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The crisis last time

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> As capitalism ages, it finds it more and more difficult to overcome the pressures leading to stagnation and deep crises. Its efforts to do so involve measures that are in themselves increasingly devastating to the system and those who live in it.

This was the contention of the last part of this article. [1] The basic contradiction in the system was seen as being the way in which the scale of investment tends to rise much more quickly than the source of profit (labour power), so producing a decline in the rate of profit. The main factors that could offset this tendency were seen as three fold: the destruction of certain capitals to the benefit of others through periodic crises; the flow of investment away from old areas of capitalist development into new ones through imperialism; the employment of a growing proportion of the investable surplus value in ways which aid particular

sections of capital in their competition with other sectors but do not contribute to productive accumulation (marketing costs, arms).

Each of these factors could operate for a certain period of capitalist development. But as the system came to fill the whole globe, as the units grew ever larger and ever more interdependent, as the scale of production required to remain ‘viable’ (whether in economic or military terms) grew ever more immense, each factor became less useful to the system and more destructive in its side effects. The period in which economic expansion had been rapid gave way to one of immense crises – the crisis years of the 1870s and 1880s, the crisis years between the wars, and now the crisis years that started in the early 1970s.

To see how this happened, we need to look at each phase of capitalist development in turn.

The first phase: classical capitalism

The phase of classical capitalism is that described by Marx. Units of production (firms) were usually small compared with the market. Periodic crises drove certain firms to the wall, allowing others to resume their expansion in an unhindered fashion. If the long term rate of profit tended to fall, the fall was not on such a scale as to deter firms from joining in a vigorous surge of investment after each crisis. This was the period in which industrial capitalism expanded out with great speed from its initial bases in Britain and Belgium to the beginnings of industrialisation in the USA, Germany, Scandinavia

and France, and with the opening up to capitalist trade of almost all of the rest of the world.

But with the so-called ‘Great Depression’ of the 1870s and 1880s this initial rapid expansion slowed down. The US and Germany were hit by severe depression which lasted several years in 1873; revival came at the end of the 1870s but only to be followed by further crises in the US in 1884.

By 1889, the steel magnate Andrew Carnegie could express the feelings of many industrialists: ‘Manufacturers ... see savings of many years ... becoming less and less, with no hope of a change in the situation. It is in a soil thus prepared that anything promising of relief is gladly welcomed. The manufacturers are in the position of patients that have tried in vain every doctor of the regular school for years, and are now liable to become the victim of any quack that appears ...’ [2]

Yet for the 1870s and 1880s as a whole, the American and German economies still enjoyed considerable growth. These were the decades of the first sustained industrialisation of Germany, and in the US ‘production in spite of cyclical fluctuations, mounted steadily, from $3,336 million in 1869 to $9,372 million in 1889 ...’ [3]

It was Britain – which in 1870s still produced between 40 and 50% of the world output of key goods like iron and steel, coal, textiles – that suffered most. The initial slump was not as severe as in Germany and the US. But recovery was not as sustained either and for two decades the pattern was one of stagnation interspersed with relatively short periods of boom.

The climate of the times has been well described by one historian: ‘Both new and old industrial economies ran into problems of markets and profit margins ... As the titanic

profits of the industrial pioneers declined, businessmen searched anxiously for a way out.’ [4]

The way out was found in the transition from classical capitalism to monopoly capitalism and imperialism.

Monopolies and imperialism

> The way out of the depression went, initially, by two separate routes.

In the US and Germany there were further waves of bankruptcies, and mergers, leading to a massive restructuring of industry under the control of relatively large concerns. ‘The formation of trusts, cartels, syndicates and so on … characterised Germany and the USA in the 1880s. [5] This was the period in the US when the ‘robber barons’ like Rockefeller, Carnegie and Morgan bought up rival concerns on the cheap and established their dominating position: ‘By 1897 there were 82 industrial combinations with a capitalisation of more than $1,000 million, in the three years 1898–1900 11 great combinations were formed with a capitalisation of $1,140 million, and the greatest combination of all, the United States Steel Corporation, appeared in 1901 with a capitalisation of $1,400 million.’ [6]

This restructuring of capital allowed a certain amount of writing off of old capital and a deployment of resources into production using technologies that could not be adopted in countries (like Britain) where the restructuring did not take place. It allowed the new giant firms, to protect their profits by monopoly pricing at the expense of weaker competitors. And so expansion could continue at quite a fast speed through the twenty year ‘depression’ and afterwards, even though the organic composition of capital continued to rise

rapidly – by 100% between 1880 and 1912 according to one calculation, by 25% between 1900 and 1918 according to another. [7] As Gillman notes: ‘The organic composition of capital displays a fairly persistent tendency to rise’ in this period, although ‘it was a fairly slow rise compared to Marx’s hypothetical example.’ [8] All the same the economy could grow at a rapid pace, with output doubling between 1890 and 1907. [9]

But there was another path out of the crisis years of the 1870s and 1880s. This was that followed by British capitalism. Rationalisation through mergers and bankruptcies was avoided by using Britain’s imperial might to provide safe markets and outlets for investment in the empire, dominions, and other areas under British influence (such as parts of South America). ‘Britain was disinclined to take the path of systematic economic concentration ... She was too deeply committed to the technology and business organisation of the first phase of industrialisation. This left one major way out ... The economic (and increasingly political) conquest of hitherto unexploited areas of the world. In other words, imperialism ...’ [10]

Capital flowed overseas from Britain at an increasing speed: ‘the total investment in foreign and colonial stock, which was £95 million in 1883, rose to £393 million in 1889.’ [11] The outflow rose to about 8% of the gross national product and absorbed about 50% of savings. [12]

The pressure on individual capitalists to engage in ‘capital-intensive’ innovations at home was reduced, and the development of the system could take place with a minimum of restructuring through bankruptcies and mergers. In fact the capital-output ratio actually *fell* from the 1880s onwards. It rose from 2.02 in 1855–64, to 2.11 in 1865–76, to 2.16 in 1875–83. From then it fell to 2.08 in 1884–90 and to 1.82 in 1891–1901. At the same time, the near doubling in

the rate of bankruptcies that marked the 1870s gave way to a fall. In 1884–88 they numbered 8,662, falling to 7,521 in 1889–93, to 6,417 in 1894–98, to 6,017 in 1899–1903, and to 5,965 in 1904–09. [13]

The two paths out of the crisis years of 'classical capitalism' could not diverge indefinitely. They were bound to re-emerge, producing what Marxist writers of the early part of the century called 'monopoly capitalism', 'finance capitalism' or 'imperialism'.

The continued rise in the organic composition of capital in the US and Germany meant that profit rates were eventually bound to come under pressure. Employers could attempt to compensate for this – as they did in Germany – by halting the rise in real wages that had been experienced in the 1890s – and by turning to new techniques based on increased productivity ('Taylorism' and the first use of mass production techniques). But they were also bound to be attracted by the English solution – to using the forces of the national state to carve out areas of economic and political privilege for themselves overseas. Hence from the 1890s onwards there were the first attempts by Germany and the US to develop formal empires and informal spheres of influence (the German colonies in Tanganyika and South West Africa, the drive towards German hegemony over parts of central and eastern Europe, the alliance with the decaying Turkish empire, the American war with Spain, etc.). But such an outward expansion could only come into collision with the established empires and spheres of influence of Britain and France, putting into question the mechanism by which British capitalism had emerged from the crisis years. In the end, only all-out war could resolve the question as to who was to dominate where.

