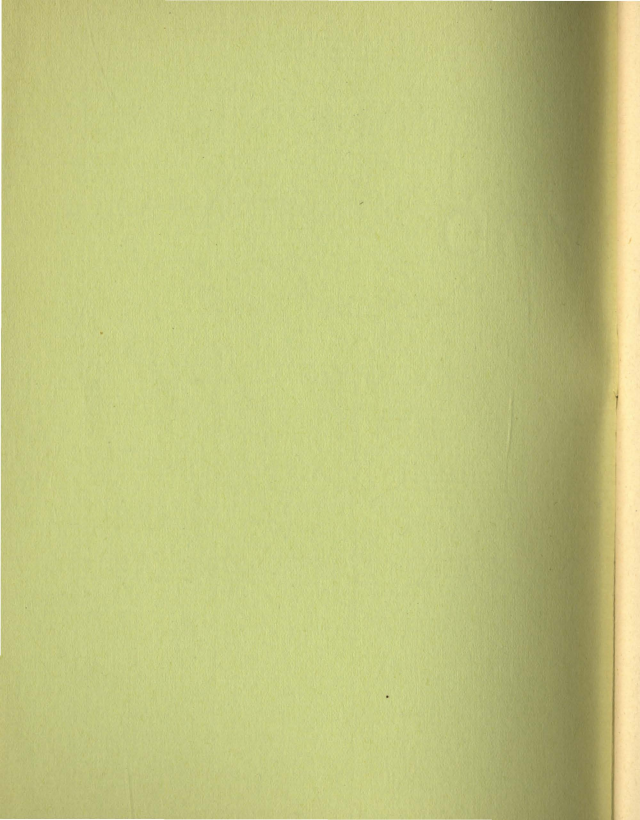


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THE
COMING
ECONOMIC
CRISIS

Earl Browder

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THE COMING ECONOMIC CRISIS
IN AMERICA.

by

Earl Browder

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CONTENTS:	Page.
Introduction	3
I. Inter-Relations Between Cyclical and General Crises	6
II. Whence Came the Markets for the Boom of 1946-1948?	12
III. How Long Can the Boom Continue?	20
IV. Can a Date be Set for Crisis?	26
V. Higher Degree of Monopoly.	31
VI. Transmutation of Economic Into Political Crises.	34
VII. Economic Crisis & War.	37
VIII. Pressure of Crisis on American Policy.	40
IX. Two Alternative Courses.	43
X. Remarks on Methodology.	46

THE COMING ECONOMIC CRISIS

Introduction.

Our discussion tonight has to do with the coming economic crisis in the U.S.A. In opening this discussion I will assume that my listeners are familiar with the basic Marxist analysis of the laws of motion of capitalist economy, which prove that economic crisis breaks out in market relationships as a result of more profound contradictions in the relationships of production.

It will, therefore, not be necessary to restate Marx's general analysis, and we may concentrate upon an examination of current trends in the economic cycle, locate and measure roughly the factors which define these trends, and draw certain conclusions as to the perspective.

The current softening of the price level, the rise in unemployment, and examples of curtailment of production in some industries, have served to raise much public discussion as to whether America is now going into the preliminary development of a major economic crisis. We must note these facts as symptomatic of the approach of important changes maturing in American economy, as straws will reveal the rise of a wind. But even as a study

of a coming windstorm requires more than an examination of the straws, so the study of the coming economic storm must go deeper than the economic straws that register its approach.

The major factors that indicate the maturing of a deep economic crisis are not to be found in the symptomatic disturbances now exciting public attention. They exist, on the contrary, in the heart of those sections of economy which appear on the surface to be the most robust. Most of the current economic declines occur in industries of mass consumption commodities. But the great economic storm that threatens is being generated in the heart of heavy industry producing capital goods. This contradiction between appearance (that crisis begins in the mass consumption goods industries) and reality (that the moving force of the crisis arises rather in capital goods industries) is characteristic of capitalist economy.

America is approaching the climax of one phase of the economic cycle, when boom gives way to "bust", when the expanding productive forces have so far outgrown their markets that a disorderly and catastrophic shock is approaching. The trends of expansion of the productive forces, on the one hand, and of shrinking markets, on the other hand, are clearly visible. Their continuance leads inevitably to a collision, to a crisis of overproduction, of the nature that has periodically marked the course of modern capitalist economy.

At the same time the present cycle is accentuated and distorted by the influence of the general world crisis of capitalism, the main decisive features of which were described by Lenin already before and during the First World War, and which has greatly deepened in the intervening years.

In this lecture I set myself the limited task to make some remarks on the following questions: (1) The inter-relations between the general world crisis of capitalism and the cyclical crisis of overproduction now maturing; (2) what new markets were operative to create the 1946-1948 boom period, after the sudden subsidence of the war market, and how stable are they; (3) what forces are limiting these markets; (4) when may the economic crisis be expected to break out; (5) the new and higher degree of monopolist domination over the national economy; (6) the process of transmutation of economic crisis into political crisis, and the "absorption" of economic crisis by political means; (7) the relation of economic crisis to war; (8) the contradictory pressures which the maturing economic crisis exerts upon American governmental policy; (9) the alternative courses between which America must choose in meeting the economic crisis; and (10) some remarks on Marxist methodology.

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I. Inter-Relations Between Cyclical And General Crises.

First of all, we must establish a sharp distinction between the cyclical economic crisis and the general world crisis of capitalism, as well as their inter-relations.

The cyclical economic crisis, the crisis of overproduction, is one phase of the movement of economic forces inherent in the capitalist mode of production, the cycle of crisis-depression-recovery-boom, the moving forces of which Marx discovered as the characteristic laws of motion of capitalism. This cycle has operated throughout the history of capitalism, and can end only with the replacement of capitalism by socialism.

