem of "realization." Once this phenomenon is understood it becomes clear that *aggregate prices must fall as the values sustaining them recede*, and it is precisely this that accounts for the inability of capitalists to command prices for their commodities, in the aggregate, that can sustain the average rate of profit.

I have elsewhere reported on the results of an attempt to empirically evaluate the relevance of Marx's law of the falling tendency of the rate of profit in the Canadian context.<sup>44</sup> Briefly, these results indicate that the performance of the Canadian economy over the period from 1947 to 1991 was consistent with Marx's understanding of the "laws of motion" of an advanced capitalist economy:

In general, the data support Marx's expectations of a long-term rise in the rate of surplus value and in the organic composition of capital. Furthermore, the data suggest that a long-term decline in the average rate of profit occurred over the period 1947 to 1975. The falling trend in the profit rate was arrested over the period 1976-89, only to reassert itself with the onset of the recession [of the early 1990s] ....

<sup>43</sup>The confusion of the "natural" and the "social" is at the heart of Marx's theory of "commodity fetishism" — a concept that figured prominently in David McNally's interesting critique of the NCPE. See his "Staple Theory as Commodity Fetishism: Marx, Innis and Canadian Political Economy," *Studies in Political Economy*, 6 (Autumn 1981), 35-63. The fact that McNally's critique was met with such incomprehension and even derision by many proponents of the NCPE attested to their lack of interest in Marxian value theory, which in turn reflected their rejection of Marx's larger practical project of overcoming capitalism. Indeed, the *relevance* of Marx's *critique* of classical political economy on the basis of his theory of value is that it establishes the historical limits of the value form, dispels the mystifying influences of commodity fetishism, and suggests the possibility — and indeed the necessity — of other, "higher" forms of social production. See my discussion in Smith, *Invisible Leviathan*, 58-62.

<sup>44</sup>Smith, *Invisible Leviathan*, ch. 8; M. Smith and K. Taylor, "Profitability Crisis and the Erosion of Popular Prosperity: The Canadian Economy, 1947-1991," *Studies in Political Economy*, 49 (Spring 1996), 101-30.



Clearly, the average rate of profit, and with it "capitalist prosperity," made something of a recovery in the 1980s. Nevertheless, the recovery did not restore an average annual rate of profit to the level of the immediate post-war period (1950 to 1969). From 1947 to approximately 1976, the average rate of profit experienced a secular decline that was significantly correlated to a rise in the organic composition of capital [OCC]. This was accompanied by a rising rate of surplus value which was apparently compatible with long-term gains in working-class living standards. However, from the mid to late 1970s on, the data indicate a dramatically ascendant rate of surplus value, which apparently had less to do with a rising accumulation rate and associated productivity gains (for which the OCC is something of an index) than with stagnant or declining real wages.<sup>45</sup>

In observing the consistency of political-economic trends in the Canadian context with Marx's theoretical expectations, it is important to note that Marxist political economists have pointed to broadly similar trends for the US economy over the same period.<sup>46</sup> In both countries, the profitability crisis and associated economic malaise may be seen as resulting from two main factors: a rising organic composition of capital, stemming from labour-saving and labour-displacing technical innovation; and rising systemic "overhead costs" associated with the expansion of "socially necessary but unproductive labour." In their own ways, each of these trends point to a growing conflict between the "forces of production" and the "social relations of production" of advanced capitalism — a conflict which finds expression in long-term profitability problems. At the same time, however, these trends are also related to the shift from manufacturing employment to service-sector employment that economic nationalists on both sides of the Canada-US border have pointed to as evidence of a "deindustrialization" process. Far from signifying the movement of either Canada or the United States toward a "deindustrialized" or "semi-peripheral" status in the world economy, however, this shift reflects, to a very great extent, the growing investments within the "industrial" sectors of the two economies in increasingly sophisticated fixed capital assets that require less and less living labour to be set in motion. From the Marxist standpoint, the "solution" to this problem is not a beggar-my-neighbour conflict over the geographical distribution of manufacturing jobs, but the socialization of the means of production and their deployment in such a way as to permit rising living standards and declining hours of work for the mass of the working population.