The other side of the tendency for the great concentration of capital in the US and Germany to move towards

imperialism in Britain's footsteps was for British capitalism to begin, belatedly, along the road of restructuring and concentration of capital. The first decade of the twentieth century saw a number of significant mergers, especially in banking where five banks came to dominate the field, and the adoption of new techniques in certain industries. But this could not stop renewed pressure on the rate of profit via the organic composition of capital, as the capacity of the Empire to absorb investable funds became exhausted (the inflow of interest and dividend from the overseas investments came to exceed the outflow of new investments). The capital output rate began to rise once again, according to one calculation from 1.92 in 1891/1902 to 2.19 in 1908/13. [14]

World War One was thus the product of the previous forty years, of the transformation of classical capitalism into a monopoly capitalism that more and more depended on imperialist expansion to overcome its internal contradictions. But the war also served to accentuate these trends. In all the major powers the concentration of industry now proceeded at a much accelerated pace, supervised by the state, which stepped in to organise the major industries directly while the war lasted. New technologies which might have taken two decades to come into effect were pushed through in two years. New patterns of work – based upon mass production and the 'dilution' of old skills – were rammed through with great speed. And, as the war cut off many of the trade links that had been established over the previous half century, a boost was given to capitalist development in many agrarian countries (the dominions, India, China, Spain, etc.).

Yet in terms of the dynamics of the system the war had opposed effects in Europe and the US. In Europe it served to destroy considerable quantities of value – as surplus value

which would otherwise have been accumulated was turned into arms and as war damaged and destroyed industrial plant. Some calculations suggest that the combined industrial production of the powers involved in the war was 30% less in 1919 than in 1914. [15] In Britain it has been estimated that the war cut the capital-output ratio (and therefore the organic composition of capital) from 2.19 in 1908–13 to 2.02 in 1922–30. [16]

In the US on the other hand, the war gave a boost to industrial production and the organic composition tended to rise. One calculation has manufacturing industry's organic composition rising from 3.2 in 1912 to 4.3 in 1919 and 5.6 in 1921. [17] Another has all 'productive' industry rising from 3.18 in 1910 to 3.65 in 1920 to 3.95 in 1925. [18]

After the war it was increasingly clear what happened in the US mattered from the point of view of the *world* system. The war served to move the centre of gravity of the system across the Atlantic, as America's share in the total world production shot upwards. Thus in the 1920s a large, a relatively prolonged (seven year) expansion of the American economy provided the means by which the German economy could overcome the effects of the war. The old pattern of European investment in America had now given way to a new pattern of US investment in Europe. Through the Dawes and Young plans the US financed the expansion of German industry.

At first the new dependence of Europe on America seemed wholly beneficial. Despite a sharp recession in 1921, by 1929 US industrial production rose in what seemed at the time a near miraculous boom until it was double the 1914 figure. A whole host of new industries grew up – radio, rayon, chemicals, aviation, refrigeration – the wave of car production that had begun in 1915 really took off, and there was substantial re-equipment of industry on the basis of

electrification. The average level of profits rose, so that, in 1929 profits were 22.9% higher than in 1923. [19]

The boom in the US found its echo in Europe. In Germany industrial production rose 40% above the 1922 level. And in France it doubled. Only in Britain, with its declining older industries not yet supplanted by new ones, did the economy remain more or less permanently depressed, with production not reaching the 1919 figure until 1929.

No wonder that by 1927 or 1928 economists abounded who declared that capitalism had overcome its previous tendency towards crisis. So, for example, Alvin H. Hansen could write in 1927 that the 'childhood diseases' of capitalism's youth were 'being mitigated' and the 'character of the business cycle was changing', while in Germany Werner Sombart insisted that since 1875 'there has been a clear tendency in European economic life for antagonistic tendencies to balance each other, to grow less and finally to disappear.' [20]

Yet all these hopes came tumbling down in 1929. The period of monopoly capitalism ended, as had the period of 'classical' capitalism, in prolonged economic crisis. Only this period of crisis was much more devastating than its predecessor. While the 'great depression' of the late 1870s and 1880s witnessed a considerable overall growth of output and a massive expansion of foreign trade (it trebled from 1869 to 1892) [21], the slump from 1929 onwards saw considerable falls in both. World industrial production dropped by a third, American production by 46.2%, French production by 29.4%. Only British production fell by a smaller amount, but it was starting from an already depressed figure. Never before had there been a slump that had been so deep, or lasted so long. Three years after the slump had begun in the US and Germany, there was no sign of any upward movement at all. And the slump hit all the

industrial countries at once, not only driving their industries to the wall, but also destroying the demand for the output of the agricultural countries, knocking the bottom out of the prices they received and driving their populations to dire misery.

The crisis of the 1930s

> Among Marxists the most popular explanations of the crisis of the 1930s have been the 'underconsumptionist' sort of theories of Baran and Sweezy, Gillman, Sternberg. [22] These start from the fact that in the US economy of the 1920s there was a sharp divergence between a high growth of output and a limited growth of wages and consumption. Gross industrial production grew by about a third between 1922 and the beginning of 1929, but real wages by a mere 6.1% and total consumption by only 18%. Between 1927 and 1929 total manufactured output rose nearly 14%, but consumption only about 5½%. [23]

It was easy to draw the conclusion that the crisis was to be explained in terms of a famous quotation from Marx: 'The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces of society as though the absolute consuming power of society constituted their only limit.' [24]

But Marx differs from such 'underconsumptionists' by filling in an important gap in the argument; they cannot

really explain why for long periods of time capitalism is able to sustain booms and avoid crises. Marx is able to do so because he insists that the demand for goods depends upon production. Of course, what workers can buy with their wages is always less than the total product – otherwise there would be no profits. But providing capitalists continue to accumulate this should not matter: their investment in expanded means of production can ensure that there is a demand for that portion of output not going to workers' consumption.

It is only if there is a failure of new accumulation to use the portion of the social product left after providing for workers' consumption that crises of over production can occur.

This explains the crucial importance of the long term tendencies of the rate of profit. If the motive force for new investment gets weaker, then overproduction becomes a real possibility. But when looking at any particular crisis, it is not sufficient to say simply 'falling rate of profit, onset of crisis', for all sorts of intermediary factors can be involved.

The rate of profit had been falling in the US until the early 1920s (according to the calculations of Mage and Gillman), but no real decline is shown after that; it tended, if anything, to rise. Gillman has it falling from 69% in 1880 to 50% in 1900 to 29% in 1919 and 1923, but then rising again to 32% in 1927. Mage's figures are different, but the trend is the same. He has it at 10.84% in 1900, and 12.97% in 1903. Thereafter it falls to 12.03% in 1911 and to 6.48% in 1919. thereafter it rises again to 7.19% in 1923 and 7.96% in 1928. [25]

What does seem to be the case, however, is that the rising organic composition of capital had already diminished the rate of profit sufficiently, *before* 1919, to produce a decline in the rate of productive accumulation. According to Steindl,

the rate of accumulation in the period 1879–99 was 5% a year; it fell to less than 3% a year in the 1920s. [26]

According to Gillman [27], capital formation fell from between 13 and 14% in the 1890s and 1900s to 10.2% in 1919–28. Baran and Sweezy claim that this 'stagnationary' tendency found reflection in the fact that the pre-war crises after 1907 were more severe than those before. [28]

By the 1920s the rate of profit was no longer high enough to sustain a level of productive accumulation that would absorb all the surplus value in the US economy. This opened up a gap between the total social production and total social productive consumption (wages plus productive accumulation) that meant overproduction unless it was filled by something else. The reaction of individual employers to the relatively low rate of profit – increased exploitation of the workforce while keeping wage increases to a minimum – could only increase this gap. The organic composition of capital was already so high that an increase in the total profit did not markedly increase the ratio of total profit to means and materials of production. The rate of profit could not rise enough to provide outlets for the growing mass of funds seeking investment.

