Is the theory of crisis out of date?

Emile Burns

SINCE the war there has been a general advance in industrial production in the capitalist world. But it has not been a continuous advance. In the United States, for example, industrial production was checked in 1949 and again in 1954, and in 1956 and 1957 it was once more slowing down. In Britain the fluctuations were not so sharp as in the United States, but production fell instead of rising in 1952 and again in 1956. In the early months of 1957 it was running at about the 1956 level.

Now this is not at all a picture of a capitalism that has overcome its difficulties and is marching steadily forward. It is in sharp contrast with socialist economy in the Soviet Union, where production rises year after year without interruption.

Nevertheless, it is true that in spite of temporary recessions there has been no deep and lasting fall in United States or British production such as we associate with the crises of the years between the wars. And it is now over twelve years since the end of the war, whereas earlier crises developed fairly regularly at intervals of seven to ten years.

As in many previous periods of capitalist boom, claims are being made that now at last capitalism has learnt how to avoid crises. Many Labour spokesmen echo this idea and build castles in the air on it. Even in our own ranks there is a feeling that our previous theory of crisis needs revision.

The questions that require an answer are therefore: Are the tendencies which gave rise to crises in the past now no longer operative, and have we to revise or substantially modify the Marxist theory of crisis? Has capitalism learnt how to overcome these tendencies, so that economic crisis is now a thing of the past? Or has the *relative* prosperity for a *relatively long* period in the capitalist world been due to special conditions? And if so, have these special conditions now lost their effect, and is the boom-slump cycle again in evidence?

The Nature of Capitalist Crisis

At the risk of over-simplification, Marx's view of crisis may be stated as follows. The regular turnover of capital in production is possible only so long as the products of each turnover are sold, at prices which restore the capital used up in the turnover plus a profit.

The history of capitalism shows that at more or less regular intervals a situation arises in which great quantities of goods that have been produced cannot be sold. As a result, the turnover of capital is checked; capitalists stop or cut down production, because there is no market for their products; unemployment spreads from one industry to another. It is of such general crises that Marx says:

> "The last cause of all real crises always remains the poverty and restricted consumption of the masses, as compared to the tendency of capitalist production to develop the productive forces in such a way that only the absolute power of consumption of the entire society would be their limit."

Of course, only a part of total production is production of consumer goods, for direct sale to working people and other individual consumers. In a developed capitalist society, a large proportion of the national output is in the form of machinery and plant, ships and locomotives, raw materials or semi-finished products, which only capitalists buy. But they buy them as capitalists, in order to use them to produce other things which they can sell at a profit. If they do not think they can sell the final products at a profit, they do not go on buying either machinery or raw materials. In the long run, therefore, the market for capital equipment, as also the market for raw materials of all kinds, depends on the market for consumption goods.

But how long is the run? How long can the gap between rising output and relatively stagnant consumers' demand go on widening before there is an actual crisis? Experience in the whole period of capitalism up to the last great crisis in the early nineteen-thirties showed that crises occurred at intervals of seven to ten years. In *Capital,* Vol. II (p. 211), Marx suggests that the reason for this period was associated with a periodical renewal of plant; after a crisis, he says, much new plant is put in, and this stimulates output till it reaches a boom; then the new plant begins to produce, leading once again to over-production and a new crisis.

In *Capital* Marx called attention to the changing composition of capital—the continuous increase in the *constant capital* (machinery etc. and raw materials) in relation to the *variable capital* (wages). In the main it is wages (plus other personal incomes) that buy the final articles of consumption—food, clothing, T.V. sets, refrigerators, cars etc. Therefore the increase in the constant capital means that an increasing *proportion* of total production is in means of production (which only capitalists buy), and a smaller *proportion* is in articles of consumption. As Lenin put it: "The growth of the home market for capitalism is to a certain extent 'independent' of the growth of personal consumption." He adds: "But it goes without saying that, in the last analysis, productive consumption is always bound up with personal consumption." Nevertheless, the fact that a large and increasing part of total production is of means of production seems to have importance, especially in a period of rapid technological changes and in the period of highly developed monopolies. Monopolies may produce means of production without *direct* relation to the market for consumer goods. State action may also provide a market (especially arms orders) that has no direct relation to the consumers' market. These are factors in the situation which, if not entirely new, seem to have been of greater significance in the post-war period than in the past, and therefore need to be examined.