The general world crisis of capitalism showed itself in the opening years of the 20th century, and was first discovered and explained by Lenin. Its period is that of modern imperialism, and is characterized by the integration of capitalist world economy and world market; by the end of the possibility of expansion by the great capitalist powers into new territories without sharp collisions among themselves; by a growing unevenness of development among the capitalist powers, with consequent sharp changes in power-relationships; by the breaking of the world front of capitalism through the emergence of the first socialist country, the USSR, as a great

power; by the rise of strong national liberation movement in the colonial and semi-colonial countries; and, finally, by the rise of mass democratic movements in the capitalist countries, moving in the direction of socialism.

The sum of these main characteristics of the general world crisis of capitalism is its decline as a world system, face to face with a rival growing system, expressing its own inner decay--economic, cultural, social and political.

These two crises are thus distinct from one another, although they are inter-connected and inter-acting. The growing violence of the periodic economic crises is an element (though not by any means the only one) of the general world crisis of capitalism. In turn, the general world crisis operates to accentuate the cyclical motion, deepening its crisis phase, distorting its "normal" course, and speeding up the trend toward state capitalism that arises from the crisis phase of the cycle.

It becomes important to understand the sharp distinction between the two crises, because there has lately arisen a fashion among some Marxist economic writers to consider that the cyclical crisis has been merged into the general world crisis of capitalism, that the general crisis is also a permanent economic crisis, and that to recognize the existence of a boom-phase

of the cycle in any major capitalist country results in negating the Leninist concept of the general crisis and is, therefore, a virulent form of opportunist "revisionism". Flowing out of such considerations there has been a flat denial of the existence of the boom-phase in American economy in the period of 1946-1948.

An example of this theory may be found in the article entitled "About the Crisis-Character of the Economic Development of the U.S.A. After the War", by I. Kuzminov, published in the Moscow magazine Bolshevik, No.23, Dec.15, 1948.

Kuzminov denies the existence of any post-war economic boom in the U.S.A., describes the whole period as one of economic crisis which opened even before the war ended, and says it is the deepest economic crisis in all the history of crises with the single exception of that of 1929-1933. He sharply denounces Eugene Varga as an "apologist" for capitalism, because of Varga's prognosis in 1945 that "in the countries where the productive apparatus during the war was preserved or expanded, it could be expected after the war there will be a rise in the conjuncture during three or four years", "a stage of boom." Kuzminov considers that Varga's prognosis "has nothing in common with Marxism", and that "life has laughed cruelly" at the idea.

Now I am not prepared, due to insufficient information, to participate in the general debate that has raged around Eugene Varga's economic writings. I cannot deny, therefore, that Varga may have made most serious errors as has been charged. But on this specific issue, as cited by I. Kuzminov, it is clear that Varga made no error in predicting a rising economic line in America for three or four years after the war, for that is exactly what has developed during the period of 1946-1948-

On the factual side of this issue, Kuzminov rests his case entirely upon the well-known fact that the peak of American war production in 1943 was higher than any point reached after the war. Emphasizing this nature of his argument, he even cites the postwar decline of shipbuilding to one-twentieth of its war-time volume, as one of the proofs of a state of economic crisis. But Varga's prognosis of a postwar boom, in his book written in 1945, contained no reference to its exceeding the war-boom but, on the contrary, spoke of a decisively lower level, comparable in general outlines to the boom following the First World War. And regardless of what Varga did or did not say, what actually took place in 1946-1948 in American economy was an unparalleled economic boom in comparison with all previous peace-time production, even greater than that of 1920-1921 and lasting longer. Varga erred not in overestimating, but in underestimating, the post-war boom.

If Kuzminov and others who follow his concept insist upon describing the 1946-1948 phase of American economy as a crisis-phase, then at the very least they should qualify it as "a crisis of a very special kind", for it is utterly unlike any crisis described by Marx, with capital expenditures at their highest rather than their lowest point.

What are the facts of the case?

Taking the years 1935-1939 as representing an index of 100 (this is in the period of "depression of a special kind") the physical volume of American manufacturing production rose in 1940 to 125, in the first postwar year of 1946 to 170, in 1947 to 187, and in November, 1948, to 195. Thus postwar production averages more than 80% higher than the pre-war years, and proceeds on a generally rising line. The number of workers employed in manufacturing industry reached its highest point in American history, even including the war period, as also did the volume of production in such key industries as steel and building construction.

This would most certainly be described as an economic boom if it had taken place without the intervention of the war. Why does the war, with its somewhat higher production index, transform this into economic crisis? Since when has the term "crisis" been applied to such an economic development?

The facts show that the war-market served to lift up the American economy out of the prolonged "depression of a special kind" that followed the 1929-1933 crisis and lasted until 1939; that after the feverish war-boom reached its peak in 1943, a decline took place until the first postwar year of 1946, when it stood at 70% above the depression years. Then began a rise until it reached 95% above the depression level at the end of 1948.

According to all previous Marxist economic analysis, this constitutes a postwar boom. To deny this, as Kuzminov tries to do, reduces all economic discussion to a play with words, to idle chatter. And it performs the dis-service of taking attention away from, and thereby hiding, the very real and profound economic crisis that is maturing in reality, in life not in words. In passing, it also performs the "miracle", in the field of theory, of abolishing the economic cycle before it has succeeded in wiping out capitalism--which must cause Marx and Engels to stir uneasily in their graves!

II. Whence Came the Markets for the Boom of 1946-1948?

Once we have recognized the boom-phase character of American economy in 1946-1948, in defiance of Kuzminov and his fellow-thinkers who insist it is the deepest crisis in all the history of crises except for 1929-1933, we may have brought down upon our heads the condemnation that, like Varga, we "have nothing in common with Marxism". But we have gained something for our pains. We are now free to ask the question: "Whence came the markets to maintain American production in 1946-1948 at 70% to 95% above the level of the depression years before the war?"

Kuzminov could not get around to that question, being pre-occupied with the difficult task of proving that the period was one of crisis in which markets were only disappearing, with no new ones appearing. Otherwise he might have learned some very interesting and valuable matters.