The blind self-expansion of capital led to an ever-greater accumulation of dead labour compared with living labour. This expressed itself in one way in the long term decline in the rate of profit; in another in the creation of productive potential that could only be anything like fully utilised if the low consumption of the masses was supplemented by some ever larger new accumulations of capital. 'Overproduction' and the low rate of profit were two sides of the same coin.

The low level of accumulation in the 1920s did not, however, lead to a slump before 1929 because the gap between total productive consumption and the total social

product was filled by the *non-productive* forms of consumption. [29]

In part this was simply a case of luxury consumption by the bourgeoisie and petty bourgeoisie. According to a pioneer Marxist analyst of the period, Lewis Corey, 'the bourgeoisie' (in which he includes the non-farm petty bourgeoisie) were responsible for 42.9% of consumption. [30] For him 'the equilibrium of capitalist production came to depend more and more on artificially stimulating the "wants" of small groups of people with excess purchasing power.' [31]

This luxury consumption was supplemented by a typical product of aging capitalism – the tendency of each capital to spend more and more in ways which did not add to the total surplus value, but which did attract to itself a greater share of the already created surplus value. According to Corey distribution costs of US industry grew from 30% of consumer prices in 1870 to 59% in 1930. [32] Advertising revenue alone amounted to $2,000 million in 1929 [33] – only 25% less than total expenditure on plant and equipment in manufacturing industries. Gillman argues that 'non-productive expenses' (advertising, marketing costs etc.) grew from half the total surplus value in 1919 to two thirds by the end of the 1920s. [34]

Finally, the very search for profitable investment outlets by vast accumulations of funds itself created a temporary means of absorbing excess surplus value. A succession of speculative booms pushed stock market and real estate prices to dizzy heights. These in themselves did not absorb surplus value (they merely transferred investible funds from one set of hands to another) but they did involve a great deal of unproductive expenditure as a by-product (new buildings, salaries to unproductive personnel, conspicuous consumption) and led to a certain amount of resources

going into 'productive' enterprises that would not have been thought of as profitable if a speculative climate had not existed. 'Superabundant capital became more and more aggressive and adventurous in its search for investment and profit, overflowing into risky enterprises and speculation. Speculation seized upon technical changes and new industries which were introduced regardless of the requirements of industry as a whole ...' [35]

All these factors had one thing in common. Although they served temporarily to speed up the tempo of economic activity and to ensure that a demand existed for virtually everything that the productive parts of the economy produced, they all depended, in the last resort, upon the productive economy. The moment it experienced any serious setback, they would all fall – and the profitability of the productive sector would be further hurt as the demand for its products fell, cutting prices until they were below costs. The speculative frenzy could give an added boost to the boom, could even sustain it for longer than otherwise – but once the boom began to wilt, the collapse of the speculative frenzy could drag the rest of the economy even further down.

In reality, the underlying productive economy was weak. As we have seen, the rate of accumulation was low throughout the twenties. In no year did the number of workers in manufacturing exceed the 1919 figure. Excess productive capacity was available throughout the period: even in the 'boom' year of 1928 there was 18% unused industrial capacity. [36] It has been claimed that by 1928 'most American industries were capable of producing from 25% to 75% more goods than the market could absorb.' [37]

Marx in volume three of *Capital* discusses the exact ways in which a boom suddenly begins to turn into a slump. He

suggests three mechanisms, which can work together or separately.

The first is the way in which as the boom eats into unemployment, wage rates are forced up and the rate of exploitation is reduced, until the least profitable firms are forced out of business, pulling other firms down with them. But although wages did rise a little in 1927–9, this did not seem to have been a real precipitating factor, given the much greater rise of total production. [38]

The second is the disproportion that can arise out of the blind competitive accumulation of different sections of the economy, so leading to 'partial' overproduction as some industries produce goods for which there is no demand. This certainly was the developing pattern in the US at the beginning of 1929. The speculative frenzy led to the undertaking of more investments than in any year since 1920 [39], despite the large overcapacity that already existed. Some industries were bound to find that they could not sell all the goods they had produced and so could not get the funds needed to cover these investments. However, this in itself could not explain why this partial overcapacity and overproduction in certain industries should lead to a *general* slump.

This depended on the third element in Marx's explanation – the role of credit and interest. Capital investment is not a continual process for the industrial capitalist. It involves the buying or building of large material objects (factories and equipment) which embody large amounts of value. When these are put to work they pass their value on to products (which also embody the labour of the workers). But this passing on of the value of the plant and equipment does not occur all at once. It can take the capitalist many years to cover his capital costs and to get the sums of value necessary to undertake the similarly large investments needed to

replace worn out plant and equipment. And so production undergoes a cycle in which large sums are paid out in one go and then small sums collected back over a long period of time.

While the capitalist is recuperating his costs in dribs and drabs he cannot immediately invest them himself. Under modern capitalism what he tends to do is to lend them to other capitalists – either via the stock exchange or more likely via the banks. And when he wants to make large investments, he does not necessarily wait until he has accumulated enough capital personally to do so, but he borrows – again from the stock exchange or via the banks. Financial institutions serve as mediators between industrial capitalists [40] who are accumulating surplus value for future investment, and industrial capitalists who are wanting to invest without waiting. Those who lend are promised by those who borrow part of the surplus value to be created as the investment is put to use.

This interest has to be deducted from the surplus value they make – and so reduces the final amount of profit they have in their hands. But one important discovery made by Marx was that the rate of interest they paid was not determined by the same thing that determined the rate of profit they could make. In fact, at important points in the industrial cycle, it would move in the opposite direction.

For, what determines the rate of interest is the conflicting pressures of supply and demand for loans. The supply of loanable capital to the banks will be highest when the rate of profit in industry is highest – when expansion is proceeding, but before wages have risen and before any serious disproportions have arisen in the economy. The moment the rate of profit in parts of the economy begins to fall – for instance, because of partial overproduction -then the supply of loanable capital will begin to fall. By contrast, it is

precisely at this point that the *demand* for loans will rise. Capitalists in laying down large scale investments use up much of the loanable capital, and when they find they cannot sell sufficient goods to pay off the interest on these debts they go to the banks for still more loans. The banks can respond by granting these loans, and reducing the supply of credit still more, or by pushing the firms to bankruptcy, thus destroying the market for the goods of suppliers to those firms and raising their demand for loans. In either case, just as a partial crisis of overproduction reduces the supply of loanable capital, it raises the demand. This forces up interest rates throughout the economy and *generalises the crisis*. [41]

The bankers do not cause the crisis, nor do the breakdowns in the flow of credits or high interest rates. High interest rates and breakdowns in the flow of credits are, rather, a product of industrial crisis. That is why it is useless in any crisis to moan as many good-intentioned bourgeois economists (or bad intentioned fascists) do about the role of the banks or the level of interest rates. The bankers with their interest rates are merely one symptom of the general irrationality of the capitalist mode of production.