The Influence of Monopoly

What is in question here is not the general character of monopoly, but the influence of monopoly *on the turnover of capital*. In present conditions, it is possible for monopolies to sell their products at prices considerably above their value. This possibility arises in part from actual monopoly or monopolistic agreements between a few big companies within a country, with tariffs or import quotas to protect them from competition by foreign rivals; and in part from international agreements between monopolies—as for example in oil—which largely eliminate direct price competition between them and maintain a world price far above the value of their products.

In *Economic Problems of Socialism in the U.S.S.R.* Stalin spoke of the need of monopoly capitalism for maximum profits, for the purpose of "more or less regular extended reproduction". There are many statements from the capitalist standpoint which confirm this.

Giving evidence before the U.S. Senate Anti-Trust Sub-Committee, Professor Galbraith of Harvard University noted that "large firms in industry could set their prices virtually without regard to competitive forces . . . and so were able to increase their prices in order to finance their expansion out of retained earnings." (*The Times*, July 15th, 1957).

The Chairman of the Burmah Oil Company recently stated:

> "The finance required for the expansion of the oil industry has for the most part to be generated by the industry itself, and selling prices must accordingly be allowed to remain at a level to meet this need."
>
> (*Financial Times*, May 23rd, 1957)

The same point was made by the *Economist* (June 1st, 1957) in its report of the high margin of profit made in preceding months by the Royal Dutch Shell group:

> "The Royal Dutch Shell group needs such margins to finance its enormous capital programme (likely to be of the order of £400 million this year)."

Similar quotations can be given for a whole number of the biggest monopolies, both here and in the United States. All these monopolies have been carrying out great extensions, in the main financed out of accumulated profits—that part of the profits which is not paid out in dividend to shareholders, but is "retained for employment in the business", as the item is called in the financial reports of Imperial Chemical Industries.

It is true that capitalist enterprises, whatever their size, have always put aside a part of their profits for expansion of the business in the following year or years. However, in earlier stages of capitalist development, these reserved profits were seldom big enough by themselves for any considerable expansion. Such big expansions therefore had to be provided for by money raised from the public generally—a new issue of capital.

The growth of huge monopoly enterprises has considerably changed this. Not only are they big concerns, and therefore have a correspondingly big mass of profit, but they are *monopoly* concerns, able to raise prices above values and therefore make extra big profits. Secondly, because they sell their products above values, they take out of the total pool of surplus value a larger proportion, a higher *rate* of profit, than the smaller concerns, thus reducing the proportion available to the smaller concerns, whose rate of profit declines.

This can be illustrated by some figures from the American Labour Research Association. In 1954 American companies with assets over $100 million made a profit of 22 per cent; those with assets under $1 million made 9 per cent.

For Britain, Mr. Prais in the *Economic Journal*, June 1957, shows that from 1949 to 1953 the average annual rise in profits for the 100 largest concerns was 12 per cent, while for all industrial companies it was under 7 per cent. (This does not mean, of course, that no small companies made bigger profits.)

In other words, the smaller capitalists cannot have as much surplus as the bigger firms; the monopolists become more and more the only "savers", and therefore the principal investors in new capital and equipment.

Therefore an important new feature, when monopoly is fairly fully developed, is that *accumulation* (in the real sense) becomes also highly monopolised. New capital is born, so to speak, already in large amounts attached to an existing mass of capital, whose further expansion the new capital serves.

This is literally the "self-expansion of capital" of which Marx wrote. And the larger each monopoly capital gets, the greater the momentum generated for expansion and the greater the need to expand in order to compete with its rivals.

For competition does not cease to exist in the monopoly stage of capital. There are few cases of complete monopoly by a single firm, even within one country. The effect of monopoly is created by a group of firms through price agreements, sometimes quotas, sometimes limited areas of sale for each, and so on. Such agreements are inevitably temporary; but even within the framework of an agreement, each big firm is driving ahead not only to expand in general, but to produce more cheaply, to increase its profits and provide a bigger fund for expansion, or for the introduction of new specialised products that can expand its market in spite of its partner-competitors in monopoly. And a feature of this competitive drive among monopolies or big firms sharing monopolies is that new capital equipment is constantly being introduced not only *to increase the amount of production,* but to get *cheaper production.* It is common knowledge that nowadays, when machinery is replaced, what takes its place is very often something of a newer type, something that saves labour for the same output.

