ACCUMULATION AND CRISIS IN U.S. CAPITALISM

Douglas F. Dowd

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I

"THE ECONOMY IS IN A FREE FALL," said *Business Week* in February, 1975. But not only this economy is falling: production schedules have been cut back in the leading industries in all capitalist economies, and not least in the major industrial powers. The rise in unemployment to over eight per cent in early 1975 in the United States was matched by comparable increases in Great Britain, West Germany, France, Italy, Japan, Canada, Belgium, Denmark, et al.

Even worse, as synchronized global contraction took hold, it did so on top of (but only in part because of) a longer-standing, unnerving, and synchronized global inflation among all the capitalist nations. The appropriate metaphor seems to be that of the whipsaw, more than the free fall. Of the twenty-four industrial capitalist nations that make up the OECD (Organization for Economic Cooperation and Development, accounting for ninety per cent of world capitalist production), over half had double-digit inflation rates in 1973; in 1974, only two, West Germany and Switzerland (at seven to eight per cent) did not. In the capitalist dependencies, Brazil ran over thirty-five per cent; Chile and South Vietnam were inflating at rates ten times higher.

All this occurs in a "Keynesian" world, that is, despite persistent and coordinated attempts in all the major capitalist nations to control both unemployment and inflation. If such efforts succeeded in some ways and for some time, it is also true that the current crisis exists in its particular form in part because of modern state policies.

Many find limited consolation in believing that the oil blockade and subsequent supply and price policies explain either the inflation, the contraction, or both. But the "oil crisis" began only in late 1973; inflation was serious already by 1972, and industrial production had turned down in almost all of the leading Capitalist countries in early 1973. OPEC, after all, was created in 1960; its effectiveness since 1973—entailing "tax" (i.e., royalty) policies earlier encouraged by the major oil companies—is one measure of the growing debility of the major capitalist powers, individually and together.

The coexistence of such an unprecedented inflation and global capitalist contraction is a product of the dynamics of mature monopoly capitalism—as is the "energy crisis." The contradictions of contemporary capitalism are coming to a head; taken together, they make a

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mockery of the "fine-tuning" of "Phillips Curve" unemployment-inflation "tradeoffs" taken so seriously, until recently, by mainstream economists and by policy-makers in the world's financial and political centers. Current economic behavior is clearly beyond the ken of the economists, as its "correction" is beyond the reach of customary policies. But if economics has reached the end of its tether, it is because capitalism is more than in trouble—it approaches the end of an era.

In the late 1930s, the static and short-run focus of Keynes's *General Theory* was transformed by Professor Alvin Hansen of Harvard, in response to the deep depression and especially to American conditions. The result was a theory of "secular stagnation," or "economic maturity." Hansen argued that the principal factors contributing to the long-run expansion of the United States through the nineteenth and into the early twentieth century were (a) rapid and sustained population growth, (b) geographic expansion over the continent, and (c) intermittent waves of technological change (especially the railroad in the nineteenth and the automobile in the twentieth century). These three processes in combination had resulted in an interacting and long-term expansion of both investment and consumer expenditures, so that the normal cyclical contractions of capitalist accumulation were swiftly ended and followed by ever-higher levels of output, employment, and income. However, Hansen noted, the first two had petered out by the 1920s, and the burden of economic expansion thus fell heavily on technological change which, though continuing, could not be expected to rise to the challenge by itself.[1]

Nor could the economic profession rise to Hansen's analytical challenge; narrow though it was, for what it purported to explain, it was both too broad and too unsettling to be more than casually dismissed. The normal tendency of conventional economists to ignore the bearers of bad news was aided and abetted in this instance by the onset of World War II—which propelled the United States out of the decade-long depression and its lasting unemployment rates (varying from 25 per cent in 1933 to 9.9 per cent through 1941). In the long expansion that took hold during and after the war, Hansen's stagnation thesis became nothing more than a quaint memory; those among the older economists who had once grappled with it saw the sustained expansion as a clear refutation of Hansen's dour analysis. They were wrong.[2]

Hansen did not maintain that "stagnation" could not be overcome; rather, he proposed that to offset the inability of the "private" economy to create satisfactory levels of production and jobs the state would have to fill the gap. Since World War II, the state has done so—in ways going beyond (and, ethically, beneath) anything proposed by Hansen. Massive military expenditures, facilitation of American overseas expansion, underwriting of "social consumption and investment" (e.g., welfare and highways) and of debt accumulation, and an

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[1] See Alvin H. Hansen, *Full Recovery or Stagnation?* (New York: Norton, 1938). For a more profound theoretical view of the problem, see Josef Steindl, *Maturity and Stagnation in American Capitalism,* first published in 1952, but forthcoming from Monthly Review Press, 1975. Baran and Sweezy's *Monopoly Capital* (New York: Monthly Review Press, 1966) depends much on Steindl in this respect.

[2] A good review of the stagnation theory, and a useful criticism of its strengths and weaknesses, may be found in "The Status of Stagnation Theory," by H. R. Smith, a two-part essay *in Southern Economic Journal* 15 (October 1948 and January 1949).

activist monetary and fiscal policy were all employed by the state to turn the trick, to transform stagnation into expansion. But the ensuing expansion did more than rescue mature capitalism; its ways and means also bred further structural imbalance—and "stagflation."

Mainstream economists, having successfully ignored Hansen's theoretical challenge, and having failed to integrate the role of the imperialist monopoly capitalist state into their analysis of economic behavior, now put one in mind of doctors who, having administered enormous doses of drugs to suppress the symptoms of disease, go on to diagnose and prescribe for the patient as though unaffected by either disease or drugs. Thus, in a widely used text by a Harvard economist, we read:

> As it turned out, the postwar economy of the United States was far more buoyant than the stagnationists had anticipated, and it is reasonable to say that these theorists had been unduly influenced by the Great Depression of the 1930s.[3]

Understandably, in today's setting, tension, conflict, and controversy grow and spread, whether in economic and social analysis or in society itself, leading to polarization. For reasons arising out of the deep nature of the present crisis, the main efforts of social scientists appear likely to move in two contrary directions, and to comport with the accompanying major political movements of the foreseeable future: rationalizations of a rightward political shift, justifying increasingly centralized, "planned," and coercive capitalism, or analyses showing the necessity and the desirability of socialism.

This is not the first time the capitalist world has faced such an impasse; it occurred last in the 1930s. Then, the resolution was through a mix of fascism in several capitalist nations and relatively liberal forms of centralization in the others. The product of that deadly brew of terror, lunacy, chaos, and conservativism—euphemistically classified by W. A. Lewis as "an age of dislocation and experiment"—was global war.[4] In turn, the institutional and physical wreckage left by the war both required and enabled the United States, the war's sole strengthened survivor, to take a firm lead in rebuilding global capitalism—on the foundations of neo-imperialism, war and cold war, and a political economy of militarization and Bismarck-style welfarism.

That era now draws to a close. It does so not because it failed, in its makers' terms, but because it succeeded as much and for as long as it might, inexorably developing contradictions along the way. The structures and policies that made it work also finally created the conditions of its undoing. Keynesian economics (broadly construed) was up to the task of lubricating growth and stability in the process for a simple reason: the task was simple.

THE VITAL CORE of the analysis in this article is its comparative historical treatment of the background and onset of capitalism's profound crisis of the 1930s with the accumulation

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[3] Richard T. Gill, *Economics* (Pacific Palisades, Calif.: Goodyear, 1975).

[4] A useful overview of the interwar years for the major nations is W. A. Lewis, *Economic Survey, 1919-39* (London: Allen & Unwin, 1949). Ingver Svennilson, *Growth and Stagnation in the European Economy* (Geneva: United Nations, 1954) contains masses of data going back to 1880 and up to 1950 (with the emphasis on 1913-1939) for the United States and European capitalist powers, centering upon an analysis of stagnation .

process that took hold in the mid-1950s and that has brought us to the present. To take the 1920s as the period for comparison with the past twenty years depends upon a guiding hypothesis: the present crisis is long-term in its roots, both broader and deeper in origins and in implications than any of the postwar recessions. It will be useful to state the general conclusions of the analysis at the outset:

1. The expansions of the 1920s and since 1955, though both instances of capitalist development and therefore similar, possessed differences that are more telling. These latter account for the greater prolongation of the recent expansion and for the different manner in which the contraction/inflation process is likely to proceed.

2. Similarities are found principally in the capitalist need to exploit and monopolize and in the surface behavior of consumer and investment expenditures. Vital differences will be noted in the interacting behavior of the state, of debt accumulation, and of the global capitalist economy in fueling and shaping the expansion or accumulation process.