Although the beginning of the slump of the thirties is usually identified with the Wall Street Crash of 29 October 1929 [42], the crisis really began before that, in industry. In the US, Kindelberger rightly notes, 'business was in trouble before the crash'. [43] Auto production had fallen from 622,000 in March to 416,000 in September [44], the output of machinery began to fall from June onwards, until by the end of the year new orders for machine tools and foundry equipment were down 50% with 10% unemployment in the machine industry as a whole; iron and steel output followed autos and machinery downwards from August, falling a total of 42% in four months; construction too fell 52% by the end

of the year. [45] By September and October, industrial production as a whole was falling 20% at an annual rate. [46]

In Europe too the slump began before the Crash. Conditions were worst in Germany. Already at the beginning of the year one of the factors fuelling the stock exchange boom in the US was that American funds that had been invested short term in Germany returned to the States as German investment opportunities became limited. 'Many German industries were reaching a saturation point in the rationalisation programme which followed in the wake of the world war and were approaching the end of the job of capital rebuilding ... Forces were working to produce a sharp decline in the volume of American investments abroad ...' [47] 'By the summer of 1929 the existence of depression was unmistakable' [48] as unemployment reached 1.9 million and the spectacular failure of the Frankfurt Insurance Company began a series of bankruptcies. The Belgian economy started declining from March onwards, and had fallen 7% by the end of the year, while in Britain the turning point came in July. Only in France was production still rising at the time of the Crash.

But if the Wall Street Crash was a result of the industrial crisis, it reacted back on it to make it worse. Faced with declining sales industrialists were already beginning to borrow from rather than lend to the banks. Those who had engaged in the speculative boom (including both industrialists and banks) now tried to borrow more in order to cover their losses after the crash. Those who could not borrow went bust, creating further losses for those who had been relying on them to repay debts. It suddenly became very difficult for businesses to balance their books and the slump spread from one sector of the economy to another. What happened in America also rebounded back on a

Europe that had been floating upwards on the basis of US loans. Hard hit American institutions recalled their short term loans from Germany, creating difficulties for German industrialists who had been relying on them to finance their own industrial overcapacity. They reacted by borrowing funds from London, which in turn raised interest rates there and put increased pressure on British industrialists.

Once the decline started there seemed no end to it. Industrial decline produced the stock market crash and pressure on the banks which in turn deepened industrial decline and put more pressure on the banks. Thousands of locally based banks went bust in the US, and some of the giant banks of Europe collapsed spectacularly. Governments tried to ease the pressure on the banks by cutting their own expenditure. But that only further exacerbated the disproportion between productive capacity and consumer demand, further worsening the crisis in industry. The non-productive expenditure that helped to fuel the boom was cut right back as companies tried to conserve their funds, and the slump grew deeper.

The automatic market mechanisms which had always in the past been capable, at the end of the day, of lifting the economy out of crisis no longer seemed to be working. Three years after the crisis started, industrial production in the US, Germany, Britain and France was still declining. Unemployment worldwide had leapt from about 10 million in 1929 to 40 million in 1932 [49]: in the US at one point nearly a third of the workforce was on the dole; in Germany there were six million unemployed by January 1933; in Britain the figure briefly rose above 20%. World trade fell catastrophically to a third of its 1929 figure.

The ageing of the system was taking its toll. It was no good any longer merely waiting for some capitals to collapse, so allowing others to expand at their expense. Such was the size

of individual industrial or financial capitals that the collapse of any one dragged others down with it. Hence the characteristic pattern of the slump. The downturn in industry provoked the downturn in the stock exchange. The downturn in the stock exchange provoked further downturn in industry and the first bank closures. These in turn pulled still more of industry down. Then still more banks followed. As one avalanche followed another, it seemed that no-one was safe. The different parts of the system were so large and so closely intertwined that one capital could not devour another without threatening to destroy a source of its own livelihood.

This did not mean that there was no chance of a limited revival on such a basis. But it did mean that it could only occur after really massive destruction. So, for instance, there was the beginnings of some pickup in British industry in mid-1932. But this was after 12 years, rather than just three years, of high levels of unemployment in the old-established industries such as coal, iron and steel, shipbuilding; and the pickup very much left these industries aside as the new growth was in light engineering and motors.

The liquidation of the crisis of the 1930s – from monopoly capitalism towards state capitalism

> Until 1932 ruling classes practically everywhere expected the crisis to resolve itself as had the pre-war crises and the crisis of 1921. The only thing governments had to worry about was balancing their budgets, cutting back on civil servants', teachers', and even armed forces' pay and on dole handouts in order

to do so. Only if this balance could be achieved, could there be any attempts to mop up a little of the unemployment with public works schemes.

Overall, there was what we would call today Thatcherism'. This was the basic approach of Hoover in the US, MacDonald in Britain, Bruning, von Papen and Schleicher in Germany. But by the end of 1932 this policy was clearly not working – especially in the US and Germany. On the one hand immense damage was being done to capital itself, as it tried to operate profitably at a little more than half its previous production levels. On the other social forces were being created that could easily turn the whole of society over. Some sort of new approach was needed.

The shift that eventually took place was from a monopoly capitalism in which the state kept in the background, responding to the needs of the giant firms by providing a limited range of services that ensured the reproduction of the labour force (education, health and employment insurance etc.), social discipline (law and order) and the satisfaction of imperialist ambitions (defence), to one in which the state intervened to ensure the international competitiveness of the different components of the national capitalisms; consciously restructuring industry, shifting surplus value from one sector of the economy to another, endeavouring to even out cyclical fluctuations.

The shift had been foreshadowed during the First World War. Once it became clear that what was involved was not a five month campaign on the pattern of the Franco-Prussian War, but a life and death struggle between rival imperialisms, in the major combatants the state was given draconian powers to force individual capitals to subordinate production to the military effort – it rationed supplies of raw material and foodstuffs, ordered factories to produce certain

goods, itself organised munitions production, the coal industry and the railways, if necessary confiscating firms which would not cooperate, and took powers virtually to conscript labour.

It was the experience of these years that led Lenin and Bukharin to write of 'state monopoly capitalism' [50] of 'state capitalist trusts' [51] or simply 'state capitalism'. [52]

Yet once the war was over, there was a marked withdrawal of the state from its central role in Western Europe. In Britain, for instance, the state gave up its control of the railways and coal fields. The centrally directed war economy gave way to a market economy in which increasingly monopolistic industrial and financial concerns were free to do as they wished. The same trend existed in Germany, even if there the state retained a greater direct stake in production (owning the railways, the aluminium monopoly, power production, some coal mines etc.). And in the US the state played virtually no productive role at all.

The 'state monopoly capitalism' of the war was a temporary phenomenon, abandoned once the major sections of industry and finance believed that they could maintain their international position without subordinating themselves to a centralised military-bureaucratic direction. They still preferred to maintain their individual identities and their freedom to associate with capitals from other countries without state restrictions.

But the inability of monopoly capitalism to recover from the slump on its own accord began to build up pressure for at least a *partial* return to state organised monopoly capitalism. At the lowest point in the slump, at the end of 1932, Roosevelt won the presidency in the US, and a series of meetings with the heads of big business and the army led to Hitler being given power in Germany.

In the US the increased supervision of private capital by the state was relatively limited. Hoover had already tried to use state funds to shore up businesses and banks and had undertaken small scale public works schemes to mop up a little of the unemployment. Roosevelt's 'New Deal' extended these measures just as a limited revival was taking place in the economy in any case. The Federal Reserve system guaranteed the funds of the remaining banks to prevent further collapse; government money was used to buy up and destroy farm crops in order to raise prices; a civil construction corps provided work camps for 2,300,000 young unemployed men, the National Recovery Act provided for a limited form of self-regulation for industry via cartelisation to control prices and production levels as well as making it a little easier for unions to raise wages and consumer demand; there was a limited experiment in direct state production through the Tennessee River Authority. At the same time, the government withdrew the US from the gold standard, so that the value of the dollar and the level of funds in the US no longer depended purely on the free flow of the market but upon conscious government interference designed to aid US exports.