For this reason it is not only the amounts placed to reserve out of profits that serve a big concern as a fund for new capital equipment. There is also the amount set aside each year for depreciation of existing plant, before the net profit is arrived at. Chairmen of companies explain the increase in the amounts set aside for depreciation as a necessity in a period of rising prices because new plant will cost more when the old has to be replaced. This is no doubt true. But in fact, because of the competition referred to above, the replacement is more rapid than it used to be; more plant is replaced before it is physically depreciated or worn out. This so-called "moral" depreciation, as distinct from physical, expresses the fact that in the battle of giants a more efficient machine has been invented; the old one is scrapped before its time, so as to get ahead of rival firms or at least keep up with them. Or, as in the motor industry, it may be a case of constantly producing new models, requiring some different plant, in order to keep a share in the market or even outdistance rivals.

But if what would in previous times have been depreciated in five or ten years is now depreciating "morally" and flung out in two or three years, the amount set aside as depreciation each year must be greatly increased. As an illustration of this tendency, a quotation from the *Economist* (May 21st, 1955) shows it at work in I.C.I. Noting a £5 million increase in the depreciation item in Imperial Chemical Industries accounts for 1954, the journal observes:

> "The charge must naturally rise as the expensive new plant comes in. But the board have also reviewed depreciation policy, and for some items of plant *they have shortened the assumed lives.*"

Legislation reducing tax on profits used for new plant favours this tendency. In the United States such legislation is particularly favourable. Total depreciation allowances to U.S. industry rose from $20 billion in 1949 to $34 billion in 1956.

It must be remembered that depreciation represents wear and tear of fixed capital that passes into the value, and therefore into the price, of the product. It appears as a part of the gross profit, and has to be deducted in order to get the net profit. Therefore if the depreciation is increased, the gross profit, and therefore the prices of the products, must also be increased. The monopoly profits, and the prices to bring in these profits, have consequently to cover, in addition to any dividend distribution to shareholders, *higher annual depreciation* as well as the *larger reserves for capital expansion* referred to earlier.

To speak of a drive for "maximum profit" is therefore in no way to exaggerate the aim of the monopolists; and the continuous rise in the already huge profits of the monopolies shows that in recent years their drive has met with no little success.

John Strachey, in *Contemporary Capitalism,* after referring to the growth of big concerns and saying that their managers are no longer their owners, observes that the managers conduct these enterprises in a different manner from the days of managing owners. No doubt they do: but it is a little surprising to find that he goes on to say (p. 37):

> ". . . if they had attempted to conduct the giant enterprises of today in the strict tradition of the individual capitalist, seeking, with singleness of mind, *to maximise his profit*, they would have disrupted the whole social fabric in a few years."

Perhaps the skilled manager of today maximises his profit accidentally, without singleness of mind or even intention, but it is noteworthy that he *does* maximise his profit, as all statistics show, and as the chairmen of these companies declare is necessary for the reasons stated above. Perhaps, however, Marx's point that it is *capital* and its *self-expansion* that does the trick explains how the manager reaches his happy result without mental trouble. It is the system, and the gigantic masses of capital, that determine the outcome.

So that when Strachey tries to answer the question—Why do the directors of the monopolies (oligopolies) keep on accumulating "if the process benefits them, individually and financially, but remotely, if at all"?—he is led into such subjective explanations as "prestige and power, rather than wealth".

Now there may be all sorts of individual motives mixed up with the making of big profits by a monopoly. But in the actual handling of affairs the manager of someone else's plant, no less than the capitalist who runs his own plant, is merely a representative of capital in a capitalist system, and the bigger the capital the more relentless its drive on him to maximise profits.

What then are the economic effects that monopoly—high prices and maximum profit to depreciate plant rapidly and provide big sums for expansion—has on the turnover of capital?

First, it makes the turnover of fixed capital greater and more rapid than in earlier days; the industries producing fixed capital equipment will be getting repeat orders or new orders more quickly, and on a larger scale: their production will be more continuous and will be slower to respond to a decline in the volume of demand for articles of consumption. In fact, more machinery is being used up in proportion to a given level of consumption of goods. So long as the going is good, therefore, production of machinery and plant—to the extent that industry is monopolised—is at a higher level than in pre-monopoly days. Monopolies may plan development for a long way ahead, and may carry out these plans even if there is a decline in the effective demand for their final products.