3. These major differences lead to the conclusion that the leading capitalist nations, and those dependent upon them, are in the early stages of a major depression whose spread and penetration will be more substantial than that of the 1930s, although its quantitative dimensions—e.g., as measured in unemployment rates and rate of decline in production—will not reach those of the 1930s.

4. However, substantially lesser quantitative dimensions in the political economy of contemporary capitalism may be expected to produce qualitative changes equal to or surpassing those arising from the 1930s depression—of the sort classed as polarization, noted earlier. There may be reason to fear large-scale warfare.

II

IN SEEKING THE SIMILARITIES and differences between the two periods of accumulation, the procedure will be to examine them in tandem on each major point—a complicated but analytically essential means. First, the most general characterization of the expansion process will be made.[5]

The 1920s, although infused already by the structures and behavior of monopoly capitalism in strategic areas, may be seen as “the Last hurrah” of laissez-faire capitalism—especially regarding the relationships between the state and expansion. This is so even though the boom of the 1920s was much stimulated, even initially made possible, by the direct and indirect consequences of World War I— the “pent-up demand” for consumer and investment goods, an enhanced and dynamic technology, the relatively stronger position of the United States in the world economy, and, by no means least, the avoidance of recession/depression

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[5] The best historical survey of the period 1919-1972 in terms of business cycles is Robert Aaron Gordon, *Economic Instability and Growth: The American Record* (New York: Harper, 1974); and the analyses are also the best available from the profession. The broader picture of the 1920s is well-provided by George Soule, *Prosperity Decade* (New York: Holt, Rinehart & Winston, 1947); for the 1930s, Broadus Mitchell, *Depression Decade* (same publisher and year) is dependable on data and analysis. My own *The Twisted Dream: Capitalist Development in the United States since 1776* (Cambridge, Mass.: Winston, 1974) provides relevant historical materials for the whole period. See especially chapters 3, 4, 7, and 8.

which, threatening by 1914, was sidestepped through the war (also the *sine qua non* of stimuli just noted).

The ensuing expansion moved ahead without significant assistance, constraint, or guidance by the state except in its normal role of ennobling the rights of private property and, what is saying the same thing, helping to hold back unionism and repress dissent. The economic expansion, in a word, was private, and pre-Keynesian. It was sustained by the rapid and interacting growth of both consumer and producer demand, most especially for durable goods; in its last stages the boom was prolonged by a strong kick of real estate and stock market speculation and overbuilding—two or three for the road, which made the crack-up more damaging than it might otherwise have been.

If there was a single development that more than any other fueled the expansion of the 1920s, it was what Baran and Sweezy have called the "automobilization" of the American economy. That development was unique to the United States then, and the central part of a larger process supporting consumer and producer durable goods production, suburbanization, and associated great increases in road, residential, and commercial construction.

The United States expansion since World War II at first glance appears also to have been a "private" boom, recapitulating and going beyond the sustained increases in consumption and private investment, in "automobilization" and its concomitants in consumer durable goods and construction, in the substantial addition of new products and techniques (In electronics, jets, petrochemicals, etc.). This time brought much higher percentages of the population into the charmed circle of modern consumption: e.g., whereas in 1930 there were 4.5 persons for every car in the United States, now there are fewer than 2 persons per car—and well over 100 million registered vehicles. What has been true of automobiles has been equally so for consumer durables in general and for home "ownership." The consumerist society began to toddle in the 1920s; in our day it runs at a full gallop. The combination of extraordinary indebtedness and economic contraction threatens to make it fall on its head.

Before World War I, American economic expansion had become critically dependent upon durable capital goods production; in the 1920s, durable consumer goods production joined and supported durable capital goods and construction as the hard core of the expansion process—with all that connotes in the way of productivity, real wages, consumer indebtedness, mass advertising, and those other social characteristics that came to be thought of as "the American way." Now, as indeed it had to if American expansion was to continue after World War II much of the rest of the world has become "Americanized."

Consumer durable goods as a major determinant of economic buoyancy did not appear in Western Europe and Japan until the mid-1950s. To say that all the leading industrial capitalist nations (at least) have become Americanized is to say they too have become "automobilized." The United States has the capacity to produce about twelve million cars annually; so too do Western Europe and Japan. In 1929, our production capacity for autos was about ten times that of the rest of the world; in 1950, still almost six times as great. Developments in products other than the automobile have moved along similar paths.

The role of the production and use of the automobile in the United States is dramatic, and not different, now, from its role elsewhere: about one in six jobs in the United States is dependent upon the production and use of the automobile—with a long string of other areas of production indirectly as well as directly dependent upon buoyant auto sales. Direct dependence of materials producers on auto production is striking in the United States: lead, 65%;

synthetic rubber, 61%; malleable iron, 48%; zinc, 34%; steel, 21%; aluminum, 12%; copper 8%. In March, 1975, there were 1.5 million unsold cars on lots and fields in the United States; in Europe, the same number. (GM alone had about 650,000; Fiat alone had 345,000.) *Time* (March 3, 1975) estimated that Chrysler will have to close "two or three" of its United States plants permanently, and that its laid-off salaried and production workers (20,000 and 65,000, respectively) "will never be coming back." VW closed one of its ten German plants permanently in March. Sagging markets for electronics products, for metals, textiles, and other leading manufactures, and a drastic slump in both residential and commercial construction were both cause and consequence of the collapse of the auto industry.

Thus, one major contrast between the 1920s and the recent expansion is that American structures of industrial production and consumption have been reproduced—duplicated—and, for many products and techniques, improved upon in much of the rest of the world. Doing so made for sustained expansion in all the major capitalist powers, each feeding and being fed by the others' investments, production, incomes, and sales. But if the creation and utilization of duplicated capacity under-girded the expansion, it also provided one of the bases for the onset of today's pervasive and probably long contraction.

It is not, of course, the mere increases in productive capacity that constitute the problem; in a sanely organized world, increases in productive capacity would be entirely positive in their impact, as their existence would be planned. It is the context of capitalist relations, those arising from and centering upon the profit motive and the distribution of income, wealth, and power, that has transformed what could be a boon into its opposite.

We have been examining some of the principal surface differences and similarities of the accumulation processes of the 1920s and of the years since 1955. The earlier period was one of immature monopoly capitalism, the recent period one of mature monopoly capitalism. It is this distinction that has produced the major *differences* between the expansion processes of the two periods; that both periods were capitalist produces their major *similarities*. Underlying the surface behavior of consumption and investment in the realm of contrasts are (1) a degree of debt accumulation greatly different as between the earlier and recent periods, (2) the transformed role of the state, and (3) the functioning of the global capitalist economy. The major similarities emerge from the underlying social relations of capitalism, most especially in the dependence upon labor exploitation, the drive for monopoly power, and the always feverish search for profits. Expansion, inflation (or its absence), and contraction have been the result of both differences and similarities, of course. Let us first examine the roles of exploitation and monopoly power as they have borne upon both periods. After that, our focus will fall upon the major differences that have affected the two accumulation processes.

III

IT IS A COMMONPLACE among mainstream economists that the distributions of income and wealth are highly unequal, and that the patterns of business ownership and control are highly monopolistic—or, as they prefer to say, "concentrated," or "oligopolistic." Inequality of income and wealth are not linked to exploitation, however. They are not seen as either requirement or outcome of ruling-class domination of capitalist economic, political, and social existence, nor as either requirement or outcome of ever more concentrated patterns of ownership and control of the means of production, ever more centralization of the realms of power.

Conventional economists do not ignore the facts of income and wealth distribution (or, as we shall see later, of monopoly); indeed they, and the public agencies, are the source of such data for all who would use them. All they ignore is why such facts are as they are, and what they mean when put together with all the other relevant "facts." Least of all, indeed not at all, is the distribution of money income and wealth related to the conflict between wage-earners and property-owners. A quick glance at some representative data makes a useful starting point for an analysis of the bearing of incomes on accumulation:

—In 1929, the bottom 20% of income receivers got 5% of the national income; the top 20% got 51%, before taxes.

—In 1970, the bottom 20% got 5%, the top 20% got 44%; the bottom 10% took in 2% of total income, and their highest (family) income was $2700; the top 10% took in 27%, and their lowest income was $20,000.