It is only when we feel the necessity to explain the relatively high level of American economy during 1946-1948, and analyze the new markets that made it possible, that we begin to gain some understanding of the explosive and devastating potentialities of the coming economic crisis and its tempo of development.

Kuzminov, in the article cited, considers that the "crisis" which he says engulfed American economy upon the cessation of war-orders would have been much deeper but for the facts of American rearmament and the rise of the military budget many-fold over former peace-time levels. He also sees the crisis mitigated for the U.S.A. by its new ability "to grab with relative easiness the most important positions on the foreign markets." But he most emphatically denies that there operated any economic factors of expansion of the domestic market. He especially condemns the idea that "postponed demand" played any significant role, and considers that idea to be in "evident contradiction to the law of absolute and relative impoverishment of the working class under capitalism."

Undoubtedly both military budgets and foreign trade, standing at a far higher point than pre-war (especially military expenditures), played important roles in sustaining the relatively-high economic level of 1946-1948. But it is a gross exaggeration of their specific gravity to consider that without some other factor, of even greater weight, which Kuzminov denies, the American economic level could have been maintained at 80% above pre-war time. There existed that other factor, an economic factor rising from the domestic market, even though Kuzminov is blind to it.

Before defining this more important factor sustaining the American market, however, we must establish the relative importance, in the economy, of foreign trade and the military budget.

Foreign trade, as a factor aiding the American economy to overcome its inner contradictions (which are especially represented in a superfluity of capital seeking fields of investment), is to be measured not by the volume of exports, but rather by the surplus of exports over imports. This surplus amounted to seven billion dollars in 1946, rose to over eleven billions in 1947, and dropped to six-and-a-half billions in 1948--with the decline beginning in the second quarter of 1947 and continuing until, at the end of 1948, the rate was only a few hundred millions per year above the level of Marshall Plan grants and loans. Compared with the volume of American production, this surplus has become negligible, and its tendency to decline continues. It also reveals that, whatever may be the preparations of American monopoly capital for future struggle for foreign markets, its immediate urge for those markets in 1946-1948 was very weak.

The military budget plays a larger and growing role. In 1946, it amounted to 48.8 billions, but this was, in the main, a carry-over from the war, and this also explains a portion of the 1947 total of 16.7 billions. In 1948, however, it still remained at 11.5 billions and began to rise. In 1949 it will surpass 14 billions, and all in-

dications point to a steady rise thereafter. For the first time in American history, peace-time armaments play a greater role in economics than foreign trade.

We now come to that other factor, the existence of which Kuzminov denied, which sustained the American market in 1946-1948 at more than 80% above the pre-war level. This factor is the extraordinary rise in capital expenditures.

First it will be helpful to look at some background material. In the five pre-war years of 1935-1939, the annual expenditure for plant and equipment was between four and five billion dollars. In 1940, under the first stimulus of war, it rose to 6.4 billions. During the war, when expansion of armaments industries was being rushed through, the U.S. Government directly financed this construction and leased the government-owned properties to private capitalist operators. It was estimated at the time that such direct Government investments expanded the productive capacity of American industry by almost 50%. After the war these plants were sold to private industry at a fraction of their cost, or were left idle. It was widely expected that, despite the high degree of waste and loss involved in the hasty war-time expansion, it would in the postwar period act as a severe limitation on the market for capital expenditures. But, as it turned out, this limitation proved to be minimal.

Capital expenditures for plant and equipment during the years 1946-1948 reached a total of about 48 billion dollars, or an average of about 16 billions per year, more than 300% of the average rate of 1935-1939.

This tremendous addition to the domestic market is unquestionably the largest single factor sustaining the 1946-1948 boom-phase of American economy. For this period its main significance consisted in bolstering up the domestic market. But for the future, it contains the explosive potentiality of dwindling away and disappearing as a market, to reappear as a new productive force demanding an even greater market for its own products. At the same time it is raising the organic composition of capital--the ratio of constant to variable capital. Thus it acts to speed up the tempo of maturing all the factors of the crisis of overproduction, and to deepen their intensity.

The initial postwar volume of capital expenditure is unquestionably the most important example of what Varga spoke of as "postponed demand" and which Kuzminov damned as a negation of the Marxian law of impoverishment. But Varga himself, in making his prognosis in 1945, specifically pointed out that "postponed demand" was not in the hands of the masses, except in an insignificant degree, but of the rich and well-to-do top circles, and therefore its market expression would take the form of durable goods and capital goods, and not of commodities of mass consumption.

Kuzminov, taking into account only the "postponed demand" for commodities of mass consumption, and the fact that accumulated means were "concentrated in the hands of the most wealthy top circles", drew the conclusion from theoretical premises that "postponed demand" could not possibly sustain the American economy in any significant fashion, because to do so would be to break out of the framework of capitalist economic laws, would negate Marx's theory of impoverishment. But he forgot to examine the facts, which disclosed an effective postponed demand for capital goods, of a volume many times multiplied above that of the postponed demand ~~demand~~ for goods of mass consumption, and which even Varga underestimated.

A further expansion was given to the initial postwar market for capital goods by the fact that, due to its accumulation through the war years, its volume brought about a far-reaching change in the character, technically, of the goods to be demanded. It was discovered that, while these expenditures when made year-by-year, did not justify large-scale reorganization of the whole productive process, when accumulated over many years and suddenly made available in bulk, they opened up the way to the wholesale introduction of improved techniques of production, to complete re-equipment and reorganization not only of single plants but of whole branches of industry.

It was found, for example, that a large proportion of industry could completely scrap its

old equipment and processes, replace them with improved ones embodying hither-unused technical discoveries, amortize the new investments in five years or less, and still produce a greater profit than was possible with the discarded plant.