At the same time, however, this increasing demand for means of production from the monopolies does not mean that capitalism can now run on producing greater and greater amounts of means of production without regard to the final market for products—the people's purchasing power. A witness before the U.S. Senate Anti-Trust Committee said that "American business recently had been raising prices while operating at less than capacity", and warned of the "mounting danger" of fixing prices and reducing production to what the market would take at that level of price (*The Times*, July 15th, 1957).

In fact, monopoly's need for and ability to fix high prices must become a barrier to sales. The high monopoly prices affect not only the smaller capitalists as capitalists (robbing them of a part of their share of total surplus value), but the whole nation, in so far as articles of consumption are concerned. The high monopoly prices are an important factor in the general inflation since the war. In effect, a part of total consumers' purchasing power is lopped off to pay the extra prices demanded by the monopolists. Monopoly, therefore, while to some extent stimulating the production of means of production, is a negative factor in consumers' demand; it is one of the factors leading more rapidly to over-production in relation to the purchasing power of the people.

A special form of the expansion and competition of monopolies is the setting up of subsidiaries in the countries of rival monopolies. The aim is to get behind tariff walls, so as to compete on equal terms with those countries' monopoly concerns; partly to save transport to a distant country; in some cases to take advantage of a lower level of wages. But whatever the motive, the establishment of such subsidiary enterprises in other countries adds directly to the demand for capital goods (and to the competition which makes it necessary to renew and modernise plant quickly); to that extent it helps to maintain the demand for machinery and plant. At the same time, it is adding to the existing productive capacity of the country concerned and of the world, with inevitable results such as we have seen in the motor industry.

The Influence of State Action

The state in a capitalist country has always had some influence on the turnover of capital, on the one hand through taxation, which reduces the amount available to capitalists for new capital investment, and on the other, through state expenditure, which may help capitalist production and also increase the purchasing power of the people through social services.

However, it is in the days of monopoly capitalist expansion and competition, and on the other hand of the workers' struggles for better standards of living, that the influence of the state on the turnover of capital becomes of considerable importance.

The Korean war and the subsequent arms programmes operating after 1950 have had considerable effect in maintaining the total level of production and employment in the chief capitalist countries: in Britain, for several years armaments have taken about 8 per cent of total annual production; in the United States, about 10 per cent.

It is true that large numbers of workers are employed in armaments production, and in that sense armaments give employment and are a stabilising factor in the economic situation. But on the other hand, if the Government added what it now spends on armaments to its present expenditure on such social purposes as houses, schools and hospitals, as much—probably more—direct and indirect employment would be created as is now given by armaments. When therefore people speak of Governments today using "Keynesian techniques" to maintain employment, they are using a mystifying phrase for something quite simple. The armaments drive is not an economic technique, Keynesian or otherwise, to maintain employment: it is a technique of aggression, to further the interests of monopoly capital. It is not an absolute addition to employment, but a *diversion* of employment from serving the needs of the people to destructive, or in any case wasteful, ends, so far as the people are concerned.

At the same time, the policy of arms expansion, adopted for political reasons, has had an effect on the general turnover of capital, and continues to do so. As with everything else, these effects are both positive, keeping the turnover of capital going, and negative, leading to a check in the turnover of capital.

In the first place, a considerable impetus was given in the earlier stages of rearmament to the construction and engineering industries, through Government financing of the expansions of productive capacity needed to carry through the programme. Secondly, so long as the arms drive continues, it feeds new capital (from the high profits of the arms manufacturers) into industry, helping general expansion.

On the other hand, the expansion of capacity to meet the needs of the programme came to an end long ago; and the heavy taxation and high prices resulting from the policy of armaments reduce the general purchasing power of the people; the cuts in social services have the same effect.

However, the production of armaments does not itself directly add to the final products for sale to consumers; the Government provides a market, and in the abstract the capital in armaments production could go on turning over even if the purchasing power of the people declined sharply.