—When we look at after-tax incomes, we should expect an improvement for the low-income groups. But the ballooning of taxes since the New Deal, and especially since World War II, has been accompanied by a prodigious development in the art of tax avoidance, In 1966, for example, the income share of the lowest 20% dropped from 4.3% before taxes to 3.7% after taxes; that of the highest 20% rose from 42.6% to 47.9%, and that of the highest 5% from 16% to 22%.[6]

—The growth of the modern state and therefore of the attention paid to it has also been accompanied by the growth of deception, of political lying. In the 1920s favoring the rich could be more forthright: taxes were reduced by 1% on those with incomes of $5000 and under, by 10% for those with incomes of $100,000, and by 31% for those with $1 million and above. Simpler days, simpler solutions.

Underlying the unequal distribution of income is the even more unequal distribution of wealth, especially in the most important form of wealth, corporate stock ownership. One fact only is needed to suggest the quality of that situation: five per cent of the people own eighty-six per cent of all corporate stock. But it is the use of that wealth through the corporation that generates not only income, but more wealth and, critically, that determines the location and the uses of power—a point to which we return later.

THE KEY ROLE of income distribution in the process of capitalist accumulation determines both the possibilities and the necessities for the processes that make for economic expansion and, when they falter, for contraction: domestic and foreign private investment, debt accumulation, exports, and the role of the state in the economy.

There are two general forms, or sources, of income: labor and property. Labor income includes salaries as well as wages, and property income includes interest, rents, and royalties as well as profits; but it is the relationship between wages and profits that is vital and the principal determinant of the pattern of income distribution.

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[6] E. S. Herman, "The Income Counter-Revolution," *Commentary,* 3 January 1975, quotes the data on after-tax distributions and is an astute analysis of recent developments. For basic studies see Gabriel Kolko, *Wealth and Power in America* (New York: Praeger, 1962); Richard Parker, *The Myth of the Middle Class* (New York: Liveright, 1972); and Philip M. Stern, *The Rape of the Taxpayer* (New York: Random House, 1973).

In Marxian terms, the pattern of income and wealth distribution points to a major contradiction: exploitation of the mass of the population is essential for the existence and for the dynamic "health" of capitalism; but the highly unequal pattern of income allowing and resulting from that exploitation, although both the aim and the outcome of capitalist development, necessarily means that the marketability of capitalist production depends upon outlets and processes other than the ongoing ability and decisions of "consumers." This does not mean that capitalism would "work better" without an unequal distribution of income, or the exploitation underlying it; it wouldn't work—or be—at all. Working at its best, capitalism moves through time in a process of alternating expansion and contraction (what Marx called "crisis"), both phases of the process serving their important purposes for long-term accumulation—so long as the bases for long-term expansion exist. The pattern of income distribution plays a complicated, not a simple role in the overall process. As Marx put it,

> It is sheer tautology to say that crises are caused by the scarcity of effective consumption, or of effective consumers, . . . That commodities are unsalable means only that no effective purchasers have been found for them, i.e., consumers (since commodities are bought in the final analysis for productive or individual consumption). But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working-class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increase in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class actually gets a larger share of that part of the annual product which is intended for consumption. It appears, then, that capitalist production comprises conditions independent of good or bad will, conditions which permit the working-class to enjoy that relative prosperity only momentarily, and at that always only as the harbinger of a coming crisis.[7]

In the early years of an expansion, unemployment is reduced, and the distribution of income becomes somewhat less unequal, as those on the bottom receive incomes earlier unavailable. On the whole, this is a welcome development to those in business, for it means sales will increase. But the diminution of unemployment soon means something else: the reduction of what Marx called "the reserve army of the unemployed" is also the opportunity for the working class to increase its money wages. That is not welcomed by their employers, of course, for it means a squeeze on profits. Effective unionization increases the power of workers to increase their wages; inflation obliterates the meaning of rising money wages and tends to eliminate the profit squeeze. What happened in these respects in our two periods?

IN BOTH PERIODS, great increases in production occurred, and more so in the recent than in the earlier period, in two ways: the average annual real rate of growth was higher during 1955-74 than 1919-29 (over as against under four per cent) and, quite apart from the doubled length of the recent period, the absolute basis of departure in real GNP was much higher in 1955 than in 1919 ($438 billion vs. $204 billion, in constant dollars).

Average levels of real consumption rose in both periods; widespread increases in real income are both required and possible in industrial capitalist development. Or, to put the matter differently, modern mass production of consumer durable goods implies mass

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[7] *Capital,* vol. 2 (New York: International Publishers, 1967), pp. 410-11.

consumption of those same goods, in some combination of domestic and foreign markets. But the process must not get out of hand; the rise in real living standards cannot be at the expense of profits—not for long, or profits, investment, and consumption will all fall.

There was no inflation in the 1920s (except for a quick burst right after the war). Prices remained stable up through 1929 (or even declined a trifle). But productivity had risen substantially in all sectors. In the absence of substantial rises in money wages, therefore, this implied increased shares of income for property-owners, especially those receiving profits (which rose sixty-two per cent, 1923-29). A key element in keeping money wages from rising—they rose eight per cent in manufacturing, but remained stable in agriculture, and declined fourteen per cent in mining—was the successful weakening of trade unionism in the United States during the 1920s. This program, called “welfare capitalism,” was accompanied by several years of “red scare,” culminating in the execution of Sacco and Vanzetti. Union membership declined both absolutely and relatively in the 1920s; that was a major factor keeping money wages from rising “detrimentally.” Had matters been different, had money wages risen enough to absorb the rapidly developing excess capacity in manufactures, mining, agriculture, and construction, we may say that the collapse would have come sooner, and for that reason. When it did come—showing itself in lowered profits well before the October 1929 stock market crash—it came because neither the domestic investment nor the foreign markets were there to keep the expansion going; and the state had not yet learned its role. The pattern of income distribution had become more unequal during the 1920s: the top one per cent increased their share of total income by nineteen per cent and the top five per cent by fourteen per cent. But that did not cause the collapse; if anything, the expansion after 1919 was dependent upon the possibilities of greater inequality.

In the period after 1955 there have been major differences: union membership has held at a strong level, strong enough to discourage effective efforts at union-busting. But inflation has acted to reduce the real effectiveness of expansion and unionism in pushing up money wages. The important developments were in the 1960s, which opened with an increase in both labor income and profits (in real terms); but wages and salaries rose by twenty-five per cent while corporate profits after taxes rose by at least sixty per cent—1960-65. The expansion of the Indochina war reduced unemployment to under four per cent for the first time since 1954, until 1969; it has been at five per cent or more since then. It was also after 1965 that corporate profits began to slide—from 13.8 to 10.3 per cent in 1970. Inflation rates reached 2.9 per cent in 1966, rising to 5.9 per cent in 1970. Although unemployment was reduced in the same period, real wages were being kept in tow by inflation. The wage-price freeze was enacted in late 1971, while corporate profits as a percentage of the national income rose steadily during 1970-74. But by 1973, and especially by 1974, inflation as a means of holding down real wages had gotten out of hand: the highest-ever corporate profits of 1974, insofar as they included (inflation-allowed) inventory profits, were mainly illusory. Small business, unable to pass on rapidly rising and steep interest rates, was cliffhanging. There can be little doubt that inflation was induced deliberately as the 1970s began, and even less doubt that it became a monster out of hand by 1973, both here and abroad. The role of the state has been crucial in this regard, mainly by raising taxes—the element of the cost of living that rose faster than any other component 1973-74, not least of all in the form of social security taxes.[8]

[8] For the reasoning and supporting data, see Raford Boddy and James Crotty, “Class Conflict, Keynesian Policies, and the Business Cycle,” *Monthly Review,* October 1974.

TO SUM UP: the mass consumption of durable goods made possible and required by modern industrial production does not mean universal consumption of those goods. Consumption patterns and levels, like the distribution of income, are highly unequal. Just as it is true within each capitalist nation, it applies with even greater strength to the distribution of income between rich and poor nations, and most of all within the poor nations—in accord with the higher degrees of exploitation in the poor nations. Thus it appears that at some point both national and global capitalism should run out of the consumer purchasing power that would absorb further increases in productive capacity and production.

If reaching that point were determined merely by the relationship between income distribution and consumption, the crisis point would have been reached much sooner than it has. But that is not the full story. What makes for "underconsumption" is in fact essential to the very possibility of expansion. And, functioning to expand markets—considerably more in the recent period than earlier—are (1) the expansion of debt, for consumers, businesses, and governments, (2) domestic and foreign private investment, which is both directly and indirectly self-justifying; and (3) the manifold activities of the state.

The substantial experience with these latter since the 1950s illuminates the nature and the prolongation of the recent expansion; in the 1920s all were relatively weak, and that explains the shorter period and lesser spread of the 1920s accumulation process.