The New Deal was a recognition that capitalism in its monopoly stage could no longer solve its problems without systematic state intervention. To that extent it marked a watershed between two phases in the development of the system. But the precise degree of state capitalist control was limited. The state tried to boost the private sector but made no real efforts to impose its own control. Even 'fiscal means to expand employment remained limited since the Democratic Administration under Roosevelt remained committed to balanced budgets ...' [53]

Such timidity could only have a limited impact on the crisis. All the efforts of the New Deal could not push the

upturn that began in the spring of 1933 beyond a certain point. In fact: 'The upturn ... was neither widespread nor rapid'. [54] Industrial production rose from 59% of the 1924–5 figure in March 1933 to 100% in July, only to slide back to 71% over the next year. There was a fall of 1,700,000 in the number of unemployed – but that still left 12 million jobless. It was not until 1937 – eight years after the start of the crisis – that production reached the 1929 figure. But with a 10% larger workforce and 15% higher productivity, this left a 14.3% unemployment figure. Yet this 'mini-boom' soon gave way to a slide back into slump. After August 1937 there was 'the steepest economic decline since the history of the US' which 'lost half the ground gained by many indexes since 1932'. [55] By December 1937 only 26% of steel capacity was in use and textile output was a mere 60% of the March figure. For industry as a whole unused capacity was 40% in 1938 [56] and unemployment was up to 19%. Unemployment continued to be above 14% right until 1940.

The 1920s showed that the forms of non-productive expenditure associated with *non-state* monopoly capital (marketing expenditures, advertising, speculative ventures, luxury consumption) could postpone crisis but not stop its eventual impact being greater than previously. The 1930s showed that 'pump priming' by governments could not give a new lease of life to the system either. A more profound change was needed.

The first great Western power to undergo this change was Germany. For the first couple of years economic policy under Hitler was very similar to the New Deal. Public works – especially those with a possible military function, such as the building of autobahns and the extension of the railways system – were undertaken on a scale not possible for the weak governments of 1930–33. Subsidies were provided for housing repairs, industry was given tax exemptions and

cheap loans, compulsory cartellisation was used to protect prices and profits of large enterprises, wages were fixed by law at the slump level. An economy which was already showing the first signs of recovery was given a boost by these measures, and industrial production rose from 53.8% of the 1929 figure to 79.8% in 1934.

However, these measures did not eliminate the pressures that had produced the crisis. Unemployment remained three times the 1929 figure and prices began to rise as the cost of paying for the public works created inflationary pressures. The Nazi regime reacted by moving further towards state regulated monopoly capitalism: it used its dictatorial political powers to impose regimentation on the economy. The major capitalist groups remained intact. But from now on they were subordinated – as in 1914–18 – to the needs of an arms drive which they themselves wholeheartedly supported. The mild reflationary measures of 1933 gave way to the 'preparedness economy' – the arms economy – of 1935 onwards.

The state took control of the savings bank and imposed strict supervision on the commercial banks in order to ensure that their deposits were used to finance its new arms drive. Industrial concerns were compelled by law to deposit all profits above a certain level with the state for the same purpose: if big business was able to evade this by clever book-keeping, small and medium business could not. Under the four years plan of 1936 Goering was made 'economic dictator'. His aim was to push through an investment programme, of six to eight billion marks 'whether it was profitable or not, using every method – financial investments, subsidies, tax exemptions, guarantees of prices, orders and profits'. [57] The great majority of big industry quite willingly went along with these measures. But industrialists who disagreed with them soon learnt who was

in control. The head of one of the biggest concerns, Thyssen, had his property confiscated by Goering and was forced to flee the country, despite the fact that he had financed the Nazis before they took power.

The affect of these measures was to pull the economy right out of the slump and to keep it booming while the British, French and American economies slumped again in 1937. By 1936, German economic output had reached the 1929 figure, and by 1939 it had climbed another 30%. [58] The number of employed workers rose from 12.9 million to 20.8 million in 1939, while unemployment fell from six million down to 70,000 in May 1939. Most of the new production went into arms and industries that provided military preparedness, i.e. heavy industry. Private consumption rose by only $1.2 billion 1932–7, while the total national product rose $10.7 billion. [59]

'The main line of policy adopted by the government was simple: to channel the increase of production primarily into those industries that were important for the realisation of military goals ...' 'The index of production of producer goods industries' rose from 45% above 1928 in 1932 'to 136% by 1938'. 'The index of the consumer goods industries rose from 78% to 107% in the same period'. Thus, producer good output grew 200%, consumer good output 38%. [60]

Armaments and the expansion of heavy industry drove the whole economy forward, providing the markets and outlets for investment that had been so lacking in 1929-32. The economic expansion itself paid for a large percentage of the cost of fuelling the boom, in contrast with the rather lame efforts of the New Deal in the US. 'While one half of the United States' government expenditures were deficit financed in the years 1932–36, the pre-war period produced a deficit of only one fifth or one fourth of the government receipts in Germany ...' [61] And again, in contrast to the

New Deal, the Nazi policy was not obstructed by big business: 'The generals established an association with big business, in the process of which private concerns adopted economic rearmament as the preferred economic goal that was fully in their own interests.' [62]

However, there was one major problem with any such policy. Germany was not a self- contained economic unit. The forces of production internationally had long since developed to the point where they cut across national boundaries. Economic expansion inside Germany depended upon imports – especially of raw materials – that could not be financed by exports given the stagnation of the rest of the world economy.

This problem made itself felt within a year of the Nazis taking power. A surplus of exports over imports of 1000 million marks in 1932 turned into a deficit of 316 million marks in the first six months of 1934. As Germany's gold and foreign currency holdings fell dramatically, the regime imposed very tight controls over foreign trade. Specific permits had to be obtained before businesses could import goods, and these permits were only available for 'essential items', with military requirements having top priority. The result was 'the economic insulation of Germany' as 'price connections with other countries were severed or greatly modified'. [63] At the same time, the government unilaterally cancelled interest repayments on Germany's foreign debts and wrote off much of the debt itself by forcing creditors to spend what was owed them inside Germany.

All these measures constituted a powerful drive towards 'autarchy' (economic self-sufficiency) within the German economy. But they could not go as far as to break the country's dependence on other parts of the world. As the armaments boom took off, there was a growing need for certain strategic imports. While food imports could easily be

cut, the demand for raw materials grew incessantly. At first this demand could be met by using the economic power of the now massively centralised German economy to browbeat small foreign suppliers. They were effectively told they could not sell goods to Germany or recover past trade debts unless they were prepared to pay over the odds for German exports. In this way, for instance, the economies of the Balkans came increasingly under the thumb of the German economy. [64]

But such expedients could only provide an interim, stopgap relief Attempts to apply similar pressures on Latin American states so as to get from them raw materials previously supplied from North America led to 'temporary interruptions in trade that lasted until the debt at any given time was reduced ...' [65] The only way to overcome such instability in raw material sources was to expand the boundaries of the German Reich so as to incorporate neighbouring economies, and to subordinate *their* industries to the German military drive. Beyond a certain point, expansion out of the slump on the basis of a state controlled arms economy was not possible without imperialist war.