In the United States an important aspect of state influence on the economy has been the guarantee of prices for many farm products, which in practice has meant that immense quantities of cotton, wheat, tobacco and other farm products have been bought and stored by the state. In this way a sharp slump in prices has been avoided; the state has temporarily solved the problem of the farmers—their capital is able to turn over as if consumers' demand absorbed their whole crop. As far as the farmer is concerned, he successfully sells his products, although no one buys them to consume them.

But the matter does not end there. It is true that in some cases the products taken by the state in this way are sent abroad, either as gifts or at cut rates: and some are destroyed—for example, the *News Chronicle* (November 24th, 1950) reported that a year's supply of potatoes for 12 million people had been destroyed. Nor is the problem of over-production of farm products—in relation to purchasing power—solved for the capitalist world by U.S. exports of surplus products. Siamese peasants, for example, have complained of losses through the United States dumping wheat there; the *Manchester Guardian* of June 20th, 1957, reports that Canada cannot find a market for its large farm surplus, "largely due to the aggressive and, in the Canadian view, unfair surplus disposal policies of the United States"; Syria complains of U.S. dumping of wheat in Italy and Central Europe, which used to buy Syrian wheat. So the United States' surplus disposal attempts are simply pushing the crisis effects on to other countries.

Moreover, in the United States itself there are negative results of the farm aid scheme. In return for the buying of surplus products from farmers the Government has insisted on a reduction of the area sown with the crops concerned. For various crops, the sown area has been reduced by 25 to 40 per cent. But as this often meant that the farmer grew something else, leading to a glut of another product, Eisenhower's latest scheme is the "land bank"—the Government is now paying farmers annual compensation on 12 million acres that have been deposited in the "bank", i.e. put out of cultivation altogether. This means unemployment for agricultural workers: betw ϵn 1949 and 1956 employment in agriculture fell by a million and a half, from 8 million to 6½ million. It also means a fall in demand for agricultural machinery and implements. Thus the much-boosted farm aid scheme relieves over-production in one form only to bring about a considerable fall in employment and in total purchasing power, leading to more over-production. The taxes necessary to finance the scheme also have the same tendency.

The United States foreign aid programmes have likewise helped to provide an outlet for United States products; they have served to provide manufacturers with a market financed by the state, but again at the cost of more taxation on the people.

In Britain, apart from the arms programme already referred to, the most important state influence on the turnover of capital has been the re-equipping of the nationalised industries. Of the total new capital in Britain during recent years, a considerable proportion has been in these industries. With the plans for development in electricity and atomic energy, the change to diesel engines on the railways, and other technical improvements, the demand for buildings, plant and machinery for the nationalised industries may continue for some years.

To a certain extent the social services in Britain also represent a stabilising factor in the economy; but to the extent that workers' contributions pay for these services, they do not represent an addition to total demand but merely a transfer of demand. The same is indirectly true for the state contributions, which are financed by extra taxation; while it is generally assumed that the employers' contributions are made good by higher prices.

In general, while state intervention may help the turnover of capital by various devices, in the monopoly capitalist state every effort is made to throw the cost of these devices on to the shoulders of the people, reducing their purchasing power. The credit squeeze, high interest rates, rent increases and the general policy of encouraging high prices alongside high taxation, all tend towards lowering the purchasing power of the people and reducing the market for consumer goods.

What Then of the Boom-Slump Cycle?

It is generally agreed that war breaks the cycle. This is because the normal turnover of capital, with its ultimate dependence on the purchasing power of the people, is largely replaced by state orders, which provide a vast market for products of all kinds. The concentration on a state-provided market also involves a reduction in the output of consumer goods, and during the war it is impossible to replace worn-out machinery or instal new plant except in the arms industries. Shortages develop, not surpluses.

But immense profits on state contracts were made during the Second World War, especially by the bigger concerns. Moreover, since it was impossible to renew plant during the war, there were considerable reserves in depreciation funds. Accumulated profits and depreciation funds represented a mass of money capital awaiting investment.

When the war ended, therefore, these sums entered the market, and with the change to peace production there was a boom in building, machinery and equipment. Prices for these rose, and a general rise in prices followed. In Britain particularly the boom was further encouraged by the new chances for exports, owing to the temporary absence of German and Japanese competition.

If therefore the ending (or sharp reduction) of state orders in 1945 meant that the normal turnover of capital was resumed, then the following years can be taken as the stages of revival and boom in the first post-war cycle in Britain.