The power of the capitalist class thus enables it to extract a surplus from production, a surplus that must be utilized for expansion to maintain the health of the system as well as the profits of its capitalists. The power of the capitalist state is used to prevent money wages from rising at the expense of profits. And, although exploitation is required if profits are to be possible, sales in ever-expanding markets are required if profits are to be realized. In the course of economic expansion, domestic and foreign markets expand, prodded principally by real investment (i.e., increases in productive capacity). The unequal distribution of income means an ever higher requirement for expanding investment out of rising total income; but investment expenditures at some point cannot carry as much of their share of the "burden" if production is ultimately to be absorbed totally in the private market. The role of the state both as purchaser and as source of purchasing power therefore must increase. In 1929, for example, the combined expenditures of federal, state, and local government in the United States were about ten per cent of GNP and they amounted to about half of total private investment expenditures; by 1974, all government expenditures were about a third of GNP, and they were more than fifty per cent greater than private expenditures.

IV

THAT THE STATE'S direct and indirect role in economic affairs has expanded greatly since World War II is not to be doubted; that it has done so over the resisting bodies of private economic power, as is popularly believed, is very much the opposite of the truth. The evolution of the contemporary capitalist state is the other side of the coin of the evolution of monopoly capitalism. Later, when we directly confront the functioning of the state, we shall see that its impact on the accumulation process, like that of all the other basic social relations of capitalism, has been contradictory—both holding off and contributing to crisis—and that what the state does, and why, has been very much at the direction of the monopolistic center of American capitalism. Here and now, however, it is important to seek to understand the impact of monopoly on the accumulation process in our two periods, momentarily holding the role of the state in abeyance.

Monopoly power has increased dramatically and at an accelerating rate in this century; the drive for such power, and the means of realizing and using it, have stimulated and shaped the expansion process. But the forces making for ultimate contraction have also been "stimulated" by monopoly, both in the 1920s and more recently. Monopoly power has been one of the major contributors to the emergence of serious inflation, through its direct market behavior and in its influence over state policies.[9]

This century has brought the full flowering of monopoly. We now live at the latest stage of a process that witnessed the transition from local to national to multinational monopolistic firms and conglomerates. All along that tortuous path, capitalists have sought defensively to constrain or to eliminate competition, to protect against losses from price cutting, and offensively to enhance profits by restricting supply and determining price. The development of modern technology over the past century, and increasingly as we approach the present, has intensified these possibilities. The data are as familiar as they are striking; a sample of them will suffice to reveal the hold of monopoly on the economy.

—In 1929, the largest 100 manufacturing corporations already controlled 35% of all manufacturing assets.

—By 1971, in an enormously larger economy, the top 100 manufacturing corporations controlled 48.9% of all manufacturing assets.

—In 1973, the top ten corporations—GM, Ford, Chrysler, Exxon, Texaco, Mobil, Gulf, GE, IBM, and ITT—hired about 25% of all industrial employees, did over 16% of all industrial sales, and took in about 24% of all industrial profits.

—In 1972, there were about four thousand United States multinational corporations (MNGs); the top 187 controlled 75% of the total assets of United States foreign investment, in turn amounting to well over half of all direct foreign investment in the world, from any quarter.

—In 1970, the earnings of foreign affiliates of United States corporations contributed about 25% of the total of all United States corporate profits after taxes.

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[9] Comprehensive data on monopoly may be found in John M. Blair, *Economic Concentration: Structure, Behavior, and Public Policy* (New York: Harcourt Brace Jovanovich, 1972); an older and still valuable analysis is Robert A. Brady, *Business as a System of Power* (New York: Columbia, 1943), which treats European and Japanese as well as American developments in the period before World War II. Ralph Andreano, ed., *Super Concentration/Supercorporation* (Andover, Mass.: Warner Modular Publications, 1973) and Maurice Zeitlin, ed., *American Society, Inc.* (Chicago: Markham, 1970) are superior collections of essays in this entire area of monopoly power and, in the Zeitlin book, much more that is relevant. For data on the largest corporations, *Fortune's* annual May, June, July, and August issues provide well-organized data on the top 500 and the second 500 industrial corporations, on the top 50 non-financial corporations in other areas (utilities, trade, banking, etc.), and the top foreign corporations. Joyce Kolko, *America and the Crisis of World Capitalism* (Boston: Beacon, 1974) has much useful data and fine analysis, especially for the global situation. On the latter, the recent book by Richard J. Barnet and Ronald E. Muller, *Global Reach* (New York: Simon & Schuster, 1975) is useful on the nature and the impact of the MNC in the Third World.

All analysts of the accumulation process, from Marx to Keynes, have known that the crucial element within that process is the investment decision—i.e., the decision that transforms the realized economic surplus into expansion and a still greater surplus. The process of increasing monopoly is therefore a process of increasing centralization of the decisions that shape the accumulation process. Given the needs and possibilities of monopoly to find ways of generating and absorbing an ever higher economic surplus, the impact of monopolists' decisions also shapes the nature of social processes, going well beyond economic expansion as such.[10] The ability and the need of corporate capitalism to shape the whole of social existence had only begun to take hold in the 1920s. The great power of giant corporations today, bolstered by modern communications technology and craft, has forged an intimate relationship between investment, consumerism, support for imperialism, and acquiescence in an accumulation process that distorts not only human behavior but also the behavior of capitalist firms. Overall production remains anarchic. Within and between the fiefdoms of monopoly, battles rage, profits soar and contract, bureaucracy and waste grow, and privileges are won and lost. The ground is seeded for simultaneous inflation and contraction.

THE ACCUMULATION PROCESS is thus critically shaped by a tiny group of corporations, both within and between the national economies where they hold dominant power—and, of course, in the dependent countries they dominate. Just as the rise of the national corporation meant increased power over workers, increased command over resources, and heightened flexibility and strength in marketing, the multinational corporation has meant the same in the global economy—but in even greater measure. The MNC has all the common monopolistic advantages, plus profit-taking from speculation in foreign exchange and in differential tax advantages not possessed by the national corporation—made possible by the accounting procedures which inflate costs and understate profits so as to gain from suitable framed tax laws at home and abroad. (One well-known result: the major oil MNCs legally avoid eighty per cent of their tax obligations in the United States.)

The effects of all this on the accumulation process are diverse and, over time, contradictory. The spread of the national corporation in the United States in the 1920s, and the dynamic technology with which that growth was associated, are an important part of the explanation for the expansion of that period: resources were more fully plumbed, production became more efficient, and markets were transformed and expanded. All that has happened again since the 1950s, but now redoubled on the global and national stages. The energy and the power of the giant corporations played a vital role in both periods; the process was one that depended upon and further developed what may be understood as a dual economy, a process of uneven development. This duality—between rich and poor nations, between classes within each nation, between low-and high-wage occupations, and between low- and high-profit businesses—is a primary basis for modern capitalist accumulation, for the profit expectations that fuel it, and for the rising and unevenly distributed purchasing (and political) power that sustains it and is produced by it—for a while. That same duality produces, finally, an economy (nationally and globally) that can no longer profitably absorb the expanded productive capacity or stimulate the investment that will expand it still further and, in doing so, keep the process going, In the salad days of expansion, relations between capitalist nations and their

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[10] *Monopoly Capital* of course focuses in on these relationships; the two books by Herbert Schiller, *Mass Communications and American Empire* and *The Mind Managers* (Boston: Beacon, 1971 and 1973), are most valuable on this question.

respective corporations are relatively harmonious; as the rate of expansion slows, and still more as it reverses into a contraction, national rivalries and competition between giant corporations within and between the nations emerges and grows — a process already under way once more.

The American national corporation of the 1920s took the lead among capitalist nations in producing the first stages of the consumerist, durables-dependent economy Americans came to take as natural. The American state and MNCs took the lead in creating the highly integrated and industrialized global capitalist economy we now take as natural. What were seen as the successes of the 1920s in constructing a new basis for capitalist expansion also set the stage for the pervasive contraction after 1929; as never before, the American economy had become one, dominated by highly interdependent modern production with a national scope, all geographic regions and economic sectors moving in step with the others, up a rising tightrope of production, marketing, and finance. What was true for the American economy in the 1920s is even more true today of the United States-dominated global capitalist economy.

The relative brevity of the 1920s expansion, when compared with that since the 1950s, may be explained in part by the absence of the contemporary non-market supports and external stimuli that postpone the day of reckoning. The omnipresent functions of the state and the activities of the MNCs since the 1950s were a critical part of its postponement until now. But to postpone is only to assure that when the crisis emerges it will be deeper and broader in its consequences.