How this factor operated to more than double the volume of the postponed demand for capital goods, is revealed in the fact that, in 1948, of the total capital expenditures only 42% went into expansion, while 58% went for replacement and modernization. This represents an unexampled tempo of rise in constant capital's ratio to variable capital, in the organic composition of capital. (See Business Week magazine, Jan.22, 1949.).

It is clear beyond doubt that the one significant effective substitute for the war market, which operated from economic motives and was not, as in the case of military expenditures and foreign trade, sustained by the intervention of the government, and which played the most dynamic role in sustaining the American economic level at 80% above pre-war, was precisely this market for capital expenditures. And it was precisely its character as "postponed demand", accumulated in large volume, which created the pre-conditions for its expansion through the wholesale re-equipment of a large part of American industry, thus making changes in the basic foundation of productive relationships.

Before we pass on to our next point, a few remarks on the theoretical problem involved may be in order. Kuzminov's error was not merely of a factual character, in failing to note that "postponed demand" for capital goods existed and was of greater volume and significance than that for consumption goods. It was also a theoretical error, in postulating that the Marxian law of impoverishment operates to deny the possibility of a boom, for if that were true, then there would never have been a boom in the whole history of capitalism, since the law of impoverishment has been operating as long as the capitalist system. It is a denial of basic Marxist theory to postulate the expansion of mass consumption by the working class as the basis for (instead of a result of) the boom-phase of the cycle.

The boom-phase of the capitalist cycle has never been, and could not be, founded upon the working class receiving a larger proportion of the product of its labor in wages; therefore, Kuzminov, by denying the boom-phase on the basis that mass consumption could not sustain it, fell into the error of the "under-consumption" theory, which has had a long history through Malthus, Sismondi, LaSalle, Duehring, Luxemburg, and Keynes. He forgot to look for the moving forces of the cycle in those places Marx taught us to look, in the productive relations rather than in distribution.

Kuzminov and his fellow-thinkers fall into this error, apparently, because they think of their task as being to prove that capitalism

has not turned into something else, that capitalism is still capitalism, and the fear that to recognize anything new in the current picture might shake their theoretical foundations. They should have greater faith in the foundations of Marxism, which are not at all threatened by any other theory; then they might spare some of their attention to the examination of precisely how and why capitalism in America develops as it does, and what are the consequences.

III. How Long Can the Boom Continue?

In the opening weeks of 1949, we witnessed many signs indicating a downward turn in the economic line. Are these phenomena indicative of an imminent economic crisis? How long can the boom continue without a major break?

The answer to this question lies in the relation of production to markets. The central dynamic factor of the capitalist economic crisis as well as boom, is the profit-surplus. The transformation of profit into new capital, the process of accumulation of capital, is the moving force in the expansion of production, the central factor producing the boom-phase of the economic cycle. Precisely this same factor, the expansion of production, when it has exceeded the immediately available market, brings about the "bust", the crisis-phase of the cycle.

The moment when boom passes over into "bust" is, therefore, determined by the relationship of total production to the total market; when the first continuously surpasses the second, the crisis of overproduction is maturing. That is the present condition of American economy. The boom has generated within itself the forces of a "bust."

The tempo of maturing of the crisis of overproduction may be slow or swift. If the total market is still expanding, but in a volume smaller than the expansion of production, then the crisis is maturing but at a slow pace. If the total market remains approximately the same, then the existing rate of expansion of production results in a quicker maturing of the crisis. If the total market is shrinking, while production expands, then the maturing of the crisis becomes swift.

American economy today is in the third condition, of shrinking total market and rapid expansion of production. Unless there is an intervention of some force not at present operative, which will expand the total market on a scale commensurate with the expansion of production, then the growing gap will lead swiftly and inevitably to crisis, to the disorderly and catastrophic readjustment of production to consumption and the market, which takes place in the midst of a sharp collapse of both.

Let us, then, proceed to define more exactly what sectors of the market are shrinking.

Commodities of mass consumption. The shrinkage of this market results from the decline of the real-wage income of the working class, the main mass of consumers; from the declining trend of agricultural income, due to the evaporation of its privileged position that arose from the war; from the decline in the number of workers employed and hours worked per week; from the exhaustion of the limited war-time savings among the masses which, for a short period, had slightly cushioned the other declines.

Accumulation of inventories. This special market factor, which consists of re-filling and expanding the pipe-lines of distribution and accumulation of raw materials, played a significant role in the boom of 1946-1948, and was one of the factors of "postponed demand". It has now almost come to an end; the warehouses are full.

Capital expenditures. This, the principal factor upholding the 1946-1948 boom, is an extremely unstable market and is already showing a declining trend, indicating that its limit has almost been reached. It is unstable, in the first place, because it is a market which has expanded under very special and temporary conditions (those of accumulated "postponed demand" and the resulting re-equipment of industry), which are dissolving; secondly, because this very rapid expansion of productive forces does not reproduce itself, but brings itself to a halt; thirdly, because it is the major factor that widens the gap between the productive

forces and the markets, thus hastening the process of maturing of the crisis of overproduction; fourthly, because, while already showing a declining trend, under the first blows of the crisis it will collapse very rapidly and wither away to almost nothing.

Foreign trade export surplus. As a direct result of the rupture of America's war-time alliance with the Soviet Union, and the inauguration of the "cold war", the prospects for expansion of foreign markets and capital export, under conditions of a stable peace, have evaporated. Under the Truman Doctrine and then the Marshall Plan, the course of American exports has declined sharply and continuously, and the export surplus, aside from that financed from political motives by the government, almost disappeared by the end of 1948. The division of the world, and the economic war, have further shattered the structure of the world market, narrowed the possibility of exports except those of military character, and given the stamp of anti-Soviet struggle to that surplus export which is financed by the Marshall Plan. Without a fundamental change of American foreign policy, and an end to the "cold war", foreign markets can play no significant role in avoiding the coming economic crisis, except in the form of armaments.