In the course of the revival and boom, wages lagged considerably behind the rise in prices. It was inevitable, therefore, that the gap between production and purchasing power should widen. So long as this was concealed by rising exports, all went well. But with the return of German and Japanese competition in export markets from about 1950, overproduction in consumer goods began to appear in Britain. Through 1951 and 1952 consumer goods production fell, and in 1952 there was an actual fall in Britain's total production.

Why was the 1952 recession in Britain so short-lived? Why did it not develop into a major crisis?

But first let us look at the United States. There, too, immense war profits had been made, and although the end of war contracts brought production to a low point in 1946, orders for new plant produced a revival and boom in 1947 and 1948. Then came a sharp recession, with a fall in total production in 1949. But this recession too was short, and by 1950 (before the Korean war) the upswing had begun, and there was no major crisis. Again in 1954 there was a sharp recession in the United States, which did not lead to a crisis there or elsewhere.

Nevertheless, it seems clear that the normal working of the cycle—boom, overproduction, relative stagnation of purchasing power, leading to a cut in production—was present both here and in the United States. But the boom and the subsequent cut in production took place at different times in the two countries, owing to the particular conditions in each country at the end of the war.

In Western Germany and Japan, too, the timing of the boom was different; in fact, it was only after about 1950 that German industry in particular came back to large-scale production. When the 1954 recession came in the United States, British industry was busy supplying Western Germany's needs.

The development of world economic crises in the previous history of capitalism was associated with the fact that a world market existed, of such a character that prices were world prices and supplies were world supplies. Economic developments in any country could not but affect conditions in every other country. Booms and slumps were more or less simultaneous in all countries.

But since the Second World War conditions have been different. The economic development has not been simultaneous, and the "world market" has been divided up not only by the spread of socialism but also by exchange difficulties leading to bilateral agreements, devaluation, quotas and defensive measures of all kinds by every capitalist country. The direct interdependence of the past is now far from complete.

Therefore we have depressions in one country or another without the former immediate effects on other countries; and it has been easier for one country to recover from a depression when boom conditions existed in other countries.

Moreover, the Korean war and the great armaments programmes that followed it in the major capitalist countries certainly gave an important stimulus to production and helped the recovery from depression both here and in the United States.

It seems, therefore, that the questions raised earlier have to be answered as follows:

The tendencies in capitalist production which gave rise to crises in the past have been operating in the post-war period, and there is no reason to abandon or substantially modify the Marxist theory of crises. Rising production, combined with relatively stagnant purchasing power, leads to overproduction and a check to the turnover of capital.

That no large-scale crisis has developed from these depressions is due in the first place to the results of the war, which affected different countries differently, so that the timing of their cycles has been different, while in contrast with pre-war conditions the economies of the capitalist countries have been to a certain degree independent of each other.

At the same time, the Korean war and the rearmament drive—a state demand for products outside of the normal turnover of capital—have been factors that stimulated total production.

Two further factors have been of significance in maintaining total production—monopoly competition and investment, in a period of rapid technical change; and state intervention in addition to arms (as a market in the United States; as an investor of capital here).

All these factors have combined to maintain a high level of production and an absence of serious economic crises in the period since the war.

But now the last question arises: Is this going to continue? What are the prospects for the future?

It has already been suggested that some of the factors that have helped to maintain production also have their negative effects: the monopolists' drive requires high prices which restrict the market; armaments and other state interventions mean more taxes which restrict the market. But it is not as simple as that. The successful fight for higher wages can go a long way to maintain the purchasing power of the people, perhaps even to increase it. The refusal to accept any form of wage freeze has certainly been of importance in Britain. In any case, there is no fixed point at which production increasing faster than purchasing power automatically results in a crisis.

The immediate starting point of a crisis is different from its ultimate cause. At some part of the whole strained economy breaking-point is reached, and the crisis develops.

For the present, it is only possible to point to the developing strain on the economy.

The essence of the situation is that production has been maintained on the basis of armaments and the big monopolies modernising their plant and increasing productive capacity, but that the purchasing power of the people for consumer goods has not increased to anything like the same degree. The gap between production capacity and purchasing power is widening.

So far as the United States is concerned, this process has gone much further than it has in Britain.