None of this is meant to suggest that a competitively structured capitalist economy does not also move through time in alternations between expansion and contraction. Marx made that clear over a century ago and, although with different analyses, all economists accept it. Monopoly does not cause crisis, but it does alter the shape and duration of the accumulation process. Its ways of doing so, however, also assure that the structural distortions (in production, investment, trade, and finance) will make both more severe and deeper the contraction once it begins. The most obvious distortion afflicting today's process is that of inflation. That inflation has persisted side by side with contraction for so long is a clear sign that current inflation is not "demand-pull" or aggregative (as in the Keynesian formulation), nor, given the lag of wages behind prices, "cost-push": it is *structural*, with key prices held up by powerful corporations while their production schedules and sales are falling. The prospects quite probably include falling rates of inflation, and therefore some falling prices, although prices may not be expected to fall in the monopolized industries. The result will be a contraction process more severe than otherwise could be expected. (An example from the past that is more than suggestive: between 1929 and 1933, agricultural prices, competitively set, fell by fifty per cent, and output rose by ten per cent; monopolistically organized steel reduced its output by eighty per cent, but its prices fell only by four per cent. Unemployment in steel and steel-using industries therefore rose all the more.)

But inflation has not been due to monopoly alone, of course, nor has contraction. Also contributing has been the enormous expansion of debt, a process once more bringing together private with state activities; and, like so much else in capitalist development, debt accumulation, in providing a major stimulus to expansion, has also woven a fatal web, which has not only inflation but the threat of financial collapse at its sticky center.

V

MODERN CAPITALISM is incomprehensible without an understanding of the role played in the accumulation process by money and finance. This refers most importantly to the domestic and international flows of short- and intermediate-term credit, long-term debt, and equity investment. Such financial flows are always stirred by speculation, whether in short-term instruments, bonds, stocks, or real estate. Customarily sitting at the hot center of financial activity have been the financial flows of business. But in this century, and with by far the highest intensities since World War II, the finances of consumers and of governments have also come to play a vital role, considerably more important in function and scope than earlier. It is not the amounts of debt that are determining, but the rates at which the debt is accumulated as those compare with the debtors' ability to repay (in turn determined by their income flows). Also vital is the rate at which the debt has to be repaid—i.e., whether it is short-term or long-term debt. In a process of contraction, when income flows decrease, a high ratio of short-term to long-term debt (and high levels of both) points to financial collapse.

It was with these considerations in mind, one may assume, that *Business Week* released its now famous study of October 12, 1974, "The Debt Economy," noting and analyzing the rise of total debt in the United States from $400 billion in 1946 to $2.5 trillion in 1974 (and $10 trillion in the world). Among their major concerns is the rate at which debt has increased:

> It took 15 years, from 1946 to 1960, for total U.S. debt to double, but only 10 years, from 1960 to 1970, for it to double again. The key economic indicators—gross national product, personal income, corporate profits, and the like—have all grown by 500% or so since World War II. The key debt indicators have all grown by three and four times that amount, and the sharpest gains have come since 1960.

Yet:

> Between 1945 and 1970 the world enjoyed the longest boom on record—fueled in large part by borrowed money. Business borrowed at a prodigious rate to make the stuff, consumers borrowed at a prodigious rate to buy it, governments borrowed at a prodigious rate to support armies and build roads and schools.

And, although *BW* sees that "it is quite obvious that if big business and big banks are the most visible victims of what ails the Debt Economy, they are also in large measure the cause of it," they also assert that "corporations are the key to whatever can be done to unwind the Debt Economy with the least possible pain."

Just how the "debt economy" can be unwound without a grave depression and financial collapse is unclear. Debts must be paid or refinanced. If economic expansion is necessary to provide the rising actual and potential incomes (consumer, business, and government) that allow either repayment and/or refinancing, how can that expansion occur without accelerated increases in debt? Because the contraction under way has, along with inflation, already put a serious limit in the ability of consumers and businesses to maintain their income flows—and therefore to repay, let alone increase, indebtedness—the burden of expansion falls squarely on the federal government. Its ability to carry that burden, we shall see, is severely limited. Let us look first at some of the relevant data comparing the 1920s with the recent period, and examine the processes underlying them.

All forms of indebtedness totaled about fifty per cent more in 1929 than in 1919. Total debt tripled between 1955 and 1974. The federal public debt declined between 1919 and 1929, when it stood at about fourteen per cent of GNP; it more than doubled from 1955 to 1974, when it was about one-third of GNP. Federal debt rose only slightly in the 1950s and early

1960s; the high rates of increase began in the late 1960s in association with the Indochina war. They rise even more now in association with contraction: it took nine years from 1965 for the debt to rise by $100 billion, but the two fiscal years 1975 and 1976 are expected to add more than that amount,

State and local debt somewhat more than doubled in the 1920s; it tripled between 1946 and 1955 and rose five times more from 1955 to 1974. Household debt, whether installment credit incurred for the purchase of autos and durables, or mortgage debt, began to suggest its contemporary forms first in the 1920s. The key change was in 1923-24, when General Motors simultaneously introduced the annual model change, consumer credit, and modern advertising to breathe life into the already sagging new car market—techniques that soon spread to all consumer durable goods markets. At the end of the 1920s, installment credit was about $7 billion, or 8.5 per cent of consumer disposable income. In 1946 it was only $8 billion. It was $39 billion in 1955, and $200 billion by 1974— about 17 per cent of consumer disposable income. Taking mortgage debt into account, by 1974 households had reached the point where their liabilities had reached 93 per cent of disposable income (as compared with 65 per cent in 1955).

But the debt of corporations is, as *Business Week* suggests, most vital. Whether consumers can go on borrowing and buying, or whether the government must increase its spending and borrowing, depends upon the "health" of the corporate world. It is not very healthy. In the 1920s, total corporate debt rose from about $53 to about $90 billion, a sixty per cent increase for the decade. Standing at about $95 billion in 1946, the figure rose to $212 billion by 1955. By 1975 it had quintupled, to over $1 trillion. What is most ominous about the figures is not their level, but what lies behind and ahead of them.

A MAJOR DIFFERENCE between the 1920s and the present is that though there was a financial collapse in 1929 and there may well be one just over our horizon, the former was associated with speculation in securities markets whereas that lying ahead would be associated with inflated debt structures and unsound practices *within* corporations. In both periods business optimism bred by long expansion led to a decrease in caution and rising hopes for the big gain; in our own period, and especially since inflation took hold, necessity has also been a major factor—The necessity to borrow to meet rising costs when expansion of equity has become a virtual impossibility. The rapid rise of borrowing of course led to a rapid rise in interest rates. In turn, this has led banks to alter their practices to take maximum advantage of their profit possibilities.

The result has been a vast expansion of short-term borrowing not only by non-financial corporations, but also by banks—borrowing big to lend big. In the past decade, manufacturing corporations' equity per dollar of debt has dropped by about half; corporate short-term debt as a percentage of long-term debt has risen sharply, from well under 100 per cent in the 1960s to well over 100 per cent in the 1970s; the ratio of corporate liquid assets to short-term debt fell from 110 per cent in 1964 to about 50 per cent in 1974. The consequent precariousness of non-financial corporations is worsened when we examine the same sort of precariousness on the part of those they owe: the banks.

Banks have always been in the business, of making money by lending out "other people's money," But in the last decade they have joined the ranks of the big gamblers, now borrowing heavily on short-term to be able to lend heavily on short-term. As Magdoff has shown, "no less than 40 percent of the deposits of the large New York City banks consists of large cer-

tificates of deposit, money borrowed by banks to facilitate the rapid growth of loans beyond otherwise practical limits; and half the increase in these deposits between 1965 and 1974 was generated by the sales of these specially issued short-term certificates of deposit."[11] Banking has become the largest "business" in the United States and, in recent years, among the very most profitable. It is of little comfort to those who worry about the stability of the system to find Milton Friedman saying that "the only place where I do think we have an overleveraged position—where capital is really extraordinarily low—is in the banking industry."

In banking, as in the rest of the economy, the prime beneficiaries of the process of expansion have been the giants. In 1960, the top fifty banks had thirty-nine per cent of the assets of all commercial banks; by 1970 they had forty-eight per cent. In 1973, the assets of the top fifty came to $459 billion; the top ten among them had $259 billion. Half of that was controlled by three banks: Bank of America, First National City Bank, and Chase Manhattan.