This brings us to the only sector of the market which has relatively firm prospects for expansion, namely:

Armaments expenditures. For the first time, except under direct war conditions, this market plays a big and growing role in the general course of national economy. The decline from the war-levels down to 11.5 billions in 1948, has now given way to a rising tendency, in 1949 to 14 or 15 billions, with plans that will reach 22 billions in 1952.

The high popularity of the armaments expansion program among the upper bourgeoisie arises, undoubtedly, in the main from its economic role in buttressing the present boom-phase of the economic cycle and in furnishing a cushion against the forces making for economic crisis. It is counted upon to compensate for the shrinking of other markets.

Whatever may be the degree to which armaments expenditures must be considered a "normal" market under capitalism, whatever the degree it plays this role for the moment, it still remains a fact that American reliance upon this peculiar "market" results in distorting the economies of other countries and of the whole world. In its general effect, the armaments market is the most disruptive and explosive force, in economics as well as politics.

If the American economy is felt to "need" the stimulus of armaments expenditures, this is certainly not true of the national economies of Europe, either of its capitalist or socialist sectors. There is no doubt, for example, that Brit-

ish, French and Dutch are burdened to the breaking point, and delayed in recovery, by the growing weight of armaments. As a result, also, the socialist section, the USSR and its allies, are prevented from disarming as they wish. All world market relationships are disrupted and distorted by the political consequences of re-armament. What economic stimulus the American economy gains from armaments is cancelled out five or ten times over by the resulting shrinkage of world trade and recovery. Thus the armament market, in expanding, has the net result of speeding up the maturing of the crisis-phase of the economic cycle.

The economic boom of 1946-1948 is, under the present effective trends and policies which we have examined, rapidly approaching its end and the crisis-phase is imminent.

IV. Can a Date Be Set for Crisis?

Will the American economic crisis break out in 1949? Can a date be set at which the crisis may be expected?

It is impossible to make calendar predictions on the economic cycle. It cannot be said with any precision that the economic crisis will break in 1949, or 1950, or 1951. Nor can the length and depth of the crisis be predicted. There are two main reasons for this inability to predict the crisis by the calendar.

First, economic science is sufficiently exact to measure and chart the main trend in the cycle with some precision, but not to fix its tempo of development with the same accuracy. Secondly, the condition of general crisis of capitalism has brought about a trend toward the intervention of non-economic forces into the economic field (state capitalism, armaments, and all sorts of measures up to and including war), which are even less subject to prediction than are economic forces. As a consequence, any pretence of calendar prediction of the future course of the economic cycle can be nothing but fakery.

We have spoken earlier of the sharp distinction between the general crisis of capitalism and the economic cycle of which the maturing economic crisis is one phase. We have also spoken of

their inter-acting relationship. Thus, the general crisis exerts an influence upon the cycle, changing and distorting its form and tempo, breaking former patterns and rythms, and thus creating new obstacles to precise prediction, postponing the outbreak of the crisis while deepening the force of the crisis-factors.

The general crisis of capitalism influences the cycle in the following ways: It accentuates the unevenness of development between national economies, and between the different sectors within national economies. It stimulates the tendency toward state capitalism, the fusion of monopoly capital with the state. It weakens the specific gravity of capitalism in world economy as a whole, and increases greatly the specific gravity of the non-capitalist and non-imperialist sectors of the world--the USSR, the new democracies, and the liberation movements in colonies and semi-colonies. All these are political factors which directly intervene in the course of the economic cycle.

It is beyond the scope of this brief lecture to enter upon an extended examination of the economic effects of these political factors. We must content ourselves with a few indications and examples. The law of uneven development, for instance, finds expression in the tremendous gap between America and all other capitalist economies--so wide that it may almost be said that America alone stands on its own feet economically. State capitalism advances everywhere, even in the econo-

ally less-developed lands; and in America, certain formal steps taken in the opposite direction are more than offset by the factual increase in the role of the state in economic questions, and the overwhelming dominance of the big monopolies. The economic progress of the USSR and the new democracies exceeds in tempo that of the countries receiving American aid, and goes ahead, even as American economy trembles on the brink of crisis. All these developments represent a deepening of the general crisis of capitalism, and at the same time intensify and distort the economic cycle.

Thus, in America, the general world crisis has stimulated the postwar boom, even as it has simultaneously strengthened the crisis factors; this contradiction, of the same factors simultaneously accenting boom and preparing "bust", inherent in capitalism, is intensified by the world situation. In the stronger trend toward state capitalism, the controls imposed over the anarchy of particular fields, results in redoubling the general anarchy, and the measures toward postponement of the crisis serve to deepen the basic crisis factors.

Without minimizing in any way these inescapable contradictions that inhere in the very nature of capitalism, it must be recognized that these developments reduce the possibility to predict the exact timing of the crisis. At the same time, for America, they sharpen the contrast between the alternative progressive and reactionary courses which are possible to choose in meeting the crisis.

In discussions among Marxists all over the world, that have been taking place concerning economic changes in the capitalist world, great controversy has arisen about the role of state capitalism. Some of this controversy arises from confusing two separate questions, and dealing with them as one single question; these are the question, can state capitalism affect the economic cycle, and how, and the quite different question, can state capitalism resolve any of the basic capitalist contradictions.

The answer to the first question must be, Yes, state capitalism can affect the course of the cycle, and this can speed up or delay the crisis, depending upon the nature of the intervention. The answer to the second question must be, No, state capitalism cannot solve, nor can it even soften, any of the basic contradictions of capitalism but, on the contrary, can only deepen them.

If these two different questions are taken as one single question, and the same answer is therefore given to both of them, nothing but confusion can result. This is because nothing is more obvious in the facts of life, than that state capitalism can and does influence most profoundly the course of the economic cycle; and if this obvious answer is extended to the second question, the result is a negation of basic Marxist theory. The false dilemma is created, either close one's eyes to the facts, or revise Marx.