It shows itself, up to the present, not in a sharp fall in production, but in the inability of United States capital to use its productive capacity.

In the first place, labour power. Even in years of increasing production, there has been considerable unemployment in the United States, officially recorded as between 2 million and 3 million. There have been some 3 million in the forces—also out of production.

American official propaganda has made great play with the fact that, while there are millions unemployed and on short time, the number of workers employed has been increasing each year. If, however, the detailed statistics are examined, it becomes evident that the greater part of the increase has been not in actual production but in non-producing occupations. The *New York Times* of March 31st, 1957, records that:

> "For the first time in the nation's history, the number of people employed in the production of goods was fewer than the number employed in everything else—government, trade, services, finance, utilities, transportation."

The paper also notes that the number of goods-producers has only increased by 3 per cent since 1947, but they are "turning out today almost half again as much as in 1947. The reason for the rise in output is productivity. New machines enable each worker to turn out more each year than he did the year before."

The more the competition between the monopolies and the drive for maximum profit increases productivity, the greater the gap between production and purchasing power for the finished products, for articles of consumption.

But American capitalism's inability to use the country's full resources of labour power is only one side of it. It is equally unable to make continuous use of the great industrial machine it has built up. With a capacity of 9 million cars, only $6\frac{1}{2}$ million were produced in 1955; production of electric cookers and radiators was below half of capacity. Even in early 1957, when total production was higher than it had ever been, the output of major industrial materials and metals was 10 per cent below capacity; of textiles 20 per cent. In early May 1957 steel output was only 86 per cent of capacity, "reflecting mainly substantially smaller takings by the auto and other consumer durable industries" (*Federal Reserve Bulletin*).

To a growing extent in recent years, sales of durable consumer goods have depended on instalment credits, which rose from $17 billion in 1949 to $42 billion in 1956. This seems to have reached its limit.

In his January 1957 report to Congress, Eisenhower referred to the great expansion of "the nation's productive plant and equipment. . . . These outlays contain the promise of greater national output and better living in the years ahead". But they also contain the menace of over-production and crisis, in capitalist conditions. Moreover, Eisenhower added that "important advances in technology have improved the quality and efficiency of plant and equipment"—which means in practice that an even smaller part of the total labour force will be required.

Certainly the illusion that American monopoly capitalism has solved the difficulties of capitalism, whether by Keynesian techniques or otherwise, has no basis in reality.

In Britain the same factors have been at work, although the process has not gone so far as in the United States. Additions to productive capacity have been made on an increasing scale since 1953, including a certain amount of modernisation and automation. But the demand for articles of consumption has remained more or less stagnant; and the fact that output of machine tools exceeded new orders each month from July 1956 to March 1957, and that industrial construction is slowing down, may be an indication that the capital extension boom is coming to an end. Nor, in view of general conditions in the capitalist world, does it seem probable that there will be any considerable extension of exports—unless at least the restrictions on trade with the socialist countries are removed.

The United Nations *World Economy Survey* calls attention to the fact that prices all over the capitalist world have been rising, in spite of the relative stagnation in consumers' demand. It attributes this largely to devaluation in a number of countries. It does not mention that the grip of monopoly, and Government policy (as in Britain) have contributed to the rise in prices. It presents the facts as if the relative stagnation of consumers' demand is something that has happened accidentally, alongside high prices. In fact, however, stagnation in consumers' demand is largely *due* to the rise in prices, and to the increasing productivity of new plant (reducing the labour required for the same output) *financed by the monopolies through high prices.*

If consumers' demand has not actually fallen, this is due to the fight made by the workers to maintain their real wages in face of rising prices.

But the great expansion of productive capacity, with rising prices and rising production, cannot go on indefinitely while consumers' demand is relatively stagnant; in fact, wholesale prices have been falling recently. The contradiction may show itself in various ways, such as balance of payments difficulties, further devaluation, more acute conflicts between the monopolies in both home and foreign markets, and more acute class conflicts within the capitalist countries. The fight against the national liberation movement—as in France at the present time—may bring all economic difficulties to a head. In any case, the normal working of capitalist production itself has created a dangerous economic situation, which the various national policies of monopoly capitalism are only making worse.

Contributions based on the problems raised in this article or any other problem of the economic situation would be welcome.—EDITOR.