It is hard to fault *Business Week* for being unduly alarmist when, after pointing to the "specter of a chain of defaults by borrowers and failures by lenders," it says,

> Yet the dangers are greater than in the 1930's. The amounts at risk are greater, and so is the leverage, here and abroad. Perhaps the greatest risk is in the billions lent to borrowers whose ability to repay has been compromised by the high price of oil. It is not just a company here or there whose ability to repay is in question but that of the developing lands that borrowed heavily and of such powers as Italy, which borrowed $10 billion from the private financial markets of the world [in 1974]. This is money owed to banks whose own liquidity is all too often stretched dangerously thin.

The names of the players in this dread drama of failing banks have begun to appear already: Herstatt in Germany, Lloyds in England, Franklin National in the United States, Union Bank in Switzerland, and .... But, like the heroin user who needs always one more fix to stay level, the global capitalist system needs further expansion of debt to avoid collapse. Rising government deficits (i.e., debts) over the globe will once more drive up interest rates, the direct costs of debt; declining household and business incomes make outstanding debt—to say nothing of more debt—into a slender reed upon which to rest hopes for avoiding serious and prolonged contraction.

Now it is time to turn our attention to the state, whose role in expansion and contraction has become critical.

VI

IT IS CLEAR THAT among the many differences between the expansion of the 1920s and that now ending, those surrounding the function of the state in the accumulation process have been most decisive. Even during the period of laissez-faire capitalism in the United States, the power of the state was never indifferent to the needs of property; then as always, as Marx put it, "the executive of the modern state [was] but a committee for managing the common affairs of the whole bourgeoisie." But that epigram points merely to a tendency; the realities of capitalist development, changing over time, make real and explicit what the state does, and

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[11] Harry Magdoff, "Banks: Skating on Thin Ice," *Monthly Review,* February 1975, pursues the banking situation today in detail, and provides a strong analysis of the whys and wherefores. The quotation from Milton Friedman immediately following is found in the *Business Week* debt issue.

when, where, and how. The 1920s were doubtless the last years when American capitalists functioned from a platform of unbounded optimism and self-confidence. They were conscious of a need to contain what was then called the social problem, but they were not conscious of any need for the state to assist the accumulation process directly, either through stimuli or restraints. Since the 1930s, that felt need has emerged and been met. Now it encompasses all matters related to capitalist development. The state of mature monopoly capitalism is ubiquitous in its functions and pervasive in its grasp.

It is more than symbolic that between 1919 and 1929 the federal public debt declined, and that federal expenditures for the military were exceeded by those for the post office. Since the 1930s, and even more since the 1950s, the great expansion of the public debt suggests, but by no means defines, the full dimensions of the hyper-active state. Apart from the fact that the debt measures only those expenditures not met by taxes, quantitative measures alone cannot explain the manner in which the state has shepherded capitalism through what otherwise would have been, and now is likely to become, an exceedingly difficult period. The analysis best illuminating these developments is Jim O'Connor's, in his *Fiscal Crisis of the State.*[12] O'Connor shows that the state has discharged the twofold responsibility of fostering accumulation while also seeking to subdue the constant and underlying possibilities of explosive social conflict. Accumulation has required the deliberate creation and maintenance of conditions that promise a satisfactory rate of growth and therefore of profit; legitimization, as O'Connor calls it, employs the powers of the state to smooth over the abrasive social consequences of a society that rests upon exploitation and oppression, upon inequalities in income, wealth, status, opportunity, and power.

Thus, after World War II, the United States made military expenditures which by 1974 added up to over $1.5 trillion, while creating and maintaining more than two thousand bases abroad. The expenditures since 1946 not only provided a high floor to overall demand, but were also increased or decreased to raise somewhat or lower that floor as the threat of contraction emerged or receded. The only important departure from this policy took place in 1969-71, both exacerbating and allowing a recession. For the years 1955-1972, the average annual rate of growth of real GNP was about 3.6 per cent; for military expenditures it was 6 per cent.[13] A problem for the present and future is that although military expenditures continue to rise, they do so at a declining rate compared to GNP, and therefore the floor they have provided is lowering—just when it, or something taking its place, must rise.

The warfare side of the state's activities has captured more attention than its legitimizing activities, both because it is more spectacular and dangerous, and also because it is concentrated in the highly visible federal budget. Thus, although federal spending on the military rose by 75 per cent in the 1960s, and quite apart from the also substantial non-military expenditures on highways and the like, income maintenance outlays rose by 100 per cent, a trend that continues. Even more to the point, state and local expenditures, which are largely in

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[12] James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's, 1973). The quote from O'Connor that appears somewhat below is from pp. 150-51.

[13] See James Cypher, "Capitalist Planning and Military Expenditures," *Review of Radical Political Economics,* vol. 6, no. 3 (Fall 1974), for the argument and for useful data. The $1.5 trillion figure used here is conservative; Cypher, broadening out the definition of "military expenditure," would place the figure in excess of $2 trillion for the period.

the legitimizing area of government activities, have risen seventyfold in this century, with the greatest rates of increase since the 1950s; in 1972, $7.2 billion; in 1946, $11 billion; in 1955, $33 billion; fiscal year 1965, $75 billion; fiscal year 1972, $169 billion.

THE WARFARE AND WELFARE functions of the state overlap in practice, both contributing to economic as well as social stability. In O'Connor's words, "both welfare spending and warfare spending have a twofold nature: the welfare system not only politically contains the surplus population but also expands demand and domestic markets. And the warfare system not only keeps foreign rivals at bay and inhibits the development of world revolution (thus keeping labor-power, raw materials, and markets in the capitalist orbit) but also helps to stave off economic stagnation at home." Thus has expansion since World War II been stimulated and sustained; thus has the business cycle been smoothed out; thus has purchasing power been maintained in periods of recession; thus has what O'Connor calls "social capital"—highways, industrial parks, etc.—turned the taxes of all into sources of jobs for many and profits for a few; thus, not least, has a set of opportunities and problems abroad been transformed to meet the deep needs of national and global capitalism for world-wide economic expansion and sustained profits. All this, turbulence at home and upheavals abroad notwithstanding, has worked to achieve an accumulation process and a minimization of social conflict which, however imperfect, would have been impossible without the state.

AND YET, in the words of Yeats, "things fall apart; the centre cannot hold." The onset of serious inflation and serious unemployment, of glutted markets for manufactures and severe shortages of raw materials, of tottering banks and the highest-ever levels of lending and interest rates all point to deep-seated structural imbalances. All this, furthermore, not only accompanies the most sophisticated application of "state-knowledge," but is also an outcome of that application. The growth of the modern state is a creature of monopoly capitalism; the use of techniques of stimulus and restraint takes place in an economy dominated by monopoly power. But what constitutes economic wisdom, the guiding theories behind this battery of techniques, was developed with the structures of competitive capitalism as a starting point. An example of how seemingly sane policies worsen rather than mitigate current problems is in the area of monetary policy: in times of inflation, clearly, monetary policy should seek to increase interest rates and restrict the money supply, and thus hold spending down. But in a monopolistic and global economy, increased interest rates are passed on in the form of higher (i.e., inflated) prices, money supplies flow from nation to nation quickly because of the higher rates, and the giant corporations—the BIG spenders—go on their merry way.

The question arises: if the practitioners of modern state knowledge have been utilizing their full array of weapons over more than a decade, what weapons can they now use, or invent, that will rescue the present crisis from its even deeper implications? Even the President's Council of Economic Advisers knows now of at least one serious contradiction: the techniques used to reduce inflation (setting aside the observation about monopoly, above) exacerbate unemployment and contraction; the techniques used to reduce unemployment and halt contraction could make what is now a severe inflation fatal.

But the problem goes much deeper than this, because of the dependence of the various national economies not only upon the health of the others, but upon a system of economic co-operation that has characterized the period since the 1950s. As inflation and unemployment grip each of the major nations, their respective groups of economists and policy-makers have no realistic political alternative but to give priority to their own country's economic condition.

The delicate balance of world-wide economic integration, already severely shaken, will thus become substantially disrupted.

Like the functioning of the state in the recent period, the global relationships that have developed distinguish the period since the 1950s from the 1920s, and imply a contraction process very different from that of the 1930s.

VII

THE 1920S AND THE YEARS since the 1950s contrast when set against their respective international backgrounds. The American expansion of the 1920s took place despite a pattern of disintegration in the world economy; the expansion now ending evolved as part of an ever-increasing global integration.