Germany was the most significant capitalism of the period to follow the path of state controlled monopoly capitalism leading to war. It was not the first. If in the US, Britain and France state control was limited by the power of particular competing capitalist groups, this was not the case in certain late developing capitalist countries. Here no substantial industrial development could have been successful in the first place in the face of foreign competition but for the intervention of the state bureaucracy. Japan was the archetypical example. It had been the state which set out to promote the development of capitalism with the Meiji Restoration of 1868, and the state bureaucracy and the handful of large scale capitalist concerns had worked closely

together ever since. So Japan *entered* the world economic crisis as a *state* monopoly capitalism. The crisis cut industrial production by much less than in the other major capitalist states, by about 10% in the first two years. And then, in 1931, a turn was made to military expansion. Japanese troops moved into Manchuria, used the conquered areas as an adjunct to an increasingly militarised Japanese economy, and both economies underwent sustained industrial expansion on the basis of integrated four year plans. [66] Japan emerged from the slump two years before the rest of the world. By 1934 industrial production was 28.7% above the 1929 figure and by 1938 73%. [67]

Yet even in Japan state capitalism did not develop to its maximum possible extent out of the crisis of 1929. That privilege was to be reserved for, of all places, the former workers' state of Russia.

The degeneration of the Russian revolution in the 1920s has been amply documented elsewhere. [68] It suffices here to note that by 1928 a relatively small nationalised industrial sector to the economy run by an increasingly self-conscious bureaucracy coexisted with a large private agricultural sector. The controllers of the industrial sector, however, had a monopoly of armed force through their control of the state. Faced with increased belligerency from the Western powers – especially Britain – in the late 1920s they reversed their previous policies and decided on a massive expansion of the industrial sector through five year plans at the expense both of agriculture and of workers' living standards.

The initial goals in this respect were, however, relatively modest. There was no intention either of developing Russian industry in isolation from the rest of the world or of destroying the private agricultural sector. The aim instead was to tax the peasants so as to use an agricultural surplus to buy producer goods from Germany and the US. But just

as the plan began to be implemented, the crisis of 1929 forced agricultural prices right down. To pay for imported producer goods, the share of the agricultural product that had to be exported had to rise-from 0.14% in 1928 to 7.33% in 1931. On top of this, there was an increase of 15% in the share of the harvest going to the industrial centres. Such amounts of food could only be obtained from the countryside by the most draconian of measures -seizing the land from the peasants and handing it over to 'collectives' that were under tight bureaucratic control. As peasants' and workers' living standards were slashed, a tight totalitarian dictatorship was needed to contain discontent and ensure the fulfilment of economic goals.

On this basis the county could experience massive industrialisation. The official claim was that gross industrial production rose from 18,300 million roubles in 1927–8 to 95,000 million in 1937 (all at fixed 1926–7 prices) [69], overtaking the figures for Britain and France. While in 1929 Russia accounted for four per cent of world industrial production, by 1939 it accounted for twelve per cent. [70]

But, as in Germany, the industrial expansion was above all an expansion of means of production and of armaments output, not of consumption. Consumption goods had made up 67.2% of output in 1927–8; by 1940 the figure had fallen to 39% according to official figures – which almost certainly overstate the latter figure. [71] Between 1928 and 1936, while the productivity of labour more than trebled, real wages were actually cut by more than 50%. [72]

As the inheritor of the huge czarist empire in Asia, the bureaucracy of the USSR was not driven as were Japan and Germany to rapid territorial expansion in pursuit of control over raw materials and regions that could be industrialised. But in 1939, when it divided Eastern Europe with Germany (Hitler got Western Poland; Stalin got Eastern Poland,

Lithuania, Estonia and Latvia), it showed that it was as prepared as any other imperialist power to use military expansion to gain new sources of surplus value.

The examples of what military state capitalism could achieve – whether in its 'partial' form in Germany and Japan or in its full form in the USSR – in escaping from slump had a powerful affect on the rest of the world. 'Planning' came to be seen as the only real alternative to repeated crises and was adopted in one form or another in many of the weaker capitalisms: there were powerful state sectors in the small countries of Eastern Europe, in fascist Italy in those Latin American states with 'populist' governments. Even in Britain – where declining food prices (part of the imperial heritage) protected the middle classes from the slump, it produced rising real wages among employed workers and a market for the new consumer oriented industries (cars, light engineering) which boomed from 1933 onwards while the older industries continued to stagnate. Keynesianism became an increasingly popular doctrine, and younger Tories like Harold MacMillan preached a semi-state capitalist 'middle way'. The Conservative governments moved slowly towards increased state regulation with the imposition of import controls, cartellisation of iron & steel and coal, the creation of state monopolies in electricity production, air transport and broadcasting, and the provision of investment grants to industry.

From slump to war

There were, we have seen, important differences in the ways in which the different national capitalisms responded to the crisis of the 1930s – just as there had

> been different responses to the crisis years of the 1870s and 1880s. At one extreme there was Roosevelt's America, at the other Stalin's Russia, with Britain, the Latin American states, Italy, Germany, Japan, scattered along an axis of increasing statification in between. And it was only in those countries which moved furthest in the direction of *state* capitalism that boom was resumed.

Yet in all of them the state did take on a much greater role than previously – even if it was only by stepping in to separate national prices from world prices via controls on currency flows and imports. Protectionism had existed before in many countries – but in the 1930s it increased everywhere with a vengeance. The law of value in international trade was crucially mediated by state controls that decisively influenced price calculations and the flow of commodities. World trade, which had quadrupled between 1891 and 1925 [73], fell until in 1932 it was no higher than in 1905. The widespread tendency – in Germany, in Japan, even in Britain – was towards 'autarchy', towards individual capitalist powers attempting to produce as many goods as they could inside the boundaries of their own state power.

But it was impossible to be completely self-contained in a world in which virtually every production operation depended upon components and materials from scores of countries. The autarchy could not be an autarchy of individual nations – it had to be the autarchy of 'blocks', each dominated by a particular national capitalism. This was no great problem for the US, Britain or France, each of which was able to mould a currency block based upon its formal or informal empire: the dollar area, the sterling area, the gold block (France). These existing empires could be held together at a minimal cost (none of these countries

spent more than about one per cent of its national income on ‘defence’ until 1938). But it was an immense problem for Japan, with its small empire at the start of the crisis (Taiwan and Korea) and for Germany with no empire at all. They could only expand economically from the crisis if they took military measures to extend their state boundaries – to establish empires and spheres of influence of their own. But this was bound, eventually, to lead to a clash with the existing imperial powers.

Once the path of military expansion had been decided upon, it fed upon itself. To challenge the existing empires required the maximum military-industrial potential. Every successful imperialist adventure increased this (for example, the Japanese take over of Manchuria, the German annexation of Austria and then: Czechoslovakia). But at the same time it increased the hostility of the existing empires, leading to the need for a greater arms potential and further military adventures. The breaking points were of course, the German seizure of Western Poland and the Japanese onslaught on Pearl Harbour.

Yet neither Germany nor Japan could retreat from such adventures. Armaments expenditure had been able to pull the economy into a boom, despite the low initial rate of profit. The freezing of wages meant that the boom could very much finance itself up to a certain point. But there were bound to be limits on this, the profits on which were based the allegiance of big business to the armaments programme could only be sustained if new sources of” surplus value were obtained, if the arms could be used for annexing adjacent countries, confiscating much of their accumulated surplus value and using their workforces as cheap labour. The arms economies of the 1930s inevitably led to the war of 1939–45.

State capitalism and the economics of total war

> Total wars are rarely planned. They begin as military moves designed to gain or to defend particular, limited targets. It is the power of the military opposition to frustrate these aims that leads to an escalation of the struggle, involving ever larger forces and an ever greater expenditure of resources.

Once the war is underway, however, all the existing interests of the ruling classes on either side are put into question. The only way to preserve what has been gained by one means or another in the past is to step up the level of military effort – often regardless of cost. What matters is no longer a simple economic calculation as to whether a particular increase in arms expenditure will produce a corresponding increase in the surplus value in the hands of the ruling class. For, if the increased expenditure is *not* undertaken, both the surplus value accumulated in the past and that which may be accumulated in the future are put at risk. The stakes have to be raised merely in order to defend what has been staked before. That is why once war has begun it becomes virtually impossible to distinguish the offensive from the defensive. So what begin as limited, 'rational' moves take on an irrational existence of their own, as military expenditures on one side force military expenditures on the other in an ever rising spiral that knows no limit beyond the complete physical exhaustion of the one or the other side.