The most obvious example to illustrate this problem is, of course, German economy under Nazi-fascist rule from 1933 to 1939. Economically considered, the Nazi regime was a specific national form of state capitalism, with a program of simple robbery of its neighbors super-imposed thereon. It did not solve any of the basic contradictions of German economy, but deepened them to an unexampled degree. But it did change the immediate economic cycle, turned the course of German production upward from the depths of crisis to its highest point. All economic thinkers who predicted the political collapse of the Nazi-fascist regime from the basis of a supposedly-inevitable economic crisis and collapse, made thereby a most serious mistake (Varga, by the way, made this error), because, as it was proved in life, nothing but the superior strength of the Soviet Army broke the Hitler regime, and economic crisis did not make even a minor contribution to the Nazi downfall.

What the Nazi-fascist form of state capitalism did with the German economy before the war, other forms of state capitalism in other countries, with all due allowance for differences of time, place and specific peculiarity, may repeat in their own specific way.

There is obviously nothing immutable, unchangeable, in the pattern of the economic cycle of capitalism under the conditions of its general world crisis, except the general trend of its underlying factors. As Lenin explained to us a long time ago, it is impossible to say of any immediate situation, in the short run of events, that "there is no way out"

That is why, therefore, while we can speak definitely and with some precision about "the coming economic crisis" and define the maturing factors making for this crisis; while we can measure these factors as more powerful than in any previous crisis; yet we still cannot predict with accuracy the time at which this crisis will break out, nor its form of expression, which may be a simple economic crisis of overproduction, or which may be transmuted to the field of politics, domestic or international.

V. Higher Degree of Monopoly Deepens the Crisis Factors.

The process of concentration and centralization of capital, discovered and explained by Marx, had already in the opening years of the 20th century given to American economic development the characteristic feature of "trustification", the assumption of the leading and dominating role by monopoly capital. This tendency has been continuous, and exhibited a higher tempo during the two big war-booms than in pre-war times, and also quickened its tempo at the low points of economic crisis.

The effect of monopoly domination intensifies the factors making for crisis, and deepens the crisis-phase of the cycle. At the same time it

distorts the cycle, strengthens and hastens the tendency to intervention of non-economic forces into the economic field (the tendency which culminates in state capitalism of completely developed form), and prepares the way for the transmutation of economic crisis into political crisis.

During World War II, the great industrial monopolies, the ten giants, concentrated the bulk of war orders (over 50%) directly in their own hands, controlled another large part (about 30%) through affiliates, and set the conditions under which the remaining minor part of the war economy operated. Non-trustified industry operated fully, but as the vassal of the trusts. Monopoly capital further extended its tentacles to the farthest nooks and crannies of American economy.

In the postwar boom of 1946-1948, for the first time in American economic history, a peacetime expansion of the scope of monopoly control has exceeded previous war-time expansion both in volume and tempo.

For elucidation of this fact, we will compare, first of all, the net war-time expansion and modernization (capital expenditure) of manufacturing industry with that of 1946-1948. Secondly, we will show in what sectors this took place, its distribution between trustified and non-trustified industry.

In the seven war-years, 1939-1945, there was a net expansion and modernization, after allow-

ance for scrapping of war plant at the end of the war, of 33 points over the 1939 base, which is taken as an index of 100, or an annual average of something less than 5% of the base. During 1946-1948 this index rises from 133 to 156, or an annual average for the three years of 7% of the 1939 base. Thus, the tempo of peace-time expansion and modernization is over 40% quicker in the post-war than in the war years.

The fact that this quickened tempo of capital expenditure was, in its main bulk, concentrated in trustified industry is sufficiently established by an examination of the method of its financing. Three out of every four plants financed their capital expenditure directly out of reserves and undistributed profits, only 9% floated new share issues on the stock market, and 15% borrowed the money (bond issues). Since the financing of capital expenditure out of undistributed profits is a relatively new phenomenon, characteristic of the largest corporations, while the floating of new share issues on the stock market is the usual method of non-trustified sectors of industry, the facts cited are sufficient to give a rough measure of the degree of predominance of monopoly capital. (Data from McGraw-Hill Survey, in Business Week, Jan. 22, 1949).

It may be remarked, incidentally, that the predominance of undistributed profits as the source of capital expenditure, together with the growing practice of floating bonds not on the stock market

but by direct arrangement between borrower and lender, seems to indicate a tendency to obsolescence, to "withering away", of that holy of holies of capitalism, the stock exchange.

The growing dominance of monopoly capital deepens the crisis factors in the economy in many ways. It accelerates both the process of expanding the forces of production and of limiting the market for their products. But it goes much farther than this. It distorts the whole price structure of the economy, raising the level of prices of monopolized products above that of the non-monopolized. It drains off practically the whole body of social accumulation into the treasuries of the giant trusts and the banks which are their financial branches. It brings about the factual polarization of society, which in America has reached its most extreme development in which supreme economic power in the nation rests in the hands of the boards of directors of a dozen corporations.

VI. The Transmutation of Economic Crisis Into Political Crisis.

The German Nazi-fascist economy is a specific example of the process whereby a crisis of overproduction, deepened and aggravated in all ways by the general world crisis of capitalism, is transmuted and absorbed into a political crisis.

first within the nation and then on an international scale.

In the same fashion the economic crisis of 1912 in Europe was transmuted and absorbed into the political crisis between nations in 1914, out of which came the First World War.

In America the first great cyclical economic crisis of the 20th century hit the country in 1907, and was not overcome when the World War broke out in 1914. Thus it is seen that the force of that crisis was very strong. In the ensuing World War, however, the U.S.A. made great economic advances, assumed first rank in production, and began large-scale export of capital, being transformed from a debtor to a creditor nation. The crisis was thus the starting point for unprecedented boom.