*The Road Ahead for Canadian Labour: Nationalism or Class Struggle?*

The tendency of the average rate of profit to fall can be counter-acted in a number of ways, and the social capital of the advanced capitalist countries can be expected to bend every effort to "mobilize" these counter-tendencies as profits decline and

<sup>45</sup>Smith and Taylor, "The Profitability Crisis," 118.

<sup>46</sup>See A. Shaikh and E. Tonak, *Measuring the Wealth of Nations* (Cambridge 1994); F. Moseley, *The Falling Rate of Profit in the Postwar United States Economy* (New York 1991).

economic growth slows. Broadly speaking, the social capital seeks to arrest and reverse the falling rate of profit by 1) increasing the rate of exploitation (or rate of surplus value) of workers in ways that stabilize or lower the organic composition of capital, and 2) resolving "the internal contradiction" by "extending the external field of production."<sup>47</sup> The first of these strategic measures involves efforts to drive down the real wage, increase the average number of hours worked, curtail the strength of labour in the workplace, and reallocate revenue from state-sponsored (non-profit) social programs toward the consumption of commodities produced for profit. The second involves laying claim to a larger share of the world market and seeking out new arenas for profitable capitalist investment abroad. Both of these strategies have been pursued by the Canadian capitalist class over the past quarter century in order to restore the average rate of profit to "acceptable" levels. But each is problematic. The strategy of dramatically jacking up the rate of exploitation carries with it the very real risk of increasing the level of class antagonism on the domestic front and unleashing higher levels of class struggle. The second, "international" strategy, on the other hand, involves heightened levels of competition with the social capital of other countries, and raises the spectre of trade wars that might eventually turn into shooting wars. Foreign trade and investment is also a two-edged sword. To the degree that it fails, a retreat to nationalist protectionism may become unavoidable, while its success may be predicated on raising the rate of exploitation to levels incompatible with maintaining domestic "class peace."

In trying to combine and balance the two strategies available to it, social capital in Canada has so far met with a weak response from Canadian labour and the Left. Its efforts to increase the rate of exploitation through an assault on working-class living standards have met with considerable success as the labour movement has refrained from any serious fight-back. At the same time, the dominant fractions of Canadian capital have sought to consolidate a North American economic bloc with US capital, beginning with the "free trade" agreement of 1989. The response of Canadian labour and the reformist Left has been to oppose this project on a *nationalist* basis, essentially projecting a policy of national economic retrenchment as an alternative to further continental economic integration. By concentrating their fire at the political level on "free trade," the leadership of the Canadian labour movement has sought to blame the depredations associated with the rising rate of exploitation upon the "policies" of big business and the state. In doing so they not only deflect attention from the maturing, structurally rooted crisis tendencies of advanced capitalism, they also conceal the inadequacy of their own fundamentally pro-capitalist policies in the face of a renewed offensive by capital against labour. Meanwhile, the nationalist Left, while giving occasional lip service to a watered-down "socialism," abets the labour officialdom by continuing to depict Canada as a victim of the US behemoth and arguing that a significant improvement in working-class living standards is possible through nationalist economic policies

<sup>47</sup>K. Marx, *Capital, Volume Three* (New York 1981), 353.

(including "alternative budgets," Tobin-tax capital controls, *etc.*) that accept the framework of the capitalist order.

Canadian labour will remain effectively disarmed in the face of capital's continuing offensive so long as it accepts the national-reformist political framework that the trade union bureaucracy and the nationalist Left have sought assiduously to maintain. The road forward for Canadian labour can only be through a renewed commitment to *class struggle* — to a program which is informed by Marx's critique of political economy, and which anticipates the social, economic, and political content of a future Socialist Federation of North America.

## INTERNATIONAL LABOR AND WORKING-CLASS HISTORY

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Semi-annual (ISSN 0147-5479)

Volume 57-58 (2000)

Institutions: \$58.00 • Individuals: \$28.00

Single parts: \$31

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