The whole process is not qualitatively different to what happens in 'pure' economic market competition under classical capitalism. One side must accumulate as rapidly as possible because the other may accumulate too. The only

difference is that in market competition it is accumulation of productive forces that matters; in war it is the accumulation of the destructive forces, which in their turn depend finally upon the level of the productive forces themselves.

Total war is the ultimate horrific expression of the world of alienated labour, in which human beings become dominated by the products of their own past activity.

Yet a certain distinction can be made between the dynamics of the military state capitalisms before the outbreak of World War II and afterwards. Until that point their arms expenditures were, in a certain sense, 'productive' – they could gain new sources of surplus value for the national capitalism at the expense of other national capitalisms. Given that most of the resources that had gone into arms were resources which would have remained unemployed if the transition to a state capitalist arms economy had not been made, this was a great advantage to the German or Japanese capitalisms. The ratio of total surplus value at their disposal to total past accumulations of surplus value (the national rate of profit) was raised a little – particularly since military expenditure also provided an excuse for holding down living standards and raising the rate of exploitation.

But once all-out war had begun, things could be rather different. Both sides were converted into military state capitalisms in which all that mattered was the growth of the national military potential, even if this did not necessarily lead to an increase in the surplus value available to the national capitalist class. Any reserves of surplus value had to be ploughed straight into the war effort, regardless of all considerations of profitability. The existence of a *mass* of surplus value, rather than of any particular *rate* of profit, was the factor in determining whether new heavy industrial and military investments were embarked upon. Indeed,

things could go so far as to lead to what Bukharin in 1921 had called ‘negative expanded reproduction’ [74] – to a state of affairs in which not only all new surplus value went into military spending but in which the depreciation funds for replacing the existing stock of accumulated surplus value were run down. This happened to the European powers in both world wars.

For the sake of convenience, certain areas of the warring economies continued to be run as if they were operating under market competition in pursuit of an average rate of profit. But they were marginal areas, with their activities closely circumscribed by the priority given to war production. Again, individual firms engaged in the war production continued to be paid profits on the services they supplied to the state – but these profits were little more than conventional accounting devices, dependent upon the political decision-making of the state and no longer determining the pattern of accumulation within the economy. If the system remained capitalist, it was not because of these things but because what did determine the dynamic of the system remained, as under market competition, competitive accumulation between different capitals – in this case between the rival military state capitalisms.

From the point of view of the workers, many of the effects were the same: every success in accumulating military hardware in one state capitalism forced efforts to accumulate similar levels of military hardware in the other state capitalism. Just as the efforts of rival car producers to outsell each other bring the concrete forms of labour in different car plants into an unplanned inter-relationship with each other, transforming them into different amounts of a homogenous abstract labour, so do the efforts of rival tank producing states to outshoot one another. But this

means too that the rate of profit within the state capitalism *as a whole* does exercise a determining impact on events: if the ratio of total national surplus value to total investment in the military-industrial machine falls, this weakens the ability of the national state capitalism to sustain itself in warfare with its rivals. The decline in the rate of profit cannot lead to economic slump, since the war machine will go on growing as long as there is any remaining mass of surplus value to be used up, however small. But it can contribute to military defeat. [75]

This logic of total war worked itself out during the course of World War II. At the time of Dunkirk Germany was by far the largest arms producer in the world. But this did not prevent its arms economy coexisting with a still thriving civilian economy, complete with living standards that were rising however slowly. This continued to be the case right through to the beginning of the German invasion of Russia in 1941. But then the pressures of total war forced military production ever upwards, until it was three times the 1940–41 level – something which could only be achieved by cutting non-military production right back and forcing down the living standards of workers and soldiers. In the case of Britain rearmament did not start until 1938, and it was not until well into 1940 that it was given effective priority over the rest of the economy. Unemployment and spare capacity at the beginning of the war enabled a considerable expansion of the war machine without taking resources from elsewhere. But soon, as in Germany, the civilian economy was reduced to a mere adjunct of the centrally planned war economy.

The most interesting case in many ways,, however, is the US. When the European war broke in 1938, 17.2% of the US labour force was still unemployed and 28% of industrial capacity was not being used. Once the US had entered the

war in 1941: 'The state not only controlled the armaments sector of the national economy – which represented about half the total production of goods. The state decided what consumer goods should be produced and what consumer goods should not be produced ...' [76]

The federal government spent huge sums building new weapons factories which it then handed over to private industry to run for it. In 1941 its capital expenditures were 50% higher than the country's entire manufacturing investment in 1939 – and this on top of private capital investment of the same order. In 1943 the state was responsible for 90% of all investment. [77]

The effect of this vast expenditure on non-productive output was not however to depress the civilian economy. As the unemployment and excess capacity of the 1930s was put to use, there was a record output of goods. 'As pre-war business went, 1940 was a record year, with a national production of $97 billion ... Yet 1940 was a year of substantial underemployment of manpower and industrial facilities ... By the end of 1943 the gross product had increased to between $185 billion and $190 billion. On top of the $90 billion war programme, consumer expenditure in 1943 – even when measured in 1940 prices – exceeded those of earlier years, rationing, war priorities and war saving notwithstanding.' [78]

The nine million unemployed became less than one million three years later. And the employed labour force grew enormously to 62.9 million: 17.3 million on the war output, 55.1 million of the civilian output and 10.5 million in the armed forces. [79]

The war economy could achieve what eight years of the New Deal could not – full employment of the productive capacity of the largest of the aging capitalisms. As even Kenneth Galbraith has noted: 'The Great Depression of the

30s never came to an end. It merely disappeared in the great mobilisation of the 40s.’ [80]

The stage was set for a new phase of expansion of the system on the basis of state capitalism and arms production, just as after the 1880s on the basis of monopolisation and imperialism. The new phase, like the one before, was for a time to bear spectacular economic fruits, but in the end to fall foul once again of all the ailments of the aging monster. But that is a different story, to be talked about in a later piece.

Notes

1. *Marx and his critics*, **IS** 2 : 11. N.B. A transposition of typesetting led to certain confusions in the footnotes to this piece. Everything after the first paragraph of note 68 should be read as a continuation of note 58 – i.e. it completes the argument about the divergence between total prices and total value on the one hand, and between total profit and total surplus value on the other. (**Note by MIA:** This has been corrected in the online version of the article.)

2. Quoted in D.M. Gordon, *Up and Down the Long Roller Coaster*, in **US Capitalism in Crisis**, URPE, New York 1978, p. 23.

3. Lewis Corey, **The Decline of American Capitalism**, London 1935, p. 27.

4. Eric Hobsbawm, **Industry and Empire**, London 1969, p. 129.

5. **Ibid.**, pp. 130–131.

6. Corey, **op. cit.**, p. 30.

7. Here and later a number of different sources are used for empirical measurements of the organic composition of capital, the related capital-output ratio and the rate of profit. The two major studies for the US economy are: Joseph Gillman, **The Falling Rate of Profit**, London 1956; and Shane Mage, **The “Law of the falling rate of profit”, its place in the Marxian**

theoretical system and its relevance for the US economy, PhD Thesis, Columbia University 1963 (released through University Microfilms, Ann Arbor, Michigan).