The economic crisis of 1929-1933 produced the political upset which brought forward Roosevelt and the New Deal. The result, however, was not a boom, but the prolonged "depression of a special kind", which was fully overcome only in the Second World War. The prolonged depression was an economic plateau higher than the crisis years, maintained largely by the political measures of the New Deal, contrary to established American tradition.

The New Deal was a speeding-up of the trend toward state capitalism. It was historically necessary in that the economic crisis could not have been overcome even partially without some such

step which went beyond the automatic operation of "free enterprise" capitalism. The slow tempo with which the 1929 crisis was transmuted into domestic political crisis and change, is shown by the time-gap of $3\frac{1}{2}$ years between the outbreak of the crisis and the inauguration of the New Deal. But this slow tempo, it must be noted, was still not so slow as that of 1907-1914.

Today the interaction between economic and political forces has been speeded up much more. This is illustrated by Truman's message to Congress in January, 1949, and his speech before the Planning Association, which already before the new economic crisis breaks out is anticipating it with recommendations for new policy, whereby governmental intervention will bolster up the markets, especially foreign trade.

Regardless of the degree of adequacy of Truman's recommendations, they are symptomatic of a new sensitivity^{to} economics, of readiness for governmental intervention, of complete abandonment of the traditional reliance upon the automatic working of capitalist economy. Crisis in economics communicates itself very speedily today into national politics.

The coming economic crisis in America thus casts its shadow before it, and gives shape and direction to the political crisis before, not after, the economic crisis breaks.

The process of transmutation of economic crisis into national political crisis has been speeded up. The two may be expected to merge in an early stage, the economic crisis may be absorbed into the political crisis before anything like its full force has been registered.

VII. Economic Crisis and War.

The close inter-relationship between world economic crisis and international war, the sharpest form of political crisis, has been long established.

Will the outbreak of economic crisis in America, which will inevitably spread rapidly to the entire capitalist world, have the result of precipitating a Third World War?

In seeking the answer to this question we must first of all take note that, while the sequence of national political crisis following economic crisis has been speeded up, the sequence of war emerging from world economic crisis has been slowed down. The First World War followed the economic crisis soon after its effects had registered in all developed capitalist countries; the Second World War came ten years after the world economic crisis had delivered its heaviest blows.

Future events may not, however, be predicted by analogy with the past. What has already happened reveals trends, shows the working of certain forces, and reveals inter-relationships of the forces at work. But the past does not reveal new factors that have arisen, nor measure accurately the process of strengthening or weakening of forces previously operating. We must, therefore, examine concretely the existing situation, find what changes have taken place and what is new, before estimating the relationship between the now-maturing economic crisis and the war danger.

Why has there been a slowing-down in the tempo of the economic crisis and war sequence, while there has been a speeding-up of the passing of economic crisis into national political crisis?

Obviously, the process in both cases represents the operation of the same forces. The fact that in the one case the tempo quickens and in the other case slows up, can be explained only by the operation of some new force in international relations

This new force, it is equally obvious, is the emergence of a new economic system, outside of and rival to capitalism, outside of the capitalist economic cycle, that is the socialist system in the U.S.S.R. The emergence of the Soviet Union, the growing strength of socialist and democratic forces throughout the world, is the new obstacle to the transmutation of world economic crisis into international war. The effect of this new factor arising between the two World Wars is clear.

Futhermore, it is equally clear that after World War II, the new factor is stronger and represents a larger part of the world than before, while the old factors pushing toward war are weaker than before and represent a smaller portion of the world. These factors require no spelling out in detail.

The conclusion is unavoidable, therefore, that in the present situation, contrary to the faster tempo of transmutation of economic crisis into national political crisis, there will be the opposite, a decided slowing down, in the process of transmutation of economic crisis involving the whole capitalist sector of the world into the Third World War.

The additional conclusion is justified, that under the new relationship of forces coming out of World War II, the possibility exists that despite the occurrence of major economic crises the road to World War III may be blocked for a long time, that it may be possible for the world to achieve a stable peace for some generations.

VIII. Pressure of Maturing Economic Crisis Upon American Policy.

The process of rapid maturing of an economic crisis puts a strong and growing pressure upon the U.S. Government, in the direction of finding or creating new markets for the surplus products of American industry.

Certain limitations are inherent in capitalism upon the scale and nature of measures to strengthen the domestic market for consumption goods. The inherent laws of capitalist economy tend constantly to reduce the proportion of consumption goods to the total production. The law of impoverishment of the working masses operates to emphasize this tendency. Meliorating measures, to cushion the effects of this process, such as the expansion of social insurance of all kinds, public works, and extra-ordinary distributions of public funds (in the fashion of veterans' bonuses, etc.) may play a very important political and social role, but their influence upon the course of the national economy as a whole necessarily remains a minor one.

Nevertheless, the maturing economic crisis creates a growing pressure for the expansion of such social insurance measures. This is a major reason for Truman's "fair deal" reform program in the 1948 election campaign, and for his electoral victory.

This is the economic pressure, also, which supports the expanded armaments program. But the expansion of armaments has serious limitations; in the absence of actual war, it cannot continue indefinitely.

The main force of this pressure for new markets must, eventually, concentrate upon exports to other lands, upon foreign trade. Only in this field, under conditions of capitalism, can America hope to find new markets commensurate to the scale of American surplus production. America's productive forces are geared to an enormously-expanded world market, and it must find such a market or collapse.

Up to this time, however, the need of American economy for foreign markets was obscured by the operation of the big domestic market created by capital expenditures in the re-equipment of industry.

Marxist writers in Europe, understanding the basic American need for foreign markets, have been writing that America conducts "a ferocious struggle for new foreign markets." But such a struggle has not, in fact, yet begun even though it is to be expected. Instead, American foreign policy since the war has been directed to extending bases of military power directed against the U.S.S.R. and her allies, to the neglect and at the expense of the immediate expansion of foreign markets. Interest in foreign markets has been prospective, for the future, not immediate.