The economy of the 1920s was not, by comparison with the years 1870-1913—or those after 1955—a "world economy" at all. Britain, at that time the former supreme commander of the world economy, was hemorrhaging badly (with unemployment at ten per cent of more throughout). Russia, and its important raw materials-manufactures trade with Central Europe, was cut off, to the strain of both areas. Italy had gone fascist and autarkic and the Austro-Hungarian Empire had broken into fragments; Germany, beaten and punished after the war, was torn by incredible inflation and distorting economic and social effects never really thrown off by the short recovery after 1925. Japan, strengthened by the war like the United States, also grew rapidly in the 1920s, but its strength was used to eat away at European markets in the Far East. Rising protectionism in the advanced countries reduced the already weak economies and finances of the dependent countries. The United States played out its trading and financial relationships in a manner profitable to itself but unsuited to global needs—sharply reducing even its limited role when it cut back on loans after 1927.[14]

The period since World War II reversed all this. It is difficult to overstate the degree to which the internal functioning of today's most powerful capitalist economies has become geared to their global relationships in resources, trade, and finance. The global integration achieved by the mid-1960s makes even that of the late nineteenth century seem shallow by comparison, especially when the much higher degrees of industrialization are taken into account. The main areas are now "synchronized" in their behavior, as Joyce Kolko puts it, and the economies of the dependent nations respond in jerky movements to the rhythm of their rulers.

The signs of synchronization are plain: (a) taking 1970 as 100, the 1974 consumer price index for the leading countries had risen at least thirty points for the United States, Canada, and West Germany, forty-five points for France, and sixty points for Britain, Italy, and Japan; (b) unemployment rose and industrial production fell in each of those countries in 1973; (c) in all, the automobile complex, electronics, metals, textiles, chemicals, construction, and finance are showing weakness or collapsing; (d) almost all face grave balance-of-payments difficulties, and those who don't—e.g., Canada and West Germany—are like mountain climbers attached to a safety rope encircling the waists of all; (e) there is serious political and social instability in all the leading nations, while the imperialistic ties of all are unraveling or

[14] See Lewis and Soule, both cited earlier, for the data on the United States' role in the world economy of the 1920s.

severed—making it difficult to set a floor to misery or provide for the rising expectations that until recently had been seen as normal by both rulers and ruled.

The essentially chaotic international situation of the 1920s and 1930s, and the absence of effective state assistance in the accumulation process explain the short-lived American expansion of the 1920s by comparison with today's, as they do the severity of the collapse after 1929. The low level of global integration that remained by 1929 was broken totally by the depression. The United States, the only possible leader out of this pit, raised its tariffs to their highest levels in 1930; and under FDR, in 1933, the United States torpedoed attempts to reconstruct a workable international monetary system.[15]

THE MEANING of all this was not lost upon influential Americans. Thus, Dean Acheson, testifying before Congress in 1944:

> We cannot go through another ten years like the ten years at the end of the twenties and the beginning of the thirties, without having the most far-reaching consequences upon our economic and social system. When we look at that problem, we may say it is a problem of markets. We have got to see that what the country produces is used and sold under financial arrangements which make its production possible. . . . You must look to foreign markets.[16]

But to arrange for those "foreign markets" required more than a sales effort; what was needed was the reshaping of the world under the energetic leadership of the United. States. The policies that make up the history since 1944 are well known. Their high points include: the International Monetary Fund and the World Bank; the Truman Doctrine and the Point Four Program; the Marshall Plan; the National Security Act; the Organization of American States, NATO, SEATO, CENTO (latter the Middle East Treaty Organization), MAAG (to assist the French in Indochina), and the Japanese-American Treaty; the revival of the draft; encouragement of the European Common Market; some wars; lots of espionage; the subversion of governments; and so on. And lubricating all this were the flows of American consumer and capital goods, loans and grants, and an enormous expansion of American investment abroad: from $7 billion in 1946 to $12 billion in 1950; from $32 billion in 1960 to over $100 billion in 1974. These are "book value" estimates, assumed to be understatements of market value by at least half.

The results of these economic, political, and military changes were of critical importance in stimulating the American economy. They were of equal or greater importance in bringing about recovery and modernization for the Europeans and Japanese, whose rates of expansion after the mid-1950s surpassed those of the United States, West Germany and Japan were especially benefited by the costs of maintaining American troops in their countries. Japan also gained from American expenditures for the Indochina war. Both they and the others gained markets in the United States not only because we were expanding but because our production was distorted by heavy military emphasis.

American military expenditures abroad combined with rapidly rising American foreign investment and a declining trade surplus to produce ever worsening balance-of-payments defi-

[15] Mitchell, *Depression Decade,* provides all the information needed.

[16] See William A. Williams, "The Large Corporation and American Foreign Policy," in David Horowitz, ed., *The Corporations and the Cold War* (New York: Monthly Review, 1969).

cits. When, in 1971, the United States ran a trade deficit as well (our first in this century), Nixon was compelled to devalue the dollar—thereby feeding inflation and requiring subsequent further devaluation. The principal reason for the wage freeze that began then was to keep American wages from aggravating trade deficits.

The years of rising payments deficits, which began in 1958, meant the transformation of dollar shortage (right after the war) into dollar surplus and dollar glut. Inflation was in effect exported by the United States. Dollars piled up in Europe and became "Eurodollars." Central banks abroad were kept from putting downward pressure on the dollar by powerful United States influence and, to a certain extent, by the belief that the strains associated with the Indochina war would "soon" end. Meanwhile, the overvalued dollar was used to increase American imports at bargain prices and to allow American corporation to invest in Europe cheaply.

But the continuation of the Indochina war, the increased fiscal recklessness of successive administrations, the growing control by American corporations of European plants, and worsening inflation all combined to produce growing uneasiness among the increasingly competitive trading partners of the United States. After a year or two of Nixon— "What do I care about the lira?"—and a brush or two with Secretary of the Treasury Connally, uneasiness moved toward panic. The international payments system worked out at Bretton Woods at the close of World War II began to crumble.

If all these problems face the most powerful countries of the capitalist world, the dependent countries have faced them longer and now face them in deeper measure. Their overall economic conditions began to deteriorate around 1958. When buoyancy was high for the powerful, they suffered worsening terms of trade (i.e., lowered purchasing power for exports), inflation, unemployment, rising indebtedness and lowered ability to pay, and even starvation. The main source of strength the dependent countries seem to possess is the forming of cartel-like selling agencies to monopolize the markets of their basic exports—oil, copper, coffee, rubber, etc. To date, only OPEC has had any success along this line; the result has been to deepen the problems of their purchasers—and probably to reduce the power of OPEC in the process. So long as the dependent countries remain dependent, the weakness of their major trading partners can only mean further weakness for themselves, except where the ties between them are broken.[17]

There exists no world-state to maintain or to recreate world economic order and recovery. The United States attempted, and for a while succeeded in, that role after World War II, when it stood alone as a strong and healthy tree in an otherwise devastated forest. It worked as well and for as long as it did because it was known to be of mutual benefit to all capitalist nations concerned, even though of primary benefit to the United States. Now it is different. As the crisis deepens, measures taken by the United States are seen as benefiting itself to the expense of the rest. Their cooperation cannot he expected, for they must keep order in their own countries. What is therefore most likely is the steady disintegration of the global economy. The powers of the capitalist state to soften contraction domestically will not be sufficient to overcome global contraction. The state will probably be able to slow down the rate of

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[17] For an astute and far-reaching analysis of part of this question, see Michael Tanzer, *The Energy Crisis: World Struggle for Power and Wealth* (New York: Monthly Review, 1975).

contraction, perhaps to put a floor under it; neither the United States government nor any other today can stave off depression.

VIII

THE STATE HAS ACTED to hold off the crisis; it has also assured that the problems now to be confronted are both deeper and more intractable. The state can cushion the impact of contraction—through unemployment insurance, job programs, income supplements, and spending, and through rescuing at least the largest firms from bankruptcy. But to slow down a contraction is not to initiate an expansion. Quite apart from the high probability that state efforts to foster such an expansion would initiate a roaring inflation, the question remains: what forms could it take, and how could it be accomplished?

The possibilities for renewed expansion in the present political and economic framework are severely limited in many ways: (1) In a period of inflation and rising unemployment, taken together with heavy debt liabilities, what is the probability of a significant rise in consumer expenditures? (2) In a time of national and international excess capacity in manufactures, what is the probability of a rise in private investment—which, if it occurred, would generate rising consumer incomes? (3) In a time when military expenditures are scrutinized with increasing skepticism because of past excesses and declining justification, what is the probability of substantial percentage increases in those expenditures? (4) In a time of severe inflation, how far can government expenditures financed by enormous deficits be carried (to develop construction projects, for example) without driving interest rates to new high levels, without further sapping "confidence"? (5) In a time when independence movements in the Third World are on the rise, what hopes can there be for economically stimulating geographic expansion? (6) In a time when global economic expansion depends upon global cooperation and further integration, what can be expected if national governments develop contrary policies?