They adopt different conceptual interpretations of some points of Marx's theory and they measure different things (Gillman deals with manufacturing alone and, in the main body of his work deals with profit levels before tax; Mage covers what he calls "the commodity producing industries in the capitalist sector – agricultural services, forestry and fishing, manufacturing, transportation, communications, construction, public utilities and services ...", and all profits are measured *after* tax). But there are similarities in the picture they give up to 1919.

Other calculations have come to similar conclusions as regard the capital-output ratio for manufacturing industry. Kalecki for instance, **The Theory of Economic Dynamics**, London 1954, p. 70, shows a rise of 31% in the ratio of fixed capital to output in US manufacturing between 1899 and 1914. and Kuznets shows an increase of 100% in the ratio of fixed capital stock to net product between 1880 and 1922 for manufacturing (**Capital in the American Economy**, Princeton 1961, p. 199). Rowthorn has argued that Kuznets' data show this is more than compensated for by a fall in the ratio in public utilities (**NLR** 98, p. 65) – but it is doubtful how sound this argument can be, given the inflated figures of capitalisation with which rail companies were often launched (see, for instance, Corey, **op. cit.**, p. 28), and the extent to which they were hit (and devalued) more than the average in the crises of 1884 and 1892.

8. Gillman, **op. cit.**, p. 36.

9. M. Flamand and J. Singer-Kerel, **Modern Economic Crises**, London 1970.

10. Hobsbawm, **op. cit.**, p. 131.

11. Flamand and Singer-Kerel, **op. cit.**, p. 38.

12. Figures given in H. Feis, **Europe, The World's Banker 1879–1914**, Yale 1931, quoted in Kidron, *Imperialism, the Highest Stage But One*, **IS** (first series) 9, p. 18.

13. Figures from Colin Clarke, **Oxford Economic Papers**, November 1978, p. 401. For his own reasons Clarke increases the value of equipment in his equations by 50%, but this should not affect the trends.

14. **Ibid.**, p. 401.

15. Fritz Sternberg, **Capitalism and Socialism on Trial**, London 1951, p. 178.

16. Clarke, **op. cit.**

17. Gillman, **op. cit.**

18. Mage, **op. cit.**

19. Corey, **op. cit.**, p. 65.

20. Both quoted in Fritz Sternberg, **The Coming Crisis**, London 1947.

21. Figures in **ibid.**, p. 23.

22. Baran & Sweezy, **Monopoly Capital**, London 1973, chapter eight; Gillman, **op. cit.**, chapter nine; Sternberg, **Capitalism and Socialism on Trial**, **op. cit.**; **The Coming Crisis**, **op. cit.**

23. Corey, **op. cit.**, pp. 181–3.

24. Karl Marx, **Capital Three**, Moscow 1962, p. 472–3.

25. Gillman, **op. cit.**, p. 58. Mage, **op. cit.**, p. 208. Even Corey who sees the low rate of profit as a crucial component of the crisis (and who therefore is closer to Marx than most theorists of 1930s slump) provides figures that do not really prove a fall in the rate of profit between 1923 and the beginning of 1929 (**op. cit.**, p. 125).

26. Steindl, **Maturity and Stagnation in the American Economy**, London 1953, p. 155 *et seq*.

27. On the basis of the results of Kuznets, **op. cit.**, p. 126.

28. **Op. cit.**, p. 228.

29. See part two of this article, *Marx and His Critics*, **IS** 2 : 11, pp. 51–58.

30. Corey, **op. cit.**, p. 157.

31. **Ibid.**, p. 170.

32. **Ibid.**

33. **Ibid.**, p. 63.

34. **Op. cit.**, p. 97.

35. **Ibid.**, p. 172. Cf. also Gillman, **op. cit.**, p. 129–30.

36. Figures given in Baran & Sweezy, **op. cit.**, p. 232.

37. Corey, **op. cit.**, p. 163.

38. This is one of the reasons why those who see ‘wage push’ and ‘over-accumulation’ as the core of the Marxist theory of crisis (for instance, Glyn and Harrison, **The British Economic Disaster**, London 1980) must be wrong: the theory fails at its biggest test.

39. Figures in current dollars given in A.D.H. Kaplan, **The Liquidation of War Production**, New York 1944, pp. 90–91. On the basis of *constant* dollars Robert Keller calculates that the peak of investment was 1926, with 1928 not far behind (**Review of Radical Political Economy**, vol. 7 no. 4, Winter 1975). But this does not affect the argument about disproportionality arising from a high level of investment when overcapacity already exists.

40. Of course, other people may be involved in lending and borrowing, but this does not alter the essential argument.

41. Marx, **Capital Three**, chapter 30. For a coherent statement of Marx’s position, see Kahoto Itoh, **Value and Crisis**, London 1981, p. 109.

42. For this version of events see, e.g., Flamand and Singer-Kerel, **op. cit.**, p. 61.

43. Kindelberger, **The World in Depression 1929–39**, London 1973, p. 117.

44. **Ibid.**, p. 117.

45. Last series of figures from Corey, **op. cit.**, p. 184.

46. Kindelberger, **op. cit.**, p. 117.

47. Alvin H. Hansen, **Economic Stagnation**, New York 1971, p. 81.

48. Kindelberger, **op. cit.**, p. 117.

49. Sternberg, **Capitalism and Socialism**, **op. cit.**, p. 28.

50. See, for instance, *The Tax in Kind*, **Collected Works**, vol. 32, p. 334 *et seq*.

51. This tends to be the term used in Bukharin's **Imperialism and the World Economy** of 1915 (London 1972).

52. Lenin, **op. cit.**, Bukharin, **Economics of the Transformation Period**, New York 1971.

53. Kindelberger, **op. cit.**, p. 233.

54. **Ibid.**, p. 232.

55. **Ibid.**, p. 272.

56. Figures quoted in Baran & Sweezy, **op. cit.**, p. 237.

57. Daniel Guerin, **Fascism and Big Business**, New York 1973, p. 236.

58. Figures given in Sternberg, **Capitalism and Socialism**, **op. cit.**, p. 353.

59. Arthur Schweitzer, **Big Business in the Third Reich**, p. 336.

60. **Ibid.**, p. 335.

61. **Ibid.**, p. 329.

62. **Ibid.**, p. 342.

63. **Ibid.**, p. 306.

64. **Ibid.**, p. 443.

65. **Ibid.**, pp. 442–3

66. Sternberg, **op. cit.**, p. 232.

67. **Ibid.**, p. 365.

68. See, for example, Chris Harman, *How the Revolution Was Lost*, **IS** (first series) 30.

69. Figures given by Alex Nove, **An Economic History of the USSR**, London 1969, p. 191 and p. 225.

70. Figures given in Sternberg, **op. cit.**, p. 373.

71. For proofs of this contention, see Tony Cliff, **Russia a Marxist Analysis**, London 1963, pp. 33–34.

72. **Ibid.**, p. 42; for different figures for the period 1928–33 see E.H. Carr and R.W. Davies, **Foundations of the Planned Economy**, vol. 1, London 1969, p. 342.

73. V. Voitinisky, **The Social Consequences of the Great Depression**, Geneva 1936, p. 66.

74. N. Bukharin, Economics of teh Transformation Period, op. cit., p. 45.

75. As total war proceeds arms expenditure can also eat into existing value; factories are run down to pay for weapons and so on. When this happens the fate of the combatants is settled not just by the rate of profit, but by the *total amount* of value that each side can find and convert into guns.

76. Sternberg, **op. cit.**, pp. 494–5.

77. A.D.H. Kaplan, **op. cit.**, p. 91.

78. **Ibid.**, p. 3.

79. **Ibid.**, p. 3.

80. Kenneth Galbraith, **American Capitalism**, p. 65.