How indifferent American monopoly capital has been to foreign markets, is shown in the complacency with which it has witnessed the steady decline of American exports and export-surplus, beginning in the second quarter of 1947, right after the Truman Doctrine was announced. This decline of exports amounted to 34% in physical volume by the third quarter of 1948, without causing any great outcry. Obviously, the leaders of American economy have not yet plunged into the "ferocious struggle for new markets."

With the rapid shrinking of capital expenditures, however, and the maturing of the other factors of economic crisis, this indifference toward foreign markets and their expansion must quickly disappear.

The course of development of foreign markets for the surplus production of American industry will give the final answer to all questions concerning the tempo and forms of development of the coming economic crisis.

IX. Two Alternative Courses
For America.

When the problem of foreign markets comes into focus as the key problem of American postwar economy, this country will find it necessary at last to choose between two alternative courses.

This choice for America is not, as in Europe, the choice between the alternatives of socialism and capitalism. That issue is not yet ripe in America. Here the present choice is between a progressive form of economic relations with the world, on the basis of a modus vivendi with the U.S.S.R., on the one hand, or, on the other hand, to set out to conquer world markets by military power--the road to world war.

The \$64 question is, whether it is politically and economically possible for the U.S.A., the most fully developed power of monopoly capitalism in history, to take any other course than its own inherent tendency toward imperialist conquest of the world.

For five years I have been answering this question: Yes, it is possible for America to take the peaceful path, not the path to war, possible not merely in the sense of abstract theory, but practically, before America turns to socialism, as an outcome of the new relationship of forces

existing in the world as a consequence of World War.II.

If this is possible to achieve, then so long as this possibility exists it should furnish the central, guiding aim for the struggle of all progressive forces in America. To prevent America from taking the course of war should be the chief aim of the American progressive program, it should be the goal of all effort and struggle.

This possibility of peace arises from the political relationship of forces in the world, from the foundation of economics but not directly economic in character. The issue of peace or war is, however, the all-decisive one for the economic perspective and cannot be left out of any serious economic prognosis. The main feature of this world situation is the impossibility of a military decision of the rivalry between socialism and capitalism.

Since the end of World War II, American "policy" has been to extend its power by means of the "cold war", diplomatic and economic pressures, arming of satellites, the threat of the atom-bomb and "hot war." America has learned the limits of this policy, seen it collapse in ruins in China, foresees the failure of the Marshall Plan. It has been proved that this course of "neither peace nor war" carries no markets with it, that it is an insurmountable barrier to the expansion of markets in any way commensurate with American surplus production.

America thus comes to the crossroads, must choose war or peace. Peace may be unpalatable to the ruling groups, and difficult to achieve, but it is tremendously desirable to the people, it is possible, and it gives a perspective of the markets American economy must have. The need for markets **can** be satisfied along no other road but that of peace.

The American progressive camp will become strong and decisive, in the choice between war and peace, when it learns how to enlist this economic urgency in its support, when it learns the basic Marxist lesson that ideology may be powerful, but economics is a greater and, in the final analysis, the decisive power.

X. Some Remarks on Marxist Methodology.

In conclusion, I wish to make only a few remarks on the subject of Marxist methodology. I take for my text these words from Mao Tse-tung:

"Marxism-Leninism has neither good looks nor magic; it is only very useful. There seem to be a lot of people who think it is a sort of charmed medicine with which one can easily cure any disease. Those who take it as a dogma are that kind of people."

There is a great danger among Marxists today of falling into dogmatic methods of thought. Marxism, however, is not only a body of theory, of principles, it is also a method that excludes dogmatism, and this is its heart.

To deal with Marxist theory as a set of dogmas means to kill Marxism.

Marxism takes facts, things, material, as the foundation for all thought, and ideas as secondary, derivative, controlled by facts. That is why Marxism is called materialist, as opposed to idealist, for only upon the firm foundation of fact can ideas exercise their real and true power. Therefore the Marxist

method requires the search for facts, their testing in all their relations, as primary; it excludes the method of trying to force facts into a pattern pre-determined by theory.

It is a dogmatic distortion of Marxism to deny the existence of the 1946-1948 boom-phase of American economy on the grounds that theory leaves no place for it. "Life has laughed cruelly" at such dogmatism. The boom in American economy is a fact, and only by dealing with it and analyzing it as a fact can one fully understand the forces that are bringing America to economic crisis.

It is equally a dogmatic distortion of Marxism to declare, as a matter of theoretical pre-determination, that America cannot take the road of peace except by simultaneously entering upon the revolutionary transition to socialism.

We have as yet no guarantees of peace. But if we adopt the dogmatic attitude, we will fail in consequence to see the tremendous forces for peace, we will not properly utilize and direct them, we will become weak and ineffective, we will cease to be Marxists and become believers in magic and fatalism. And only Marxism lights the road of understanding, not only of the "boom and bust" cycle of capitalist economy, but also of the great issue, war or peace.

method requires the search for facts, their test-
ing in all their relations, as precisely as it examines
the method of giving a false fact into a pattern
prescribed by theory.

It is a dogmatic distortion of Marxism to deny
the existence of the 1930-1932 boom-phase of
American economy on the grounds that theory
leaves no place for it. This has happened exactly
in such countries. The boom in American economy
is a fact and only by testing with it and analyzing
it as a fact can one fully understand the
forces that are driving America to economic crisis.

It is equally a dogmatic distortion of Marxism
to believe, as a matter of theoretical principle,
that theory cannot take the road of
revolution, but only the road of social
reform.

We have as yet no guarantee of peace. If
we adopt the dogmatic attitude, we will fall in
consequence to the various forces for peace
we will not properly utilize and direct them. We
will become weak and ineffective. We will cease to
be Marxist and become halfhearted socialists.
And only Marxism lights the road to
understanding, not only of the "boom and bust"
cycle of capitalist economy, but also of the
current war on the part of the imperialist
powers. The end -