Perhaps it was such limitations that led Sir Siegmund Warburg, one of England's leading financiers, to observe that (as he stated in a *Business Week* interview, November 23, 1974) "this crisis will be of much longer duration than the one that started in 1929."

The depression of the 1930s is generally remembered as a sudden collapse, an explosive whoosh of air from a pricked balloon: Bloody Thursday in the stock market, with prices hurtling to rock bottom in a matter of days, the American and world economy skidding precipitously from prosperity to depression almost overnight. Such views are wrong, and deceptive if used to measure or assess the gravity of current developments. Gordon's description of the process of decline through 1929-1933 shows this well:

> That a depression of unusual severity was developing did not become clearly apparent until the second half of 1930. After the collapse of the stock market and the sharp decline in business activity in the last quarter of 1929, there was a slight abortive recovery in the early months of 1930, associated particularly with a partial recovery in automobile production and some improvement in nonresidential construction. . . . Prices continued to decline through 1930. The rise in automobile production proved short-lived. . . . In the early months of 1931, the American economy again seemed to be attempting to stage a recovery. . . . In the late spring of 1931, the international financial structure collapsed completely, and a financial crisis starting in Europe began a new wave of liquidation through the world and deepened the depression in the United States . . . ; [the] decline continued until the summer of 1932. . . . Beginning in

> the third quarter [of 1932], noticeable improvement began to be evident in the United States and other countries. . . . In the United States this recovery was struck a severe blow at the beginning of 1933 by an outbreak of bank closings beginning in the Middle West and spreading rapidly through the rest of the country. A final wave of hysteria undermined completely the foundation of confidence on which modern banking rests, and by the end of the first week of March all banks in the United States were closed.[18]

Prosperity, off and on from 1929 to 1933, seemed just around the corner; it may also seem so, off and on, in the next few years.

IX

AS THE ECONOMIC CONTRACTION deepens and persists, the governments of all the countries concerned must and will move to assure that all steps be taken to prevent a repetition of the massive unemployment and widespread business failures of the 1930s. Neither the steps already taken nor those being discussed are up to that task; but the nature of the task is not yet seen clearly, if at all. In the next year or so, if prognosis is valid, the dimensions of the crisis will have become increasingly evident. Then it will be seen that the state must take decisive steps simultaneously to contain inflation and to reverse the economic contraction. The states of the leading nations are likely to be at the head of this process for, as the most heavily industrialized, they are the most precariously situated.

The outstanding probabilities are several and connected:

1. Contraction alone, in a monopolistic setting, will not bring inflation rates down to "tolerable" levels (say, four to six per cent per annum). This will require strong wage and price controls, stronger than any since World War II.

2. The natural and necessary bias of such controls under conditions of monopoly capitalism will be in favor of profits at the expense of real wages.

3. The implied and substantial centralization of power necessary to implement such policies will require heightened coercion and manipulation.

4. To prevent contraction from going to extreme levels, the state will also have to intrude directly into the investment process, to a degree going well beyond anything since World War II; this will entail increasing control over resource and financial flows.

5. None of the foregoing steps can be undertaken singly or in combination without a substantial upsurge of economic nationalism—in the form of tariffs, import quotas and export subsidies, exchange controls, etc.—in a manner repetitious of the 1930s.

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[18] From Gordon, *Economic Instability,* pp. 49-52. On the matter of bank closings, Magdoff, "Banks: Skating on Thin Ice," has some worrisome things to say about the present: "According to the last annual report of the FDIC, the deposits covered by FDIC insurance amounted to $465.6 billion at the end of 1973. Against this the FDIC had $8.6 billion: $5.6 billion of assets, plus the right to borrow, according to existing law, $3 billion from the U.S. Treasury." The FDIC (Federal Deposit Insurance Corporation) and its counterpart for savings and loan banks (FSLIC) are seen as ultimate protection against the bank panics of the 1930s; the faith may be misplaced.

6. This last in turn implies the breakdown of the global integration created since the 1950s, with the high probability of new patterns of economic and political relationships (e.g., closer ties between Japan and China, and between Western and Eastern Europe, with a consequent need for the United States to increase its controls over the western hemisphere, north and south).

7. Decreased ability of the major capitalist nations to exert discipline or control over the dependent nations, except with a substantial increase in the military elements of that control—but at a time when that becomes both more difficult and more dangerous.

THE KEY PROBABILITIES are those having to do with centralization of the economic process and nationalism in the world economy. Centralization will be necessary to bring some kind of order out of politically intolerable chaos; nationalism will be necessary in order to undertake these centralizing policies. It has been stressed that capitalism functions as a global system. But the global quality of the economic system, which amounts to a far-flung division of labor, has never been equaled in the political sphere. Since the 1950s, the various nations have "cooperated" in a manner surpassing anything to be found earlier, under the tight and mutually beneficial discipline of the United States, But if the degree of cooperation has been unique to the recent period, so too has the duration of the economic expansion. They arose together, and they will decline together.

The business and political leaders of all modern nations know well that the unemployment levels of the 1930s cannot be repeated without the high probability of social upheaval. Social upheaval takes place within particular nations and it can only be contained or prevented by national policies. The disappearance of global economic expansion leaves only national policies as possible means of preventing national economic disaster. But as individual states move to remedy their economic crises through centralization they then become exposed to the conflicting demands of the pressure groups within their societies. The natural direction of national policies will favor profits over wages. In a time of economic contraction, however, this implies falling real wages for the mass of the people—a process under way now for several years, but not yet seen by many as a deliberate policy. Popular responses to that development will depend upon the nature of political consciousness, and most especially on the degree to which political consciousness emerges, or reemerges, as class consciousness. The latter is likely to occur in Europe and Japan in the near future; in North America the probabilities are much less certain.

Centralization over the economic process will entail, as noted, increased coercion and manipulation; beyond a certain point, the process becomes one of establishing a fascist state. Here Europe (including Britain) and Japan differ from North America in two vital respects: all the former countries have had a close or direct experience with fascism, and all have had large class-conscious socialist movements. The left in Europe and Japan has not seriously threatened capitalist power since the 1950s (setting aside eruptions such as May 1968), but that has been very much the result of the vigorous economic expansion of the period. As the expansion has subsided, the left has come to life. As contraction becomes the rule, and is joined by centralization seeking to secure the rule of capital, the left may be expected to join its memory to its drive toward socialism. Nor can it be forgotten that the socialist part of the world, however divided it may be, is strong and growing stronger; that the problems facing emerging socialism today are not as great as in 1917, or in 1949. Doubtless conservatives, reactionaries, and counterrevolutionaries will, in their different ways, make their moves also, as the crisis deepens; they must. They may even attempt a coup d'etat—e.g., soonest and most

likely, in Italy. Like socialism, however, fascism needs support from outside; what it needs to take hold is, in Europe and Japan, unlikely to be found either internally or internationally.

In this hemisphere, there is much less reason for optimism. If, over the next ten years or so, there are complex reasons for expecting socialism to take hold in all but this hemisphere, over that same period the likelihood appears strong that the hold of capital will be secured in the United States, and that the control by the United States over Canada and Latin America will be increased. None of that can be even approximated without a further shift to the right in the United States, toward increasing coercion here and throughout the hemisphere. During the Nixon years, the United States informed Canada of the right of the United States to direct the flow of Canadian mineral resources. American corporations already own more than half of these resources and as much or more of Canadian industry. Canada nevertheless still presumes to decide where its resources will flow. If the United States is cut off, even in part, from the rest of the globe, it will need and demand control over the resources and markets of Canada and Latin America.

Whether the United States can do all or any of this will not be determined by its desires and needs alone. It will depend upon how the American people react to the developing new order, on how the peoples of the rest of the Americas and the world respond. It is this set of unknown prospects that will also open up the possibility of major warfare—within the hemisphere, or between the United States and all or part of the rest of the world. Even the most brazen prognoses cannot venture into that complicated jungle of possibilities.

What may be said, however, is that whether the United States can move internally and hemispherically toward coercive centralization and American-style fascism will be determined mostly not by what others do, but by what Americans do. The working people of this country need to understand the realities of the system and the desirability of replacing it with a democratic socialist society. To do so, the illusions, hatreds, and divisions that so much mark our people, including those of the left, will have to be struggled against and overcome. The economic crisis will make that more difficult, as well as easier—and more necessary. ❑